EXIDE TECHNOLOGIES
Form 10-K
June 01, 2011

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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, 2011

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

(678) 566-9000
(Registrant s telephone number, including area code)

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

Common Stock, $.01 par value

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o 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 Exchange Act. Yes o 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 o

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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 o

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 o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company 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, 2010 was $361,732,345.

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: As of May 25, 2011, 77,580,059 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 September 16, 2011 is incorporated by reference in Part III to the extent described therein.

EXIDE TECHNOLOGIES

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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, Milton, Georgia 30004.

The Company is a global leader in stored electrical energy solutions, and one of the largest manufacturers and suppliers of lead-acid batteries for transportation and industrial applications in the world, with fiscal 2011 net sales of approximately $2.89 billion. The Company s operations in the Americas and Europe and Rest of World (ROW) represented approximately 42.9% and 57.1%, respectively, of fiscal 2011 net sales.

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 2011 refers to the period beginning April 1, 2010 and ending March 31, 2011). Unless the context indicates otherwise, the Company, Exide, we, or us refers to Exide Technologies and its subsidiaries.

Company Products and Business Segments

The Company reports its financial results through four principal business segments: Transportation Americas, Transportation Europe and ROW, Industrial Energy Americas, and Industrial Energy Europe and ROW. Refer to Note 17 to the Consolidated Financial Statements in Item 8 of this Form 10-K for financial information about the Company s business segments as well as the geographic areas in which each segment conducts operations.

Transportation

The Company s transportation batteries include ignition and lighting batteries for cars, trucks, off-road vehicles, agricultural and construction vehicles, motorcycles, recreational vehicles, marine, and other applications including Micro-hybrids and lead-acid batteries used on Full Electrical Vehicles. The Company s principal batteries sold in the transportation market are represented by the following brands: *Centra, DETA, Exide, Exide Extreme, Exide NASCAR Select, Orbital, Fulmen*, and *Tudor,* as well as other brands under various private labels. The market for transportation batteries is divided between sales to aftermarket customers and original equipment manufacturers (OEMs). Transportation segments represented approximately 64.6% of the Company s net sales in fiscal 2011. Within the transportation segments, aftermarket sales and OEM sales represented approximately 83.7% and 16.3% of fiscal 2011 net sales, respectively.

Aftermarket sales are based on a number of factors, including the number of vehicles in use, average battery life, average age of vehicles, weather conditions, and population growth. Aftermarket demand historically has been less cyclical than OEM demand due to the typical three to five-year replacement cycle. Some of the Company s major aftermarket customers include Bosch, Tractor Supply, Canadian Tire, ADI, ATR International, and GroupAuto International. In addition, the Company is also a supplier of authorized replacement batteries for major OEMs including the BMW Group, Fiat Group, Honda, Iveco, John Deere, PSA Group, Scania, Volvo Trucks, Toyota, Volkswagen Group, Renault-Nissan, PACCAR, and many others.

OEM sales are driven in large part by new vehicle manufacturing rates, based on consumer demand for vehicles. The Company believes that the OEM market increasingly prefers suppliers with innovative energy storage technology supporting CO_2 reductions and 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 two of the 10 top-selling vehicles in the United States of America (U.S.) and five of the 10 top-selling vehicles in Europe. Some of the Company s significant OEM customers include the BMW Group, Fiat Group, International Truck & Engine, the PSA group (Peugeot S.A./

Citroën), Case/New Holland, BMW, John Deere, Renault Nissan, Scania, Volvo Trucks, Volkswagen Group, TATA, Toyota, and many others.

Transportation Americas

In the Americas, the Company sells aftermarket transportation products through various distribution channels, including mass merchandisers, auto parts outlets, wholesale distributors, and battery specialists. The Company sells its OEM transportation replacement products principally through dealer networks. The Company s operations in the U.S., Canada, and Mexico include a network of 80 branches which sell and distribute batteries and other products to the Company s distributor channel customers, battery specialists, national account customers, retail stores, and OEM dealers. In addition, these branches collect spent batteries for the Company s recycling facilities.

With its five active recycling facilities, the Company is the largest recycler of lead in North America. These operations supply recycled lead for use in almost all of Exide s Transportation and Industrial Energy products manufactured in North America as well as supplying lead to a variety of external customers. The recycling facilities also recover and recycle battery acid as well as plastic materials that are used to produce battery covers and cases.

Transportation Europe and ROW

The Company sells OEM batteries to the European light vehicle, light commercial vehicle and commercial vehicle industry. The commercial vehicle industry includes truck manufacturers as well as construction and agriculture vehicle manufacturers. Exide supplies most of its OEM batteries directly to the assembly plants of its customers. The Company supplies BMW, Fiat Group, Nissan, Renault, Volkswagen, Iveco, Scania, Volvo Trucks, and many other well known manufacturers. The Company also delivers service and replacement batteries into this segment. Those are either distributed by the OEM customers themselves or delivered directly to the service points through the Exide logistics network. The Company also supplies advanced lead-acid batteries for microhybrid vehicles equipped with CO_2- reducing technologies such as Start & Stop vehicles with and without regenerative braking systems.

The Company sells aftermarket batteries in Europe and ROW primarily through automotive parts and battery wholesalers, mass-merchandisers, auto centers, service installers, and oil companies. Wholesalers have traditionally represented the majority of this market, but sales through hypermarket chains and automotive parts stores, most often integrated in European-wide or global buying groups, have increased. Many automotive parts wholesalers are also increasingly organized in European organizations active in purchasing and merchandising programs. Battery specialists sell and distribute batteries to a network of automotive parts retailers, service stations, independent retailers, and garages throughout Europe.

Industrial Energy

The Company s Industrial Energy segments supply both motive power and network power applications. Motive power batteries are used in the material 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 back-up power applications to ensure continuous power supply in case of a temporary power failure or outage. Industrial Energy represented 35.4% of the Company s net sales in fiscal 2011. Within the Industrial Energy segments, motive power sales and network power sales represented approximately 53.4% and 46.6% of Industrial Energy net sales, respectively.

The battery technologies for the motive power markets include flooded flat plate products, tubular plate products, absorbed glass mat (AGM) products, and gel electrolyte products. The Company also offers a complete range of battery chargers and related equipment for the operation and maintenance of battery-powered vehicles.

Network power batteries are used to provide back-up power for use with telecommunications systems, computer installations, hospitals, 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 strongest network power battery brands, *Absolyte* and *Sonnenschein*, offer customers the choice of AGM or gel electrolyte valve regulated battery technologies and deliver among the highest energy and power densities in their class.

Industrial Energy Americas

The Company distributes motive power products and services through multiple channels. These include sales and service locations owned by the Company that are augmented by a network of independent manufacturers representatives. The Company serves a wide range of customers including OEM suppliers of lift trucks, large industrial companies, retail distributors, warehousing companies, and manufacturers. The Company s primary motive power customers in the Americas include NACCO, Sears, Toyota, Walmart, and Target. The Company distributes network power products and services through sales and service locations owned by the Company that are augmented by a network of independent manufacturers representatives. The Company s primary network power customers in the Americas include AT&T, APC, Emerson Electric, and Verizon Wireless.

Industrial Energy Europe and ROW

The Company distributes motive power products and services in Europe through in-house sales and service organizations and utilizes distributors and agents for the export of products from Europe to ROW countries. 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 warehousing and manufacturing operations. Motive power batteries are also sold in complete packages, including batteries, chargers, and increasingly through on-site service. The Company s major OEM motive power customers include Toyota Material Handling, the KION Group, and Jungheinrich. The Company distributes network power products and services in Europe and batteries and chargers in Australia and New Zealand through in-house sales and service organizations. In Asia, products are distributed through independent distributors. The Company utilizes distributors, agents, and direct sales to export products from Europe and North America to ROW. The Company s primary Network Power customers in Europe and ROW include Deutsche Telecom, Alcatel, Emerson Electric, Ericsson and Siemens Nokia Networks.

Quality

The Company recognizes that product performance and quality are critical to its success. The Company s Customer-focused Excellence Lean Leadership (EXCELL) initiative and Quality Management System (QMS) are both important drivers of operational excellence, improved levels of quality, productivity, and delivery of goods and services to the global transportation and industrial energy markets. The Company implemented EXCELL to systematically reduce and ultimately eliminate waste and to implement the concepts of continuous flow and customer pull throughout the 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 of the Company s business objectives. The Company s Take Charge! initiative, which is an integral component of the EXCELL framework, is designed to identify waste in the Company s manufacturing and distribution processes, and to implement changes to enhance productivity and throughput while reducing investment in inventories. 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 in the Company s efforts to achieve 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 required performance, industry, and customer quality standards using design processes, tools, and materials needed 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 including operation in service.

All of the Company s major production facilities are approved under ISO/TS 16949 and/or ISO 9001 quality standards. The Company has also obtained ISO 14001 Environmental Health & Safety (EH&S) certification at the majority of its manufacturing plants, and 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 and operating 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 technological, product and process knowledge among its various operating facilities to adopt best practices for use throughout the Company. During fiscal 2011, the Company added approximately 20 technical employees to its research and development (R&D) organization, primarily in Milton, Georgia and Büdingen, Germany. These additional resources will enable the R&D function to focus on longer-term development opportunities as well as ongoing business support.

In addition to in-house efforts, the Company continues to pursue the formation of alliances and collaborative partnerships to develop energy-management systems for automotive electrical and electronic architectures for the global OEM market. The Company is also pursuing development initiatives targeted at the industrial, military, and the renewable energy markets. In the first quarter of fiscal 2010, the Company signed a technology development agreement with NanoTerra, a nano-technology company in Cambridge, Massachusetts that specializes in surface chemistry and surface engineering. Also in the first quarter of fiscal 2010, the Company signed a memorandum of understanding with Axion Power, an advanced lead-acid development company in Newcastle, Pennsylvania. In the second quarter of fiscal 2010, the Company signed a three-way Cooperative Research & Development Agreement (CRADA) with Savannah River National Laboratory and the University of Idaho to study the benefits of hollow glass microspheres in lead-acid batteries. The first research phase of these agreements has been completed. These projects are now planned to progress to the development phase.

In August 2009, the Company was awarded a $34.3 million grant by the United States Department of Energy (DOE) under the American Recovery and Reinvestment Act to increase manufacturing capacity of AGM batteries with and without advanced carbon technology. These AGM batteries are designed for Start & Stop, Micro-Hybrid and no-idle vehicle applications and enable improved fuel efficiency and reduced CO_2 emissions. Our total investment including the DOE grant will be approximately $70.0 million for expansion of our Columbus, Georgia and Bristol, Tennessee facilities. Additionally, we received tax incentives from the State of Georgia of approximately $9.3 million and approximately $6.0 million from the State of Tennessee. As a result of these grants, we expect to create as many as 320 jobs and expand battery production capacity by about 1.5 million batteries per year. These investments are expected to be completed during fiscal 2012.

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 281 trademarks worldwide, and maintains licenses from others to use approximately 12 trademarks worldwide. For example, the Company licenses the *NASCAR* mark from the National Association for Stock Car Auto Racing, Inc., and the *Exide* mark in the United Kingdom and Ireland from Chloride Group. The Company s license to the NASCAR marks expires on December 31, 2011. The Company also acts as licensor under certain trademark licensing agreements.

The Company has generated a number of patents in the operation of its business and currently owns all or a partial interest in greater than 274 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 operating segment is substantially dependent on any single patent or group of patents.

In March 2003, the Company brought legal proceedings in the U.S. Bankruptcy Court for the District of Delaware 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, including a Trademark License. In April 2006, the Bankruptcy Court granted the Company s request to reject those agreements. In June 2010, the Third Circuit Court of Appeals reversed the Bankruptcy Court s decision. The Company filed a Petition for Certiorari with the U.S. Supreme Court, and that petition was denied in February 2011. In September 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 certain Bankruptcy Code provisions. EnerSys has filed a motion to dismiss that complaint, which the Company has opposed, and the motion remains pending. For further information regarding this matter, see Note 11 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 50.6% of the cost of goods produced. The Company obtains substantially all of its North American lead requirements through the operation of five secondary lead recycling plants which reclaim lead by recycling spent lead-acid batteries. In North America, the Company obtains spent batteries for recycling primarily from the Company s customers, through Company-owned branch networks, and from outside spent battery collectors. In Europe and ROW, the Company obtains a small portion of its lead requirements through the operation of four lead recycling plants. The majority of the Company s lead requirements in Europe and ROW, however, are 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 battery separators. Polyethylene battery separators are purchased primarily from one supplier pursuant to a supply agreement expiring in fiscal 2013. There is no second source that could readily provide the volume of certain polyethylene separators used by the Company. As a result, any major disruption in supply from the Company s primary supplier of polyethylene separators 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, all of which are generally available from multiple sources. The Company has not experienced any material stoppage or disruption in production as a result of non-availability or delays in the availability of raw materials.

Competition

Transportation Segments

The Americas 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 Americas transportation segment, the Company believes it has the third largest market position. Other principal competitors in this market are Johnson Controls, Inc. and East Penn Manufacturing. Competition is strongest in the auto parts retail and mass merchandiser channels where large customers use their buying power to negotiate lower prices. Due to technical and production qualification requirements, OEMs change battery suppliers less frequently than aftermarket customers, but because of their purchasing size, they can influence market participants to compete on price and other terms. The Company also believes that it has the overall second largest market position in Europe in transportation batteries for the light vehicles and commercial vehicles product categories. The Company s largest competitor in the European transportation markets is Johnson Controls, Inc.

Industrial Energy Segments

The Company believes that it is one of the significant participants in the global motive power battery market. Competitors in the Americas include EnerSys Inc., East Penn Manufacturing, and Crown Battery, Inc. Competitors in Europe include EnerSys, Inc., Hoppecke, and MIDAC. In Asia, GS/Yuasa, Shinkobe, and EnerSys, Inc. are the primary competitors.

The Company is also one of the significant participants in the global network power battery market. Competitors in the Americas include C&D Technologies, EnerSys, Inc., and East Penn Manufacturing. The major competitor in Europe is EnerSys, Inc. In Asia, GS/Yuasa, Shinkobe, and EnerSys, Inc. are the primary competitors.

Seasonal Factors

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. Unusually cold winters or hot summers may accelerate battery failure and increase demand for transportation replacement batteries. Mild winters and cool summers, however, may have the opposite effect.

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 11 to the Consolidated Financial Statements.

Employees

The Company employed approximately 10,027 persons at March 31, 2011, compared to approximately 10,349 persons at March 31, 2010.

Americas

As of March 31, 2011, the Company employed approximately 1,278 salaried employees and 2,861 hourly employees in the Americas, primarily in the U.S. Approximately 45% of these salaried employees are engaged in sales, service, marketing, and administration and 55% in manufacturing and engineering. Approximately 16% of the Company s hourly employees in the Americas are represented by unions. The Company believes that relations with its unions are generally good. Union contracts covering approximately 254 of the Company s domestic employees expire in fiscal 2012, and the remainder thereafter.

Europe and ROW

As of March 31, 2011, the Company employed approximately 2,428 salaried employees and 3,460 hourly employees outside of the Americas, primarily in Europe. Approximately 70% of these salaried employees are engaged in sales, service, marketing, and administration and 30% in manufacturing and engineering. Generally, the Company s hourly employees and some of its salaried employees in Europe and ROW are represented by unions. The Company meets regularly with the European Works Councils. The Company believes that relations with its unions are generally good. Contracts covering most of the Company s non-U.S. union employees expire on various dates through fiscal 2012.

Executive Officers

James R. Bolch (53) President, Chief Executive Officer, and member of the Board of Directors. Mr. Bolch joined the Company in July 2010. His career has spanned 29 years in global industrial businesses serving a variety of customer segments. Before joining Exide, he served as Senior Vice President and President, Industrial Technologies Sector at Ingersoll Rand Company. From 2005-2010, he led the Industrial Technologies Sector of Ingersoll Rand, with multiple business lines and 25 global manufacturing sites. He joined Ingersoll Rand in 2005 from Schindler Elevator Corporation, where he served as Executive Vice President of the Service Business. Prior to his tenure at Schindler Elevator Corporation, Mr. Bolch spent 21 years with United Technologies Corporation (UTC), starting in engineering and program management roles with United Technologies Optical Systems, later moving to Otis Elevator Company where he progressed to Vice President, Otis Service. In his last role at UTC, he served as Vice President, Operations, for the UTC Power Division.

Bruce A. Cole (48) President, Exide Americas. Mr. Cole joined the Company in September 2000 in connection with the Company s acquisition of GNB. He has served in his current role since January 2011 and prior to that was President, Transportation Americas from August 2007 through December, 2010. Mr. Cole joined GNB in 1989. He has served in a variety of roles at the Company including Vice President, Manufacturing & Engineering for Industrial Energy Americas, Vice President, Global Marketing, Industrial Energy, and Vice President and General Manager, North America Recycling.

Phillip A. Damaska (56) Executive Vice President and Chief Financial Officer. Mr. Damaska joined the Company in January 2005 as Vice President, Finance, was appointed Vice President and Corporate Controller in September 2005, was named Senior Vice President and Corporate Controller in March 2006, and was named Executive Vice President and Chief Financial Officer effective April 1, 2008. Prior to joining the Company, Mr. Damaska served in numerous capacities with Freudenberg-NOK from 1996 through 2004, most recently as President of Corteco, an automotive and industrial seal supplier that is part of the partnership s global group of companies.

Barbara A. Hatcher (56) Executive Vice President and General Counsel. Ms. Hatcher joined the Company in September 2000 in connection with the Company s acquisition of GNB. Ms. Hatcher has been Executive Vice President and General Counsel since May 2006, after having served as Deputy General Counsel from April 2004 through April 2006. Ms. Hatcher previously served as GNB s Vice President & General Counsel.

Louis E. Martinez (45) Vice President, Corporate Controller, and Chief Accounting Officer. Mr. Martinez was appointed to this position in March 2008. Previously, Mr. Martinez served as the Company s Assistant Corporate Controller since joining the Company in May 2005. Mr. Martinez served as Corporate Controller for Airgate PCS, Inc., from March 2003 through May 2005. Mr. Martinez has also served as Corporate Controller for Cotelligent, Inc., from March 2000 through February 2003 and as Director of Finance & Controller for Aegis Communications Group from 1996 through February 2000.

Michael Ostermann (45) President, Exide Europe. Mr. Ostermann joined Exide in January 2009 as President, Transportation Europe and was named President, Exide Europe in March 2010. Prior to joining the Company, Mr. Ostermann served in a variety of automotive industry and operational roles including his most recent position as Management Board Member and Managing Director for Frauenthal Holding AG, a European manufacturer of industrial ceramic products. Mr. Ostermann was responsible for establishing that company s Automotive Division.

Edward R. Tetreault (46) Executive Vice President, Human Resources. Mr. Tetreault joined the Company in November 2010. He joined Exide from Ingersoll Rand, where he was Vice President, Human Resources for the corporation s Industrial Technologies Sector. Prior to joining Ingersoll Rand, Mr. Tetreault held senior human resources leadership roles with Merck & Co., Inc., Newell Rubbermaid, General Electric Company, and Tele-Communications, Inc. His career began in the public sector, spending six years as a management attorney and labor relations consultant.

Backlog

The Company s order backlog at March 31, 2011 was approximately $49.4 million for Industrial Energy Americas and approximately $114.8 million for Industrial Energy Europe and ROW. The Company expects to fill those backlogs during fiscal 2012. The Transportation backlog at March 31, 2011 was not significant.

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 (www.sec.gov), 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. The information on the Company s website is not, and shall not be deemed to be, a part of this annual report on form 10-K or incorporated into any other filings the Company makes with the SEC. The SEC website (www.sec.gov) contains reports, proxy and other statements, and other information regarding issuers, including the Company, that file electronically with the SEC. All of this information is available as soon as reasonably practicable after it is filed with the SEC. In addition, the public may read and copy any materials the Company files with the SEC at the SEC s Public Reference Room at 100 F Street, N.E., 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. The Company s Code of Ethics and Business Conduct may be accessed within the Investor Relations section of its website. Amendments and waivers of the Code of Ethics and Business Conduct will also be disclosed within four business days of issuance on the website. Information found in the Company s website is neither part of this annual report on Form 10-K nor any other report filed with the SEC.

Item 1A. *Risk Factors*

The Company has experienced significant fluctuations in raw material prices, particularly lead, and further changes in the prices of raw materials or in energy costs could have a material adverse effect on the Company s business, financial condition, cash flows, or results of operations.

Lead is the primary material used in the manufacture of batteries, representing approximately 50.6% of the Company s cost of goods sold for fiscal 2011. Average lead prices quoted on the London Metal Exchange (LME) have fluctuated dramatically, from $1,984 per metric ton for fiscal 2010 to $2,242 per metric ton for fiscal 2011. As of May 25, 2011, lead prices quoted on the LME were $2,530 per metric ton. If the Company is unable to maintain or 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. Fluctuations in the Company s prices could also cause customer demand for the Company s products to be reduced and net sales to decline, which could result in a material adverse effect on our business, financial condition, cash flows, or results of operations. Rising lead costs require the Company to make significant investments in inventory and accounts receivable, which reduces amounts of cash available for other purposes.

The Company also consumes significant amounts of polypropylene, steel and other materials in its manufacturing process and incurs energy costs in connection with manufacturing and distribution of its products. The market prices of these materials are also subject to fluctuation, which could impact the Company s liquidity.

In addition, the Company purchases spent batteries from third parties to provide adequate supply for the operations of its lead recycling facilities. To the extent the Company cannot purchase spent batteries in sufficient quantities or at reasonable prices, the lack of adequate supply or increased costs could have a material adverse effect on the Company s business, financial condition, cash flows, or results of operations.

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 business, financial condition, cash flows or results of operations.

The Company has significant manufacturing operations in, and exports to, several countries outside the U.S. Approximately 57.1% of the Company s net sales for fiscal 2011 were generated in Europe and ROW with the significant majority generated in Euros. Because such a significant portion of the Company s operation is based overseas, the Company is exposed to foreign currency risk, resulting in uncertainty as to future asset 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 in 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 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 risks may have a material adverse effect on the Company s non-U.S. operations or on its business, financial condition, cash flows or results of operations.

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 that they will have sufficient inventory for cold weather periods. 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 may not be 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. These circumstances could result in a material adverse effect on the Company s business, financial condition, cash flows, or results of operations.

Decreased demand in the industries in which the Company operates may adversely affect its business, financial condition, cash flows or results of operations.

The Company s financial performance depends, in part, on conditions in the automotive, material handling, and telecommunications industries which, in turn, are generally dependent on the U.S. and global economies. As a result, economic and other factors adversely affecting production by OEMs and their customers spending could adversely impact the Company s business. Relatively modest declines in customer purchases from the Company could have a significant adverse impact on its profitability because the Company has substantial fixed production costs. If the Company s OEM and large aftermarket customers reduce their inventory levels, or reduce their orders, the Company s performance would be significantly adversely impacted. In this economic environment, the Company cannot predict future production rates or inventory levels or the underlying economic factors. Continued uncertainty and unexpected fluctuations may adversely affect the Company s business, financial conditions, cash flows, or results of operations.

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; (5) population growth; and (6) overall economic conditions. Any significant adverse change in any one of these factors may adversely affect the Company s business, financial condition, cash flows, or results of operations.

The loss of the Company s primary supplier of polyethylene battery separators would have a material adverse effect on the Company s business, financial condition, cash flows or results of operations.

The Company relies on a single supplier to fulfill certain of its needs for polyethylene battery separators a critical component of many of the Company s products. There is no second source that could readily provide the volume of certain of its 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 s business, financial condition, cash flows, or results of operations.

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 significant decline in demand for replacement batteries for automobiles, light trucks, or sport utility vehicles could have a material adverse impact on the Company s business, financial condition, cash flows or results of operations of the Company s Transportation segments. To a lesser extent, a prolonged decline in the demand for new automobiles, light trucks or sport utility vehicles could also have an adverse impact on these segments. A weak capital expenditure environment in the telecommunications, uninterruptible power systems or electric industrial forklift truck markets could have a material adverse effect on the business, financial condition, cash flows, or results of operations of the Company s Industrial Energy segments.

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 volume, 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 price 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, financial condition, cash flows, or results of operations.

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 continued 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, which are 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 unable to compete effectively with these competitors, its sales and profitability could be adversely affected, which could have a material adverse effect on the Company s business, financial condition, cash flows, or results of operations.

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

The Company believes that its future success depends, in part, on the ability to develop, on a timely basis, new technologically advanced products or improve on the Company s existing products in innovative ways that meet or exceed its competitors product offerings. Maintaining the Company s market position will require continued investment in capital assets, 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 its existing products to maintain its market position. If any of these events occur, they could cause decreases in sales and have an adverse effect on the Company s business, financial condition, cash flows or results of operations.

The Company may be adversely affected by the instability and uncertainty in the world financial markets and the global economy, and uncertainty around potential terrorist activities against global companies.

Unfavorable changes in global economic conditions, including tightening credit markets, inflation or recession may result in consumers, businesses and governments deferring or lowering purchases of the Company s products in the future. In addition, terrorist activities may cause unpredictable or unfavorable economic conditions and could have a material adverse impact on the Company s business, financial condition, cash flows or results of operations. These economic conditions and uncertainty also may impact the ability of the Company s customers to purchase the Company s products and services. As a result, reserves for doubtful accounts and write-offs of accounts receivable may increase. In addition, the Company s ability to meet customer s demands depends, in part, on the Company s ability to obtain timely and adequate delivery of quality materials, parts and components from its suppliers. If certain key suppliers were to become capacity constrained or insolvent as a result of the global economic conditions, or terrorist attacks, it could result in a reduction or interruption in supplies or a significant increase in the price of supplies. If such economic conditions persist, or terrorist attacks occur, they could have a material adverse effect on the Company s business, financial condition, cash flows, or results of operations.

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

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, the Company may not be successful in maintaining or increasing the Company s percentage of captive arrangements and spent-battery collections or in otherwise hedging its lead requirements, leaving it exposed to fluctuations in the price of lead. Any failure to successfully implement the Company s business strategy could adversely affect the Company s business, financial condition, cash flows, or results of operations, 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 and occupational, health and safety matters, which could adversely affect its business, financial condition, cash flows or results of operations.

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. In particular, the Company is required to comply with increasingly stringent requirements of federal, state, and local environmental, occupational health and safety laws and regulations in the U.S. and other countries, including those governing (1) emissions to air, discharges to water, noise and odor emissions; (2) the generation, handling, storage, transportation, treatment, and disposal of waste materials; and (3) 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. There is also inherent difficulty in assessing the Company s potential liability due to the large number of other potentially responsible parties. For example, a demand for the total cleanup costs of a landfill used by many entities may be asserted by the government using joint and several liability theories. Although the Company believes that there is a reasonable basis in law to believe that 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. The Company may become obligated to pay material remediation-related costs at its closed Tampa, Florida facility in the amount of approximately $13.2 million to $19.9 million, and at the Columbus, Georgia facility in the amount of approximately $5.7 million to $8.5 million.

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, financial condition, cash flows or results of operations. The Company has made and will continue to make expenditures to comply with environmental requirements. These requirements, responsibilities and associated expenditures, if they continue to increase, could have a material adverse effect on the Company s business, financial condition, cash flows or 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.

On November 12, 2008, the Environmental Protection Agency (EPA) published new lead emissions standards under the National Ambient Air Quality Standards (NAAQS), which became effective on January 12, 2009. The new standards further restrict lead emissions by reducing the off-site concentration standards for lead in air from 1.5 micrograms per cubic meter to 0.15 micrograms per cubic meter. The Company believes that the new standards could impact a number of its U.S. facilities. Under the Clean Air Act (CAA), publication by the EPA of these ambient air quality standards initiates a process by which the states develop rules implementing the standards. Recently, some states have accelerated their implementation and the Company is working with these states to meet their requirements. Although the final impact on the Company s operations cannot be reasonably determined at the current time, the Company believes that the financial impact of compliance with these lead emissions standards on its U.S. facilities will be funded through normal operations. Noncompliance with these standards could have a material adverse effect on the Company s business, financial condition, cash flows or results of operations.

Regulation and legislation adopted to address possible global climate change could increase the Company s costs of operation and adversely affect the Company s business, financial condition, cash flows or results of operations.

Recently, there has been an increasing focus on whether emissions of certain gases, commonly referred to as greenhouse gases including carbon dioxide, may be contributing to certain atmospheric and other climatic changes.

Legislative and regulatory measures directed at limiting the emissions of greenhouse gases and other possible causes of climate change are in various phases of discussions or implementation in a number of countries in which the Company operates. Legislative, regulatory or other efforts in the United States, and international treaties to combat climate change could result in future increases in the cost of raw materials and energy sources such as electricity, natural gas and fossil fuels, all of which may result in higher manufacturing and distribution costs for the Company. The Company s facilities may also be subject to additional regulation under future climate change policies. Compliance with environmental laws or regulations regarding the reduction of greenhouse gases could result in significant changes to the Company s facilities and operations and result in an increased cost of conducting business. If the Company is unable to manage the financial risks or otherwise recover costs related to complying with climate change regulatory requirements, it could have a material adverse effect on the Company s business, financial condition, cash flows or results of operations.

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 its business, financial condition, cash flows or results of operations. See Note 11 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 business, financial condition, cash flows or results of operations.

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. Effective May 6, 2011 all outstanding warrants expired and were cancelled, and no further warrants will be issued from the reserve to resolve remaining pre-petition disputed unsecured claims. Although these claims are generally resolved through the issuance of common stock from the reserve rather than cash payments, 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 business, financial condition, cash flows or results of operations.

Work stoppages or other labor issues at the Company s facilities or its customers or suppliers facilities could adversely affect the Company s business, financial condition, cash flows or results of operations.

At March 31, 2011, approximately 16% of the Company s hourly employees in the Americas 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 254 of the Company s domestic employees expire in fiscal 2012, and the remainder thereafter. In addition, contracts covering most of the Company s union employees in Europe and ROW expire on various dates through fiscal 2012. 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, financial condition, cash flows or results of operations. 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 significant customers experience a material work stoppage, the 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 business, financial condition, cash flows or results of operations.

The Company has a significant amount of indebtedness. As of March 31, 2011, the Company had total indebtedness, including capital leases, of approximately $758.2 million. The Company s level of indebtedness could have significant consequences. For example, it could:

Limit the Company s ability to borrow money to fund its working capital, capital expenditures, acquisitions and debt service requirements;

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 relative 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 cash 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 business, financial condition, cash flows or results of operations. Subject to restrictions in the indenture governing the Company s senior secured notes and convertible notes and its asset-backed revolving credit facility (the ABL 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 ABL facility and the indenture governing the senior secured notes contain covenants that limit or restrict the Company s 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 ABL facility Agreement and the indenture governing the Company s senior secured notes limit or restrict, among other things, the Company s ability and the ability of its subsidiaries to:

Incur or guarantee additional indebtedness;

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

Purchase or redeem stock or subordinated indebtedness;

Issue stock of the Company s subsidiaries;

Make investments and extend credit;

Engage in transactions with affiliates;

Transfer and sell assets;

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

Engage in transactions with affiliates, and

Create liens on the Company s assets to secure debt.

In addition, the ABL facility requires the Company to repay outstanding borrowings with portions of the proceeds the Company receives from certain sales of property or assets and specified future debt offerings. The Company s ability to comply with these provisions may be affected by events beyond its control.

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

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

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 Bankruptcy Court. The Debtors, along with the Official Committee of Unsecured Creditors, filed the Plan with the Bankruptcy Court on February 27, 2004 and, on April 21, 2004, the Bankruptcy Court confirmed the Plan.

Pursuant to the Plan, the Company has established a reserve of common stock and warrants to purchase common stock for issuance to holders of unsecured pre-petition disputed claims. Effective May 6, 2011 all outstanding warrants expired and were cancelled, and no further warrants will be issued from the reserve to resolve remaining pre-petition disputed unsecured claims. To the extent this reserve is insufficient to satisfy these disputed claims, the Company would be required to issue additional shares of common stock, which would result in dilution to holders of its common stock.

Under the claims reconciliation and allowance process set forth in the Plan, the Official Committee of Unsecured Creditors, in consultation with the Company, established a reserve to provide for a pro rata distribution of common stock to holders of disputed claims as they become allowed. As claims are evaluated and processed, the Company will object to some claims or portions thereof, and upward adjustments (to the extent stock not previously distributed remain) or downward adjustments to the reserve will be made pending or following adjudication of these objections. Predictions regarding the allowance and classification of claims are inherently difficult to make.

As general unsecured claims have been allowed in the Bankruptcy Court, the Company has distributed approximately one share of common stock of the Company per $383.00 in allowed claim amount. This rate was established based upon the assumption that the new common stock 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. If the amount of general unsecured claims that is eventually allowed exceeds the amount of claims anticipated in the setting of the reserve, additional new common stock 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 new 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.

The Company s ability to recognize the benefits of deferred tax assets is dependent on future cash flows and taxable income.

The Company recognizes the expected future tax benefit from deferred tax assets when realization of the tax benefit is considered to be more likely than not. Otherwise, a valuation allowance is applied against deferred tax assets. Assessing the recoverability of deferred tax assets requires management to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the deferred tax assets could be impacted. Additionally, future changes in tax laws could limit the Company s ability to obtain the future tax benefits represented by its deferred tax assets. As of March 31, 2011, the Company s current and long-term deferred tax assets were $31.1 million and $81.0 million, respectively.

Negative tax consequences could materially and adversely affect the Company s business, financial condition, cash flows or results of operations.

Adverse changes in the underlying profitability and financial outlook of the Company s operations in several jurisdictions could lead to changes in the Company s valuation allowances against deferred tax assets and other tax reserves on the Company s statement of financial position that could materially and adversely affect the Company s business, financial condition, cash flows or results of operations. Additionally, changes in tax laws in the U.S. or in other countries where the Company has significant operations could materially affect deferred tax assets and liabilities on the Company s consolidated statement of financial position and tax expense. The Company is also subject to tax audits by governmental authorities in the U.S. and in non-U.S. jurisdictions. The Company is appealing the results of a tax audit in Spain for fiscal years 2003 through 2006 that is related to current and certain former Spanish subsidiaries. In May 2011, the Company was notified that the Spanish tax authorities will begin an audit of its current and certain former Spanish subsidiaries for fiscal years 2007 through 2010. The Company anticipates that it will receive an assessment for matters similar to those under appeal, which may amount to $40.0 million. Although the Company would appeal this estimated assessment and attempt to enter into a delayed payment plan as it successfully accomplished with respect to the 2003 through 2006 assessment, negative results from one or more such tax audits could materially and adversely affect the Company s business, financial condition, cash flows, or results of operations.

The Company is subject to regulation of its international operations that could adversely affect its business, financial condition, cash flows or results of operations.

Due to the Company s global operations, it is subject to many laws governing international relations, including those that prohibit improper payments to government officials and restrict where it can do business, what information or products it can supply to certain countries and what information it can provide to a non-U.S. government, including but not limited to the Foreign Corrupt Practices Act and the U.S. Export Administration Act. Violations of these laws, which are complex and often times difficult to interpret and apply, may result in severe criminal penalties or sanctions that could have a material adverse effect on the Company s business, financial condition, cash flows or results of operations.

Any restructuring activities that the Company may undertake, including its recently announced alignment of its businesses on a regional basis, may not achieve the benefits anticipated and could result in additional unanticipated costs, which could have a material adverse effect on the Company s business, financial condition, cash flows, or results of operations.

The Company regularly evaluates its existing operations, production capacity and business efficiencies and, as a result of such evaluations, the Company may undertake restructuring activities within its businesses, including the recently announced alignment of the Company s global businesses on a regional basis. These restructuring plans may involve higher costs or longer timetables than the Company anticipates and could result in substantial costs related to severance and other employee-related matters, litigation risks and expenses, and other costs. These restructuring activities may not result in improvements in future financial performance. If the Company is unable to realize the benefits of any restructuring activities or appropriately structure its businesses to meet market conditions, the restructuring activities could have a material adverse effect on the Company s business, financial condition, cash flows, or results of operations.

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 is including this cautionary statement for the express purpose of availing itself of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

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, and (d) statements of assumptions, such as the prevailing weather conditions in the Company s market areas, underlying other statements and statements about the Company or its business.

Factors that could cause actual results to differ materially from these forward looking statements include, but are not limited to, the following general factors such as: (i) the 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) the negative results of tax audits in the U.S. and Europe which could require the payment of significant cash taxes, (x) competitiveness of the battery markets in the Americas and Europe, (xi) 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, (xii) the ability to acquire goods and services and/or fulfill later needs at budgeted costs, (xiii) general economic conditions, (xiv) the Company s ability to successfully pass along increased material costs to its customers, and (xv) recently adopted U.S. lead emissions standards and the implementation of such standards by applicable states.

The Company cautions each reader to carefully consider those factors hereinabove set forth and the acknowledgements contained in the Risk Factors section of this Annual Report on Form 10-K. Such factors and statements 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. We undertake no obligation to update any forward-looking statements in this Form 10-K.

Item 1B. *Unresolved Staff Comments*

None.

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Item 2. *Properties*

The chart below lists the locations of the Company s principal facilities. All of the facilities are owned by the Company unless otherwise indicated. Most of the Company s significant U.S. properties and some of its European properties secure its financing arrangements. For a description of these financing arrangements, refer to Item 7 *Management s Discussion and Analysis of Financial Condition and Results of Operations,* Liquidity and Capital Resources. The leases for leased facilities generally expire at various dates through 2016.

Location		**Use**
Americas:		
Milton, GA	(leased)	Executive Offices
Aurora, IL	(leased)	Executive Offices
Bristol, TN		Transportation Battery Manufacturing and Distribution Center
Cannon Hollow, MO		Secondary Lead Recycling
Columbus, GA		Transportation and Industrial Battery Manufacturing and Distribution Center
Fort Smith, AR	(leased)	Industrial Battery Manufacturing and Distribution Center
Frisco, TX		Secondary Lead Recycling
Kansas City, KS		Industrial Battery Manufacturing and Distribution Center
Lampeter, PA		Plastics Manufacturing
Manchester, IA		Transportation Battery Manufacturing and Distribution Center
Mississauga, Canada	(leased)	Distribution Center
Muncie, IN		Secondary Lead Recycling
Reading, PA		Secondary Lead Recycling and Polypropylene Reprocessing Center
Salina, KS		Transportation Battery Manufacturing and Distribution Center
Vernon, CA		Secondary Lead Recycling
Toluca, Mexico	(leased)	Distribution Center
Europe and ROW:		
Adelaide, Australia		Transportation Battery Manufacturing and Distribution Center
Sydney, Australia		Industrial Battery Assembly and Distribution
Pinsk, Belarus	(leased)	Transportation Battery Manufacturing
Florival, Belgium		Distribution Center
Shanghai, China	(leased)	Executive Offices
Trafford Park, England	(leased)	Charger Manufacturing
Gennevilliers, France	(leased)	Executive Offices
Lille, France		Industrial Battery Manufacturing
Peronne, France		Plastics Manufacturing
Bad Lauterberg, Germany		Industrial Battery Manufacturing and Distribution Center
Budingen, Germany		Industrial Battery Manufacturing, Distribution Center and Executive Offices
Vlaardingen, Holland		Distribution Center
Tamilnadu, India	(leased)	Industrial Battery Manufacturing and Distribution Center
Ahmadabad, India		Transportation Battery Manufacturing

Location		Use
Romano Di Lombardia, Italy		Transportation Battery Manufacturing
Lower Hutt, New Zealand		Distribution Center
Petone, New Zealand		Secondary Lead Recycling
Poznan, Poland	(portions leased)	Transportation Battery Manufacturing
Castanheira do Riatejo, Portugal		Industrial Battery Manufacturing
Azambuja, Portugal		Secondary Lead Recycling
Azuqueca de Henares, Spain		Transportation Battery Manufacturing
San Esteban de Gomez, Spain		Secondary Lead Recycling
La Cartuja, Spain		Industrial Battery Manufacturing
Manzanares, Spain		Transportation Battery Manufacturing

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

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

Item 3. *Legal Proceedings*

See Note 11 to the Consolidated Financial Statements, which is hereby incorporated herein by reference, for a discussion of the Company s commitments and contingencies.

In July 2001, Pacific Dunlop Holdings (US), Inc. (PDH) and several of its foreign affiliates under the various agreements through which Exide and its affiliates acquired GNB, filed a complaint in the Circuit Court for Cook County, Illinois alleging breach of contract, unjust enrichment and conversion against Exide and three of its foreign affiliates. The plaintiffs maintain they are entitled to approximately $17.0 million in cash assets acquired by the defendants through their acquisition of GNB. In December 2001, PDH filed a separate action in the Circuit Court for Cook County, Illinois seeking recovery of approximately $3.1 million for amounts allegedly owed by the Company under various agreements between the parties. The claim arises from letters of credit and other security allegedly provided by PDH for GNB s performance of certain of GNB s obligations to third parties that PDH claims the Company was obligated to replace. The Company s answer contested the amounts claimed by PDH and the Company filed a counterclaim. Both actions were later consolidated and transferred to the U.S. Bankruptcy Court for the District of Delaware. On May 25, 2011, the Bankruptcy Court approved a settlement of these claims and counterclaims, which includes a payment by the Company of a non-material amount. The parties respective claims and counterclaims will be dismissed with prejudice.

Item 4. *(Removed and Reserved)*

PART II

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

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
January 1 through January 31	1,134	$ 10.55		
February 1 through February 28				
March 1 through March 31	27,849	$ 11.12		

(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.

Market Data

The Company s common stock trades on The NASDAQ Global Market under the symbol XIDE. The high and low sales price for each quarter in fiscal 2011 and 2010 is set forth below.

	High	Low
Fiscal 2011:		
First Quarter	$ 6.40	$ 4.00
Second Quarter	$ 6.22	$ 4.14
Third Quarter	$ 9.63	$ 4.81
Fourth Quarter	$ 12.42	$ 9.40
Fiscal 2010:		
First Quarter	$ 6.75	$ 3.06
Second Quarter	$ 8.75	$ 3.31
Third Quarter	$ 8.12	$ 5.94
Fourth Quarter	$ 8.72	$ 5.17

The Company did not declare or pay dividends on its common stock during fiscal years 2011 and 2010. Covenants in the ABL facility restrict the Company s ability to pay cash dividends on capital stock and the Company presently does not intend to pay dividends on its common stock.

As of May 25, 2011, the Company had 77,580,059 shares of its common stock outstanding, with approximately 4,203 holders of record, respectively.

Equity Compensation Plan Information

As of March 31, 2011, the Company maintained stock option and incentive plans under which employees and non-employee directors could be granted options to purchase shares of the Company s common stock or awarded shares of common stock. The following table contains information relating to such plans as of March 31, 2011.

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options and Rights	Weighted-Average Exercise Price of Outstanding Options and Rights	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans
Equity compensation plans approved by security holders	3,019,179	$ 7.88	2,285,604
Equity compensation plans not approved by security holders	80,000	$ 13.22	
Total	3,099,179	$ 8.02	2,285,604

Item 6. *Selected Financial Data*

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

			Fiscal Year Ended		
	2011	2010	2009	2008	2007
		(In thousands except per share data)			
Statement of Operations Data					
Net sales	$ 2,887,516	$ 2,685,808	$ 3,322,332	$ 3,696,671	$ 2,939,785
Operating income (loss)(1)	95,773	16,739	67,631	116,338	(13,870)
Net income (loss) attributable to Exide Technologies	$ 26,443	$ (11,814)	$ (69,522)	$ 32,059	$ (105,879)
Basic earnings (loss) per share	$ 0.34	$ (0.16)	$ (0.92)	$ 0.47	$ (2.37)
Diluted earnings (loss) per share	$ 0.33	$ (0.16)	$ (0.92)	$ 0.46	$ (2.37)
Balance Sheet Data (at period end)					
Working capital(2)	$ 542,037	$ 428,996	$ 489,216	$ 674,783	$ 486,866
Total assets	2,183,664	1,956,226	1,900,187	2,491,396	2,120,224
Total debt	758,158	659,527	658,205	716,195	684,454
Total stockholders equity attributable to Exide Technologies	404,787	332,334	326,227	544,338	330,523
Consolidated Cash Flow Data:					
Cash provided by (used in):					
Operating activities	$ 79,990	$ 109,162	$ 120,521	$ 1,080	$ 1,177
Investing activities	(71,796)	(95,242)	(101,087)	(49,797)	(47,447)
Financing activities	57,599	1,930	(29,441)	57,374	87,586
Other Data:					
Capital expenditures	88,589	96,092	108,914	56,854	51,932

(1) Operating income (loss) reflects restructuring and impairment charges of $42.3 million, $80.6 million, $75.0 million, $10.3 million, and $43.1 million in fiscal 2011, 2010, 2009, 2008, and 2007, respectively.

(2) Working capital is calculated as current assets less current liabilities.

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

External Factors Which Affect the Company s Financial Performance

Lead and other Raw Materials. Lead represents approximately 50.6% of the Company s cost of goods sold. The market price of lead fluctuates. Generally, when lead prices decrease, customers may seek disproportionate price reductions from the Company, and when lead prices increase, customers may resist price increases. 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 LME has increased 13.0% from $1,984 per metric ton for the fiscal year ended March 31, 2010 to $2,242 per metric ton for the fiscal year ended March 31, 2011. At May 25, 2011, the quoted price on the LME was $2,530 per metric ton. To the extent that lead prices continue to be volatile and the Company is unable to pass higher material costs resulting from this volatility to its customers, its financial performance will be adversely impacted.

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 at its battery manufacturing 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 these 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 impacted 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 the Euro. For fiscal 2011, the average exchange rate of the Euro to the U.S. Dollar has decreased 7.0% on average from $1.42 for fiscal 2010 to $1.32 for fiscal 2011. At March 31, 2011, the Euro was $1.42 as compared to $1.35 at March 31, 2010. Fluctuations in foreign currencies impacted the Company s results for the periods presented herein. For the fiscal year ended March 31, 2011, approximately 57.1% of the Company s net sales were generated in Europe and ROW. Further, approximately 65.4% of the Company s aggregate accounts receivable and inventory as of March 31, 2011 were held by European and ROW subsidiaries.

The Company is also exposed, although to a lesser extent, to foreign currency risk in the U.K., Poland, Australia, and various countries in the Pacific Rim. Fluctuations in 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. Original equipment volumes in the transportation and motive power channels have been and continue to be impacted by unfavorable global economic conditions. In addition, capital spending by major customers in our network power channels also continue 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 and also makes the Company more sensitive to fluctuations in the availability of liquidity.

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

Interest Rates. The Company is exposed to fluctuations in interest rates on its variable rate debt. See Notes 2 and 7 to the Consolidated Financial Statements.

Fiscal 2011 Highlights and Outlook

The Company s reported results continued to be impacted in fiscal 2011 by unfavorable global economic conditions, as well as fluctuations in the cost of materials and energy used in the manufacturing and distribution of the Company s products.

In the Americas, the Company obtains 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. Recycling helps the Company control the cost of its principal raw material used in North America as compared to purchasing lead at prevailing market prices. Similar to the fluctuation in lead prices, however, the cost of spent batteries has also fluctuated. The average cost of spent batteries increased approximately 27.9% in fiscal 2011 versus fiscal 2010. The Company continues to take pricing actions 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 OEM customers. The Company currently obtains a small portion of its lead requirements from recycling in its European facilities.

The Company expects that volatility in lead and other commodity costs, which affect all business segments, will continue to put pressure on the Company s financial performance. However, selective pricing actions, lead price escalators in certain contracts and fuel surcharges have been implemented to help mitigate these risks. The implementation of selective pricing actions and price escalators generally lag the rise in market prices of lead and other commodities. Both lead price escalators and fuel surcharges may not be accepted by our customers, and if the price of lead decreases, our customers may seek disproportionate price reductions.

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

(i) Successful execution and completion of the Company s restructuring plan and organizational realignment of divisional and corporate functions intended to result in further targeted headcount reductions.

(ii) 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.

(iii) Continued factory and distribution productivity improvements through the Company s established EXCELL program and Take Charge! initiative.

(iv) Continued review and rationalization of the various brand offerings of products in its markets to gain efficiencies in manufacturing and distribution, and better leverage the Company s marketing spending.

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

(vi) Increased 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 are based upon the Company s Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (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 from these estimates under different assumptions or conditions.

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

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

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

Employee Benefit Plans. The Company considers accounting for employee benefit plans critical because management is required to make significant subjective judgments about a number of actuarial assumptions, including discount rates, compensation growth, long-term return on plan assets, retirement, turnover, health care cost trend rates and mortality rates. Depending on the assumptions and estimates used, the pension and postretirement benefit expense could vary within a range of outcomes and have a material effect on reported results. In addition, the assumptions can materially affect accumulated benefit obligations and future cash funding. For a detailed discussion of the Company s retirement benefits, see Employee Benefit Plans herein and Note 8 to the Consolidated Financial Statements.

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

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

Sales Returns and Allowances. The Company provides for an allowance for product returns and/or allowances at the time sales are recorded. Based upon its 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 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 an assessment of the anticipated lag between the date of sale and claim/return date.

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

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

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

Results of Operations

The Company reports its results as four business segments: Transportation Americas, Transportation Europe and ROW, Industrial Energy Americas, and Industrial Energy Europe and ROW. The following discussions provide a comparison of the Company s results of operations for the fiscal year ended March 31, 2011 with those for the fiscal year ended March 31, 2010, and a comparison of the Company s results of operations for the fiscal year ended March 31, 2010 with those for the fiscal year ended March 31, 2009. The information in this section should be read in conjunction with the Consolidated Financial Statements and related notes thereto appearing in Item 8 *Financial Statements and Supplementary Data.*

Fiscal Year Ended March 31, 2011 compared with Fiscal Year Ended March 31, 2010

Net Sales

Net sales were $2.9 billion for fiscal 2011 versus $2.7 billion in fiscal 2010. Foreign currency translation unfavorably impacted net sales in fiscal 2011 by approximately $53.6 million. Excluding the foreign currency translation impact, net sales increased by approximately $255.3 million, or 9.5%, primarily as a result of higher unit sales in many of the Company s markets and an estimated $150.0 million in lead related price increases.

	For the Fiscal Year Ended		Favorable/(Unfavorable)		
	March 31, 2011	March 31, 2010	Total	Currency Related	Non-Currency Related
			(In thousands)		
Transportation Americas	$ 942,014	$ 922,629	$ 19,385	$ 8,603	$ 10,782
Transportation Europe and ROW	922,870	824,190	98,680	(36,516)	135,196
Industrial Energy Americas	295,364	237,137	58,227	1,415	56,812
Industrial Energy Europe and ROW	727,268	701,852	25,416	(27,110)	52,526
TOTAL	$ 2,887,516	$ 2,685,808	$ 201,708	$ (53,608)	$ 255,316

Transportation Americas net sales, excluding the foreign currency translation impact, increased 1.2% due to increase in OEM unit sales and $25.0 million impact of lead related price increases, partially offset by a decline in aftermarket unit sales and third party lead sales. Third-party lead sales for fiscal 2011 were approximately $10.1 million lower than such third-party sales in fiscal 2010.

Transportation Europe and ROW net sales, excluding foreign currency translation, increased 16.4% mainly due to higher unit sales in both the aftermarket and OEM channels and $66.8 million impact of lead related pricing actions.

Industrial Energy Americas net sales, excluding the foreign currency translation impact, increased 24.0% due to higher unit sales in both the Motive Power and Network Power markets and $12.6 million of lead related pricing actions.

Industrial Energy Europe and ROW net sales, excluding foreign currency translation impact, increased 7.5% due to higher Motive Power unit sales and $45.7 million of lead related pricing actions, partially offset by lower Network Power unit sales.

Gross Profit

Gross profit was $564.4 million in fiscal 2011 versus $538.1 million in fiscal 2010. Gross margin was 19.5% of net sales in fiscal 2011 compared to 20.0% of net sales in fiscal 2010. Foreign currency translation unfavorably impacted gross profit in fiscal 2011 by approximately $7.2 million. Excluding the foreign currency translation impact, gross profit increased by $33.5 million primarily due to higher unit sales as well as improved manufacturing efficiencies. The increase in net sales and cost of sales from lead related pricing also had a net 110 basis point unfavorable impact on gross margin.

	For the Fiscal Year Ended						
	March 31, 2011		March 31, 2010		Favorable/(Unfavorable)		
	Total	Percent of Net Sales	Total	Percent of Net Sales	Total	Currency Related	Non-Currency Related
				(In thousands)			
Transportation Americas	$ 183,561	19.5%	$ 206,472	22.4%	$ (22,911)	$ 1,367	$ (24,278)
Transportation Europe and ROW	164,528	17.8%	142,509	17.3%	22,019	(5,147)	27,166
Industrial Energy Americas	70,138	23.7%	53,958	22.8%	16,180	365	15,815
Industrial Energy Europe and ROW	146,202	20.1%	135,157	19.3%	11,045	(3,791)	14,836
TOTAL	$ 564,429	19.5%	$ 538,096	20.0%	$ 26,333	$ (7,206)	$ 33,539

Transportation Americas gross profit decreased primarily due to lower unit sales in the aftermarket channel combined with higher commodity costs and not sufficient pricing actions to offset, partially offset by higher OEM unit sales. The increase in net sales and cost of sales from lead related pricing also had a net 50 basis point unfavorable impact on gross margin.

Transportation Europe and ROW gross profit, excluding the foreign currency translation impact, increased primarily due to higher unit sales in both the aftermarket and OEM channels combined with approximately $3.0 million in cost savings from the fiscal 2010 closure of the Auxerre, France battery manufacturing plant. The increase in net sales and cost of sales from lead related pricing also had a net 140 basis point unfavorable impact on gross margin.

Industrial Energy Americas gross profit increased primarily due to higher unit sales in both the Motive Power and Network Power markets as well as improved manufacturing efficiencies. The increase in net sales and cost of sales from lead related pricing also had a net 110 basis point unfavorable impact on gross margin.

Industrial Energy Europe and ROW gross profit, excluding foreign currency translation impact, increased primarily due to higher Motive Power unit sales and improved manufacturing efficiencies combined with approximately $13.0 million in cost savings from the fiscal 2010 closure of the Over Hulton, UK plant, partially offset by lower Network Power unit sales. The increase in net sales and cost of sales from lead related pricing also had a net 130 basis point unfavorable impact on gross margin.

Expenses

i. Selling and administrative expenses decreased $14.4 million, to $426.4 million in fiscal 2011 from $440.8 million in fiscal 2010. Excluding favorable foreign currency translation impact of $6.0 million, the expenses decreased by $8.4 million, primarily due to cost controls and lower selling related costs. Included in selling and administrative expenses were general and administrative expenses of $177.2 million in fiscal 2011 and $182.5 million in fiscal 2010.

ii. Restructuring and impairment expenses decreased by $38.3 million, to $42.3 million in fiscal 2011 from $80.6 million in fiscal 2010, and included non-cash asset impairment charges of $9.1 million and $10.0 million in fiscal 2011 and 2010, respectively. Fiscal 2010 restructuring activities included the closure of the battery plants in Auxerre, France and Over Hulton, U.K.;

iii. Other expense (income) was $2.2 million in fiscal 2011 versus ($9.9) million in fiscal 2010. The change primarily relates to lower currency remeasurement gains of approximately $7.9 million an increase of approximately $3.3 million in reorganization costs resulting from professional fees and certain settlements of certain bankruptcy claims in cash;

iv. Loss on early extinguishment of debt was $10.8 million relates to the Company s extinguishment of substantially all of the Company s pre-existing long-term debt. The Company issued $675.0 million of new senior secured bonds to pay off the prior debt. See Note 7 to the Consolidated Financial Statements.

v. Interest expense increased $2.5 million, to $62.4 million in fiscal 2011 from $59.9 million in fiscal 2010 due primarily to increased borrowings.

Income (loss) before income taxes:

	For the Fiscal Year Ended		**Favorable/(Unfavorable)**		
	March 31, 2011	**March 31, 2010**	**Total**	**Currency Related**	**Non-Currency Related**
			(In thousands)		
Transportation Americas	$ 55,993	$ 82,972	$ (26,979)	$ 292	$ (27,271)
Transportation Europe & ROW	59,057	14,855	44,202	(2,632)	46,834
Industrial Energy Americas	23,500	13,100	10,400	45	10,355
Industrial Energy Europe & ROW	310	(45,322)	45,632	2,077	43,555
Unallocated expenses	(118,544)	(98,905)	(19,639)	(379)	(19,260)
TOTAL	$ 20,316	$ (33,300)	$ 53,616	$ (597)	$ 54,213

Transportation Americas income before income taxes decreased primarily due to the decrease in gross profit combined with $2.3 million higher restructuring and impairment expenses related to selling and administrative headcount reductions.

Transportation Europe and ROW income before income taxes, excluding the foreign currency translation impact, increased primarily due to higher gross profit combined with $20.2 million lower restructuring and impairment expenses related to the fiscal 2010 closure of the Auxerre, France battery plant.

Industrial Energy Americas income before income taxes increased primarily due to higher gross profit, partially offset by increased selling and marketing costs related to the higher sales, higher restructuring and impairment expenses of $1.2 million related to selling and administrative headcount reductions, as well as higher costs related to new product engineering initiatives.

Industrial Energy Europe and ROW income before income taxes, excluding foreign currency translation impact, increased primarily due to higher gross profit combined with lower restructuring and impairment expenses of $22.7 million related to the fiscal 2010 closure of a U.K. battery plant, as well as lower selling and administrative expenses resulting from headcount reductions and spending controls.

Unallocated expense detail is shown below:

	For the Fiscal Year Ended		
	March 31, 2011	March 31, 2010	Favorable (Unfavorable)
	(In thousands)		
Corporate expenses	$ 38,470	$ 44,530	$ 6,060
Restructuring and impairments, net	3,423	2,372	(1,051)
Currency remeasurement gain	(1,242)	(9,088)	(7,846)
Gain on revaluation of warrants	(268)	(807)	(539)
Reorgnization items, net	5,012	1,675	(3,337)
Interest, net	62,410	59,933	(2,477)
Loss on early extinguishment of debt	10,827		(10,827)
Other	(88)	290	378
TOTAL	$ 118,544	$ 98,905	$ (19,639)

Income Taxes

The effective tax rate for fiscal 2011 and fiscal 2010 was impacted by the generation of income in tax-paying jurisdictions in certain countries in Europe, the U.S., Asia, and Canada, and the movement of valuation allowances in the United Kingdom, Spain, and France. During fiscal 2011, the income tax benefit increased by the reversal of valuation allowance in Italy and Australia of $15.0 million and tax rate differential on foreign earnings of $12.0 million. During fiscal 2010, the income tax benefit increased by $38.8 million due to the change in valuation of certain deferred tax balances. The Company evaluates its deferred tax assets and liabilities on a quarterly basis and during the fourth quarter, new information became available that led the Company to re-evaluate certain deferred tax liabilities. The Company is also subject to tax audits by governmental authorities in the U.S. and in non-U.S. jurisdictions. See Note 10 to the Consolidated Financial Statements.

	For the Fiscal Year Ended	
	March 31, 2011	March 31, 2010
	(In thousands)	
Pre-tax (loss) income	$ 20,316	$ (33,300)
Income tax (benefit) provision	(6,496)	(21,963)
Effective tax rate	(32.0)%	66.0%

Fiscal Year Ended March 31, 2010 compared with Fiscal Year Ended March 31, 2009

Net Sales

Net sales were $2.7 billion for fiscal 2010 versus $3.3 billion in fiscal 2009. Foreign currency translation favorably impacted net sales in fiscal 2010 by approximately $27.0 million. Excluding the foreign currency translation impact, net sales decreased by approximately $663.6 million, or 20.0%, primarily as a result of lower unit sales and $86.6 million in reduced pricing related to the decrease in the lower average price of lead.

	For the Fiscal Year Ended		**Favorable/(Unfavorable)**		
	March 31, 2010	**March 31, 2009**	**Total**	**Currency Related**	**Non-Currency Related**
			(In thousands)		
Transportation Americas	$ 922,629	$ 1,136,631	$ (214,002)	$	$ (214,002)
Transportation Europe and ROW	824,190	908,085	(83,895)	18,403	(102,298)
Industrial Energy Americas	237,137	287,120	(49,983)		(49,983)
Industrial Energy Europe and ROW	701,852	990,496	(288,644)	8,639	(297,283)
TOTAL	$ 2,685,808	$ 3,322,332	$ (636,524)	$ 27,042	$ (663,566)

Transportation Americas net sales decreased 18.8% due to the decline in aftermarket and OEM unit sales as well as a $3.9 million unfavorable impact of the lower average price of lead. Third-party lead sales for fiscal 2010 were approximately $62.0 million higher than such third-party sales in fiscal 2009.

Transportation Europe and ROW net sales, excluding foreign currency translation, decreased 11.3% primarily due to lower unit sales in the OEM channel, as well as $46.3 million in reduced pricing related to the lower average price of lead.

Industrial Energy Americas net sales decreased 17.4% due primarily to lower unit sales in the motive power and network power markets as well as a $10.7 million unfavorable impact of the lower average price of lead.

Industrial Energy Europe and ROW net sales, excluding foreign currency translation, decreased 30.0% due to lower unit sales in the network power and motive power markets as well as a $25.6 million unfavorable impact of the lower average price of lead.

Gross Profit

Gross profit was $538.1 million in fiscal 2010 versus $613.7 million in fiscal 2009. Gross margin increased to 20.0% of net sales in fiscal 2010 from 18.5% of net sales in fiscal 2009. Foreign currency translation favorably impacted gross profit in fiscal 2010 by approximately $6.3 million. Excluding the foreign

currency translation impact, gross profit decreased by $81.9 million primarily due to lower unit sales, partially offset by improved manufacturing efficiencies.

	For the Fiscal Year Ended						
	March 31, 2010		March 31, 2009		Favorable/(Unfavorable)		
	Total	Percent of Net Sales	Total	Percent of Net Sales	Total	Currency Related	Non-Currency Related
				(In thousands)			
Transportation Americas	$ 206,472	22.4%	$ 215,051	18.9%	$ (8,579)	$	$ (8,579)
Transportation Europe and ROW	142,509	17.3%	100,394	11.1%	42,115	5,197	36,918
Industrial Energy Americas	53,958	22.8%	79,894	27.8%	(25,936)		(25,936)
Industrial Energy Europe and ROW	135,157	19.3%	218,329	22.0%	(83,172)	1,142	(84,314)
TOTAL	$ 538,096	20.0%	$ 613,668	18.5%	$ (75,572)	$ 6,339	$ (81,911)

Transportation Americas gross profit decreased primarily due to lower unit sales, partially offset by improved plant and distribution efficiencies. The increase in gross margin percentage as a percentage of net sales is principally the result of the benefits of restructuring initiatives taken during the first quarter of fiscal 2010.

Transportation Europe and ROW gross profit, excluding the foreign currency translation impact, increased primarily due to higher unit sales in the aftermarket channel as well as benefits realized by the closure of the Auxerre, France battery plant and other improved manufacturing efficiencies, partially offset by lower unit sales in the OEM channel.

Industrial Energy Americas gross profit decreased primarily due to lower unit sales in both the network power and motive power markets.

Industrial Energy Europe and ROW gross profit, excluding the foreign currency translation impact, decreased primarily due to lower unit sales in both the network power and motive power markets, partially offset by improved plant and distribution efficiencies.

Expenses

i. Selling and administrative expenses decreased $47.3 million, to $440.8 million in fiscal 2010 from $471.0 million in fiscal 2009. Foreign currency translation favorably impacted selling, marketing, and advertising costs in fiscal 2010 by approximately $2.4 million. The decrease in these expenses was due primarily to decreases in sales commissions and other spending controls, partially offset by increases in engineering spending and $5.1 million higher non-cash stock compensation costs. Included in selling and administrative expenses were general and administrative expenses of $182.5 million in fiscal 2010 and $174.0 million in fiscal 2009.

ii. Restructuring and impairment expenses increased by $5.6 million, to $80.6 million in fiscal 2010 from $75.0 million in fiscal 2009. This increase primarily related to costs associated with headcount reductions in certain manufacturing facilities, principally the Auxerre, France transportation battery plant and the Over Hulton, U.K. industrial energy battery plant closures;

iii. Other (income) expense was ($9.9) million in fiscal 2010 versus $31.7 million in fiscal 2009. The change is primarily due to a $52.4 million favorable variance in currency remeasurement, partially offset by a $6.3 million lower gain on revaluation of warrants; and

iv. Interest expense decreased $12.3 million, to $59.9 million in fiscal 2010 from $72.2 million in fiscal 2009 due primarily to the favorable impact of lower interest rates on borrowings.

Income (loss) before income taxes

	For the Fiscal Year Ended		Favorable/(Unfavorable)		
	March 31, 2010	March 31, 2009	Total	Currency Related	Non-Currency Related
			(In thousands)		
Transportation Americas	$ 82,972	$ 82,720	$ 252	$	$ 252
Transportation Europe & ROW	14,855	(62,198)	77,053	3,437	73,616
Industrial Energy Americas	13,100	41,205	(28,105)		(28,105)
Industrial Energy Europe & ROW	(45,322)	52,833	(98,155)	2,749	(100,904)
Unallocated expenses	(98,905)	(150,868)	51,963	881	51,082
TOTAL	$ (33,300)	$ (36,308)	$ 3,008	$ 7,067	$ (4,059)

Transportation Americas income before income taxes increased primarily due to cost reductions and restructuring initiatives.

Transportation Europe and ROW income before income taxes, excluding the foreign currency translation impact, increased due primarily to increased gross profit combined with $25.2 million lower restructuring and asset impairment expenses related to the closure of the Auxerre, France battery plant, as well as other cost reduction activities and a prior year bad debt write-off.

Industrial Energy Americas income before income taxes decreased primarily due to decreased gross profit and increase in costs related to new product engineering initiatives.

Industrial Energy Europe and ROW income before income taxes decreased primarily due to lower gross profit combined with $29.9 million in higher restructuring and asset impairment expenses primarily related to the closure of the Company s U.K. battery plant, partially offset by cost reduction initiatives and lower selling costs.

Unallocated expenses detail is shown below:

	For the Fiscal Year Ended		
	March 31, 2010	March 31, 2009	Favorable (Unfavorable)
		(In thousands)	
Corporate expenses	$ 44,530	$ 43,597	$ (933)
Restructuring and impairments, net	2,372	954	(1,418)
Currency remeasurement (gain) loss	(9,088)	39,055	48,143

Gain on revaluation of warrants	(807)	(7,129)	(6,322)
Reorgnization items, net	1,675	2,179	504
Other	290	(28)	(318)
Interest, net	59,933	72,240	12,307
TOTAL	$ 98,905	$ 150,868	$ 51,963

Income Taxes

The effective tax rate for fiscal 2010 and fiscal 2009 was impacted by the generation of income in tax-paying jurisdictions in certain countries in Europe, the U.S., Asia, and Canada, and the movement of valuation allowances in the United Kingdom, Italy, Spain, France, and Australia. During fiscal 2010, the income tax benefit increased by $38.8 million due to the change in valuation of certain deferred tax balances. The

Company evaluates its deferred tax assets and liabilities on a quarterly basis and during the fourth quarter, new information became available that led the Company to re-evaluate certain deferred tax liabilities. The effective tax rate for fiscal 2009 was impacted by the establishment of a full valuation reserve of $13.3 million on its net deductible temporary differences and loss carry forwards related to its Australian operations. In addition, the income tax provision for fiscal 2009 decreased as a result of the removal of $3.1 million in valuation allowances against net deferred tax assets generated from the Company s Austrian and Mexican operations.

	For the Fiscal Year Ended	
	March 31, 2010	March 31, 2009
	(In thousands)	
Pre-tax loss	$ (33,300)	$ (36,308)
Income tax (benefit) provision	(21,963)	32,173
Effective tax rate	66.0%	(88.6)%

Liquidity and Capital Resources

As of March 31, 2011, cash and cash equivalents of $161.4 million and availability under the Company s senior secured asset-backed revolving credit facility (the ABL facility) of $144.0 million. This compared to cash and cash equivalents of $89.6 million and availability under the Company s previous revolving credit facility of $124.6 million as of March 31, 2010.

In January 2011, the Company issued $675.0 million in aggregate principal amount of 85/8% senior secured notes (Senior Secured 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 101/2% 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 a senior secured asset-backed revolving credit facility (the ABL facility) with commitments of an aggregate borrowing capacity of $200.0 million. The Company recorded a pre-tax loss on the early extinguishment of debt of $10.8 million.

The Senior Secured Notes

Borrowings under the Senior Secured Notes bear interest at a rate of 85/8% per annum, payable semi-annually in arrears in February and August, beginning August, 2011. Upon issuance, the Notes became the Company s senior secured obligations, and are not guaranteed by any of the Company s subsidiaries.

Prior to February 1, 2015, the Company may 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. In addition, prior to February 1, 2015, the Company may 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. 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 Issuer issues a redemption notice in respect thereof not more than 60 days after the consummation of the equity offering. On or after

February 1,

2015, 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 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.

The indenture for these 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 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 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.

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 will be guaranteed by the Company s domestic subsidiary and certain foreign subsidiaries.

The obligations under the ABL facility will be 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 will be first priority liens on all assets other than notes priority collateral and will be 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. These 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 March 31, 2011 and March 31, 2010 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 March 31, 2011, the Company was in compliance with covenants contained in the ABL Facility and indenture governing 85/8% Senior Secured Notes and floating rate convertible subordinated notes.

At March 31, 2011, the Company had outstanding letters of credit with a face value of $56.0 million and surety bonds with a face value of $2.3 million. The majority of the letters of credit and surety bonds have been issued as collateral or financial assurance with respect to certain liabilities 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 March 31, 2011, pursuant to the terms of the agreement, was $2.2 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 costs or increases in costs beyond predicted levels would place a strain on the Company s liquidity.

Sources 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 recent years through the sale of non-core business assets.

Cash flows provided by operating activities were $80.0 million and $109.2 million in fiscal 2011 and fiscal 2010 respectively. The operating cash flows decreased primarily due to increases in inventory resulting from higher sales demand and higher cost of commodities, primarily lead, and partially offset by $50.0 million lower restructuring payments.

The Company generated $16.8 million and $0.9 million in cash from the sale of non-core assets in fiscal 2011 and fiscal 2010, respectively. These sales principally relate to the sale of surplus land and buildings.

Total debt at March 31, 2011 was $758.2 million, as compared to $659.5 million at March 31, 2010. See Note 7 to the Consolidated Financial Statements for the composition of such debt.

Cash provided by financing activities was $57.6 million and $1.9 million in fiscal 2011 and fiscal 2010, respectively. Cash flows provided by financing activities in fiscal 2011 relate primarily to net proceeds from issuance of the $675.0 million Senior Secured Notes, largely offset by pay down on previous financing obligations.

Going forward, the Company s principal sources of liquidity will be cash on hand, cash from operations, and borrowings under the ABL facility.

Uses Of Cash

The Company s liquidity needs arise primarily from the funding of working capital, obligations on indebtedness, capital expenditures, and funding benefit plans. 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 June through October.

The Company believes that it will have sufficient ongoing liquidity to support its operational restructuring programs during fiscal 2012, including payment of remaining accrued restructuring costs of approximately $23.3 million as of March 31, 2011. For further discussion, see Note 12 to the Consolidated Financial Statements.

Capital expenditures were $88.6 million and $96.1 million in fiscal 2011 and fiscal 2010, respectively. The Company plans capital spending of approximately $110.0 million to $120.0 million in fiscal 2012.

Total pension and other post-retirement employer contributions and direct benefit payments were approximately $20.0 million and $18.9 millions in fiscal 2011 and fiscal 2010, respectively.

The Company is subject to tax audits by governmental authorities in the U.S. and in non-U.S. jurisdictions. The Company is appealing the results of a tax audit in Spain for fiscal years 2003 through 2006 that is related to current and certain former Spanish subsidiaries. In May 2011, the Company was notified that the Spanish tax authorities will begin an audit of its current and certain former Spanish subsidiaries for fiscal years 2007 through 2010. The Company anticipates that it will receive an assessment for matters similar to those under appeal, which may amount to

$40.0 million. Although the Company would appeal this estimated assessment and attempt to enter into a delayed payment plan as it successfully accomplished with respect to the 2003 through 2006 assessment, negative results from one or more such tax audits could materially and adversely affect the Company s business, financial condition, cash flows, or results of operations.

Employee Benefit Plans

Accounting and Significant Assumptions

The Company accounts for pension and post-employment benefits using the accrual method. The accrual method of accounting for pensions and post-employment benefits involves the use of actuarial assumptions concerning future events that impact estimates of the amount and timing of benefit obligations and future benefit payments.

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

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

At March 31, 2011, the Company had decreased the discount rates used to value its pension benefit obligations to reflect the decrease in yields on high quality corporate bonds, and decreased the rate of compensation increases to reflect current inflationary expectations. The aggregate effect of these changes increased the present value of projected benefit obligations as of March 31, 2011.

A one-percentage point increase or decrease in the weighted average expected return on plan assets for defined benefit plans would increase or decrease net periodic benefit cost by approximately $4.0 million in fiscal 2011. A one-percentage point increase in the weighted average discount rate would decrease net periodic benefit cost for defined benefit plans by approximately $0.8 million in fiscal 2011. A one-percentage point decrease in the weighted average discount rate would decrease net periodic benefit cost for defined benefit plans by approximately $0.1 million in fiscal 2011.

Plan Funding Requirements

Cash contributions to the Company s pension plans are generally made in accordance with minimum regulatory requirements. The Company expects its cumulative minimum future cash contributions to its pension plans will total approximately $118.6 million to $154.6 million from fiscal 2012 to fiscal 2016, including $28.7 million in fiscal 2012. In addition, the Company expects that cumulative contributions to its other post retirement benefit plans will total approximately $9.6 million from fiscal 2012 to fiscal 2016, including $2.0 million in fiscal 2012.

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 swap, forward and option contracts to finance its operations and to hedge interest rate, currency and certain commodity purchasing related risks 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. For further discussion of the Company s financial instruments, see Note 2 to the 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 in virtually all cases do not contain recourse provisions against the Company for its customers failure to pay. The Company sold approximately $67.3 million and $38.5 million of foreign currency trade accounts receivable during the fiscal years ended March 31, 2011 and 2010, 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 Consolidated Statements of Cash Flows.

Contractual Obligations and Commercial Commitments

The Company s contractual obligations and commercial commitments at March 31, 2011 are summarized by fiscal year in which the payments are due in the following table:

	2012	2013	2014	2015	2016	2017 and Beyond	Total
				(In thousands)			
Floating Rate Convertible Senior Subordinated Notes	$	$	$ 60,000	$	$	$	$ 60,000
Senior Secured Notes						675,000	675,000
Interest on long-term debt(a)	60,170	60,167	60,165	60,164	60,161	92,827	393,654
Short term borrowings	9,088						9,088
Government loans (non-interest bearing)					1,015	9,131	10,146
Other term loans	139	139	139	158	90	202	867
Capital leases(b)	3,151	2,405	1,884	1,492	21		8,953
Operating leases	25,634	16,878	9,937	5,038	3,477	906	61,870
Other non-current liabilities(c)		16,207	13,685	10,910	9,011	49,127	98,940
Total contractual cash obligations	$ 98,182	$ 95,796	$ 145,810	$ 77,762	$ 73,775	$ 827,193	$ 1,318,518

(a) Reflects the Company s scheduled interest payments and assumes an interest rate of 0.0% on the floating rate convertible senior subordinated notes, and 85/8% on the Senior Secured Notes.

(b) Capital leases reflect future minimum lease payments including imputed interest charges.

(c) Other non-current liabilities include amounts on the Consolidated Balance Sheet as of March 31, 2011 (amounts that have been discounted are reflected as such on the table above).

(d) Pension and other post-retirement benefit obligations are not included in the table above. The Company expects that cumulative contributions to its pension plans will total approximately $118.6 to $154.6 million from fiscal 2012 to fiscal 2016, including $28.7 million in fiscal 2012. In addition, the Company expects that cumulative contributions to its other post-retirement benefit plans will total approximately $9.6 million from fiscal 2012 to fiscal 2016, including $2.0 million in fiscal 2012. See Note 8 to the Consolidated Financial Statements.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risks*

The Company is exposed to market risks from changes in foreign currency exchange rates, certain commodity prices and interest rates. The Company does not enter into contracts without the intent to mitigate a particular risk, nor is it a party to any leveraged instruments. A discussion of the Company s accounting policies for derivative instruments is provided in Notes 1 and 2 to the Consolidated Financial Statements.

Foreign Currency Exchange Rate Risk

The Company is exposed to foreign currency risk related to uncertainties to which future earnings or asset and liability values are exposed due to operating cash flows and various financial instruments that are denominated in foreign currencies. More specifically, the Company is exposed to foreign currency risk in most European countries, principally Germany, France, the United Kingdom, Spain, Italy, and Poland. It is also exposed, although to a lesser extent, to foreign currency risk in Australia and countries in the Pacific Rim. Movements of exchange rates against the U.S. Dollar can result in variations in the U.S. Dollar value of non-U.S. sales. In some instances, gains in one currency may be offset by losses in another. The Company enters into foreign currency forward contracts to mitigate the effect of foreign currency exchange rate fluctuations on certain transactions subject to foreign currency risk. See Note 2 to the Consolidated Financial Statements.

Commodity Price Risk

Lead is the primary material used in the manufacture of batteries, representing approximately 50.6% of the Company s cost of goods sold. The market price of lead fluctuates. Generally, when lead prices decrease, customers may seek disproportionate price reductions from the Company, and when lead prices increase, customers may resist price increases. The Company occasionally enters into certain lead and non-lead commodity hedging instruments to mitigate the effect of price fluctuations in those commodities. See Note 2 to the Consolidated Financial Statements.

Interest Rate Risk

The Company is exposed to interest rate risk on its short-term borrowings and a portion of its long-term debt.

The following table presents the expected outstanding debt balances and related interest rates, excluding capital lease obligations and lines of credit, under the terms of the Company s borrowing arrangements in effect at March 31, 2011.

	March 31,					
	2012	2013	2014	2015	2016	2017 and Beyond
	(In thousands)					
85/8% Senior Secured Notes	$ 675,000	$ 675,000	$ 675,000	$ 675,000	$ 675,000	$ 675,000
Fixed Interest Rate	8.625%	8.625%	8.625%	8.625%	8.625%	8.625%
Floating Rate Convertible Senior Subordinated Notes	60,000	60,000				
Variable Interest Rate(a)	0.0%	0.0%	n/a	n/a	n/a	n/a
Other term loans	729	590	450	292	202	111
Fixed interest rate	1.52%	1.52%	1.52%	1.52%	0.79%	0.79%

(a)

Variable components of interest rates based upon market rates at March 31, 2011. See Note 7 to the Consolidated Financial Statements.

Effects of Inflation

Inflation has not had a material impact on the Company s operations. The Company generally has been able to partially offset the effects of inflation with cost-reduction programs, operating efficiencies, and pricing actions.

Future Environmental Developments

As a result of its multinational manufacturing, distribution and recycling operations, the Company is subject to numerous federal, state, and local environmental, occupational safety, and health laws and regulations, and similar laws and regulations in other countries in which the Company operates. For a discussion of the legal proceedings relating to environmental matters, see Note 11 to the Consolidated Financial Statements.

Item 8. *Financial Statements and Supplementary Data*

See Index to Financial Statements at page F-1.

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

None.

Item 9A. *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 Securities Exchange Act of 1934 (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 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 our disclosure controls and procedures pursuant to Exchange Act Rules 13a-15(b) and 15d-15(b). Based upon this evaluation, the chief executive officer and the chief financial officer concluded that the Company s disclosure controls and procedures were effective.

Management s Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). The Company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management, together with our Chief Executive Officer and Chief Financial Officer, has completed its evaluation of the effectiveness of the Company s internal control over financial reporting as of March 31, 2011 based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our assessment and on those criteria, we determined that, as of March 31, 2011, the Company s internal control over financial reporting was effective.

The effectiveness of the Company s internal control over financial reporting as of March 31, 2011 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

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 March 31, 2011 that have materially affected or are reasonably likely to materially affect the Company s internal control over financial reporting.

Item 9B. *Other Information*

None

PART III

Item 10. *Directors and Executive Officers, and Corporate Governance*

Information concerning the Board of Directors of the Company, the members of the Company s Audit Committee, the Company s Audit Committee financial expert and the Company s Code of Ethics is incorporated by reference to the Company s Proxy Statement for the Annual Meeting of Stockholders currently scheduled to be held on September 16, 2011 (the Proxy Statement).

Section 16(a) Beneficial Ownership Reporting Compliance

Information concerning compliance with Section 16(a) of the Securities Exchange Act of 1934 is incorporated by reference to the Proxy Statement.

Director Independence

The information required by this item is incorporated by reference to the Proxy Statement.

Audit Committee Financial Expert

The information required by this item is incorporated by reference to the Proxy Statement.

Code of Ethics

The information required by this item is incorporated by reference to the Proxy Statement.

Item 11. *Executive Compensation*

The information required by this item is incorporated by reference to the Proxy Statement.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The information required by this item is incorporated by reference to the Proxy Statement.

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

The information required by this item is incorporated by reference to the Proxy Statement.

Item 14. *Principal Accountant Fees and Services*

The information required by this item is incorporated by reference to the Proxy Statement.

PART IV

Item 15. *Exhibits and Financial Statement Schedules*

(a) Index to Financial Statements

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

(b) Exhibits Required by Item 601 of Regulation S-K

See Index to Exhibits.

(c) Financial Statement Schedules

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on June 1, 2011.

EXIDE TECHNOLOGIES

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities stated, in each case, on June 1, 2011.

By:	/s/ JAMES R. BOLCH **James R. Bolch,** **Chief Executive Officer** **(principal executive officer)**	By:	/s/ JOHN O HIGGINS **John O Higgins,** **Director**
By:	/s/ PHILLIP A. DAMASKA **Phillip A. Damaska,** **Executive Vice President and** **Chief Financial Officer** **(principal financial officer)**	By:	/s/ DOMINIC J. PILEGGI **Dominic J. Pileggi,** **Director**
By:	/s/ LOUIS E. MARTINEZ **Louis E. Martinez,** **Vice President, Corporate Controller, and** **Chief Accounting Officer** **(principal accounting officer)**	By:	/s/ JOHN P. REILLY **John P. Reilly,** **Chairman of the Board of Directors**
By:	/s/ HERBERT F. ASPBURY **Herbert F. Aspbury,** **Director**	By:	/s/ MICHAEL P. RESSNER **Michael P. Ressner,** **Director**
By:	/s/ MICHAEL R. D APPOLONIA **Michael R. D Appolonia,** **Director**	By:	/s/ CARROLL R. WETZEL **Carroll R. Wetzel,** **Director**

By:	/s/ DAVID S. FERGUSON
	David S. Ferguson, Director

INDEX TO EXHIBITS

2.1 Joint Plan of Reorganization of the Official Committee of Unsecured Creditors and the Debtors, dated March 11, 2004, incorporated by reference to Exhibit 2.1 to the Company s Report on Form 8-K (file no. 001-11263) dated May 6, 2004.

2.2 Amended Technical Amendment to (I) Joint Plan of Reorganization of the Official Committee of Unsecured Creditors and the Debtors and (II) Plan Supplement for Joint Plan of Reorganization of the Official Committee of the Unsecured Creditors and the Debtors, dated April,27, 2004, incorporated by reference to Exhibit 2.2 to the Company s Report on Form 8-K (file no. 001-11263) dated May 6, 2004.

2.3 Order confirming the Joint Plan of Reorganization of the Official Committee of Unsecured Creditors and the Debtors entered April 20, 2004, incorporated by reference to Exhibit 2.3 to the Company s Report on Form 8-K (file no. 001-11263) dated May 6, 2004.

3.1 Amended and Restated Certificate of Incorporation, incorporated by reference to Exhibit 3.1 to the Company s Quarterly Report on Form 10-Q (file no. 001-11263) dated November 8, 2007.

3.2 Amended and Restated Bylaws of the Company, effective March 25, 2009, incorporated by reference to Exhibit 3.1 to the Company s Report on Form 8-K (file no. 001-11263) dated March 31, 2010.

4.1 Warrant Agreement, dated as of May 5, 2004, by and between the Company and American Stock Transfer & Trust Company, incorporated by reference to Exhibit 3 to the Company s Registration Statement on Form 8-A (file no. 001-11263) dated May 6, 2004.

4.2 Indenture, dated as of March 18, 2005, by and between the Company and SunTrust Bank relating to the Floating Rate Convertible Senior Subordinated Notes due 2013, incorporated by reference to Exhibit 10.2 to the Company s Report on Form 8-K (file no. 001-11263) dated March 25, 2005.

4.3 Registration Rights Agreement, dated September 18, 2006, between Exide Technologies, Tontine Capital Partners, L.P., Tontine Partners, L.P., Tontine Overseas Associates, L.L.C., Tontine Capital Overseas Master Fund, L.P., Arklow Capital, LLC and Legg Mason Investment Trust, Inc., incorporated by reference to Exhibit 10.1 to the Company s Report on Form 8-K (file no. 001-11263) dated September 19, 2006.

4.4 Rights Agreement, dated as of December 6, 2008, by and between the Company and American Stock Transfer & Trust Company, LLC, incorporated by reference to Exhibit 4.1 to the Company s Registration Statement in Form 8-A (file no. 001-11263) dated December 8, 2008.

4.5 Indenture, dated as of January 25, 2011, by and between Exide Technologies and Wells Fargo Bank, National Association, as trustee, incorporated by reference to Exhibit 4.1 to the Company s Report on Form 8-K (file no. 001-11263) dated January 25, 2011.

4.6 Form of 85/8% Senior Notes due 2018 (included as Exhibit A in Exhibit 4.5).

4.7 Registration Rights Agreement, dated January 25, 2011, by and between the Exide Technologies and Deutsche Bank Securities Inc., as representative of the several initial purchasers, incorporated by reference to Exhibit 4.3 to the Company s Report on Form 8-K (file no. 001-11263) dated January 25, 2011.

4.8 Security Agreement dated as of January 25, 2011, by Exide Technologies in favor of Wells Fargo Bank, National Association, as collateral agent, incorporated by reference to Exhibit 4.4 to the Company s Report on Form 8-K (file no. 001-11263) dated January 25, 2011.

4.9 Supplemental Indenture, dated as of January 25, 2011, by and between Exide Technologies and U.S. Bank, National Association, as successor trustee incorporated by reference to Exhibit 4.4 to the Company s Report on Form 8-K (file no. 001-11263) dated January 25, 2011.

4.10 Credit Agreement, dated as of January 25, 2011, by and among Exide Technologies, Exide Global Holding Netherlands C.V., various financial institutions named therein, and Wells Fargo Capital Finance, LLC, as administrative agent, incorporated by reference to Exhibit 10.1 to the Company s Report on Form 8-K (file no. 001-11263) dated January 25, 2011.

4.11 US Security Agreement dated as of January 25, 2011, by and among Exide Technologies, and Wells Fargo Capital Finance, LLC, in its capacity as agent, incorporated by reference to Exhibit 10.2 to the Company s Report on Form 8-K (file no. 001-11263) dated January 25, 2011.

4.12 US General Continuing Guaranty, dated as of January 25, 2011, by Exide Technologies, in favor of Wells Fargo Capital Finance, LLC, as agent, incorporated by reference to Exhibit 10.3 to the Company s Report on Form 8-K (file no. 001-11263) dated January 25, 2011.

4.13 Intercreditor Agreement dated as of January 25, 2011, by and among Exide Technologies, Wells Fargo Capital Finance, LLC, as agent under the credit agreement dated January 25, 2011 and Wells Fargo Bank, National Association, as trustee and collateral agent under the indenture dated January 25, 2011, incorporated by reference to Exhibit 10.4 to the Company s Report on Form 8-K (file no. 001-11263) dated January 25, 2011.

10.30 Form of Indemnity Agreement, dated February 27, 2006, incorporated by reference to Exhibit 10.1 to the Company s Report on Form 8-K (file no. 001-11263) dated March 2, 2006.

10.31 Form of Restricted Share Units Award Agreement, incorporated by reference to Exhibit 10.1 to the Company s Report on Form 8-K (file no. 001-11263) dated March 27, 2007.

10.32 Form of Exide Technologies Employee Restricted Shares Award Agreement, incorporated by reference to Exhibit 10.1 to the Company s Report on Form 8-K (file no. 001-11263) dated October 20, 2004.

10.33 Form of Exide Technologies Employee Stock Option Award Agreement, incorporated by reference to Exhibit 10.2 to the Company s Report on Form 8-K (file no. 001-11263) dated October 20, 2004.

10.34 Form of Non-Employee Director Stock Option Award Agreement, incorporated by reference to Exhibit 10.4 to the Company s Report on Form 8-K (file no. 001-11263) dated October 20, 2004.

10.35 Form of Non-Employee Director Restricted Shares Award Agreement, incorporated by reference to Exhibit 10.5 to the Company s Report on Form 8-K (file no. 001-11263) dated October 20, 2004.

10.36 Standby Purchase Agreement by and among Exide Technologies, Tontine Capital Partners, L.P., and Legg Mason Investment Trust, Inc., dated August 28, 2007, incorporated by reference to Exhibit 10.1 to the Company s Report on Form 8-K (file no. 001-11263) dated August 28, 2007.

10.37 Exide Technologies 2004 Stock Incentive Plan, as further amended and restated effective August 22, 2007, incorporated by reference to Exhibit 10.2 to the Company s Report on Form 10-Q (file no. 001-11263) dated November 8, 2007.

10.38 Amendment to Stock Option Award Agreement between Exide Technologies and Phillip A. Damaska, dated February 18, 2008, incorporated by reference to Exhibit 10.5 to the Company s Report on Form 8-K (file no. 001-11263) dated February 20, 2008.

10.39 Fiscal 2010 Short Term Incentive Plan adopted by the Compensation Committee of the Board of Directors on March 25, 2009, incorporated by reference to Exhibit 10.53 to the Company s Annual Report on Form 10-K (file no. 001-11263) dated June 4, 2009.

10.40 Performance Unit Award Agreement, dated as of May 4, 2009 by and between the Company and Phillip A. Damaska, incorporated by reference to Exhibit 10.3 to the Company s Quarterly Report on Form 10-Q (file no. 001-11263) dated August 6, 2009. +

10.41 Performance Unit Award Agreement, dated as of May 4, 2009 by and between the Company and Barbara A. Hatcher, incorporated by reference to Exhibit 10.4 to the Company s Quarterly Report on Form 10-Q (file no. 001-11263) dated August 6, 2009. +

10.42 Exide Technologies 2009 Stock Incentive Plan, incorporated by reference to Exhibit 10.1 to the Company s Report on Form 8-K (file no. 001-11263) dated September 21, 2009.

10.43 Form of Performance Share Award Agreement., incorporated by reference to Exhibit 10.1 to the Company s Report on Form 8-K (file no. 001-11263) dated March 31, 2010. +

10.44 Form of Restricted Stock Award Agreement incorporated by reference to Exhibit 10.2 to the Company s Report on Form 8-K (file no. 001-11263) dated March 31, 2010.

10.45 Supply Agreement between Daramic, LLC and Exide Technologies, dated January 17, 2010, incorporated by reference to Exhibit 10.57 to the Company s Report on Form 10-K/A (file no.001-11263) dated January 7, 2011. +

10.46

Employment Agreement between Exide Technologies and James R. Bolch, dated June 10, 2010, incorporated by reference to Exhibit 10.1 to the Company s Report on Form 8-K (file no. 001-11263) dated June 15, 2010.

10.47 Restricted Stock Award Agreement, dated July 26, 2010, by and between Exide Technologies and James R. Bolch, incorporated by reference to Exhibit 10.1 to the Company s Report on Form 8-K (file no. 001-11263) dated July 26, 2010.

10.48 Side Letter Agreement, dated July 26, 2010, by and between Exide Technologies and Gordon A. Ulsh, incorporated by reference to Exhibit 10.2 to the Company s Report on Form 8-K (file no. 001-11263) dated July 26, 2010.

10.49 U.K. form of Non-Employee Director Restricted Stock Unit Award, incorporated by reference to Exhibit 10.1 to the Company s Report on Form 8-K (file no. 001-11263) dated September 20, 2010.

10.50 U.K. form of Non-Employee Director Restricted Stock Unit Award for New Directors, incorporated by reference to Exhibit 10.2 to the Company s Report on Form 8-K (file no. 001-11263) dated September 20, 2010.

10.51 U.S. form of Non-Employee Director Restricted Stock Unit Award for New Directors, incorporated by reference to Exhibit 10.3 to the Company s Report on Form 8-K (file no. 001-11263) dated September 20, 2010.

10.52 Agreement between Exide Technologies and Edward R. Tetreault, dated September 16, 2010, incorporated by reference to Exhibit 10.1 to the Company s Quarterly Report on Form 10-Q (file no. 001-11263) dated November 4, 2010.

10.53 Release, Settlement, and Income Protection Agreement between Exide Technologies and George S. Jones, Jr., dated October 21, 2010, incorporated by reference to Exhibit 10.2 to the Company s Quarterly Report on Form 10-Q (file no. 001-11263) dated November 4, 2010.

10.54 Form of Indemnification Agreement, incorporated by reference to Exhibit 10.1 to the Company s Report on Form 8-K (file no. 001-11263) dated November 10, 2010.

10.55 Release, Settlement and Income Protection Agreement between Exide Technologies and Mitchell S. Bregman, incorporated by reference to Exhibit 10.1 to the Company s Report on Form 8-K (file no. 001-11263) dated December 20, 2010.

10.56 Amendment to Agreement between Exide Technologies and Edward R. Tetreault, dated December 22, 2010, incorporated by reference to Exhibit 10.6 to the Company s Quarterly Report on Form 10-Q (file no. 001-11263) dated February 7, 2011.

10.57 Form of Performance Share Award Agreement, incorporated by reference to Exhibit 10.1 to the Company s Report on Form 8-K (file no. 001-11263) dated April 4, 2011.

10.58 Form of Performance Unit Agreement, incorporated by reference to Exhibit 10.2 to the Company s Report on Form 8-K (file no. 001-11263) dated April 4, 2011. +

*10.59 Fiscal 2012 Annual Incentive Plan, amending and restating the Fiscal 2010 Short-Term Incentive Plan.

*21 Subsidiaries of Exide Technologies.

*23.1 Consent of Independent Registered Public Accounting Firm.

*31.1 Certification of James R. Bolch, 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.

*32.1 Certifications pursuant to Section 906 of Sarbanes-Oxley Act of 2002.

* Filed with this Report.

Management contract or compensatory plan or arrangement.

+ 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 24b-2 under the Securities Exchange Act of 1934.

EXIDE TECHNOLOGIES AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS AND SCHEDULE

Exide Technologies and Subsidiaries

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of
Exide Technologies

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, stockholder s equity and cash flows present fairly, in all material respects, the financial position of Exide Technologies and its subsidiaries at March 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2011 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2011, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Atlanta, GA
June 1, 2011

EXIDE TECHNOLOGIES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Fiscal Year Ended		
	March 31, 2011	March 31, 2010	March 31, 2009
	(In thousands, except per-share data)		
Net sales	$ 2,887,516	$ 2,685,808	$ 3,322,332
Cost of sales	2,323,087	2,147,712	2,708,664
Gross profit	564,429	538,096	613,668
Selling and administrative expenses	426,370	440,761	471,022
Restructuring and impairments, net	42,286	80,596	75,015
Operating income	95,773	16,739	67,631
Other expense (income), net	2,220	(9,894)	31,699
Interest expense, net	62,410	59,933	72,240
Loss on early extinguishment of debt	10,827		
Income (loss) before income taxes	20,316	(33,300)	(36,308)
Income tax (benefit) provision	(6,496)	(21,963)	32,173
Net income (loss)	26,812	(11,337)	(68,481)
Net income attributable to noncontrolling interests	369	477	1,041
Net income (loss) attributable to Exide Technologies	$ 26,443	$ (11,814)	$ (69,522)
Earnings (loss) per share			
Basic	$ 0.34	$ (0.16)	$ (0.92)
Diluted	$ 0.33	$ (0.16)	$ (0.92)
Weighted average shares			
Basic	76,678	75,960	75,526
Diluted	81,309	75,960	75,526

The accompanying notes are an integral part of these statements.

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EXIDE TECHNOLOGIES AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

ASSETS

LIABILITIES AND STOCKHOLDERS EQUITY

Three months ended

nded

)16 2015Average loan balance:

1 $347 $992 $189 Commercial loans secured by real estate 283 966 449 1,583 Consumer 35 23 Average investment in ir

$7 $9 $17 Commercial loans secured by real estate 5 8 15 Consumer 1 Interest income recognized on a cash basis on

Management uses a nine point internal risk rating system to monitor the credit quality of the overall loan portfolio. The first six categories are considered not criticized. The first five Pass categories are aggregated, while the Pass-6, Special Mention, Substandard and Doubtful categories are disaggregated to separate pools. The criticized rating categories utilized by management generally follow bank regulatory definitions. The Special Mention category includes assets that are currently protected but are potentially weak, resulting in an undue and unwarranted credit risk, but not to the point of justifying a Substandard classification. Loans in the Substandard category have well-defined weaknesses that jeopardize the liquidation of the debt, and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected. All loans greater than 90 days past due, or for which any portion of the loan represents a specific allocation of the allowance for loan losses are placed in Substandard or Doubtful.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

8. Allowance for Loan Losses (continued)

To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Company has a structured loan rating process, which dictates that, at a minimum, credit reviews are mandatory for all commercial and commercial mortgage loan relationships with aggregate balances in excess of $250,000 within a 12-month period. Generally, consumer and residential mortgage loans are included in the Pass categories unless a specific action, such as bankruptcy, delinquency, or death occurs to raise awareness of a possible credit event. The Company s commercial relationship managers are responsible for the timely and accurate risk rating of the loans in their portfolios at origination and on an ongoing basis. Risk ratings are assigned by the account officer, but require independent review and rating concurrence from the Company s internal Loan Review Department. The Loan Review Department is an experienced independent function which reports directly to the Board s Audit Committee. The scope of commercial portfolio coverage by the Loan Review Department is defined and presented to the Audit Committee for approval on an annual basis. The approved scope of coverage for 2016 requires review of a minimum range of 50% to 55% of the commercial loan portfolio.

In addition to loan monitoring by the account officer and Loan Review Department, the Company also requires presentation of all credits rated Pass-6 with aggregate balances greater than $1,000,000, all credits rated Special Mention or Substandard with aggregate balances greater than $250,000, and all credits rated Doubtful with aggregate balances greater than $100,000 on an individual basis to the Company s Loan Loss Reserve Committee on a quarterly basis. Additionally, the Asset Quality Task Force, which is a group comprised of senior level personnel, meets monthly to monitor the status of problem loans.

The following table presents the classes of the commercial and commercial real estate loan portfolios summarized by the aggregate Pass and the criticized categories of Special Mention, Substandard and Doubtful within the internal risk rating system (in thousands).

	September 30, 2016				
	Pass	Special Mention	Substandard	Doubtful	Total
Commercial	$ 178,536	$ 90	$ 2,118	$ 507	$ 181,251
Commercial loans secured by real estate	428,613	7,593	1,689	16	437,911
Total	$ 607,149	$ 7,683	$ 3,807	$ 523	$ 619,162

	December 31, 2015				
	Pass	Special Mention	Substandard	Doubtful	Total
Commercial	$ 174,616	$ 1,811	$ 3,318	$ 1,321	$ 181,066
Commercial loans secured by real estate	416,331	3,100	2,188	18	421,637
Total	$ 590,947	$ 4,911	$ 5,506	$ 1,339	$ 602,703

It is generally the policy of the Bank that the outstanding balance of any residential mortgage loan that exceeds 90-days past due as to principal and/or interest is transferred to non-accrual status and an evaluation is completed to determine the fair value of the collateral less selling costs, unless the balance is minor. A charge down is recorded for any deficiency balance determined from the collateral evaluation. The remaining non-accrual balance is reported as impaired with no specific allowance. It is the policy of the bank that the outstanding balance of any consumer loan that exceeds 90-days past due as to principal and/or interest is charged off. The following tables present the performing and non-performing outstanding balances of the residential and consumer portfolios (in thousands).

	September 30, 2016	
	Performing	Non-Performing
Real estate mortgage	$ 247,628	$ 916
Consumer	19,818	
Total	$ 267,446	$ 916

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

8. Allowance for Loan Losses (continued)

	December 31, 2015	
	Performing	Non-Performing
Real estate mortgage	$ 256,149	$ 1,788
Consumer	20,344	
Total	$ 276,493	$ 1,788

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by the length of time a recorded payment is past due. The following tables present the classes of the loan portfolio summarized by the aging categories of performing loans and nonaccrual loans (in thousands).

	September 30, 2016						
	Current	30 59 Days Past Due	60 89 Days Past Due	90 Days Past Due	Total Past Due	Total Loans	90 Days Past Due and Still Accruing
Commercial	$180,774	$328	$	$ 149	$477	$181,251	$
Commercial loans secured by real estate	437,789	122			122	437,911	
Real estate mortgage	245,023	2,243	554	724	3,521	248,544	
Consumer	19,742	66	10		76	19,818	
Total	$883,328	$2,759	$ 564	$ 873	$4,196	$887,524	$

	December 31, 2015						
	Current	30 59 Days Past Due	60 89 Days Past Due	90 Days Past Due	Total Past Due	Total Loans	90 Days Past Due and Still Accruing
Commercial	$176,216	$489	$4,361	$	$4,850	$181,066	$
Commercial loans secured by real estate	421,247	208	182		390	421,637	
Real estate mortgage	254,288	2,658	442	549	3,649	257,937	
Consumer	20,115	67	162		229	20,344	
Total	$871,866	$3,422	$5,147	$ 549	$9,118	$880,984	$

An allowance for loan losses (ALL) is maintained to absorb losses from the loan portfolio. The ALL is based on management s continuing evaluation of the risk characteristics and credit quality of the loan portfolio, assessment of current economic conditions, diversification and size of the portfolio, adequacy of collateral, past and anticipated loss experience, and the amount of non-performing loans.

Loans that are collectively evaluated for impairment are analyzed with general allowances being made as appropriate. For general allowances, historical loss trends are used in the estimation of losses in the current portfolio. These historical loss amounts are complemented by consideration of other qualitative factors.

Management tracks the historical net charge-off activity at each risk rating grade level for the entire commercial portfolio and at the aggregate level for the consumer, residential mortgage and small business portfolios. A historical charge-off factor is calculated utilizing a rolling 12 consecutive historical quarters for the commercial portfolios. This historical charge-off factor for the consumer, residential mortgage and small business portfolios are based on a three year historical average of actual loss experience.

The Company uses a comprehensive methodology and procedural discipline to maintain an ALL to absorb inherent losses in the loan portfolio. The Company believes this is a critical accounting policy since it involves significant estimates and judgments. The allowance consists of three elements: 1) an allowance established on specifically identified problem loans, 2) formula driven general reserves established for loan categories based upon historical loss experience and other qualitative factors which include delinquency, non-performing and TDR loans, loan trends, economic trends, concentrations of credit, trends in loan volume,

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

8. Allowance for Loan Losses (continued)

experience and depth of management, examination and audit results, effects of any changes in lending policies, and trends in policy, financial information, and documentation exceptions, and 3) a general risk reserve which provides support for variance from our assessment of the previously listed qualitative factors, provides protection against credit risks resulting from other inherent risk factors contained in the Company s loan portfolio, and recognizes the model and estimation risk associated with the specific and formula driven allowances. The qualitative factors used in the formula driven general reserves are evaluated quarterly (and revised if necessary) by the Company s management to establish allocations which accommodate each of the listed risk factors.

Pass rated credits are segregated from Criticized and Classified credits for the application of qualitative factors.

Management reviews the loan portfolio on a quarterly basis using a defined, consistently applied process in order to make appropriate and timely adjustments to the ALL. When information confirms all or part of specific loans to be uncollectible, these amounts are promptly charged off against the ALL.

9. Non-performing Assets Including Troubled Debt Restructurings (TDR)

The following table presents information concerning non-performing assets including TDR (in thousands, except percentages):

	September 30, 2016	December 31, 2015
Non-accrual loans		
Commercial	$ 656	$ 4,260
Commercial loans secured by real estate	181	18
Real estate mortgage	916	1,788
Total	1,753	6,066
Other real estate owned		
Commercial	18	
Commercial loans secured by real estate	100	
Real estate mortgage	36	75
Total	154	75
TDR s not in non-accrual		156
Total non-performing assets including TDR	$ 1,907	$ 6,297
Total non-performing assets as a percent of loans, net of unearned income, and other real estate owned	0.21 %	0.71 %

The Company had no loans past due 90 days or more for the periods presented which were accruing interest.

The following table sets forth, for the periods indicated, (1) the gross interest income that would have been recorded if non-accrual loans had been current in accordance with their original terms and had been outstanding throughout the period or since origination if held for part of the period, (2) the amount of interest income actually recorded on such loans, and (3) the net reduction in interest income attributable to such loans (in thousands).

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Interest income due in accordance with original terms	$ 20	$ 25	$ 99	$ 73
Interest income recorded				
Net reduction in interest income	$ 20	$ 25	$ 99	$ 73

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

9. Non-performing Assets Including Troubled Debt Restructurings (TDR)   (continued)

Consistent with accounting and regulatory guidance, the Bank recognizes a TDR when the Bank, for economic or legal reasons related to a borrower s financial difficulties, grants a concession to the borrower that would not normally be considered. Regardless of the form of concession granted, the Bank s objective in offering a TDR is to increase the probability of repayment of the borrower s loan.

To be considered a TDR, both of the following criteria must be met:

the borrower must be experiencing financial difficulties; and

the Bank, for economic or legal reasons related to the borrower s financial difficulties, grants a concession to the borrower that would not otherwise be considered.

Factors that indicate a borrower is experiencing financial difficulties include, but are not limited to:

the borrower is currently in default on their loan(s);

the borrower has filed for bankruptcy;

the borrower has insufficient cash flows to service their loan(s); and

the borrower is unable to obtain refinancing from other sources at a market rate similar to rates available to a non-troubled debtor.

Factors that indicate that a concession has been granted include, but are not limited to:

the borrower is granted an interest rate reduction to a level below market rates for debt with similar risk; or

the borrower is granted a material maturity date extension, or extension of the amortization plan to provide payment relief. For purposes of this policy, a material maturity date extension will generally include any maturity date extension, or the aggregate of multiple consecutive maturity date extensions, that exceed 120 days. A restructuring that results in an insignificant delay in payment, i.e. 120 days or less, is not necessarily a TDR. Insignificant payment delays occur when the amount of the restructured payments subject to the delay is insignificant relative to the unpaid principal or collateral value, and will result in an insignificant shortfall in the originally scheduled contractual amount due, and/or the delay in timing of the restructured payment period is insignificant relative to the frequency of payments, the original maturity or the original amortization.

The determination of whether a restructured loan is a TDR requires consideration of all of the facts and circumstances surrounding the modification. No single factor is determinative of whether a restructuring is a TDR. An overall general decline in the economy or some deterioration in a borrower s financial condition does not automatically mean that the borrower is experiencing financial difficulty. Accordingly, determination of whether a modification is a TDR involves a large degree of judgment.

The Company had no loans modified as TDRs during the three month period ending September 30, 2016.

The following table details the loans modified as TDRs during the nine month period ended September 30, 2016 (dollars in thousands).

Loans in non-accrual status	# of Loans	Current Balance	Concession Granted
Commercial loan	2	$ 507	Extension of maturity date

The following table details the loans modified as TDRs during the three month period ended September 30, 2015 (dollars in thousands).

Loans in accrual status	# of Loans	Current Balance	Concession Granted
Commercial loan	1	$ 162	Extension of maturity date

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

9. Non-performing Assets Including Troubled Debt Restructurings (TDR) (continued)

In all instances where loans have been modified in troubled debt restructurings the pre- and post-modified balances are the same. The specific ALL reserve for loans modified as TDR s was $507,000 and $524,000 as of September 30, 2016 and 2015, respectively. All TDR s are individually evaluated for impairment and a related allowance is recorded, as needed.

Once a loan is classified as a TDR, this classification will remain until documented improvement in the financial position of the borrower supports confidence that all principal and interest will be paid according to terms. Additionally, the customer must have re-established a track record of timely payments according to the restructured contract terms for a minimum of six consecutive months prior to consideration for removing the loan from non-accrual TDR status. However, a loan will continue to be on non-accrual status until, consistent with our policy, the borrower has made a minimum of an additional six consecutive monthly payments in accordance with the terms of the loan.

The Company had no loans that were classified as TDR s or were subsequently modified during each 12-month period prior to the current reporting periods, which begin January 1, 2016 and 2015 (nine month periods) and July 1, 2016 and 2015 (three month periods), respectively, and that subsequently defaulted during these reporting periods.

The Company is unaware of any additional loans which are required to either be charged-off or added to the non-performing asset totals disclosed above.

Foreclosed assets acquired in settlement of loans carried at fair value less estimated costs to sell are included in the other assets on the Consolidated Balance Sheet. As of September 30, 2016 and December 31, 2015, a total of $154,000 and $75,000, respectively of residential real estate foreclosed assets were included in other assets. As of September 30, 2016, the Company had initiated formal foreclosure procedures on $111,000 of consumer residential mortgages.

10. Federal Home Loan Bank Borrowings

Total Federal Home Loan Bank (FHLB) borrowings and advances consist of the following (in thousands, except percentages):

	At September 30, 2016			
Type	Maturing	Amount	Weighted Average Rate	
Open Repo Plus	Overnight	$ 7,901	0.58	%
Advances	2016	6,000	0.84	

	2017	12,000	1.06	
	2018	12,000	1.48	
	2019	11,000	1.48	
	2020 and over	8,042	1.47	
Total advances		49,042	1.32	
Total FHLB borrowings		$ 56,943	1.21	%

	At December 31, 2015			
Type	Maturing	Amount	Weighted Average Rate	
Open Repo Plus	Overnight	$ 48,748	0.43	%
Advances	2016	12,000	0.81	
	2017	12,000	1.06	
	2018	12,000	1.48	
	2019	7,000	1.73	
	2020 and over	5,000	1.69	
Total advances		48,000	1.27	
Total FHLB borrowings		$ 96,748	0.85	%

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

10. Federal Home Loan Bank Borrowings (continued)

The rate on Open Repo Plus advances can change daily, while the rates on the advances are fixed until the maturity of the advance. All FHLB stock along with an interest in certain residential mortgage and CRE loans with an aggregate statutory value equal to the amount of the advances are pledged as collateral to the FHLB of Pittsburgh to support these borrowings.

11. Preferred Stock

On August 11, 2011, pursuant to the Small Business Lending Fund (SBLF), the Company issued and sold to the US Treasury 21,000 shares of its Senior Non-Cumulative Perpetual Preferred Stock, Series E (Series E Preferred Stock) for the aggregate proceeds of $21 million. The SBLF was a voluntary program sponsored by the US Treasury that encouraged small business lending by providing capital to qualified community banks at favorable rates. The Company used the proceeds from the Series E Preferred Stock issued to the US Treasury to repurchase all 21,000 shares of its outstanding preferred shares previously issued to the US Treasury under the Capital Purchase Program.

On January 27, 2016, the Company redeemed the Series E Preferred Stock, at a redemption price of 100% of the liquidation amount plus accrued but unpaid dividends, after receiving approval from its federal banking regulator and the US Treasury.

12. Accumulated Other Comprehensive Loss

The following table presents the changes in each component of accumulated other comprehensive loss, net of tax, for the three and nine months ended September 30, 2016 and 2015 (in thousands):

	Three months ended September 30, 2016			Three months ended September 30, 2015		
	Net Unrealized Gains and (Losses) on Investment Securities AFS[1]	Defined Benefit Pension Items[1]	Total[1]	Net Unrealized Gains and (Losses) on Investment Securities AFS[1]	Defined Benefit Pension Items[1]	Total[1]
Beginning balance	$1,791	$(7,856)	$(6,065)	$1,429	$(7,897)	$(6,468)
Other comprehensive income (loss) before reclassifications	(126)	174	48	256	208	464
Amounts reclassified from accumulated	(40)		(40)	24		24

other comprehensive loss						
Net current period other comprehensive income (loss)	(166)	174	8	280	208	488
Ending balance	$1,625	$(7,682)	$(6,057)	$1,709	$(7,689)	$(5,980)

(1) Amounts in parentheses indicate debits on the Consolidated Balance Sheets.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

12. Accumulated Other Comprehensive Loss (continued)

	Nine months ended September 30, 2016			Nine months ended September 30, 2015		
	Net Unrealized Gains and (Losses) on Investment Securities AFS[(1)]	Defined Benefit Pension Items[(1)]	Total[(1)]	Net Unrealized Gains and (Losses) on Investment Securities AFS[(1)]	Defined Benefit Pension Items[(1)]	Total[(1)]
Beginning balance	$808	$(8,363)	$(7,555)	$1,843	$(8,745)	$(6,902)
Other comprehensive income (loss) before reclassifications	934	681	1,615	(139)	1,056	917
Amounts reclassified from accumulated other comprehensive loss	(117)		(117)	5		5
Net current period other comprehensive income (loss)	817	681	1,498	(134)	1,056	922
Ending balance	$1,625	$(7,682)	$(6,057)	$1,709	$(7,689)	$(5,980)

(1) Amounts in parentheses indicate debits on the Consolidated Balance Sheets.

The following table presents the amounts reclassified out of each component of accumulated other comprehensive loss for the three and nine months ended September 30, 2016 and 2015 (in thousands):

	Amount reclassified from accumulated other comprehensive loss[(1)]		
Details about accumulated other comprehensive loss components	For the three months ended September 30, 2016	For the three months ended September 30, 2015	Affected line item in the consolidated statement of operations
Realized (gains) and losses on sale of securities			
	$ (60)	$ 36	Net realized (gains) losses on investment securities

	20	(12)	Provision for income tax expense
	$ (40)	$ 24	Net of tax
Total reclassifications for the period	$ (40)	$ 24	Net income

(1) Amounts in parentheses indicate credits.

Details about accumulated other comprehensive loss components	Amount reclassified from accumulated other comprehensive loss[1] For the nine months ended September 30, 2016	For the nine months ended September 30, 2015	Affected line item in the consolidated statement of operations
Realized (gains) and losses on sale of securities			
	$ (177)	$ 8	Net realized (gains) losses on investment securities
	60	(3)	Provision for income tax expense
	$ (117)	$ 5	Net of tax
Total reclassifications for the period	$ (117)	$ 5	Net income

(1) Amounts in parentheses indicate credits.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

13. Regulatory Capital

The Company is subject to various capital requirements administered by the federal banking agencies. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company s assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company s capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company s consolidated financial statements. For a more detailed discussion see the Capital Resources section of the MD&A.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital to risk-weighted assets, Tier 1 capital to average assets, and common equity Tier I capital (as defined in the regulations) to risk-weighted assets (RWA) (as defined). Additionally under Basel III rules, the decision was made to opt-out of including accumulated other comprehensive income in regulatory capital. As of September 30, 2016, the Bank was categorized as Well Capitalized under the regulatory framework for prompt corrective action promulgated by the Federal Reserve. The Company believes that no conditions or events have occurred that would change this conclusion as of such date. To be categorized as Well Capitalized, the Bank must maintain minimum Total Capital, Common Equity Tier 1 Capital, Tier 1 Capital, and Tier 1 leverage ratios as set forth in the table. Additionally, while not a regulatory capital ratio, the Company s tangible common equity ratio was 7.77% at September 30, 2016 (in thousands, except ratios).

	At September 30, 2016					
	Company		Bank		Minimum Required For Capital Adequacy Purposes	To Be Well Capitalized Under Prompt Corrective Action Regulations*
	Amount	Ratio	Amount	Ratio	Ratio	Ratio
	(In Thousands, Except Ratios)					
Total Capital (To Risk Weighted Assets)	$124,055	13.17%	$106,942	11.43%	8.63 %	10.00 %
Tier 1 Common Equity (To Risk Weighted Assets)	94,157	10.00	96,315	10.29	5.13	6.50
Tier 1 Capital (To Risk Weighted Assets)	105,993	11.25	93,315	10.29	6.63	8.00
Tier 1 Capital (To Average Assets)	105,993	9.29	96,315	8.58	4.00	5.00

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

13. Regulatory Capital (continued)

	At December 31, 2015					
	Company		Bank		Minimum Required For Capital Adequacy Purposes	To Be Well Capitalized Under Prompt Corrective Action Regulations*
	Amount	Ratio	Amount	Ratio	Ratio	Ratio
	(In Thousands, Except Ratios)					
Total Capital (To Risk Weighted Assets)	$144,096	15.55 %	$106,890	11.67 %	8.00 %	10.00 %
Tier 1 Common Equity (To Risk Weighted Assets)	93,202	10.06	96,092	10.49	4.50	6.50
Tier 1 Capital (To Risk Weighted Assets)	125,648	13.56	96,092	10.49	6.00	8.00
Tier 1 Capital (To Average Assets)	125,648	11.41	96,092	8.97	4.00	5.00

* Applies to the Bank only.

14. Segment Results

The financial performance of the Company is also monitored by an internal funds transfer pricing profitability measurement system which produces line of business results and key performance measures. The Company s major business units include retail banking, commercial banking, trust, and investment/parent. The reported results reflect the underlying economics of the business segments. Expenses for centrally provided services are allocated based upon the cost and estimated usage of those services. The businesses are match-funded and interest rate risk is centrally managed and accounted for within the investment/parent business segment. The key performance measure the Company focuses on for each business segment is net income contribution.

Retail banking includes the deposit-gathering branch franchise and lending to both individuals and small businesses. Lending activities include residential mortgage loans, direct consumer loans, and local business commercial loans. Commercial banking to businesses includes commercial loans, and CRE loans. The trust segment contains our wealth management businesses which include the Trust Company and West Chester Capital Advisors (WCCA), our registered investment advisory firm and financial services. Wealth management includes personal trust products and services such as personal portfolio investment management, estate planning and administration, custodial services and pre-need trusts. Also, institutional trust products and services such as 401(k) plans, defined benefit and defined contribution employee benefit plans, and individual retirement accounts are included in this segment. Financial services include the sale of mutual funds, annuities, and insurance products. The wealth management businesses also includes the union collective investment funds, namely the ERECT and BUILD funds which are designed to use union pension dollars in construction projects that utilize union labor. The investment/parent includes the net results of investment securities and borrowing activities, general corporate expenses not allocated to the business segments, interest expense on guaranteed junior subordinated deferrable interest debentures, and centralized interest rate risk management. Inter-segment revenues were not material.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

14. Segment Results (continued)

The contribution of the major business segments to the Consolidated Statements of Operations for the three and nine months ended September 30, 2016 and 2015 were as follows (in thousands):

	Three months ended September 30, 2016		Nine months ended September 30, 2016		September 30, 2016
	Total revenue	Net income (loss)	Total revenue	Net income (loss)	Total assets
Retail banking	$ 6,653	$ 857	$ 19,543	$ 2,335	$ 360,218
Commercial banking	4,757	1,352	14,123	1,884	637,238
Trust	2,125	195	6,504	740	5,002
Investment/Parent	(1,368)	(1,339)	(3,780)	(3,799)	143,197
Total	$ 12,167	$ 1,065	$ 36,390	$ 1,160	$ 1,145,655

	Three months ended September 30, 2015		Nine months ended September 30, 2015		December 31, 2015
	Total revenue	Net income (loss)	Total revenue	Net income (loss)	Total assets
Retail banking	$ 6,501	$ 723	$ 19,564	$ 2,125	$ 415,008
Commercial banking	4,945	1,553	14,318	4,178	589,840
Trust	2,177	391	6,574	1,167	5,263
Investment/Parent	(573)	(834)	(2,268)	(2,847)	138,386
Total	$ 13,050	$ 1,833	$ 38,188	$ 4,623	$ 1,148,497

15. Commitments and Contingent Liabilities

The Company had various outstanding commitments to extend credit approximating $166.3 million and $170.5 million along with standby letters of credit of $5.0 million and $7.5 million as of September 30, 2016 and December 31, 2015, respectively. The Company s exposure to credit loss in the event of nonperformance by the other party to these commitments to extend credit and standby letters of credit is represented by their contractual amounts. The Bank uses the same credit and collateral policies in making commitments and conditional obligations as for all other lending.

Additionally, the Company is also subject to a number of asserted and unasserted potential claims encountered in the normal course of business. In the opinion of the Company, neither the resolution of these claims nor the funding of these credit commitments will have a material adverse effect on the Company s consolidated financial position, results of operation or cash flows.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

16. Pension Benefits

The Company has a noncontributory defined benefit pension plan covering certain employees who work at least 1,000 hours per year. The participants shall have a vested interest in their accrued benefit after five full years of service. The benefits of the plan are based upon the employee s years of service and average annual earnings for the highest five consecutive calendar years during the final ten year period of employment. Plan assets are primarily debt securities (including US Treasury and Agency securities, corporate notes and bonds), listed common stocks (including shares of AmeriServ Financial, Inc. common stock which is limited to 10% of the plan s assets), mutual funds, and short-term cash equivalent instruments. The net periodic pension cost for the three and nine months ended September 30, 2016 and 2015 were as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Components of net periodic benefit cost				
Service cost	$ 368	$ 400	$ 1,104	$ 1,200
Interest cost	344	325	1,032	975
Expected return on plan assets	(563)	(525)	(1,689)	(1,575)
Recognized net actuarial loss	314	300	942	900
Net periodic pension cost	$ 463	$ 500	$ 1,389	$ 1,500

The Company implemented a soft freeze of its defined benefit pension plan to provide that non-union employees hired on or after January 1, 2013 and union employees hired on or after January 1, 2014 are not eligible to participate in the pension plan. Instead, such employees are eligible to participate in a qualified 401(k) plan. This change was made to help reduce pension costs in future periods.

17. Disclosures about Fair Value Measurements

The following disclosures establish a hierarchal disclosure framework associated with the level of pricing observability utilized in measuring assets and liabilities at fair value. The three broad levels defined within this hierarchy are as follows:

Level I: Quoted prices are available in active markets for identical assets or liabilities as of the reported date.

Level II: Pricing inputs are other than the quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities includes items for which quoted prices are available but traded less frequently and items that are fair-valued using other financial instruments, the parameters of which can be directly observed.

Level III: Assets and liabilities that have little to no pricing observability as of the reported date. These items do not have two-way markets and are measured using management s best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation.

Assets and Liability Measured on a Recurring Basis

Securities classified as available for sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quoted market spreads, cash flows, the US Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond s terms and conditions, among other things.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

17. Disclosures about Fair Value Measurements (continued)

The following tables present the assets reported on the Consolidated Balance Sheets at their fair value as of September 30, 2016 and December 31, 2015, by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Assets and liability measured at fair value on a recurring basis are summarized below (in thousands):

	Fair Value Measurements at September 30, 2016 Using			
	Total	(Level 1)	(Level 2)	(Level 3)
US Agency securities	$ 900	$	$ 900	$
US Agency mortgage-backed securities	86,185		86,185	
Taxable municipal	826		826	
Corporate bonds	29,878		29,878	

	Fair Value Measurements at December 31, 2015 Using			
	Total	(Level 1)	(Level 2)	(Level 3)
US Agency securities	$ 2,881	$	$ 2,881	$
US Agency mortgage-backed securities	98,334		98,334	
Corporate bonds	18,252		18,252	

Assets Measured on a Non-recurring Basis

Loans considered impaired are loans for which, based on current information and events, it is probable that the creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. As detailed in the allowance for loan loss footnote, impaired loans are reported at fair value of the underlying collateral if the repayment is expected solely from the collateral. Collateral values are estimated using Level 3 inputs based on observable market data which at times are discounted. At September 30, 2016, impaired loans with a carrying value of $880,000 were reduced by a specific valuation allowance totaling $540,000 resulting in a net fair value of $340,000. At December 31, 2015, impaired loans with a carrying value of $4.5 million were reduced by a specific valuation allowance totaling $1.4 million resulting in a net fair value of $3.1 million.

Other real estate owned is measured at fair value based on appraisals, less estimated cost to sell. Valuations are periodically performed by management. Income and expenses from operations and changes in valuation allowance are included in the net expenses from OREO.

Assets measured at fair value on a non-recurring basis are summarized below (in thousands, except range data):

	Fair Value Measurements at September 30, 2016 Using			
	Total	(Level 1)	(Level 2)	(Level 3)
Impaired loans	$ 340	$	$	$ 340
Other real estate owned	154			154

	Fair Value Measurements at December 31, 2015 Using			
	Total	(Level 1)	(Level 2)	(Level 3)
Impaired loans	$ 3,115	$	$	$ 3,115
Other real estate owned	75			75

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

17. Disclosures about Fair Value Measurements (continued)

	Quantitative Information About Level 3 Fair Value Measurements			
September 30, 2016	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range (Wgtd Ave)
Impaired loans	$340	Appraisal of collateral(1),(3)	Appraisal adjustments(2)	15% to 20% (18%)
Other real estate owned	154	Appraisal of collateral(1),(3)	Appraisal adjustments(2) Liquidation expenses	29% to 81% (56%) 2% to 55% (19%)

	Quantitative Information About Level 3 Fair Value Measurements			
December 31, 2015	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range (Wgtd Ave)
Impaired loans	$3,115	Appraisal of collateral(1),(3)	Appraisal adjustments(2)	15% to 20% (17%)
Other real estate owned	75	Appraisal of collateral(1),(3)	Appraisal adjustments(2) Liquidation expenses	23% to 49% (35%) 10% to 59% (25%)

(1) Fair Value is generally determined through independent appraisals of the underlying collateral, which generally include various level 3 inputs which are not identifiable.

(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions.

(3) Includes qualitative adjustments by management and estimated liquidation expenses.

DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

For the Company, as for most financial institutions, approximately 90% of its assets and liabilities are considered financial instruments. Many of the Company s financial instruments, however, lack an available trading market characterized by a willing buyer and willing seller engaging in an exchange transaction. Therefore, significant estimates and present value calculations were used by the Company for the purpose of this disclosure.

Fair values have been determined by the Company using independent third party valuations that use the best available data (Level 2) and an estimation methodology (Level 3) the Company believes is suitable for each category of financial instruments. Management believes that cash, cash equivalents, and loans and deposits with floating interest rates have estimated fair values which approximate the recorded book balances. The estimation methodologies used, the estimated fair values based on US GAAP measurements, and recorded book balances at September 30, 2016 and December 31, 2015, were as follows (in thousands):

	September 30, 2016				
	Carrying Value	Fair Value	(Level 1)	(Level 2)	(Level 3)
FINANCIAL ASSETS:					
Cash and cash equivalents	$30,520	$30,520	$30,520	$	$
Investment securities AFS	117,789	117,789		117,789	
Investment securities HTM	27,820	28,577		25,613	2,964
Regulatory stock	5,480	5,480	5,480		
Loans held for sale	8,777	8,916	8,916		
Loans, net of allowance for loan loss and unearned income	877,798	884,012			884,012
Accrued interest income receivable	3,007	3,007	3,007		
Bank owned life insurance	37,733	37,733	37,733		
FINANCIAL LIABILITIES:					
Deposits with no stated maturities	$659,329	$659,329	$659,329	$	$
Deposits with stated maturities	303,407	305,433			305,433
Short-term borrowings	7,901	7,901	7,901		
All other borrowings	69,381	74,840			74,840
Accrued interest payable	1,633	1,633	1,633		

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

17. Disclosures about Fair Value Measurements (continued)

	December 31, 2015				
	Carrying Value	Fair Value	(Level 1)	(Level 2)	(Level 3)
FINANCIAL ASSETS:					
Cash and cash equivalents	$48,510	$48,510	$48,510	$	$
Investment securities AFS	119,467	119,467		119,467	
Investment securities HTM	21,419	21,533		18,608	2,925
Regulatory stock	6,753	6,753	6,753		
Loans held for sale	3,003	3,041	3,041		
Loans, net of allowance for loan loss and unearned income	871,063	869,591			869,591
Accrued interest income receivable	3,057	3,057	3,057		
Bank owned life insurance	37,228	37,228	37,228		
FINANCIAL LIABILITIES:					
Deposits with no stated maturities	$633,751	$633,751	$633,751	$	$
Deposits with stated maturities	269,543	271,909			271,909
Short-term borrowings	48,748	48,748	48,748		
All other borrowings	68,310	71,816			71,816
Accrued interest payable	1,651	1,651	1,651		

The fair value of cash and cash equivalents, regulatory stock, accrued interest income receivable, short-term borrowings, and accrued interest payable are equal to the current carrying value.

The fair value of investment securities is equal to the available quoted market price for similar securities. The fair value measurements consider observable data that may include dealer quoted market spreads, cash flows, the US Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond s terms and conditions, among other things. The Level 3 securities are valued by discounted cash flows using the US Treasury rate for the remaining term of the securities.

Loans held for sale are priced individually at market rates on the day that the loan is locked for commitment with an investor. All loans in the held for sale account conform to Fannie Mae underwriting guidelines, with the specific intent of the loan being purchased by an investor at the predetermined rate structure. Loans in the held for sale account have specific delivery dates that must be executed to protect the pricing commitment (typically a 30, 45, or 60 day lock period).

The net loan portfolio has been valued using a present value discounted cash flow. The discount rate used in these calculations is based upon the treasury yield curve adjusted for non-interest operating costs, credit loss, current market prices and assumed prepayment risk.

The fair value of bank owned life insurance is based upon the cash surrender value of the underlying policies and matches the book value.

Deposits with stated maturities have been valued using a present value discounted cash flow with a discount rate approximating current market for similar assets and liabilities. Deposits with no stated maturities have an estimated fair value equal to both the amount payable on demand and the recorded book balance.

The fair value of all other borrowings is based on the discounted value of contractual cash flows. The discount rates are estimated using rates currently offered for similar instruments with similar remaining maturities.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

17. Disclosures about Fair Value Measurements (continued)

Commitments to extend credit and standby letters of credit are financial instruments generally not subject to sale, and fair values are not readily available. The carrying value, represented by the net deferred fee arising from the unrecognized commitment, and the fair value, determined by discounting the remaining contractual fee over the term of the commitment using fees currently charged to enter into similar agreements with similar credit risk, is not considered material for disclosure. The contractual amounts of unfunded commitments are presented in Note 15.

Changes in assumptions or estimation methodologies may have a material effect on these estimated fair values. The Company s remaining assets and liabilities which are not considered financial instruments have not been valued differently than has been customary under historical cost accounting.

18. Accounting Changes

On January 1, 2016, the Company adopted ASU 2015-03, *Interest Imputation of Interest (Subtopic 835-30),* which changed the presentation of debt issuance costs. Whereas in prior periods debt issuance cost related to a recognized debt liability was presented on the balance sheet as an asset of the Company, the amendment requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The new method of accounting for debt issuance cost was adopted in accordance with the Update and comparative financial statements of prior years have been adjusted to apply the new method retrospectively. The guaranteed junior subordinated deferrable interest debentures and subordinated debt financial statement line items for the periods ended September 30, 2016 and December 31, 2015 were affected by this change in accounting principle.

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (M.D. & A.)

.....2016 THIRD QUARTER SUMMARY OVERVIEW..... AmeriServ Financial, Inc. reported third quarter 2016 net income available to common shareholders of $1,065,000, or $0.06 per diluted common share. This earnings performance was lower than the third quarter of 2015 where net income available to common shareholders totaled $1,781,000, or $0.09 per diluted common share. For the nine month period ended September 30, 2016, the Company reported net income available to common shareholders of $1,145,000, or $0.06 per diluted share. This represented a decrease in earnings per share from the first nine months of 2015 where net income available to common shareholders totaled $4,466,000, or $0.24 per diluted common share, due largely to an increased provision for loan losses that was recorded in the first quarter of 2016.

AmeriServ Financial, Inc. s third quarter results are an indication that the Company has continued its recovery from the net after tax loss recorded in the first quarter of 2016. The 2016 second quarter reported earnings returned the Company to profitability through the first six months of 2016. The third quarter earnings built on that profitability and resulted in net income for the nine months of 2016 of $1,145,000 or $0.06 per common share.

It is important to note that the AmeriServ loan portfolio has returned to its former high level with the lowest level of non-performing loans since 2002. Concurrently, we believe that virtually all of the expense of the Trust operations trading error is contained in our results through the third quarter of 2016 and therefore the Company can focus entirely on client sales and service as well as perfecting the processing efficiencies the new Trust software makes possible.

It should be noted that AmeriServ did well in the marketplace during the third quarter. Net loans outstanding closed the third quarter at a nineteenth consecutive quarterly record dating all the way back to 2011. Deposits have recorded a new quarterly high for the fourth consecutive quarter. AmeriServ Financial Bank is pressing on toward the $1 billion mark in deposits riding the crest of a $59 million increase recorded in 2016 alone. It is this improvement in our core banking operation that gave the Board of Directors confidence in increasing our common stock cash dividend by 50% to $0.015 per share in the third quarter of 2016.

The positive record of AmeriServ in growing loans has been quite satisfying. Since the first quarter of 2012, loans outstanding have grown by 33%, or over $200 million. Just as we have reported, much of this growth has come through the network of loan production offices. But this loan production office strategy has been carefully executed. For example, in January 2015, AmeriServ opened a loan production office in Harrisonburg, Virginia, approximately 100 miles southwest of the very successful loan production office in Hagerstown, Maryland. However, a staff of experienced local lending officers were unable to generate sufficient bankable loan proposals to justify this location. Therefore, the office was closed effective September 30, 2016. This no way discourages us on the effectiveness of loan production offices. But it is an indication that management and the Board will be coldly realistic in gauging the success of new initiatives. Each of the other loan production offices in Altoona, Pennsylvania, Hagerstown, Maryland and Monroeville, Pennsylvania continue to perform well.

The banking industry and the mega-banks has been much in the news of late. The Wells Fargo sales culture issues will undoubtedly result in new rules for every bank to observe. Concurrently the Deutsche Bank, the largest bank headquartered in Germany, experienced serious liquidity challenges raising questions about the stress tests used by the regulators to measure the ability of a bank to withstand market place pressure. Unfortunately the regulators focus on these too big to fail megabanks, which could result in increased expense for compliance and auditing throughout the industry. The result has been to increase the size and risk within the too big to fail banks and a sometimes pointless increase in expense for the thousands of community banks across the nation who are and have been entirely innocent of the specific wrongdoing.

Finally, let us recognize that the loss experienced in the first quarter of 2016 continues to impact the financial performance for the year. The actions taken by the Board and the management team were the correct actions. We all know that problems do not fix themselves. It is important to note that the intrinsic quality of the AmeriServ loan portfolio is strong again. The processes within the Trust Company have been strengthened by the new policies and procedures recommended by prominent independent third parties. We expected these results when we took the corrective actions and this is exactly what is occurring. But there was a price to bear and that price is flowing through the particulars of financial performance. But the Company is again strong and financial performance is improving.

THREE MONTHS ENDED SEPTEMBER 30, 2016 VS. THREE MONTHS ENDED SEPTEMBER 30, 2015

.....PERFORMANCE OVERVIEW..... The following table summarizes some of the Company s key performance indicators (in thousands, except per share and ratios).

	Three months ended September 30, 2016	Three months ended September 30, 2015
Net income	$ 1,065	$ 1,833
Net income available to common shareholders	1,065	1,781
Diluted earnings per share	0.06	0.09
Return on average assets (annualized)	0.37 %	0.66 %
Return on average equity (annualized)	4.27 %	6.15 %

The Company reported net income available to common shareholders of $1,065,000, or $0.06 per diluted common share in the third quarter of 2016. This earnings performance was lower than the third quarter of 2015 where net income available to common shareholders totaled $1,781,000, or $0.09 per diluted common share. The negative impact of a lower net interest margin more than offset continued loan and deposit growth and resulted in net interest income decreasing by $529,000. Also negatively impacting the Company s third quarter of 2016 earning s performance of a lower level of non-interest income by $354,000 and a higher level of non-interest expense by $137,000.

.....NET INTEREST INCOME AND MARGIN..... The Company s net interest income represents the amount by which interest income on average earning assets exceeds interest paid on average interest bearing liabilities. Net interest income is a primary source of the Company s earnings, and it is affected by interest rate fluctuations as well as changes in the amount and mix of average earning assets and average interest bearing liabilities. The following table compares the Company s net interest income performance for the third quarter of 2016 to the third quarter of 2015 (in thousands, except percentages):

	Three months ended September 30, 2016	Three months ended September 30, 2015	$ Change	% Change
Interest income	$ 10,476	$ 10,667	$ (191)	(1.8)%
Interest expense	1,970	1,632	338	20.7
Net interest income	$ 8,506	$ 9,035	$ (529)	(5.9)
Net interest margin	3.15 %	3.52 %	(0.37)	N/M

N/M not meaningful

The Company s net interest income in the third quarter of 2016 decreased by $529,000, or 5.9%, from the prior year s third quarter. The Company s net interest margin of 3.15% for the third quarter of 2016 was 37 basis points lower than the net interest margin of 3.52% for the third quarter of 2015. The reduction in net interest income is the result of three factors, which include: 1.) a significantly lower level of loan prepayment fee income by approximately $400,000, 2.) additional interest expense that is associated with the Company s late fourth quarter 2015 issuance of subordinated debt, and 3.) net interest margin compression that results from the prolonged low interest rate environment that exists in the economy and is pressuring community bank net interest margins. These factors more than offset the Company continuing to grow earning assets and control its cost of funds through disciplined deposit pricing. Specifically, the earning asset growth occurred primarily in the loan portfolio as total loans averaged $893 million in the third quarter of 2016 which is $34 million, or 4.0%, higher than the $859 million average for the third quarter of 2015. This loan growth reflects the successful results of the Company s business development efforts, with an emphasis on generating commercial loans and owner occupied commercial real estate loans particularly through its loan production offices.

Despite this loan growth experienced between years, loan interest income decreased by $256,000, or

2.6% due primarily to the previously mentioned decline in loan prepayment fees and net interest margin compression. Interest income on investments grew in the third quarter of 2016 as the Company benefited from a higher balance of investment securities in 2016. Overall, total interest income decreased by $191,000, or 1.8%, in the third quarter of 2016 compared to the same 2015 period.

Total interest expense for the third quarter of 2016 increased by $338,000, or 20.7%, due to higher levels of both borrowings and deposit interest expense. The Company experienced a $121,000 increase in the interest cost for borrowings in the third quarter of 2016 with $131,000 of this increase attributable to the Company s recent subordinated debt issuance. Specifically, the Company issued $7.65 million of subordinated debt which has a 6.50% fixed interest rate in late December 2015. The proceeds from the subordinated debt issuance, along with other cash on hand, was used to redeem all $21 million of our outstanding SBLF preferred stock on January 27, 2016. The increased interest expense from the subordinated debt issuance was partially offset by reduced interest expense associated with a lower level of borrowings from the Federal Home Loan Bank.

The Company experienced significant growth in deposits between years which is a reflection of the loyalty and stability of our core deposit base that provides a strong foundation from which this growth builds. Management s ability to acquire new core deposit funding from outside of our traditional market areas as well as our ongoing efforts to offer new loan customers deposit products were the primary reasons for this growth. Specifically, total deposits averaged $977 million for the third quarter of 2016 which is $102 million, or 11.7%, higher than the $875 million average for the third quarter of 2015. The Company is also pleased that a meaningful portion of this deposit growth occurred in non-interest bearing demand deposit accounts. Deposit interest expense in the third quarter of 2016 increased by $217,000, or 18.5%, due to the higher balance of deposits along with certain money market accounts repricing upward after the December 2015 Federal Reserve fed funds interest rate increase.

The table that follows provides an analysis of net interest income on a tax-equivalent basis for the three month periods ended September 30, 2016 and September 30, 2015 setting forth (i) average assets, liabilities, and stockholders equity, (ii) interest income earned on interest earning assets and interest expense paid on interest bearing liabilities, (iii) average yields earned on interest earning assets and average rates paid on interest bearing liabilities, (iv) the Company s interest rate spread (the difference between the average yield earned on interest earning assets and the average rate paid on interest bearing liabilities), and (v) the Company s net interest margin (net interest income as a percentage of average total interest earning assets). For purposes of these tables, loan balances do include non-accrual loans, and interest income on loans includes loan fees or amortization of such fees which have been deferred, as well as interest recorded on certain non-accrual loans as cash is received. Additionally, a tax rate of 34% is used to compute tax-equivalent yields.

Three months ended September 30 (In thousands, except percentages)

	2016			2015		
	Average Balance	Interest Income/ Expense	Yield/Rate	Average Balance	Interest Income/ Expense	Yield/Rate
Interest earning assets:						
Loans and loans held for sale, net of unearned income	$893,143	$9,469	4.17%	$858,752	$9,727	4.46%
Interest bearing deposits	1,065	2	0.59	1,235	1	0.39
Short-term investment in money market funds	20,797	31	0.58	9,496	3	0.11
Investment securities AFS	121,567	779	2.56	124,294	790	2.54
Investment securities HTM	27,041	202	2.99	20,664	155	3.00
Total investment securities	148,608	981	2.64	144,958	945	2.61
Total interest earning assets/interest income	1,063,613	10,483	3.89	1,014,441	10,676	4.16
Non-interest earning assets:						
Cash and due from banks	21,675			16,362		
Premises and equipment	11,887			12,508		
Other assets	68,660			69,021		
Allowance for loan losses	(9,794)			(9,837)		
TOTAL ASSETS	$1,156,041			$1,102,495		
Interest bearing liabilities:						
Interest bearing deposits:						
Interest bearing demand	$111,040	$84	0.29%	$101,494	$55	0.21%
Savings	96,593	41	0.17	95,968	40	0.17
Money markets	285,358	308	0.43	235,578	194	0.33
Time deposits	302,610	958	1.26	277,680	885	1.26
Total interest bearing deposits	795,601	1,391	0.70	710,720	1,174	0.66
Short-term borrowings	1,309	2	0.53	40,427	37	0.36
Advances from Federal Home Loan Bank	49,852	166	1.32	46,386	141	1.20
Guaranteed junior subordinated deferrable interest debentures	13,085	280	8.57	13,085	280	8.57
Subordinated debt	7,650	131	6.88			
Total interest bearing liabilities/interest expense	867,497	1,970	0.90	810,618	1,632	0.80
Non-interest bearing liabilities:						
Demand deposits	181,365			164,092		
Other liabilities	7,931			9,531		
Shareholders equity	99,248			118,254		
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$1,156,041			$1,102,495		
Interest rate spread			2.99			3.36
Net interest income/Net interest margin		8,513	3.15%		9,044	3.52%

Tax-equivalent adjustment	(7)	(9)
Net Interest Income	$8,506	$9,035

THREE MONTHS ENDED SEPTEMBER 30, 2016 VS. THREE MONTHS ENDED SEPTEMBER 30, 2015

.....PROVISION FOR LOAN LOSSES..... The Company recorded a $300,000 provision for loan losses in the third quarter of 2016 which matched the provision for loan losses in the third quarter of 2015. The provision recorded in the third quarter of 2016 was more typical of what is required to support the continuing growth of the loan portfolio and approximated net loan charge-offs. The Company experienced net loan charge-offs of $320,000, or 0.14% of total loans, in the third quarter of 2016, compared to net loan charge-offs of $245,000, or 0.11% of total loans, in the third quarter of 2015. Overall, the Company continued to maintain outstanding asset quality in the third quarter of 2016. At September 30, 2016, non-performing assets totaled $1.9 million, or only 0.21% of total loans. In summary, the allowance for loan losses provided a strong 510% coverage of non-performing loans, and 1.10% of total loans, at September 30, 2016, compared to 158% coverage of non-performing loans, and 1.13% of total loans, at December 31, 2015.

.....NON-INTEREST INCOME..... Non-interest income for the third quarter of 2016 totaled $3.7 million and decreased $354,000, or 8.8%, from the third quarter 2015 performance. Factors contributing to this lower level of non-interest income for the quarter included:

* a $515,000 decrease in bank owned life insurance revenue due to the receipt of two death claims in the prior year s third quarter while there were no such claims this quarter;
* a $50,000 decrease in trust and investment advisory fees as the loss of certain client accounts through normal attrition more than offset continued successful new business development activities as well as effective management of existing customer accounts in this volatile market environment;
* a $96,000 increase in gains realized on the sale of investment securities in the third quarter of 2016 as the Company sold certain rapidly pre-paying mortgage backed securities in this low interest rate environment; and
* a $82,000 increase in net gains realized on residential mortgage loan sales and a $45,000 increase in mortgage related fees due to increased refinance activity and an increase in new mortgage loan originations during the third quarter of 2016.

.....NON-INTEREST EXPENSE..... Non-interest expense for the third quarter of 2016 totaled $10.4 million and increased by $137,000, or 1.3%, from the prior year s third quarter. Factors contributing to the higher non-interest expense in the quarter included:

* a $124,000 or 10.3% increase in professional fees that was almost entirely attributable to non-recurring costs for legal and accounting services that were necessary to resolve the previously disclosed trust operations trading error. Costs related to this trust issue were also the primary reason that other expenses increased by $203,000 or 17.1%;
* a $178,000, or 2.9%, decrease in salaries and employee benefits due to the previously disclosed branch consolidation in the State College market and reduction of staff in the executive office; and
* a $36,000 decrease in occupancy expenses offset by a $10,000 increase in equipment expenses which is reflective of the Company s ongoing efforts to reduce non-interest expenses.

NINE MONTHS ENDED SEPTEMBER 30, 2016 VS. NINE MONTHS ENDED SEPTEMBER 30, 2015

.....PERFORMANCE OVERVIEW..... The following table summarizes some of the Company s key performance indicators (in thousands, except per share and ratios).

	Nine months ended September 30, 2016	Nine months ended September 30, 2015

Net income	$ 1,160		$ 4,623	
Net income available to common shareholders	1,145		4,466	
Diluted earnings per share	0.06		0.24	
Return on average assets (annualized)	0.14	%	0.56	%
Return on average equity (annualized)	1.54	%	5.29	%

The Company reported net income available to common shareholders of $1,145,000, or $0.06 per diluted share. This represented a decrease in earnings per share from the first nine months of 2015 where net income available to common shareholders totaled $4,466,000, or $0.24 per diluted common share, due largely to an increased provision for loan losses that was recorded in the first quarter of 2016. The negative impact of a lower net interest margin more than offset continued solid loan and deposit growth and resulted in net interest income decreasing by $1.2 million. Additionally, the Company s earning s performance was also negatively impacted due to a lower level of non-interest income by $579,000 and a higher level of non-interest expense by $238,000.

.....NET INTEREST INCOME AND MARGIN..... The Company s net interest income represents the amount by which interest income on average earning assets exceeds interest paid on average interest bearing liabilities. Net interest income is a primary source of the Company s earnings, and it is affected by interest rate fluctuations as well as changes in the amount and mix of average earning assets and average interest bearing liabilities. The following table compares the Company s net interest income performance for the first nine months of 2016 to the first nine months of 2015 (in thousands, except percentages):

	Nine months ended September 30, 2016	Nine months ended September 30, 2015	$ Change	% Change
Interest income	$ 31,287	$ 31,599	$ (312)	(1.0)%
Interest expense	5,737	4,830	907	18.8
Net interest income	$ 25,550	$ 26,769	$ (1,219)	(4.6)
Net interest margin	3.23 %	3.52 %	(0.29)	N/M

N/M not meaningful

The Company s net interest income for the first nine months of 2016 decreased by $1,219,000, or 4.6%, when compared to the first nine months of 2015. The Company s net interest margin of 3.23% for the first nine months of 2016 was 29 basis points lower than the net interest margin of 3.52% for the first nine months of 2015. The reduction in net interest income is the result of three factors, which include: 1.) a significantly lower level of loan prepayment fee income by approximately $500,000 for the nine month period, 2.) additional interest expense that is associated with the Company s late fourth quarter 2015 issuance of subordinated debt, and 3.) net interest margin compression that results from the prolonged low interest rate environment that exists in the economy and is pressuring community bank net interest margins. These factors more than offset the Company continuing to grow earning assets and control its cost of funds through disciplined deposit pricing. Specifically, the earning asset growth occurred in the loan portfolio as total loans averaged $888 million in the first nine months of 2016 which is $35 million, or 4.1%, higher than the $853 million average for the first nine months of 2015. This loan growth reflects the successful results of the Company s business development efforts, with an emphasis on generating commercial loans and owner occupied commercial real estate loans particularly through its loan production offices. Despite this loan growth experienced between years, loan interest income decreased by $318,000, or 1.1% due primarily to the previously mentioned decline in loan prepayment fees. Overall, total interest income decreased by $312,000, or 1.0%, in the first nine months of 2016.

Total interest expense for the first nine months of 2016 increased by $907,000, or 18.8%, due to higher levels of both borrowings and deposit interest expense. The Company experienced a $451,000 increase in the interest cost for borrowings in the first nine months of 2016 with $389,000 of this increase attributable to the Company s recent subordinated debt issuance. Specifically, the Company issued $7.65 million of subordinated debt which has a 6.50%

fixed interest rate in late December 2015. The proceeds from the subordinated debt issuance, along with other cash on hand, was used to redeem all $21 million of our outstanding SBLF preferred stock on January 27, 2016. The remainder of the increase in borrowings interest expense was due to a greater utilization of FHLB term advances to extend borrowings for interest rate risk management purposes.

The Company experienced significant growth in deposits between years which is a reflection of the loyalty and stability of our core deposit base that provides a strong foundation from which this growth builds. Management s ability to acquire new core deposit funding from outside of our traditional market areas as well as our ongoing efforts to offer new loan customers deposit products were the primary reasons for this growth. Specifically, total deposits averaged $947 million for the first nine months of 2016 which is $60 million, or 6.8%, higher than the $887 million average for the first nine months of 2015. The Company is also pleased that a meaningful portion of this deposit growth occurred in non-interest bearing demand deposit accounts. Deposit interest expense through nine months of 2016 increased by $456,000, or 13.0%, due to the higher balance of deposits along with certain money market accounts repricing upward after the December 2015 Federal Reserve fed funds interest rate increase.

The table that follows provides an analysis of net interest income on a tax-equivalent basis for the nine month periods ended September 30, 2016 and September 30, 2015 setting forth (i) average assets, liabilities, and stockholders equity, (ii) interest income earned on interest earning assets and interest expense paid on interest bearing liabilities, (iii) average yields earned on interest earning assets and average rates paid on interest bearing liabilities, (iv) the Company s interest rate spread (the difference between the average yield earned on interest earning assets and the average rate paid on interest bearing liabilities), and (v) the Company s net interest margin (net interest income as a percentage of average total interest earning assets). For purposes of these tables, loan balances do include non-accrual loans, and interest income on loans includes loan fees or amortization of such fees which have been deferred, as well as interest recorded on certain non-accrual loans as cash is received. Additionally, a tax rate of 34% is used to compute tax-equivalent yields.

Nine months ended September 30 (In thousands, except percentages)

	2016			2015		
	Average Balance	Interest Income/ Expense	Yield/Rate	Average Balance	Interest Income/ Expense	Yield/Rate
Interest earning assets:						
Loans and loans held for sale, net of unearned income	$887,681	$28,358	4.22%	$852,553	$28,674	4.45%
Interest bearing deposits	1,871	11	0.71	1,235	4	0.40
Short-term investment in money market funds	12,987	54	0.55	10,228	10	0.14
Investment securities AFS	120,710	2,324	2.57	125,967	2,480	2.63
Investment securities HTM	24,482	562	3.06	20,381	451	2.95
Total investment securities	145,192	2,886	2.65	146,348	2,931	2.67
Total interest earning assets/interest income	1,047,731	31,309	3.96	1,010,364	31,619	4.16
Non-interest earning assets:						
Cash and due from banks	19,883			17,241		
Premises and equipment	11,982			12,729		
Other assets	68,351			69,732		
Allowance for loan losses	(9,777)			(9,751)		
TOTAL ASSETS	$1,138,170			$1,100,315		
Interest bearing liabilities:						
Interest bearing deposits:						
Interest bearing demand	$106,983	$231	0.29%	$98,668	$151	0.20%
Savings	96,149	119	0.16	95,050	117	0.16
Money markets	275,226	876	0.42	233,311	556	0.32
Time deposits	286,966	2,749	1.28	291,668	2,695	1.24
Total interest bearing deposits	765,324	3,975	0.69	718,697	3,519	0.65
Short-term borrowings	11,480	49	0.56	27,228	70	0.34
Advances from Federal Home Loan Bank	49,356	484	1.31	45,300	401	1.18
Guaranteed junior subordinated deferrable interest debentures	13,085	840	8.57	13,085	840	8.57
Subordinated debt	7,650	389	6.78			
Total interest bearing liabilities/interest expense	846,895	5,737	0.90	804,310	4,830	0.80
Non-interest bearing liabilities:						
Demand deposits	182,003			168,634		
Other liabilities	8,683			10,442		
Shareholders equity	100,589			116,929		
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$1,138,170			$1,100,315		
Interest rate spread			3.06			3.36
Net interest income/Net interest margin		25,572	3.23%		26,789	3.52%

Tax-equivalent adjustment	(22)	(20)
Net Interest Income	$25,550	$26,769

.....PROVISION FOR LOAN LOSSES..... For the nine month period in 2016, the Company recorded a $3,650,000 provision for loan losses compared to a $750,000 provision for loan losses in the first nine months of 2015. A substantially higher than typical provision and net loan charge-offs were recorded in the first quarter of 2016 and were necessary to resolve the Company s only meaningful direct loan exposure to the energy industry, the specifics of which were discussed in detail in the Company s first quarter results. The Company experienced net loan charge-offs in the first nine months of 2016 of $3.8 million, or 0.58%, of total loans in 2016, compared to net loan charge-offs of $601,000, or 0.09% of total loans, in the same 2015 period. Overall, the Company continued to maintain outstanding asset quality in the third quarter of 2016. At September 30, 2016, non-performing assets totaled $1.9 million, or only 0.21% of total loans. In summary, the allowance for loan losses provided a strong 510% coverage of non-performing loans, and 1.10% of total loans, at September 30, 2016, compared to 158% coverage of non-performing loans, and 1.13% of total loans, at December 31, 2015.

.....NON-INTEREST INCOME..... Non-interest income for the first nine months of 2016 totaled $10.8 million and decreased $579,000, or 5.1%, from the first nine months 2015 performance. Factors contributing to this lower level of non-interest income for the quarter included:

* a $713,000 decrease in revenue from bank owned life insurance after the Company received three death benefit claims in 2015 and there were no benefit claims in 2016;
* a $42,000, or 7.1%, decrease in net gains realized on residential mortgage loan sales and an $18,000 decrease in mortgage related fees due to reduced refinance activity and a decrease in new mortgage loan originations in the first half of 2016;
* a $37,000 or 2.9% decrease in service charges on deposits due to lower levels of checking service charges;
* a $185,000 increase in gains realized on the sale of investment securities in the first nine months of 2016 as the Company sold certain rapidly pre-paying mortgage backed securities in this low interest rate environment;
* an $88,000 increase in revenue from other income as a result of funds received from our debit card vendor from a branding agreement; and
* a $42,000 or 0.7% decrease in Trust and investment advisory fees as the loss of certain client accounts through normal attrition more than offset continued successful new business development activities as well as effective management of existing customer accounts in this volatile market environment.

.....NON-INTEREST EXPENSE..... Non-interest expense for the first nine months of 2016 totaled $31.1 million and increased by $238,000, or 0.8%, from the prior year s first nine months. Factors contributing to the higher non-interest expense in the quarter included:

* a $51,000, or 10.1% increase in Federal deposit insurance expense due to the higher level of total average deposits;
* a $295,000 increase in professional fees that was almost entirely attributable to non-recurring costs for legal and accounting services that were necessary to resolve the previously disclosed trust operations trading error. Costs related to this trust issue were also the primary reason that other expenses increased by $322,000 between years;
* a $168,000 decrease in occupancy expenses along with a $91,000 reduction in equipment expenses which is reflective of the Company s ongoing focus to reduce non-interest expenses; and
* a $161,000, or 0.9%, decrease in salaries and employee benefits due to the previously disclosed branch consolidation in the State College market and reduction of staff in the executive office.

.....INCOME TAX EXPENSE..... The Company recorded an income tax expense of $474,000, or an effective tax rate of 29.0%, in the first nine months of 2016 which is lower when compared to the income tax expense of $1,947,000, or an effective tax rate of 29.6%, for the first nine months of 2015. The lower income tax expense and effective tax rate is due to the first quarter 2016 loss recognized by the Company.

.....SEGMENT RESULTS..... Retail banking s net income contribution was $857,000 in the third quarter and $2.3 million for the first nine months of 2016 which was up by $134,000 and $210,000 from the net income contribution for the same 2015 periods. These increases in earnings in 2016 were due to this segment s net interest income benefitting from the significantly higher deposit balances and reduced non-interest expenses particularly occupancy and equipment related costs. These favorable items more than offset a lower level of BOLI income. However, for the nine month time period, revenue from these two sources decreased due to slower production in the first half of the year and partially offset the higher net income contribution. Note that revenue from mortgage loan sales and mortgage related fee income increased during the quarter, favorably impacting the net income contribution for this time period.

The commercial banking segment reported net income of $1.4 million in the third quarter and $1.9 million for the first nine months of 2016 which was $201,000 lower when compared to the third quarter of 2015, and $2.3 million lower than the first nine months of 2015 result. The lower level of income for both time periods was due to the lower level of loan prepayment fees recognized in 2016 and the negative impact from net interest margin compression. For nine month time period, the higher loan loss provision that was required to resolve the troubled energy sector loan had a significant negative impact to reported net income. These unfavorable items more than offset the strong growth in commercial and commercial real estate loans over the past year. Additionally, total non-interest income decreased due to the lower level of BOLI income while total non-interest expense was higher due to increased employee cost.

The trust segment reported net income of $195,000 in the third quarter and $740,000 for the first nine months of 2016 which was $196,000 lower than the 2015 result for the same quarter period, and $427,000 lower than the first nine months of 2015 period. The lower level of net income for both time periods is primarily due to the Trust Company operations trading error that occurred during a technology upgrade and resulted in $250,000 of additional expenses in the third quarter of 2016, and $645,000 of additional expenses for the nine month time period. Also contributing to the decline was lower trust and investment advisory fees due to the loss of certain client accounts through normal attrition. Both of these negative items more than offset continued successful new business development activities as well as effective management of existing customer accounts in this volatile market environment. Also, fee pressure from reduced asset market values that was caused by a declining equity market early in 2016 rebounded in the second half of the year as the equity market increased resulting in asset market values improving.

The investment/parent segment reported net loss of $1.3 million in the third quarter and a net loss of $3.8 million for the first nine months of 2016, which resulted in a greater loss by $505,000 and $952,000, respectively than the 2015 result for the same periods. The increased loss between years is reflective of an increase in total interest expense due to the additional cost associated with the subordinated debt issuance that occurred in late 2015 and is included in the investment/parent segment s results for the first time. Finally, this segment continues to feel the most earnings pressure from the continued low interest rate environment.

.....BALANCE SHEET..... The Company s total consolidated assets were $1.146 billion at September 30, 2016, which declined by $2.8 million, or 0.2%, from the December 31, 2015 asset level. The reduction in assets was primarily due to the repayment of the $21 million SBLF preferred stock. The redemption was funded from the issuance of $7.65 million of subordinated debt and $13.4 million of cash and securities on hand at the Parent Company.

Total deposits increased by $59.4 million, or 6.6% in the first nine months of 2016. Total FHLB borrowings have decreased by $39.8 million since year-end 2015. The FHLB term advances grew by $1 million and now total $49 million as the Company has utilized these advances to help manage interest rate risk and favorably position our balance sheet for a rising rate environment. The Company s total shareholders equity decreased by $18.9 million over the first nine months of 2016 due to the Company s redemption of the preferred stock on January 27, 2016 and previously announced increased common stock dividend. The Company continues to be considered well capitalized for regulatory purposes with a total capital ratio of

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13.17%, and a common equity tier 1 capital ratio of 10.00% at September 30, 2016. (See the discussion of the new Basel III capital requirements under the Capital Resources section.) The Company s book value per common share was $5.29, its tangible book value per common share was $4.66, and its tangible common equity to tangible assets ratio was 7.77% at September 30, 2016.

.....LOAN QUALITY..... The following table sets forth information concerning the Company s loan delinquency, non-performing assets, and classified assets (in thousands, except percentages):

	September 30, 2016	December 31, 2015	September 30, 2015
Total accruing loan delinquency (past due 30 to 89 days)	$ 3,194	$ 4,396	$ 3,428
Total non-accrual loans	1,753	6,066	1,810
Total non-performing assets including TDR*	1,907	6,297	2,294
Accruing loan delinquency, as a percentage of total loans, net of unearned income	0.36 %	0.50 %	0.40 %
Non-accrual loans, as a percentage of total loans, net of unearned income	0.20	0.69	0.21
Non-performing assets, as a percentage of total loans, net of unearned income, and other real estate owned	0.21	0.71	0.27
Non-performing assets as a percentage of total assets	0.17	0.55	0.21
As a percent of average loans, net of unearned income:			
Annualized net charge-offs	0.58	0.11	0.09
Annualized provision for loan losses	0.55	0.15	0.12
Total classified loans (loans rated substandard or doubtful)	$ 5,203	$ 8,566	$ 6,088

* Non-performing assets are comprised of (i) loans that are on a non-accrual basis, (ii) loans that are contractually past due 90 days or more as to interest and principal payments, (iii) performing loans classified as a troubled debt restructuring and (iv) other real estate owned.

The Company continued to maintain strong asset quality in the first nine months of 2016 as evidenced by low levels of non-accrual loans, non-performing assets, classified loans, and loan delinquency levels that continue to be below 1% of total loans. We continue to closely monitor the loan portfolio given the slow recovery in the economy and the number of relatively large-sized commercial and commercial real estate loans within the portfolio. As of September 30, 2016, the 25 largest credits represented 27.1% of total loans outstanding, which represents a decrease from the second quarter 2016 when it was 32.5%

.....ALLOWANCE FOR LOAN LOSSES..... The following table sets forth the allowance for loan losses and certain ratios for the periods ended (in thousands, except percentages):

	September 30, 2016	December 31, 2015	September 30, 2015
Allowance for loan losses	$ 9,726	$ 9,921	$ 9,772
Allowance for loan losses as a percentage of each of the following			
total loans, net of unearned income	1.10 %	1.13 %	1.13 %

total accruing delinquent loans (past due 30 to 89 days)	304.51	225.68	285.06
total non-accrual loans	554.82	163.55	539.89
total non-performing assets	510.02	157.55	425.98

The Company recorded a $3.7 million provision for loan losses in the first nine months of 2016 compared to a $750,000 provision for loan losses in the first nine months of 2015 or an increase of $2.9 million between periods. The substantially higher than typical provision in the first nine months of 2016 was necessary to resolve the Company s only meaningful direct loan exposure to the energy industry.

.....LIQUIDITY..... The Company s liquidity position has been strong during the last several years. Our core retail deposit base has grown over the past five years and has been more than adequate to fund the Company s operations. Payments and prepayments from the loan portfolios, as well as, cash flow from maturities, prepayments and amortization of securities was also used to help fund loan growth over the past few years. We strive to operate our loan to deposit ratio in a range of 80% to 100%. For the first nine months of 2016, the Company s loan to deposit ratio has averaged 93.7%. We are optimistic that we can increase the loan to deposit ratio in the future given current commercial loan pipelines, continued growth from our loan production offices and our focus on small business lending.

Liquidity can be analyzed by utilizing the Consolidated Statement of Cash Flows. Cash and cash equivalents decreased by $18.0 million from December 31, 2015 to September 30, 2016, due to $13.6 million of cash used in investing activities, $2.3 million of cash used by operating activities and $2.0 million used by financing activities. Within investing activities, cash provided from investment security maturities was $20.9 million. Cash advanced for new loan fundings and purchases (excluding residential mortgages sold in the secondary market) totaled $150.1 million and was $10.3 million higher than the $139.8 million of cash received from loan principal payments and participations sold. Within financing activities, deposits increased by $59.4 million of cash. Total borrowings decreased as advances of short-term borrowings and purchases of FHLB term advances declined by $39.8 million. The company also used $21.0 million to redeem the preferred stock issued to the US Treasury under the SBLF program. At September 30, 2016, the Company had immediately available $409 million of overnight borrowing capacity at the FHLB and $39 million of unsecured federal funds lines with correspondent banks.

The holding company had $10.6 million of cash, short-term investments, and investment securities at September 30, 2016. Additionally, dividend payments from our subsidiaries also provide ongoing cash to the holding company. At September 30, 2016, our subsidiary Bank had $3.2 million of cash available for immediate dividends to the holding company under applicable regulatory formulas. Management follows a policy that limits dividend payments from the Trust Company to 75% of annual net income. Based upon this internal limit, the Trust Company had $695,000 of cash available for immediate dividends to the holding company. Overall, we believe that the holding company has strong liquidity to meet its trust preferred and subordinated debt service requirements, and its current common stock dividends, all of which should approximate $2.6 million over the next twelve months.

.....CAPITAL RESOURCES..... The Bank meaningfully exceeds all regulatory capital ratios for each of the periods presented and is considered well capitalized. The Company s common equity tier 1 ratio was 10.00%, the tier 1 capital ratio was 11.25%, and the total capital ratio was 13.17% at September 30, 2016. The Company s tier 1 leverage was 9.29% at September 30, 2016. We anticipate that we will maintain our strong capital ratios throughout the remainder of 2016. We expect that capital generated from earnings will be utilized to pay the common stock cash dividend and will also support anticipated balance sheet growth. On July 25, 2016, the Company announced that its Board of Directors declared a $0.015 per share quarterly common stock cash dividend. This new quarterly dividend amount represents a 50% increase from the previous $0.01 per share quarterly dividend. The cash dividend is payable November 21, 2016 to shareholders of record on November 7, 2016. This cash dividend represents a 1.84% annualized yield using the October 21, 2016 closing common stock price of $3.26 and represents an approximate payout ratio of 25% based upon the Company s third quarter 2016 earnings per share of $0.06. With the successful redemption of the SBLF preferred stock in the first quarter of 2016 and the Company s rapid return to more typical profitability levels in the second quarter of 2016, our Board of Directors is confident returning this level of capital to our shareholders.

On January 1, 2015, U.S. federal banking agencies implemented the new Basel III capital standards, which establish the minimum capital levels to be considered well-capitalized and revise the prompt corrective action requirements under banking regulations. The revisions from the previous standards include a revised definition of capital, the introduction of a minimum Common Equity Tier 1 capital ratio and changed risk weightings for certain assets. The implementation of the new rules will be phased in over a four year period ending January 1, 2019 with minimum capital requirements becoming increasingly more strict each year of the transition. The new minimum capital requirements for each ratio, both, initially on January 1, 2015 and at the end of the transition on January 1, 2019, are as follows: A common equity tier 1 capital ratio of 4.5% initially and 7.0% at January 1, 2019; a tier 1 capital ratio of 6.0% and 8.50%; a total capital ratio of 8.0% and 10.50%; and a tier 1 leverage ratio of 5.00% and 5.00%. Under the new rules, in order to avoid limitations on capital distributions (including dividend payments and certain discretionary bonus payments to executive officers), a banking organization must hold a capital conservation buffer above its minimum risk-based capital requirements, which increases over the transition period, from 0.625% of total risk weighted assets in 2016 to 2.5% in 2019. The Company continues to be committed to maintaining strong capital levels that exceed regulatory requirements while also supporting balance sheet growth and providing a return to our shareholders.

.....INTEREST RATE SENSITIVITY..... The following table presents an analysis of the sensitivity inherent in the Company s net interest income and market value of portfolio equity. The interest rate scenarios in the table compare the Company s base forecast, which was prepared using a flat interest rate scenario, to scenarios that reflect immediate interest rate changes of 100 and 200 basis points. Note that we suspended the 200 basis point downward rate shock since it has little value due to the absolute low level of interest rates. Each rate scenario contains unique prepayment and repricing assumptions that are applied to the Company s existing balance sheet that was developed under the flat interest rate scenario.

Interest Rate Scenario	Variability of Net Interest Income		Change in Market Value of Portfolio Equity	
200bp increase	5.7	%	37.0	%
100bp increase	3.3		22.3	
100bp decrease	(4.1	)	1.4	

The Company believes that its overall interest rate risk position is well controlled. The variability of net interest income is positive in the upward rate shocks due to the Company s short duration investment securities portfolio, the scheduled repricing of loans tied to LIBOR or prime, and the extension of a portion of borrowed funds. Also, the Company expects that it will not have to reprice its core deposit accounts up as quickly when interest rates rise. The variability of net interest income is negative in the 100 basis point downward rate scenario as the Company has more exposure to assets repricing downward to a greater extent than liabilities due to the absolute low level of interest rates with the fed funds rate currently at approximately 0.25%. The market value of portfolio equity increases in the upward rate shocks due to the improved value of the Company s core deposit base. Negative variability of market value of portfolio equity occurs in the downward rate shock due to a reduced value for core deposits.

.....OFF BALANCE SHEET ARRANGEMENTS..... The Company incurs off-balance sheet risks in the normal course of business in order to meet the financing needs of its customers. These risks derive from commitments to extend credit and standby letters of credit. Such commitments and standby letters of credit involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated financial statements. The Company had various outstanding commitments to extend credit approximating $166.3 million and standby letters of credit of $5.0 million as of September 30, 2016. The Company s exposure to credit loss in the event of nonperformance by the other party to these commitments to extend credit and standby letters of credit is represented by their contractual amounts. The Company uses the same credit and collateral policies in making commitments and conditional obligations as for all other lending.

.....CRITICAL ACCOUNTING POLICIES AND ESTIMATES..... The accounting and reporting policies of the Company are in accordance with Generally Accepted Accounting Principles and conform to general practices within the banking industry. Accounting and reporting policies for the allowance for loan losses, goodwill, income taxes, and investment securities are deemed critical because they involve the use of estimates and require significant management judgments. Application of assumptions different than those used by the Company could result in material changes in the Company s financial position or results of operation.

ACCOUNT Allowance for Loan Losses
BALANCE SHEET REFERENCE Allowance for loan losses
INCOME STATEMENT REFERENCE Provision for loan losses
DESCRIPTION

The allowance for loan losses is calculated with the objective of maintaining reserve levels believed by management to be sufficient to absorb estimated probable credit losses. Management s determination of the adequacy of the allowance is based on periodic evaluations of the credit portfolio and other relevant factors. However, this quarterly evaluation is inherently subjective as it requires material estimates, including, among others, likelihood of customer default, loss given default, exposure at default, the amounts and timing of expected future cash flows on impaired loans, value of collateral, estimated losses on consumer loans and residential mortgages, and general amounts for historical loss experience. This process also considers economic conditions, uncertainties in estimating losses and inherent risks in the various credit portfolios. All of these factors may be susceptible to significant change. Also, the allocation of the allowance for credit losses to specific loan pools is based on historical loss trends and management s judgment concerning those trends.

Commercial and commercial real estate loans are the largest category of credits and the most sensitive to changes in assumptions and judgments underlying the determination of the allowance for loan loss. Approximately $7.6 million, or 78%, of the total allowance for loan losses at September 30, 2016 has been allocated to these two loan categories. This allocation also considers other relevant factors such as actual versus estimated losses, economic trends, delinquencies, levels of non-performing and TDR loans, concentrations of credit, trends in loan volume, experience and depth of management, examination and audit results, effects of any changes in lending policies and trends in policy, financial information and documentation exceptions. To the extent actual outcomes differ from management estimates, additional provision for loan losses may be required that would adversely impact earnings in future periods.

ACCOUNT Goodwill
BALANCE SHEET REFERENCE Goodwill
INCOME STATEMENT REFERENCE Goodwill impairment
DESCRIPTION

The Company considers our accounting policies related to goodwill to be critical because the assumptions or judgment used in determining the fair value of assets and liabilities acquired in past acquisitions are subjective and complex. As a result, changes in these assumptions or judgment could have a significant impact on our financial condition or results of operations.

The fair value of acquired assets and liabilities, including the resulting goodwill, was based either on quoted market prices or provided by other third party sources, when available. When third party information was not available, estimates were made in good faith by management primarily through the use of internal cash flow modeling techniques. The assumptions that were used in the cash flow modeling were subjective and are susceptible to significant changes. The Company routinely utilizes the services of an independent third party that is regarded within the banking industry as an expert in valuing core deposits to monitor the ongoing value and changes in the Company s core deposit base. These core deposit valuation updates are based upon specific data provided from statistical analysis of the Company s own deposit behavior to estimate the duration of these non-maturity deposits combined with market interest rates and other economic factors.

Goodwill arising from business combinations represents the value attributable to unidentifiable intangible elements in the business acquired. The Company s goodwill relates to value inherent in the banking and wealth management businesses, and the value is dependent upon the Company s ability to provide quality, cost-effective services in the face of free competition from other market participants on a regional basis. This ability relies upon continuing investments in processing systems, the development of value-added service features and the ease of use of the Company s services. As such, goodwill value is supported ultimately by revenue that is driven by the volume of business transacted and the loyalty of the Company s deposit and customer base over a longer time frame. The quality and value of a Company s assets is also an important factor to consider when performing goodwill impairment testing. A decline in earnings as a result of a lack of growth or the inability to deliver cost-effective value added services over sustained periods can lead to impairment of goodwill.

Goodwill which has an indefinite useful life is tested for impairment at least annually and written down and charged to results of operations only in periods in which the recorded value is more than the estimated fair value.

ACCOUNT Income Taxes
BALANCE SHEET REFERENCE Net deferred tax asset
INCOME STATEMENT REFERENCE Provision for income tax expense
DESCRIPTION

The provision for income taxes is the sum of income taxes both currently payable and deferred. The changes in deferred tax assets and liabilities are determined based upon the changes in differences between the basis of assets and liabilities for financial reporting purposes and the basis of assets and liabilities as measured by the enacted tax rates that management estimates will be in effect when the differences reverse. This income tax review is completed on a quarterly basis.

In relation to recording the provision for income taxes, management must estimate the future tax rates applicable to the reversal of tax differences, make certain assumptions regarding whether tax differences are permanent or temporary and the related timing of the expected reversal. Also, estimates are made as to whether taxable operating income in future periods will be sufficient to fully recognize any gross deferred tax assets. If recovery is not likely, we must increase our provision for taxes by recording a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable. Alternatively, we may make estimates about the potential usage of deferred tax assets that decrease our valuation allowances. As of September 30, 2016, we believe that all of the deferred tax assets recorded on our balance sheet will ultimately be recovered and that no valuation allowances were needed.

In addition, the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. We recognize liabilities for anticipated tax audit issues based on our estimate of whether, and the extent to which, additional taxes will be due. If we ultimately determine that payment of these amounts is unnecessary, we reverse the liability and recognize a tax benefit during the period in which we determine that the liability is no longer necessary. We record an additional charge in our provision for taxes in the period in which we determine that the recorded tax liability is less than we expect the ultimate assessment to be.

ACCOUNT Investment Securities
BALANCE SHEET REFERENCE Investment securities
INCOME STATEMENT REFERENCE Net realized gains (losses) on investment securities
DESCRIPTION

Available-for-sale and held-to-maturity securities are reviewed quarterly for possible other-than-temporary impairment. The review includes an analysis of the facts and circumstances of each individual investment such as the severity of loss, the length of time the fair value has been below cost, the expectation for that security s performance, the creditworthiness of the issuer and the Company s intent and ability to hold the security to recovery. A decline in value that is considered to be other-than-temporary is recorded as a loss within non-interest income in the Consolidated Statements of Operations. At September 30, 2016, the unrealized losses in the available-for-sale security portfolio were comprised of securities issued by government agencies or government sponsored agencies and certain high quality corporate securities. The Company believes the unrealized losses are primarily a result of increases in market yields from the time of purchase. In general, as market yields rise, the value of securities will decrease; as market yields fall, the fair value of securities will increase. Management generally views changes in fair value caused by changes in interest rates as temporary; therefore, these securities have not been classified as other-than-temporarily impaired. Management has also concluded that based on current information we expect to continue to receive scheduled interest payments as well as the entire principal balance. Furthermore, management does not intend to sell these securities and does not believe it will be required to sell these securities before they recover in value.

.....FORWARD LOOKING STATEMENT.....

THE STRATEGIC FOCUS:

The challenge for the future is to improve earnings performance to peer levels through a disciplined focus on community banking and improving the profitability of our Trust Company. In accordance with our strategic plan, the Company will maintain its focus as a community bank delivering banking and trust services to the best of our ability and focus on further growing revenues by leveraging our strong capital base and infrastructure. This Company will not succumb to the lure of quick fixes and fancy financial gimmicks. It is our plan to continue to build the Company into a potent banking force in this region and in this industry. Our focus encompasses the following:

Customer Service   It is the existing and prospective customer that the Company must satisfy. This means good products and fair prices. But it also means quick response time and professional competence. It means speedy problem resolution and a minimizing of bureaucratic frustrations. The Company is training and motivating its staff to meet these standards while providing customers with more banking options that involve leading technologies such as computers, smartphones, and tablets to conduct business.
Revenue Growth   It is necessary for the Company to focus on growing revenues. This means loan growth, deposit growth and fee growth. It also means close coordination between all customer service areas so that revenue producing products can be presented to existing and prospective customers to meet their banking needs. The Company s Strategic Plan contains action plans in each of these areas particularly on increasing loans through several loan production offices. There will be a particular focus on small business commercial lending. An examination of the peer bank database provides ample proof that a well-executed community banking business model can generate a reliable and rewarding revenue stream.
Expense Rationalization   The Company remains focused on trying to reduce and rationalize expenses. This has not been a program of broad based cuts, but has been targeted so the Company stays strong but spends less. It is critical to be certain that future expenditures are directed to areas that are playing a positive role in the drive to improve revenues. The Company s also recently completed three additional initiatives that will further reduce non-interest expenses and improve the Company s future profitability. Specifically, at the end of the first quarter of 2016, the Company had closed its Southern Atherton branch office in the State College market and consolidated the retail customer accounts from this branch into its nearby and newer branch office located on North Atherton Street. The Company remains committed to the State College market and this change will allow for a more efficient operation that will allow us to better compete in this demographically attractive but highly competitive banking market. The Company also realigned its executive leadership team by eliminating one senior position in its executive office. Finally, the Company recently announced the closure of its Harrisonburg, Virginia loan production office. We anticipate that the combined annual cost savings from these profitability improvement initiatives will approximate $1.2 million.

This Form 10-Q contains various forward-looking statements and includes assumptions concerning the Company s beliefs, plans, objectives, goals, expectations, anticipations, estimates, intentions, operations, future results, and prospects, including statements that include the words may, could, should, would, believe, expect, anticipat intend, project, plan or similar expressions. These forward-looking statements are based upon current expectations, are subject to risk and uncertainties and are applicable only as of the dates of such statements. Forward-looking statements involve risks, uncertainties and assumptions. Although we do not make forward-looking statements unless we believe we have a reasonable basis for doing so, we cannot guarantee their accuracy. You should not put undue reliance on any forward-looking statements. These statements speak only as of the date of this Form 10-Q, even if subsequently made available on our website or otherwise, and we undertake no obligation to update or revise these statements to reflect events or circumstances occurring after the date of this Form 10-Q. In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, the Company provides the following cautionary statement identifying important factors (some of which are beyond the

Company s control) which could cause the actual results or events to differ materially from those set forth in or implied by the forward-looking statements and related assumptions.

Such factors include the following: (i) the effect of changing regional and national economic conditions; (ii) the effects of trade, monetary and fiscal policies and laws, including interest rate policies of the Federal Reserve; (iii) significant changes in interest rates and prepayment speeds; (iv) inflation, stock and bond market, and monetary fluctuations; (v) credit risks of commercial, real estate, consumer, and other lending activities; (vi) changes in federal and state banking and financial services laws and regulations; (vii) the presence in the Company s market area of competitors with greater financial resources than the Company; (viii) the timely development of competitive new products and services by the Company and the acceptance of those products and services by customers and regulators (when required); (ix) the willingness of customers to substitute competitors products and services for those of the Company and vice versa; (x) changes in consumer spending and savings habits; (xi) unanticipated regulatory or judicial proceedings; and (xii) other external developments which could materially impact the Company s operational and financial performance.

The foregoing list of important factors is not exclusive, and neither such list nor any forward-looking statement takes into account the impact that any future acquisition may have on the Company and on any such forward-looking statement.

Item 3.....QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK..... The Company manages market risk, which for the Company is primarily interest rate risk, through its asset liability management process and committee, see further discussion in Interest Rate Sensitivity section of the M.D. & A.

Item 4.....CONTROLS AND PROCEDURES.....(a) Evaluation of Disclosure Controls and Procedures. The Company s management carried out an evaluation, under the supervision and with the participation of the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and the operation of the Company s disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 30, 2016, pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer along with the Chief Financial Officer concluded that the Company s disclosure controls and procedures as of September 30, 2016, are effective.

(b) Changes in Internal Controls. There have been no changes in AmeriServ Financial Inc. s internal controls over financial reporting that occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

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Part II Other Information

Item 1. Legal Proceedings

There are no material proceedings to which the Company or any of our subsidiaries are a party or by which, to the Company s knowledge, we, or any of our subsidiaries, are threatened. All legal proceedings presently pending or threatened against the Company or our subsidiaries involve routine litigation incidental to our business or that of the subsidiary involved and are not material in respect to the amount in controversy.

Item 1A. Risk Factors

Not Applicable

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

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

None

Item 6. Exhibits

3.1	Amended and Restated Articles of Incorporation as amended through August 11, 2011 (Incorporated by reference to Exhibit 3.1 to the Registration Statement on Form S-8 (File No. 333-176869) filed on September 16, 2011).
3.2	Bylaws, as amended and restated on December 30, 2014 (Incorporated by reference to Exhibit 3.2 to the Current report on Form 8-K filed on January 2, 2015).
15.1	Report of S.R. Snodgrass, P.C. regarding unaudited interim financial statement information.
15.2	Awareness Letter of S.R. Snodgrass, P.C.
31.1	Certification pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
31.2	

	Certification pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
101	The following information from AMERISERV FINANCIAL, INC. s Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, formatted in XBRL (eTensible Business Reporting Language): (i) Consolidated Balance Sheets (unaudited), (ii) Consolidated Statements of Operations (unaudited), (iii) Consolidated Statements of Comprehensive Income (unaudited), (iv) Consolidated Statements of Cash Flows (unaudited), and (iv) Notes to the Unaudited Consolidated Financial Statements.

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

AmeriServ Financial, Inc.
Registrant
/s/ Jeffrey A. Stopko

Date: November 4, 2016

Jeffrey A. Stopko
President and Chief Executive Officer
/s/ Michael D. Lynch

Date: November 4, 2016

Michael D. Lynch
Senior Vice President and Chief Financial Officer