

EnerSys
Form 10-Q
February 06, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 30, 2012

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-32253

EnerSys

(Exact name of registrant as specified in its charter)

Edgar Filing: EnerSys - Form 10-Q

Delaware
(State or other jurisdiction of
incorporation or organization)

23-3058564
(I.R.S. Employer
Identification No.)

2366 Bernville Road

Reading, Pennsylvania 19605

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: 610-208-1991

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Securities Exchange Act of 1934.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). YES NO.

Common Stock outstanding at February 1, 2013: 47,812,407 shares

Table of Contents**ENERSYS****INDEX FORM 10-Q**

	Page
<u>PART I FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	
<u>Consolidated Condensed Balance Sheets (Unaudited) As of December 30, 2012 and March 31, 2012</u>	3
<u>Consolidated Condensed Statements of Income (Unaudited) For the Quarters Ended December 30, 2012 and January 1, 2012</u>	4
<u>Consolidated Condensed Statements of Income (Unaudited) For the Nine months Ended December 30, 2012 and January 1, 2012</u>	5
<u>Consolidated Condensed Statements of Comprehensive Income (Unaudited) For the Quarters and Nine months Ended December 30, 2012 and January 1, 2012</u>	6
<u>Consolidated Condensed Statements of Cash Flows (Unaudited) For the Nine months Ended December 30, 2012 and January 1, 2012</u>	7
<u>Notes to Consolidated Condensed Financial Statements (Unaudited)</u>	8
<u>1. Basis of Presentation</u>	8
<u>2. Inventories</u>	8
<u>3. Fair Value of Financial Instruments</u>	9
<u>4. Derivative Financial Instruments</u>	10
<u>5. Income Taxes</u>	13
<u>6. Warranties</u>	13
<u>7. Commitments, Contingencies and Litigation</u>	14
<u>8. Restructuring Plans</u>	15
<u>9. Debt</u>	16
<u>10. Retirement Plans</u>	17
<u>11. Stock-Based Compensation</u>	17
<u>12. Stockholders' Equity</u>	18
<u>13. Earnings Per Share</u>	19
<u>14. Business Segments</u>	20
<u>15. Subsequent Events</u>	20
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	34
Item 4. <u>Controls and Procedures</u>	35
<u>PART II OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	36
Item 1A. <u>Risk Factors</u>	36
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	36
Item 4. <u>Mine Safety Disclosures</u>	36
Item 6. <u>Exhibits</u>	37
<u>SIGNATURES</u>	38

Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****ENERSYS****Consolidated Condensed Balance Sheets (Unaudited)****(In Thousands, Except Share and Per Share Data)**

	December 30, 2012	March 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 228,646	\$ 160,490
Accounts receivable, net of allowance for doubtful accounts (December 30, 2012 - \$10,538; March 31, 2012 - \$10,022)	460,068	466,769
Inventories, net	380,048	361,774
Deferred taxes	30,582	30,247
Prepaid and other current assets	59,565	52,393
Total current assets	1,158,909	1,071,673
Property, plant, and equipment, net	350,946	353,215
Goodwill	352,185	352,737
Other intangible assets, net	104,973	107,082
Other assets	39,807	40,248
Total assets	\$ 2,006,820	\$ 1,924,955
Liabilities and Equity		
Current liabilities:		
Short-term debt	\$ 28,352	\$ 16,042
Current portion of long-term debt and capital lease obligations	676	2,949
Accounts payable	228,373	249,996
Accrued expenses	188,290	191,314
Total current liabilities	445,691	460,301
Long-term debt and capital lease obligations	209,793	237,110
Deferred taxes	84,051	84,479
Other liabilities	85,542	92,468
Total liabilities	825,077	874,358
Commitments and contingencies		
Redeemable noncontrolling interests	12,024	9,782
Equity:		
Common Stock, \$0.01 par value per share, 135,000,000 shares authorized; 52,930,852 shares issued and 47,800,775 outstanding at December 30, 2012; 52,247,014 shares issued and 47,800,129 shares outstanding at March 31, 2012	529	522
Additional paid-in capital	500,315	474,924

Edgar Filing: EnerSys - Form 10-Q

Treasury stock, at cost, 5,130,077 shares held as of December 30, 2012 and 4,446,885 shares held as of March 31, 2012	(100,776)	(78,183)
Retained earnings	689,617	560,839
Accumulated other comprehensive income	74,199	74,093
Total EnerSys stockholders' equity	1,163,884	1,032,195
Noncontrolling interests	5,835	8,620
Total equity	1,169,719	1,040,815
Total liabilities and equity	\$ 2,006,820	\$ 1,924,955

See accompanying notes.

Table of Contents**ENERSYS****Consolidated Condensed Statements of Income (Unaudited)****(In Thousands, Except Share and Per Share Data)**

	Quarter Ended	
	December 30, 2012	January 1, 2012
Net sales	\$ 557,320	\$ 574,246
Cost of goods sold	413,622	443,370
Gross profit	143,698	130,876
Operating expenses	80,185	75,659
Restructuring charges	3,776	1,440
Operating earnings	59,737	53,777
Interest expense	4,612	4,808
Other (income) expense, net	1,271	1,121
Earnings before income taxes	53,854	47,848
Income tax expense	15,177	10,989
Net earnings	38,677	36,859
Net losses attributable to noncontrolling interests	(507)	
Net earnings attributable to EnerSys stockholders	\$ 39,184	\$ 36,859
Net earnings per common share attributable to EnerSys stockholders:		
Basic	\$ 0.81	\$ 0.77
Diluted	\$ 0.80	\$ 0.77
Weighted average shares of common stock outstanding:		
Basic	48,176,206	47,704,567
Diluted	48,682,346	48,045,900

See accompanying notes.

Table of Contents**ENERSYS****Consolidated Condensed Statements of Income (Unaudited)****(In Thousands, Except Share and Per Share Data)**

	Nine months Ended	
	December 30, 2012	January 1, 2012
Net sales	\$ 1,705,442	\$ 1,690,615
Cost of goods sold	1,275,099	1,323,373
Gross profit	430,343	367,242
Operating expenses	232,025	220,458
Restructuring charges	5,441	2,752
Legal proceedings settlement income		(900)
Operating earnings	192,877	144,932
Interest expense	14,286	12,305
Other (income) expense, net	727	2,315
Earnings before income taxes	177,864	130,312
Income tax expense	50,612	31,668
Net earnings	127,252	98,644
Net losses attributable to noncontrolling interests	(1,526)	
Net earnings attributable to EnerSys stockholders	\$ 128,778	\$ 98,644
Net earnings per common share attributable to EnerSys stockholders:		
Basic	\$ 2.68	\$ 2.01
Diluted	\$ 2.65	\$ 1.99
Weighted average shares of common stock outstanding:		
Basic	48,088,580	49,075,629
Diluted	48,609,751	49,507,047

See accompanying notes.

Table of Contents**ENERSYS****Consolidated Condensed Statements of Comprehensive Income (Unaudited)****(In Thousands)**

	Quarter ended		Nine months ended	
	December 30, 2012	January 1, 2012	December 30, 2012	January 1, 2012
Net earnings	\$ 38,677	\$ 36,859	\$ 127,252	\$ 98,644
Other comprehensive income (loss):				
Net unrealized gain (loss) on derivative instruments, net of tax	997	1,196	3,588	(6,883)
Pension funded status adjustment, net of tax	(90)	44	(6)	121
Foreign currency translation adjustments	12,705	(15,882)	(3,476)	(55,976)
Total comprehensive income	\$ 52,289	\$ 22,217	\$ 127,358	\$ 35,906
Comprehensive loss attributable to noncontrolling interests	(679)		(2,119)	
Comprehensive income attributable to EnerSys stockholders	\$ 52,968	\$ 22,217	\$ 129,477	\$ 35,906

Table of Contents**ENERSYS****Consolidated Condensed Statements of Cash Flows (Unaudited)****(In Thousands)**

	Nine months Ended	
	December 30, 2012	January 1, 2012
Cash flows from operating activities		
Net earnings	\$ 127,252	\$ 98,644
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	37,779	37,022
Derivatives not designated in hedging relationships:		
Net (gains) losses	(1,541)	2,117
Cash settlements	(1,965)	(2,589)
Provision for doubtful accounts	1,132	1,322
Deferred income taxes	(1,135)	173
Non-cash interest expense	6,512	5,980
Stock-based compensation	10,960	8,764
Loss (gain) on disposal of property, plant, and equipment	128	(643)
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	848	6,663
Inventory	(18,022)	(22,903)
Prepaid expenses and other current assets	(5,747)	(5,582)
Other assets	1,030	150
Accounts payable	(18,441)	(8,237)
Accrued expenses	(3,737)	4,452
Other liabilities	444	(5,347)
Net cash provided by operating activities	135,497	119,986
Cash flows from investing activities		
Capital expenditures	(37,624)	(35,032)
Purchases of businesses, net of cash acquired		(21,046)
Proceeds from disposal of property, plant, and equipment	113	94
Net cash used in investing activities	(37,511)	(55,984)
Cash flows from financing activities		
Net increase in short-term debt	13,181	5,704
Proceeds from revolving credit borrowings	230,450	98,035
Repayments of revolving credit borrowings	(258,150)	(98,035)
Proceeds from long-term debt - other	5,556	
Payments of long-term debt - other	(11,800)	
Capital lease obligations	(253)	(1,320)
Net effect from exercising of stock options and vesting of equity awards	8,864	250
Excess tax benefits from exercise of stock options and vesting of equity awards	4,965	3,209
Purchase of treasury stock	(22,593)	(58,383)
Purchase of noncontrolling interests	(2,131)	
Proceeds from noncontrolling interests	613	
Net cash used in financing activities	(31,298)	(50,540)
Effect of exchange rate changes on cash and cash equivalents	1,468	(2,564)

Edgar Filing: EnerSys - Form 10-Q

Net increase in cash and cash equivalents	68,156	10,898
Cash and cash equivalents at beginning of period	160,490	108,869
Cash and cash equivalents at end of period	\$ 228,646	\$ 119,767

See accompanying notes.

Table of Contents**ENERSYS****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited)****(In Thousands, Except Share and Per Share Data)****1. Basis of Presentation**

The accompanying interim unaudited consolidated condensed financial statements of EnerSys (the Company) have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and notes required for complete financial statements. In the opinion of management, the unaudited consolidated condensed financial statements include all normal recurring adjustments considered necessary for the fair presentation of the financial position, results of operations, and cash flows for the interim periods presented. The financial statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in the Company's 2012 Annual Report on Form 10-K (SEC File No. 001-32253), which was filed on May 25, 2012.

The Company reports interim financial information for 13-week periods, except for the first quarter, which always begins on April 1, and the fourth quarter, which always ends on March 31. The four quarters in fiscal 2013 end on July 1, 2012, September 30, 2012, December 30, 2012, and March 31, 2013, respectively. The four quarters in fiscal 2012 ended on July 3, 2011, October 2, 2011, January 1, 2012, and March 31, 2012, respectively.

The consolidated condensed financial statements include the accounts of the Company and its wholly-owned subsidiaries and any partially-owned subsidiaries that the Company has the ability to control. All intercompany transactions and balances have been eliminated in consolidation.

The Company also consolidates certain subsidiaries in which the noncontrolling interest party has within its control the right to require the Company to redeem all or a portion of its interest in the subsidiary. The redeemable noncontrolling interests are reported at their estimated redemption value. Any adjustment to the redemption value impacts retained earnings but does not impact net income or comprehensive income. Noncontrolling interests which are redeemable only upon future events, the occurrence of which is not currently probable, are recorded at carrying value.

Recently Adopted Accounting Pronouncements

In the first quarter of fiscal 2013, the Company conformed its presentation of results of operations, in accordance with new guidance on the presentation of comprehensive income (loss). The guidance requires total comprehensive income (loss) for interim periods to be presented in single continuous statement or in two separate, but consecutive, statements. The new guidance does not change where the components of comprehensive income (loss) are recognized.

During the current quarter, no new accounting standards were adopted or pending adoption that would have a significant impact on the Company's consolidated financial position and results of operations.

2. Inventories

Inventories, net consist of:

	December 30, 2012	March 31, 2012
Raw materials	\$ 101,830	\$ 100,538
Work-in-process	119,987	111,629
Finished goods	158,231	149,607
Total	\$ 380,048	\$ 361,774

Table of Contents**3. Fair Value of Financial Instruments**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company uses the following valuation techniques to measure fair value for its financial assets and financial liabilities:

- Level 1 Inputs are unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 Inputs are quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable and market-corroborated inputs which are derived principally from or corroborated by observable market data.
- Level 3 Inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable.
- The following tables represent the financial assets and (liabilities), measured at fair value on a recurring basis as of December 30, 2012 and March 31, 2012 and the basis for that measurement:

	Total Fair Value Measurement December 30, 2012	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest rate swap agreements	\$ (1,511)	\$	\$ (1,511)	\$
Lead forward contracts	3,685		3,685	
Foreign currency forward contracts	1,290		1,290	
Total derivatives	\$ 3,464	\$	\$ 3,464	\$

	Total Fair Value Measurement March 31, 2012	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest rate swap agreements	\$ (3,872)	\$	\$ (3,872)	\$
Lead forward contracts	(851)		(851)	
Foreign currency forward contracts	782		782	
Total derivatives	\$ (3,941)	\$	\$ (3,941)	\$

The fair value of interest rate swap agreements are based on observable prices as quoted for receiving the variable three month LIBOR and paying fixed interest rates and, therefore, were classified as Level 2.

The fair value of lead forward contracts are calculated using observable prices for lead as quoted on the London Metal Exchange (LME) and, therefore, were classified as Level 2.

The fair value for foreign currency forward contracts are based upon current quoted market prices and are classified as Level 2 based on the nature of the underlying market in which these derivatives are traded.

Financial Instruments

The fair value of the Company's cash and cash equivalents, accounts receivable and accounts payable approximate carrying value due to their short maturities.

The fair value of the Company's 2011 Credit Facility, the China Term Loan, the India Term Loan and short-term debt approximate their carrying value, as they are variable rate debt and the terms are comparable to market terms as of the balance sheet dates and are classified as Level 2.

Table of Contents

The Company's \$172,500 senior unsecured 3.375% convertible notes (Convertible Notes), with a face value of \$172,500, were issued when the Company's stock price was trading at \$30.19 per share. On December 30, 2012, the Company's stock price closed at \$36.80 per share. The Convertible Notes have a conversion option at \$40.60 per share. The fair value of these notes represent the trading values based upon quoted market prices and are classified as Level 2. The Convertible Notes were trading at 114% of face value on December 30, 2012, and 116% of face value on March 31, 2012.

See Note 8 to the Consolidated Financial Statements included in the Company's 2012 Annual Report on Form 10-K for more details.

The carrying amounts and estimated fair values of the Company's derivatives and Convertible Notes at December 30, 2012 and March 31, 2012 were as follows:

	December 30, 2012		March 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Derivatives ⁽¹⁾	\$ 4,975	\$ 4,975	\$ 782	\$ 782
Financial liabilities:				
Convertible Notes	\$ 153,467 ⁽²⁾	\$ 196,650 ⁽³⁾	\$ 148,272 ⁽²⁾	\$ 200,100 ⁽³⁾
Derivatives ⁽¹⁾	1,511	1,511	4,723	4,723

⁽¹⁾ Represents interest rate swap agreements, lead and foreign currency hedges (see Note 4 for asset and liability positions of the interest rate swap agreements, lead and foreign currency hedges at December 30, 2012 and March 31, 2012).

⁽²⁾ The carrying amounts of the Convertible Notes at December 30, 2012 and March 31, 2012 represent the \$172,500 principal value, less the unamortized debt discount (see Note 9).

⁽³⁾ The fair value amounts of the Convertible Notes at December 30, 2012 and March 31, 2012 represent the trading values of the Convertible Notes with a principal value of \$172,500.

4. Derivative Financial Instruments

The Company utilizes derivative instruments to reduce its exposure to fluctuations in commodity prices, foreign exchange rates and interest rates, under established procedures and controls. The Company does not enter into derivative contracts for speculative purposes. The Company's agreements are with creditworthy financial institutions and the Company anticipates performance by counterparties to these contracts and therefore no material loss is expected.

Derivatives in Cash Flow Hedging Relationships

Lead Hedge Forward Contracts

The Company enters into lead hedge forward contracts to fix the price for a portion of the lead purchases. Management considers the lead hedge forward contracts to be effective against changes in the cash flows of the underlying lead purchases. The vast majority of such contracts are for a period not extending beyond one year and the notional amounts at December 30, 2012 and March 31, 2012 were 57.6 million and 60.0 million pounds, respectively.

Foreign Currency Forward Contracts

The Company purchases lead and other commodities in certain countries where the foreign currency exposure is different from the functional currency of that country. The Company uses foreign currency forward contracts to hedge a portion of the Company's foreign currency exposures for lead as well as other foreign currency exposures so that gains and losses on these contracts offset changes in the underlying foreign currency denominated exposures. The vast majority of such contracts are for a period not extending beyond one year. As of December 30, 2012 and March 31, 2012, the Company had entered into a total of \$53,926 and \$42,121, respectively, of such contracts.

Edgar Filing: EnerSys - Form 10-Q

In the coming twelve months, the Company anticipates that \$7,403 of pretax gain relating to lead and foreign currency forward contracts will be reclassified from accumulated other comprehensive income (AOCI) as part of cost of goods sold. This amount represents the current unrealized impact of hedging lead and foreign exchange rates, which will change as market rates change in the future, and will ultimately be realized in the income statement as an offset to the corresponding actual changes in lead costs to be realized in connection with the variable lead cost and foreign exchange rates being hedged.

Table of Contents**Derivatives not Designated in Hedging Relationships***Interest Rate Swap Agreements*

As of December 30, 2012 and March 31, 2012, the Company maintained interest rate swap agreements that converted \$85,000 of variable-rate debt to a fixed-rate basis, utilizing the three-month LIBOR, as a floating rate reference. These agreements expire between February 2013 and May 2013. The Company recorded expense relating to changes in the fair value of these agreements in the consolidated condensed statements of income, within other (income) expense, net of \$7 and (\$118) during the third quarter of fiscal 2013 and 2012, respectively, and of \$99 and \$763 for the nine months ended December 30, 2012 and January 1, 2012, respectively.

Foreign Currency Forward Contracts

The Company also enters into foreign currency forward contracts to economically hedge foreign currency fluctuations on intercompany loans and foreign currency denominated receivables. These are not designated as hedging instruments and changes in fair value of these instruments are recorded directly in the consolidated statements of income. As of December 30, 2012 and March 31, 2012, the notional amount of these contracts was \$38,890 and \$11,410, respectively. The Company recorded (income) expense in the consolidated condensed statements of income within other (income) expense, net of (\$2,058) and (\$133) during the third quarter of fiscal 2013 and 2012, respectively, and of (\$1,640) and \$1,354 for the nine months ended December 30, 2012 and January 1, 2012, respectively.

Presented below in tabular form is information on the location and amounts of derivative fair values in the consolidated condensed balance sheets and derivative gains and losses in the consolidated condensed statements of income:

Fair Value of Derivative Instruments**December 30, 2012 and March 31, 2012**

	Derivatives and Hedging Activities Designated as Cash Flow Hedges		Derivatives and Hedging Activities Not Designated as Hedging Instruments	
	December 30, 2012	March 31, 2012	December 30, 2012	March 31, 2012
Prepaid and other current assets				
Foreign currency forward contracts	\$ 26	\$ 670	\$ 1,257	\$ 112
Lead hedge forward contracts	3,538			
Other assets				
Lead hedge forward contracts	147	30		
Foreign currency forward contracts	7			
Total assets	\$ 3,718	\$ 700	\$ 1,257	\$ 112
Accrued expenses				
Interest rate swap agreements	\$	\$	\$ 1,511	\$ 3,628
Lead hedge forward contracts		881		
Other liabilities				
Interest rate swap agreements				244
Total liabilities	\$	\$ 881	\$ 1,511	\$ 3,872

The Effect of Derivative Instruments on the Consolidated Condensed Statements of Income**For the quarter ended December 30, 2012**

Edgar Filing: EnerSys - Form 10-Q

	Pretax Gain (Loss) Recognized in AOCI on Derivative (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Pretax Gain (Loss) Reclassified from AOCI into Income (Effective Portion)
Derivatives Designated as Cash Flow Hedges			
Lead hedge contracts	\$ (788)	Cost of goods sold	\$ (1,785)
Foreign currency forward contracts	1,093	Cost of goods sold	509
Total	\$ 305		\$ (1,276)

Table of Contents

Derivatives Not Designated as Hedging Instruments	Location of (Gain) Loss	
	Recognized in Income on Derivative	(Gain) Loss
Interest rate swap contracts	Other (income) expense, net	\$ 7
Foreign currency forward contracts	Other (income) expense, net	(2,058)
Total		\$ (2,051)

The Effect of Derivative Instruments on the Consolidated Condensed Statements of Income

For the quarter ended January 1, 2012

Derivatives Designated as Cash Flow Hedges	Pretax Gain (Loss) Recognized in AOCI on Derivative (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Pretax Gain (Loss)
			Reclassified from AOCI into Income (Effective Portion)
Lead hedge contracts	\$ 2,210	Cost of goods sold	\$ 1,752
Foreign currency forward contracts	964	Cost of goods sold	(478)
Total	\$ 3,174		\$ 1,274

Derivatives Not Designated as Hedging Instruments	Location of (Gain) Loss	
	Recognized in Income on Derivative	(Gain) Loss
Interest rate swap contracts	Other (income) expense, net	\$ (118)
Foreign currency forward contracts	Other (income) expense, net	(133)
Total		\$ (251)

The Effect of Derivative Instruments on the Consolidated Condensed Statements of Income

For the nine months ended December 30, 2012

Derivatives Designated as Cash Flow Hedges	Pretax Gain (Loss) Recognized in AOCI on Derivative (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Pretax Gain (Loss)
			Reclassified from AOCI into Income (Effective Portion)
Lead hedge contracts	\$ 5,275	Cost of goods sold	\$ (2,254)
Foreign currency forward contracts	1,094	Cost of goods sold	2,881

Edgar Filing: EnerSys - Form 10-Q

Total	\$	6,369	\$	627
-------	----	-------	----	-----

Derivatives Not Designated as Hedging Instruments	Location of (Gain) Loss Recognized in Income	
	on Derivative	(Gain) Loss
Interest rate swap contracts	Other (income) expense, net	\$ 99
Foreign currency forward contracts	Other (income) expense, net	(1,640)
Total		\$ (1,541)

The Effect of Derivative Instruments on the Consolidated Condensed Statements of Income

For the nine months ended January 1, 2012

Derivatives Designated as Cash Flow Hedges	Pretax Gain (Loss) Recognized in AOCI on Derivative (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Pretax Gain (Loss)
			Reclassified from AOCI into Income (Effective Portion)
Lead hedge contracts	\$ (9,938)	Cost of goods sold	\$ 4,554
Foreign currency forward contracts	(964)	Cost of goods sold	(4,588)
Total	\$ (10,902)		\$ (34)

Derivatives Not Designated as Hedging Instruments	Location of (Gain) Loss Recognized in Income	
	on Derivative	(Gain) Loss
Interest rate swap contracts	Other (income) expense, net	\$ 763
Foreign currency forward contracts	Other (income) expense, net	1,354
Total		\$ 2,117

Table of Contents**5. Income Taxes**

The Company's income tax provisions consist of federal, state and foreign income taxes. The tax provisions for the third quarters of fiscal 2013 and 2012 were based on the estimated effective tax rates applicable for the full years ending March 31, 2013 and March 31, 2012, respectively, after giving effect to items specifically related to the interim periods.

The effective income tax rates for the third quarters of fiscal 2013 and 2012 were 28.2% and 23.0%, respectively. The effective income tax rates for the first nine months of fiscal 2013 and 2012 were 28.5% and 24.3%, respectively. The increase in the rates compared to the prior year periods are primarily due to changes in the mix of earnings among tax jurisdictions and the expiration of certain U.S. corporate tax exemptions.

6. Warranties

The Company provides for estimated product warranty expenses when the related products are sold, with related liabilities included within accrued expenses and other liabilities. Warranty estimates are forecasts that are based on the best available information, primarily historical claims experience, and claims costs may differ from amounts provided. An analysis of changes in the liability for product warranties is as follows:

	Quarter ended		Nine months ended	
	December 30, 2012	January 1, 2012	December 30, 2012	January 1, 2012
Balance at beginning of period	\$ 42,639	\$ 38,025	\$ 42,067	\$ 36,006
Current period provisions	3,752	4,908	15,240	17,038
Costs incurred	(4,308)	(4,654)	(14,886)	(14,083)
Foreign exchange and other	161	(256)	(177)	(938)
Balance at end of period	\$ 42,244	\$ 38,023	\$ 42,244	\$ 38,023

Table of Contents

7. Commitments, Contingencies and Litigation

Litigation and Other Legal Matters

The Company is involved in litigation incidental to the conduct of its business, the results of which, in the opinion of management, are not likely to be material to the Company's financial position, results of operations, or cash flows. See Note 19 to the Consolidated Financial Statements included in the Company's 2012 Annual Report on Form 10-K. There have been no significant changes since March 31, 2012.

Environmental Issues

As a result of its operations, the Company is subject to various federal, state, and local, as well as international environmental laws and regulations and is exposed to the costs and risks of handling, processing, storing, transporting, and disposing of hazardous substances, especially lead and acid. The Company's operations are also subject to federal, state, local and international occupational safety and health regulations, including laws and regulations relating to exposure to lead in the workplace. See Note 19 to the Consolidated Financial Statements included in the Company's 2012 Annual Report on Form 10-K for a full description of environmental issues. There have been no significant changes since March 31, 2012.

Lead Contracts

To stabilize its costs, the Company has entered into contracts with financial institutions to fix the price of lead. The vast majority of such contracts are for a period not extending beyond one year. Under these contracts, at December 30, 2012 and March 31, 2012, the Company has hedged the price to purchase 57.6 million and 60.0 million pounds of lead, respectively, for a total purchase price of \$56,791 and \$56,610, respectively.

Foreign Currency Forward Contracts

The Company quantifies and monitors its global foreign currency exposures. On a selective basis, the Company will enter into foreign currency forward and option contracts to reduce the volatility from currency movements that affect the Company. The maturity period for substantially all these contracts is less than one year. The Company's largest exposure is from the purchase and conversion of U.S. dollar based lead costs into local currencies in Europe. Additionally, the Company has currency exposures from intercompany and third party trade transactions. To hedge these exposures, the Company has entered into a total of \$92,816 and \$53,531, respectively, of foreign currency forward contracts with financial institutions as of December 30, 2012 and March 31, 2012.

Interest Rate Swap Agreements

The Company is exposed to changes in variable U.S. interest rates on borrowings under its credit agreements. On a selective basis, from time to time, the Company enters into interest rate swap agreements to reduce the negative impact that increases in interest rates could have on its outstanding variable rate debt. At December 30, 2012 and March 31, 2012, such agreements which expire between February 2013 and May 2013, converted \$85,000 of variable-rate debt to a fixed-rate basis, utilizing the three-month LIBOR, as a floating rate reference. Fluctuations in LIBOR and fixed rates affect both the Company's net financial investment position and the amount of cash to be paid or received under these agreements.

Table of Contents**8. Restructuring Plans**

During fiscal 2011, the Company announced a restructuring of its European operations, which will result in the reduction of approximately 60 employees upon completion across its operations. The Company estimates that the total charges for these actions will amount to approximately \$5,200, primarily from cash expenses for employee severance-related payments and site closure costs. Based on commitments incurred to date, the Company recorded restructuring charges of \$5,178 in fiscal 2011 through 2012, with no additional charges in the nine months of fiscal 2013. The Company incurred \$4,579 of costs against the accrual during fiscal 2011 through 2012, with an additional \$556 of costs incurred during the nine months of fiscal 2013. As of December 30, 2012, the reserve balance associated with these actions is \$0. The Company does not expect to be committed to significant additional restructuring charges in fiscal 2013 related to these actions and expects to complete the program in fiscal 2013.

During fiscal 2012, the Company announced restructuring plans related to its operations in Europe, primarily consisting of the transfer of manufacturing of select products between certain of its manufacturing operations and restructuring of its selling, general and administrative operations, which is expected to result in the reduction of approximately 85 employees upon completion. The Company estimates that the total charges for these actions will amount to approximately \$3,600, primarily from cash expenses for employee severance-related payments. The Company recorded restructuring charges of \$3,070 in fiscal 2012 with an additional \$475 of charges during the nine months of fiscal 2013. The Company incurred \$2,433 of costs against the accrual during fiscal 2012, with an additional \$707 of costs incurred during the nine months of fiscal 2013. As of December 30, 2012, the reserve balance associated with these actions is \$396. The Company does not expect to be committed to significant additional restructuring charges in fiscal 2013 related to these actions and expects to complete the program in fiscal 2013.

During fiscal 2013, the Company announced a further restructuring related to improving the efficiency of its manufacturing operations in Europe. The Company estimates that the total charges for these actions will amount to approximately \$7,900, primarily from cash expenses for employee severance-related payments and non-cash expenses associated with the write-off of certain fixed assets and inventory. The Company estimates that these actions will result in the reduction of approximately 115 employees upon completion. During the nine months of fiscal 2013, the Company recorded restructuring charges of \$2,275, consisting of non-cash charges of \$1,346 related to the write-off of fixed assets and inventory, along with cash charges related to employee severance and other charges of \$929. During the nine months of fiscal 2013, the Company incurred \$434 of costs against the accrual. As of December 30, 2012, the reserve balance associated with these actions is \$492. The Company expects to be committed to an additional \$3,500 of restructuring charges in fiscal 2013 related to these actions, and expects to complete the program during fiscal 2015.

During fiscal 2013, the Company announced a restructuring related to the closure of its manufacturing facility located in Chaoan, China, in which the company will transfer the manufacturing at that location to its Chongqing, China facility to improve operational efficiencies. The Company estimates that the total charges related to this action will amount to \$3,400. During the third quarter of fiscal 2013, the Company recorded restructuring charges of \$2,691, consisting of non-cash charges of \$2,290 related to the write off of fixed assets and inventory, along with cash charges related to employee severance and other charges of \$401. During the third quarter of fiscal 2013, the Company incurred \$88 in costs against the accrual. As of December 30, 2012, the reserve balance associated with this action is \$313. The Company expects to complete the restructuring and to sell the building and land use rights of its Chaoan, China facility during fiscal 2014.

A roll-forward of the restructuring reserve is as follows:

	Employee Severance	Other	Total
Balance at March 31, 2012	\$ 1,186	\$	\$ 1,186
Accrued	1,685	120	1,805
Costs incurred	(1,665)	(120)	(1,785)
Foreign currency impact and other	(5)		(5)
Balance at December 30, 2012	\$ 1,201	\$	\$ 1,201

Table of Contents**9. Debt**

The following summarizes the Company's long-term debt including capital lease obligations:

	December 30, 2012	March 31, 2012
3.375% Convertible Notes, net of discount, due 2038	\$ 153,467	\$ 148,272
2011 Credit Facility due 2016	51,700	79,400
China Term Loan due 2017	4,654	6,034
India Term Loan due 2017		5,383
Capital lease obligations and other	648	970
	210,469	240,059
Less current portion	676	2,949
Total long-term debt and capital lease obligations	\$ 209,793	\$ 237,110

The Convertible Notes are represented by a liability component, which is reported herein as long-term debt, net of discount and an equity component representing the convertible feature, which is included in additional paid-in-capital in EnerSys stockholders' equity. See Note 8 to the Consolidated Financial Statements included in the Company's 2012 Annual Report on Form 10-K for early redemption features.

The following represents the principal amount of the liability component, the unamortized discount, and the net carrying amount of the Convertible Notes as of December 30, 2012 and March 31, 2012, respectively:

	December 30, 2012	March 31, 2012
Principal	\$ 172,500	\$ 172,500
Unamortized discount	(19,033)	(24,228)
Net carrying amount	\$ 153,467	\$ 148,272
Carrying amount of equity component	\$ 29,850	\$ 29,850

As of December 30, 2012, the remaining discount will be amortized over a period of 29 months. The conversion price of the \$172,500 in aggregate principal amount of the Convertible Notes is \$40.60 per share and the number of shares on which the aggregate consideration to be delivered upon conversion is 4,248,761.

The effective interest rate on the liability component of the Convertible Notes was 8.50%. The amount of interest cost recognized for the amortization of the discount on the liability component of the Convertible Notes was \$1,768 and \$1,625, respectively, during the quarters ended December 30, 2012 and January 1, 2012 and \$5,195 and \$4,775, respectively, during the nine months ended December 30, 2012 and January 1, 2012.

Available Lines of Credit

As of December 30, 2012 and March 31, 2012, the Company had available and undrawn, under all its lines of credit, \$411,390 and \$377,230, respectively. Included in the December 30, 2012 and March 31, 2012 amounts are \$107,732 and \$95,340, respectively, of uncommitted lines of credit.

As of December 30, 2012 and March 31, 2012, the Company had \$8,224 and \$9,108, respectively, of standby letters of credit.

Table of Contents**10. Retirement Plans**

The following tables present the components of the Company's net periodic benefit cost related to its defined benefit pension plans:

	United States Plans Quarter Ended		International Plans Quarter Ended	
	December 30, 2012	January 1, 2012	December 30, 2012	January 1, 2012
Service cost	\$ 93	\$ 73	\$ 183	\$ 137
Interest cost	161	168	604	610
Expected return on plan assets	(190)	(177)	(471)	(437)
Amortization and deferral	97	61	53	6
Net periodic benefit cost	\$ 161	\$ 125	\$ 369	\$ 316

	United States Plans Nine months Ended		International Plans Nine months Ended	
	December 30, 2012	January 1, 2012	December 30, 2012	January 1, 2012
Service cost	\$ 255	\$ 213	\$ 536	\$ 490
Interest cost	488	500	1,789	1,898
Expected return on plan assets	(567)	(529)	(1,400)	(1,344)
Amortization and deferral	298	177	156	19
Net periodic benefit cost	\$ 474	\$ 361	\$ 1,081	\$ 1,063

11. Stock-Based Compensation

As of December 30, 2012, the Company maintains the EnerSys 2010 Equity Incentive Plan (2010 EIP). The 2010 EIP reserved 3,177,477 shares of common stock for the grant of various types of equity awards including nonqualified stock options, restricted stock, restricted stock units, market share units and other forms of equity-based compensation.

The Company recognized equity-based compensation expense associated with its equity incentive plans of \$3,762 for the third quarter of fiscal 2013 and \$3,030 for the third quarter of fiscal 2012. The Company recognized equity-based compensation expense associated with its equity incentive plans of \$10,960 for the nine months of fiscal 2013 and \$8,764 for the nine months of fiscal 2012.

In the nine months of fiscal 2013, the Company granted to management, directors and other key employees 228,044 restricted stock units that generally vest 25% each year over four years from the date of grant, and 303,942 market share units that vest three years from the date of grant. In the nine months of fiscal 2012, the Company granted to management, directors and other key employees 137,368 restricted stock units and 224,397 market share units with similar vesting as in the fiscal 2013 grants.

Common stock activity for the nine months of fiscal 2013 included the exercise of 514,833 options and the vesting of 230,743 restricted stock units and for the comparable period in fiscal 2012 included the exercise of 130,698 options and the vesting of 258,533 restricted stock units.

As of December 30, 2012, there were 118,830 non-qualified stock options, 607,848 restricted stock units and 630,039 market share units outstanding. At March 31, 2012, there were 633,663 non-qualified stock options, 617,240 restricted stock units and 346,563 market share units outstanding.

Table of Contents

12. Stockholders Equity

Common Stock

The following demonstrates the change in the number of shares of Common Stock outstanding during the nine months of fiscal 2013:

Shares outstanding as of March 31, 2012	47,800,129
Purchase of treasury stock	(683,192)
Shares issued as part of equity-based compensation plans, net of equity awards surrendered for option price and taxes	683,838
Shares outstanding as of December 30, 2012	47,800,775

Treasury Stock

During the nine months of fiscal 2013, the Company purchased 683,192 shares of its common stock for \$22,593. At December 30, 2012 and March 31, 2012, the Company held 5,130,077 and 4,446,885 shares as treasury stock.

Accumulated Other Comprehensive Income

The components of accumulated other comprehensive income are as follows:

	March 31, 2012	Before-Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount	December 30, 2012
Pension funded status adjustment	\$ (8,982)	\$ (6)	\$	\$ (6)	\$ (8,988)
Unrealized gain on derivative instruments	1,175	5,742	2,154	3,588	4,763
Foreign currency translation adjustment	81,900	(3,476)		(3,476)	78,424
Accumulated other comprehensive income	\$ 74,093	\$ 2,260	\$ 2,154	\$ 106	\$ 74,199

Table of Contents**13. Earnings Per Share**

The following table sets forth the reconciliation from basic to diluted average common shares and the calculations of net earnings per common share:

	Quarter ended		Nine months ended	
	December 30, 2012	January 1, 2012	December 30, 2012	January 1, 2012
Net earnings attributable to EnerSys stockholders	\$ 39,184	\$ 36,859	\$ 128,778	\$ 98,644
Weighted average shares of common stock outstanding:				
Basic	48,176,206	47,704,567	48,088,580	49,075,629
Dilutive potential common shares from exercise and lapse of equity awards, net of shares assumed reacquired	506,140	341,333	521,171	431,418
Diluted	48,682,346	48,045,900	48,609,751	49,507,047
Basic earnings per common share attributable to EnerSys stockholders	\$ 0.81	\$ 0.77	\$ 2.68	\$ 2.01
Diluted earnings per common share attributable to EnerSys stockholders	\$ 0.80	\$ 0.77	\$ 2.65	\$ 1.99
Anti-dilutive equity awards not included in weighted average common shares - diluted		523,445	131,594	455,896

The aggregate number of common shares that the Company could be obligated to issue upon conversion of its Convertible Notes that the Company sold in May 2008 is 4,248,761. It is the Company's current intent to settle the principal amount of any conversions in cash, and any additional conversion consideration in cash, shares of the Company's common stock or a combination of cash and shares. No contingent shares were included in diluted shares outstanding during fiscal 2013 and 2012, as the specified conversion price exceeded the average market price of the Company's common stock, and the inclusion of contingent shares would have been anti-dilutive.

Table of Contents**14. Business Segments**

The Company has three reportable business segments based on geographic regions, defined as follows:

Americas, which includes North and South America, with segment headquarters in Reading, Pennsylvania, USA,

Europe, which includes Europe, the Middle East and Africa, with segment headquarters in Zurich, Switzerland, and

Asia, which includes Asia, Australia and Oceania, with segment headquarters in Singapore.

The following table provides selected financial data for the Company's reportable business segments and product lines:

	Quarter ended		Nine months ended	
	December 30, 2012	January 1, 2012	December 30, 2012	January 1, 2012
Net sales by segment to unaffiliated customers				
Europe	\$ 231,434	\$ 247,557	\$ 683,938	\$ 745,886
Americas	275,752	281,210	841,380	792,688
Asia	50,134	45,479	180,124	152,041
Total net sales	\$ 557,320	\$ 574,246	\$ 1,705,442	\$ 1,690,615
Net sales by product line				
Reserve power	\$ 265,167	\$ 277,349	\$ 839,747	\$ 810,581
Motive power	292,153	296,897	865,695	880,034
Total net sales	\$ 557,320	\$ 574,246	\$ 1,705,442	\$ 1,690,615
Intersegment sales				
Europe	\$ 14,270	\$ 22,437	\$ 59,654	\$ 51,856
Americas	7,359	7,298	27,056	27,498
Asia	9,531	6,297	23,675	13,352
Total intersegment sales ⁽¹⁾	\$ 31,160	\$ 36,032	\$ 110,385	\$ 92,706
Operating earnings by segment				
Europe	\$ 14,929	\$ 16,292	\$ 46,170	\$ 45,026
Americas	45,334	35,657	133,420	94,671
Asia	3,250	3,268	18,728	7,087
Restructuring charges (Europe)	(1,085)	(1,440)	(2,750)	(2,752)
Restructuring charges (Asia)	(2,691)		(2,691)	
Legal proceedings settlement income (Europe)				900
Total operating earnings ⁽²⁾	\$ 59,737	\$ 53,777	\$ 192,877	\$ 144,932

- (1) Intersegment sales are presented on a cost plus basis which takes into consideration the effect of transfer prices between legal entities.
- (2) The Company does not allocate interest expense or other (income) expense to the reportable segments.

15. Subsequent Events

The Company evaluated all subsequent events through the date that the Consolidated Condensed Financial Statements were issued. No material subsequent events have occurred since December 30, 2012 that required recognition or disclosure in the Consolidated Condensed Financial Statements.

Table of Contents

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FORWARD-LOOKING STATEMENTS**

The Private Securities Litigation Reform Act of 1995 (the Reform Act) provides a safe harbor for forward-looking statements made by or on behalf of EnerSys. EnerSys and its representatives may, from time to time, make written or verbal forward-looking statements, including statements contained in our filings with the Securities and Exchange Commission and its reports to stockholders. Generally, the inclusion of the words believe, expect, intend, estimate, anticipate, will, and similar expressions identify statements that constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and that are intended to come within the safe harbor protection provided by those sections. All statements addressing operating performance, events, or developments that EnerSys expects or anticipates will occur in the future, including statements relating to sales growth, earnings or earnings per share growth, and market share, as well as statements expressing optimism or pessimism about future operating results, are forward-looking statements within the meaning of the Reform Act. The forward-looking statements are and will be based on management's then-current views and assumptions regarding future events and operating performance, 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. Actual results may differ materially from those expressed in these forward-looking statements due to a number of uncertainties and risks, including the risks described in the Company's 2012 Annual Report on Form 10-K and other unforeseen risks. You should not put undue reliance on any forward-looking statements. These statements speak only as of the date of this Quarterly Report on 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 Quarterly Report on Form 10-Q.

Our actual results may differ materially from those contemplated by the forward-looking statements for a number of reasons, including the following factors:

general cyclical patterns of the industries in which our customers operate;

the extent to which we cannot control our fixed and variable costs;

the raw materials in our products may experience significant fluctuations in market price and availability;

certain raw materials constitute hazardous materials that may give rise to costly environmental and safety claims;

legislation regarding the restriction of the use of certain hazardous substances in our products;

risks involved in our operations such as disruption of markets, changes in import and export laws, environmental regulations, currency restrictions and currency exchange rate fluctuations;

our ability to raise our selling prices to our customers when our product costs increase;

the extent to which we are able to efficiently utilize our global manufacturing facilities and optimize our capacity;

general economic conditions in the markets in which we operate;

Edgar Filing: EnerSys - Form 10-Q

competitiveness of the battery markets throughout the world;

our timely development of competitive new products and product enhancements in a changing environment and the acceptance of such products and product enhancements by customers;

our ability to adequately protect our proprietary intellectual property, technology and brand names;

litigation and regulatory proceedings to which we might be subject;

changes in our market share in the geographic business segments where we operate;

our ability to implement our cost reduction initiatives successfully and improve our profitability;

Table of Contents

quality problems associated with our products;

our ability to implement business strategies, including our acquisition strategy, manufacturing expansion and restructuring plans;

our acquisition strategy may not be successful in locating advantageous targets;

our ability to successfully integrate any assets, liabilities, customers, systems and management personnel we acquire into our operations and our ability to realize related revenue synergies and cost savings within expected time frames;

our debt and debt service requirements which may restrict our operational and financial flexibility, as well as imposing unfavorable interest and financing costs;

our ability to maintain our existing credit facilities or obtain satisfactory new credit facilities;

adverse changes in our short and long-term debt levels under our credit facilities;

our exposure to fluctuations in interest rates on our variable-rate debt;

our ability to attract and retain qualified personnel;

our ability to maintain good relations with labor unions;

credit risk associated with our customers, including risk of insolvency and bankruptcy;

our ability to successfully recover in the event of a disaster affecting our infrastructure;

terrorist acts or acts of war, could cause damage or disruption to our operations, our suppliers, channels to market or customers, or could cause costs to increase, or create political or economic instability; and

the operation, capacity and security of our information systems and infrastructure.

This list of factors that may affect future performance is illustrative, but by no means exhaustive. Accordingly, all forward-looking statements should be evaluated with the understanding of their inherent uncertainty.

In the following discussion and analysis of results of operations and financial condition, certain financial measures may be considered non-GAAP financial measures under Securities and Exchange Commission rules. These rules require supplemental explanation and reconciliation, which is provided in this Quarterly Report on Form 10-Q. EnerSys management uses the non-GAAP measures primary working capital, primary working capital percentage (see definitions in Liquidity and Capital Resources below) and capital expenditures in its evaluation of business segment cash flow and financial position performance. These disclosures have limitations as an analytical tool, should not be viewed as a substitute for cash flow determined in accordance with GAAP, and should not be considered in isolation or as a substitute for analysis of the

Edgar Filing: EnerSys - Form 10-Q

Company's results as reported under GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies. Management believes that this non-GAAP supplemental information is helpful in understanding the Company's ongoing operating results.

Table of Contents

Overview

EnerSys (the Company, we, or us) is the world's largest manufacturer, marketer and distributor of industrial batteries. We also manufacture, market and distribute related products such as chargers, power equipment and battery accessories, and we provide related after-market and customer-support services for industrial batteries. We market and sell our products globally to over 10,000 customers in more than 100 countries through a network of distributors, independent representatives and our internal sales force.

We operate and manage our business in three geographic regions of the world—Americas, Europe and Asia, as described below. Our business is highly decentralized with manufacturing locations throughout the world. More than half of our manufacturing capacity is located outside the United States, and approximately 60% of our net sales were generated outside the United States. The Company has three reportable business segments based on geographic regions, defined as follows:

Americas, which includes North and South America, with our segment headquarters in Reading, Pennsylvania, USA,

Europe, which includes Europe, the Middle East and Africa, with our segment headquarters in Zurich, Switzerland, and

Asia, which includes Asia, Australia and Oceania, with our segment headquarters in Singapore.

We evaluate business segment performance based primarily upon operating earnings exclusive of highlighted items. Highlighted items are those that the Company deems are not indicative of ongoing operating results, including those charges that the Company incurs as a result of restructuring activities and those charges and credits that are not directly related to ongoing business segment performance. All corporate and centrally incurred costs are allocated to the business segments based principally on net sales. We evaluate business segment cash flow and financial position performance based primarily upon capital expenditures and primary working capital levels (see definition of primary working capital in Liquidity and Capital Resources below). Although we monitor the three elements of primary working capital (receivables, inventory and payables), our primary focus is on the total amount due to the significant impact it has on our cash flow.

Table of Contents

Our management structure, financial reporting systems, and associated internal controls and procedures, are all consistent with our three geographic business segments. We report on a March 31 fiscal year-end. Our financial results are largely driven by the following factors:

global economic conditions and general cyclical patterns of the industries in which our customers operate;

changes in our selling prices and, in periods when our product costs increase, our ability to raise our selling prices to pass such cost increases through to our customers;

the extent to which we are able to efficiently utilize our global manufacturing facilities and optimize our capacity;

the extent to which we can control our fixed and variable costs, including those for our raw materials, manufacturing, distribution and operating activities;

changes in our level of debt and changes in the variable interest rates under our credit facilities; and

the size and number of acquisitions and our ability to achieve their intended benefits.

We have two primary industrial battery product lines: reserve power products and motive power products. Net sales classifications by product line are as follows:

Reserve power products are used for backup power for the continuous operation of critical applications in telecommunications systems, uninterruptible power systems, or UPS applications for computer and computer-controlled systems, and other specialty power applications, including security systems, premium starting, lighting and ignition applications, in switchgear, electrical control systems used in electric utilities and energy pipelines, in commercial aircraft, satellites, military aircraft, submarines, ships, tactical vehicles and portable energy packs.

Motive power products are used to provide power for manufacturing, warehousing and other material handling equipment, primarily electric industrial forklift trucks, mining equipment, and for diesel locomotive starting and other rail equipment.

Table of Contents

Economic Climate

Recent indicators continue to suggest a mixed trend in our economic activity among the different geographical regions. The Americas and Asia's economic expansion continues but at a slower rate. The ongoing financial crisis and austerity measures in Europe are a factor in slowing overall economic growth in this region and leading to declining economic growth rates in many of the Western European countries.

Volatility of Commodities and Foreign Currencies

Our most significant commodity and foreign currency exposures are related to lead and the euro. Historically, volatility of commodity costs and foreign currency exchange rates have caused large swings in our production costs. As the global economic climate changes, we anticipate that our commodity costs may continue to fluctuate as they have in the past several years.

Customer Pricing

Our selling prices fluctuated during the last several years to offset the volatile cost of commodities. Approximately 35% of our revenue is currently subject to agreements that adjust pricing to a market-based index for lead. During the current quarter and nine months of fiscal 2013, our selling prices declined slightly.

Liquidity and Capital Resources

Our capital structure and liquidity remain strong. As of December 30, 2012, we had \$228.6 million of cash and cash equivalents, approximately \$303 million of undrawn, committed credit lines, and approximately \$108 million of uncommitted credit lines. A substantial majority of the Company's cash and investments are held by foreign subsidiaries and are considered to be indefinitely reinvested and expected to be utilized to fund local operating activities, capital expenditure requirements and acquisitions. The Company believes that it has sufficient sources of domestic and foreign liquidity.

Table of Contents**Results of Operations****Net Sales**

<i>Current quarter by segment</i>	Quarter ended December 30, 2012		Quarter ended January 1, 2012		Increase (Decrease)	
	Percentage		Percentage		In Millions	%
	In Millions	of Total Net Sales	In Millions	of Total Net Sales		
Europe	\$ 231.4	41.5%	\$ 247.6	43.1%	\$ (16.2)	(6.5)%
Americas	275.8	49.5	281.2	49.0	(5.4)	(1.9)
Asia	50.1	9.0	45.4	7.9	4.7	10.2
Total net sales	\$ 557.3	100.0%	\$ 574.2	100.0%	\$ (16.9)	(2.9)%

<i>Year to date by segment</i>	Nine months ended December 30, 2012		Nine months ended January 1, 2012		Increase (Decrease)	
	Percentage		Percentage		In Millions	%
	In Millions	of Total Net Sales	In Millions	of Total Net Sales		
Europe	\$ 683.9	40.1%	\$ 745.9	44.1%	\$ (62.0)	(8.3)%
Americas	841.4	49.3	792.7	46.9	48.7	6.1
Asia	180.1	10.6	152.0	9.0	28.1	18.5
Total net sales	\$ 1,705.4	100.0%	\$ 1,690.6	100.0%	\$ 14.8	0.9%

Net sales decreased \$16.9 million or 2.9% in the third quarter of fiscal 2013 from the comparable period in fiscal 2012. This decrease for the quarter was the result of a 2% decrease in organic volume, a 1% decrease in both pricing and currency translation impact partially offset by a 1% increase from acquisitions. Net sales increased \$14.8 million or 0.9% in the nine months of fiscal 2013 from the comparable period in fiscal 2012. This increase for the nine months of fiscal 2013 was the result of a 2% increase in organic volume, a 3% increase due to acquisitions, partially offset by a 4% decrease from currency translation impact.

Segment sales

Our Europe segment's net sales decreased \$16.2 million or 6.5% in the third quarter of fiscal 2013, as compared to the third quarter of fiscal 2012, primarily due to a decrease of approximately 4% in organic volume, 1% decrease due to pricing and 2% decrease related to currency translation impact. Revenue decreased \$62.0 million or 8.3% in the nine months of fiscal 2013, as compared to the nine months of fiscal 2012, primarily due to a decrease of approximately 7% related to currency translation impact, a decrease of approximately 2% and 1% in organic volume and pricing, respectively, while acquisitions contributed an increase of approximately 2%.

Our Americas segment's net sales decreased \$5.4 million or 1.9% in the third quarter of fiscal 2013, as compared to the third quarter of fiscal 2012, primarily due to a decrease of approximately 2% and 1% in organic volume and pricing, respectively, partially offset by a 1% increase from acquisitions. Revenue increased \$48.7 million or 6.1% in the nine months of fiscal 2013, as compared to the nine months of fiscal 2012, due to higher organic volume and acquisitions which contributed an increase of approximately 4% and 3%, respectively, partially offset by currency translation impact of 1%.

Our Asia segment's net sales increased \$4.7 million or 10.2% in the third quarter of fiscal 2013, as compared to the third quarter of fiscal 2012, primarily due to higher organic volume, acquisitions and currency translation impact which contributed approximately 7%, 2% and 1%, respectively. Revenue increased \$28.1 million or 18.5% in the nine months of fiscal 2013, as compared to the nine months of fiscal 2012, primarily due to organic volume growth and acquisitions, which contributed approximately 15% and 5%, respectively, partially offset by

currency translation impact of approximately 1%.

Table of Contents*Product line sales*

	Quarter ended December 30, 2012		Quarter ended January 1, 2012		Increase (Decrease)	
	Percentage		Percentage		In Millions	%
	In Millions	of Total Net Sales	In Millions	of Total Net Sales		
Reserve power	\$ 265.2	47.6%	\$ 277.3	48.3%	\$ (12.1)	(4.4)%
Motive power	292.1	52.4	296.9	51.7	(4.8)	(1.6)
Total net sales	\$ 557.3	100.0%	\$ 574.2	100.0%	\$ (16.9)	(2.9)%

	Nine months ended December 30, 2012		Nine months ended January 1, 2012		Increase (Decrease)	
	Percentage		Percentage		In Millions	%
	In Millions	of Total Net Sales	In Millions	of Total Net Sales		
Reserve power	\$ 839.8	49.2%	\$ 810.5	47.9%	\$ 29.3	3.6%
Motive power	865.6	50.8	880.1	52.1	(14.5)	(1.6)
Total net sales	\$ 1,705.4	100.0%	\$ 1,690.6	100.0%	\$ 14.8	0.9%

Sales of our reserve power products in the third quarter of fiscal 2013 decreased \$12.1 million or 4.4% compared to the third quarter of fiscal 2012. Organic volume decreased approximately 4% and pricing and currency translation impact decreased approximately 1% each, partially offset by acquisitions of approximately 1%. Sales in the nine months of fiscal 2013 increased \$29.3 million or 3.6% compared to the nine months of fiscal 2012. Organic volume and acquisitions contributed approximately 4% each to the increased revenue, partially offset by currency translation impact and pricing of approximately 4% and 1%, respectively.

Sales of our motive power products in the third quarter of fiscal 2013 decreased \$4.8 million or 1.6% compared to the third quarter of fiscal 2012. The third quarter decrease was primarily due to pricing and currency translation impact of approximately 1% each. Sales in the nine months of fiscal 2013 decreased \$14.5 million or 1.6% compared to the nine months of fiscal 2012, primarily due to currency translation impact of approximately 4% partially offset by an increase of approximately 2% from acquisitions.

Table of Contents**Gross Profit**

	Quarter ended December 30, 2012		Quarter ended January 1, 2012		Increase (Decrease)	
	Percentage		Percentage		In Millions	%
	In Millions	of Total Net Sales	In Millions	of Total Net Sales		
Gross Profit	\$ 143.7	25.8%	\$ 130.8	22.8%	\$ 12.9	9.8%

	Nine months ended December 30, 2012		Nine months ended January 1, 2012		Increase (Decrease)	
	Percentage		Percentage		In Millions	%
	In Millions	of Total Net Sales	In Millions	of Total Net Sales		
Gross Profit	\$ 430.3	25.2%	\$ 367.2	21.7%	\$ 63.1	17.2%

Gross profit increased \$12.9 million or 9.8% in the third quarter of fiscal 2013 and increased \$63.1 million or 17.2% in the nine months of fiscal 2013, compared to the comparable periods of fiscal 2012. Gross profit, as a percentage of net sales increased 300 basis points in the third quarter and 350 basis points in the nine month period of fiscal 2013, when compared to the comparable periods of fiscal 2012. This increase for both periods is primarily attributed to lower commodity costs with pricing declining slightly in the nine month period. Pricing normally lags behind the cost curve. We anticipate that gross profit percentage to sales of our fourth quarter of fiscal 2013 will decline as commodity costs have increased in the third quarter.

Operating Items

	Quarter ended December 30, 2012		Quarter ended January 1, 2012		Increase (Decrease)	
	Percentage		Percentage		In Millions	%
	In Millions	of Total Net Sales	In Millions	of Total Net Sales		
Operating expenses	\$ 80.2	14.4%	\$ 75.7	13.2%	\$ 4.5	6.0%
Restructuring charges	\$ 3.7	0.7%	\$ 1.4	0.3%	\$ 2.3	162.2%

	Nine months ended December 30, 2012		Nine months ended January 1, 2012		Increase (Decrease)	
	Percentage		Percentage		In Millions	%
	In Millions	of Total Net Sales	In Millions	of Total Net Sales		
Operating expenses	\$ 232.0	13.6%	\$ 220.5	13.0%	\$ 11.5	5.2%
Restructuring charges	\$ 5.4	0.3%	\$ 2.7	0.2%	\$ 2.7	97.7%

Edgar Filing: EnerSys - Form 10-Q

Legal proceedings settlement income	\$	%	\$ 0.9	0.1%	\$ (0.9)	NM
-------------------------------------	----	---	--------	------	----------	----

NM = not meaningful

Table of Contents

Operating expenses as a percentage of net sales increased 120 basis points in the third quarter of fiscal 2013 compared to the third quarter of fiscal 2012 and 60 basis points in the nine months of fiscal 2013 compared to the nine months of fiscal 2012. Operating expenses, excluding the effect of foreign currency translation, increased \$5.5 million or 7.3% in the third quarter of fiscal 2013 compared to the third quarter of fiscal 2012 and increased \$21.1 million or 9.7% in the nine months of fiscal 2013 compared to the nine months of fiscal 2012, due primarily to higher incentive based compensation and the operating costs of recent acquisitions. Selling expenses, our main component of operating expenses, were 58.0% and 59.4% of total operating expenses in the third quarter and nine months of fiscal 2013, respectively, compared to 60.2% and 59.6% of total operating expenses in the third quarter and nine months of fiscal 2012, respectively.

Restructuring charges

Included in our third quarter and nine months of fiscal 2013 operating results are \$3.7 million and \$5.4 million of restructuring charges, respectively, primarily for staff reductions and write-off of fixed assets and inventory in Europe and Asia. During the third quarter of fiscal 2013, the Company announced its commitment to restructure certain of its operations in Asia. The restructure was designed to improve operational efficiencies, primarily in view of our recently built facility in Chongqing, China.

Included in our third quarter and nine months of fiscal 2012 operating results are \$1.4 million and \$2.7 million of restructuring charges, respectively, for staff reductions in Europe.

Operating Earnings

<i>Current quarter by segment</i>	Quarter ended December 30, 2012		Quarter ended January 1, 2012		Increase (Decrease)	
	Percentage		Percentage		In Millions	%
	In Millions	of Total Net Sales (1)	In Millions	of Total Net Sales (1)		
Europe	\$ 14.9	6.5%	\$ 16.2	6.6%	\$ (1.3)	(8.4)%
Americas	45.3	16.4	35.7	12.7	9.6	27.1
Asia	3.3	6.5	3.2	7.2	0.1	
Subtotal	63.5	11.4	55.1	9.6	8.4	15.0
Restructuring charges-Europe	(1.0)	(0.5)	(1.4)	(0.6)	0.4	24.7
Restructuring charges-Asia	(2.7)	(5.4)			(2.7)	NM
Total operating earnings	\$ 59.8	10.7%	\$ 53.7	9.4%	\$ 6.1	11.1%

(1) The percentages shown for the segments are computed as a percentage of the applicable segment's net sales.
NM = not meaningful

<i>Year to date by segment</i>	Nine months ended December 30, 2012		Nine months ended January 1, 2012		Increase (Decrease)	
	Percentage		Percentage		In Millions	%
	In Millions	of Total Net Sales (1)	In Millions	of Total Net Sales (1)		
Europe	\$ 46.2	6.8%	\$ 45.0	6.0%	\$ 1.2	2.5%
Americas	133.3	15.9	94.6	11.9	38.7	40.9
Asia	18.8	10.4	7.1	4.7	11.7	164.3

Edgar Filing: EnerSys - Form 10-Q

Subtotal	198.3	11.6	146.7	8.7	51.6	35.1
Legal proceedings settlement income-Europe			0.9	0.1	(0.9)	NM
Restructuring charges-Europe	(2.7)	(0.4)	(2.7)	(0.4)		
Restructuring charges-Asia	(2.7)	(1.5)			(2.7)	NM
Total operating earnings	\$ 192.9	11.3%	\$ 144.9	8.6%	\$ 48.0	33.1%

⁽¹⁾ The percentages shown for the segments are computed as a percentage of the applicable segment's net sales.
 NM = not meaningful

Operating earnings increased \$6.1 million or 11.1% in the third quarter of fiscal 2013 in comparison to the third quarter of fiscal 2012. Operating earnings as a percentage of net sales, as shown in the table above, increased 130 basis points in the third quarter of fiscal 2013 when compared to the third quarter of fiscal 2012.

We experienced a decrease in operating earnings in our Europe segment in the third quarter of fiscal 2013 in comparison to the comparable quarter in the prior year, with the operating margin decreasing 10 basis points to 6.5%. Operating earnings increased in the nine months of fiscal 2013 in comparison to the comparable period in the prior year, with the operating margin increasing 80 basis points to 6.8%. Operating earnings margin decreased slightly during the quarter, but increased in the nine months of fiscal 2013 due to lower commodity costs and the benefits of the restructuring programs.

Table of Contents

Our Americas segment had an increase in operating earnings in the third quarter of fiscal 2013 in comparison to the third quarter of fiscal 2012, with the operating margin increasing 370 basis points to 16.4%. Operating earnings increased in the nine months of fiscal 2013 in comparison to the comparable period in the prior year, with the operating margin increasing 400 basis points to 15.9%. Operating margin increase in the third quarter of fiscal 2013 is primarily attributable to lower commodity costs while the nine months of fiscal 2013 additionally benefitted from higher volumes. We anticipate lower operating margins in our fourth quarter of fiscal 2013 as commodity cost have increased.

Operating earnings increased in our Asia segment in the third quarter and nine months of fiscal 2013 in comparison to the comparable prior year periods of fiscal 2012, although the operating margin decreased 70 basis points in the quarter to 6.5% but increased 570 basis points in the nine months to 10.4%. The decrease in operating margin in the current quarter was primarily on account of a less favorable product mix in the current quarter when compared to the prior year third quarter. The improvement in the current nine months of fiscal 2013 in comparison to the prior year period is primarily due to increased volume and a better mix of higher margin products in the region.

Interest Expense

	Quarter ended December 30, 2012		Quarter ended January 1, 2012		Increase (Decrease)	
	Percentage		Percentage		In Millions	%
	In Millions	of Total Net Sales	In Millions	of Total Net Sales		
Interest expense	\$ 4.6	0.8%	\$ 4.8	0.8%	\$ (0.2)	(4.1)%

	Nine months ended December 30, 2012		Nine months ended January 1, 2012		Increase (Decrease)	
	Percentage		Percentage		In Millions	%
	In Millions	of Total Net Sales	In Millions	of Total Net Sales		
Interest expense	\$ 14.3	0.8%	\$ 12.3	0.7%	\$ 2.0	16.1%

Interest expense of \$4.6 million in the third quarter of fiscal 2013 (net of interest income of \$0.6 million) was \$0.2 million lower than the interest expense of \$4.8 million in the third quarter of fiscal 2012 (net of interest income of \$0.2 million). Interest expense of \$14.3 million in the nine months of fiscal 2013 (net of interest income of \$1.0 million) was \$2.0 million higher than the interest expense of \$12.3 million in the nine months of fiscal 2012 (net of interest income of \$0.7 million).

The decrease in interest expense in the third quarter of fiscal 2013 compared to the comparable prior year quarter is primarily due to an increase in interest income. The increase in interest expense in the nine months of fiscal 2013 compared to the nine months of fiscal 2012 is attributable to higher interest rates on indebtedness in Asia and South America where we made recent acquisitions.

Also included in interest expense are non-cash charges for deferred financing fees of \$0.4 million and \$1.0 million, respectively, in the third quarter and nine months of fiscal 2013 and \$0.4 million and \$1.0 million, respectively, in the third quarter and nine months of fiscal 2012.

Included in interest expense is non-cash, accreted interest on the Convertible Notes of \$1.8 million and \$5.2 million, respectively, in the third quarter and nine months of fiscal 2013 and \$1.6 million and \$4.8 million, respectively, in the third quarter and nine months of fiscal 2012. (See Note 9 to the Consolidated Condensed Financial Statements.)

Our average debt outstanding (reflecting the reduction of the Convertible Notes discount) was \$249.3 million and \$258.8 million in the third quarter and nine months of fiscal 2013, respectively, compared to \$288.0 million and \$272.4 million in the third quarter and nine months of fiscal 2012, respectively. The average Convertible Notes discount excluded from our average debt outstanding was \$20.0 million and \$21.7 million, respectively, in the third quarter and nine months of fiscal 2013 and \$26.7 million and \$28.3 million, respectively, in the third quarter

and nine months of fiscal 2012.

Table of Contents**Other (Income) Expense, Net**

	Quarter ended December 30, 2012		Quarter ended January 1, 2012		Increase (Decrease)	
	Percentage		Percentage			
	In Millions	of Total Net Sales	In Millions	of Total Net Sales	In Millions	%
Other (income) expense, net	\$ 1.3	0.2%	\$ 1.1	0.2%	\$ 0.2	13.4%

	Nine months ended December 30, 2012		Nine months ended January 1, 2012		Increase (Decrease)	
	Percentage		Percentage			
	In Millions	of Total Net Sales	In Millions	of Total Net Sales	In Millions	%
Other (income) expense, net	\$ 0.7	%	\$ 2.3	0.1%	\$ (1.6)	(68.6)%

Other (income) expense, net in the third quarter of fiscal 2013 was \$1.3 million compared to \$1.1 million in the third quarter of fiscal 2012. The unfavorable impact in the third quarter of fiscal 2013 is mainly attributable to higher miscellaneous charges and non-income related taxes of \$1.1 million partially offset by lower foreign currency losses of \$0.9 million in the current quarter compared to prior year quarter.

Other (income) expense, net for the nine months of fiscal 2013 decreased by \$1.6 million primarily on account of insurance recoveries.

Earnings Before Income Taxes

	Quarter ended December 30, 2012		Quarter ended January 1, 2012		Increase (Decrease)	
	Percentage		Percentage			
	In Millions	of Total Net Sales	In Millions	of Total Net Sales	In Millions	%
Earnings before income taxes	\$ 53.9	9.7%	\$ 47.8	8.3%	\$ 6.1	12.6%

	Nine months ended December 30, 2012		Nine months ended January 1, 2012		Increase (Decrease)	
	Percentage		Percentage			
	In Millions	of Total Net Sales	In Millions	of Total Net Sales	In Millions	%
Earnings before income taxes	\$ 177.9	10.4%	\$ 130.3	7.7%	\$ 47.6	36.5%

As a result of the above, earnings before income taxes in the third quarter of fiscal 2013 increased \$6.1 million or 12.6% compared to the third quarter of fiscal 2012 and earnings before income taxes in the nine months of fiscal 2013 increased \$47.6 million or 36.5% compared to the nine months of fiscal 2012. Earnings before income taxes as a percentage of net sales were 9.7% and 10.4%, respectively, for the third quarter and nine months of fiscal 2013 compared to 8.4% and 7.9%, respectively, in the third quarter and nine months of fiscal 2012.

Table of Contents**Income Tax Expense**

	Quarter ended December 30, 2012		Quarter ended January 1, 2012		Increase (Decrease)	
	Percentage		Percentage			
	In Millions	of Total Net Sales	In Millions	of Total Net Sales	In Millions	%
Income tax expense	\$ 15.2	2.7%	\$ 11.0	1.9%	\$ 4.2	38.1%
Effective tax rate		28.2%		23.0%		5.2%

	Nine months ended December 30, 2012		Nine months ended January 1, 2012		Increase (Decrease)	
	Percentage		Percentage			
	In Millions	of Total Net Sales	In Millions	of Total Net Sales	In Millions	%
Income tax expense	\$ 50.6	3.0%	\$ 31.7	1.9%	\$ 18.9	59.8%
Effective tax rate		28.5%		24.3%		4.2%

The Company's income tax provisions consist of federal, state and foreign income taxes. The tax provisions for the third quarters of fiscal 2013 and fiscal 2012 were based on the estimated effective tax rates applicable for the full years ending March 31, 2013 and March 31, 2012, respectively, after giving effect to items specifically related to the interim periods.

The effective income tax rates for the third quarters of fiscal 2013 and fiscal 2012 were 28.2% and 23.0%, respectively. The effective income tax rates for the nine months of fiscal 2013 and fiscal 2012 were 28.5% and 24.3%, respectively. The rate increase in the third quarter and nine months of fiscal 2013 as compared to the comparable prior year periods are primarily due to changes in the mix of earnings among tax jurisdictions and the expiration of certain U.S. corporate tax exemptions.

Net Earnings Attributable to EnerSys Stockholders

	Quarter ended December 30, 2012		Quarter ended January 1, 2012		Increase (Decrease)	
	Percentage		Percentage			
	In Millions	of Total Net Sales	In Millions	of Total Net Sales	In Millions	%
Net earnings attributable to EnerSys stockholders	\$ 39.2	7.0%	\$ 36.8	6.4%	\$ 2.4	6.3%

	Nine months ended December 30, 2012		Quarter ended January 1, 2012		Increase (Decrease)	
	In Millions	Percentage	In Millions	Percentage	In Millions	%
		of Total		of Total		

Edgar Filing: EnerSys - Form 10-Q

	Net Sales		Net Sales			
Net earnings attributable to EnerSys stockholders	\$ 128.8	7.6%	\$ 98.6	5.8%	\$ 30.2	30.5%

As a result of the above, net earnings attributable to EnerSys stockholders in the third quarter of fiscal 2013 were \$39.2 million or 7.0% of net sales, compared to the third quarter of fiscal 2012 of \$36.8 million or 6.4% of net sales. Net earnings attributable to EnerSys stockholders in the nine months of fiscal 2013 were \$128.8 million or 7.6% of net sales, compared to the nine months of fiscal 2012 of \$98.6 million or 5.8% of net sales.

Net earnings attributable to EnerSys stockholders per common share in the third quarter of fiscal 2013 were \$0.81 per basic share and \$0.80 per diluted share, compared to \$0.77 per basic share and diluted share in the third quarter of fiscal 2012. Net earnings attributable to EnerSys stockholders per common share in the nine months of fiscal 2013 were \$2.68 per basic share and \$2.65 per diluted share, compared to \$2.01 per basic share and \$1.99 per diluted share in the nine months of fiscal 2012.

Table of Contents**Critical Accounting Policies and Estimates**

There have been no material changes to our critical accounting policies from those discussed under the caption Critical Accounting Policies and Estimates in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2012 Annual Report on Form 10-K.

Liquidity and Capital Resources

Operating activities provided cash of \$135.5 million in the nine months of fiscal 2013 compared to \$120.0 million in the comparable period of fiscal 2012. In the nine months of fiscal 2013, net earnings of \$127.3 million and depreciation and amortization of \$37.8 million were offset by cash used for the increase in primary working capital of \$35.6 million, net of currency translation changes. In the nine months of fiscal 2012, net earnings of \$98.6 million and depreciation and amortization of \$37.0 million were offset by cash used for the increase in primary working capital of \$24.5 million, net of currency translation changes.

Primary working capital for this purpose is trade accounts receivable, plus inventories, minus trade accounts payable. The resulting net amount is divided by the trailing three month net sales (annualized) to derive a primary working capital percentage. Primary working capital was \$611.7 million (yielding a primary working capital percentage of 27.4%) at December 30, 2012, \$578.6 million (yielding a primary working capital percentage of 24.4%) at March 31, 2012 and \$556.6 million at January 1, 2012 (yielding a primary working capital percentage of 24.2%). The primary working capital percentage of 27.4% at December 30, 2012 is 3.0 percentage points higher than that for March 31, 2012, and 3.2 percentage points higher than that for the prior year quarter.

Primary working capital increased during the nine months of fiscal 2013, largely due to an increase in inventories and a decrease in accounts payable.

Primary working capital and primary working capital percentages at December 30, 2012, March 31, 2012 and January 1, 2012 are computed as follows:

Balance At	(In Millions)				Quarter Revenue Annualized	Primary Working Capital %
	Trade Receivables	Inventory	Accounts Payable	Total		
December 30, 2012	\$ 460.1	\$ 380.0	\$ (228.4)	\$ 611.7	\$ 2,229.3	27.4%
March 31, 2012	466.8	361.8	(250.0)	578.6	2,371.0	24.4
January 1, 2012	453.9	349.6	(246.9)	556.6	2,297.0	24.2

Investing activities used cash of \$37.5 million in the nine months of fiscal 2013, primarily comprised of capital expenditures, compared to \$56.0 million in the comparable period in fiscal 2012. Investing activities in the nine months of fiscal 2012 included acquisitions for a total purchase price of approximately \$21.0 million.

Financing activities used cash of \$31.3 million in the nine months of fiscal 2013. Borrowings and repayments on our revolver were \$230.5 million and \$258.2 million, respectively, while borrowings on long-term debt and short-term debt were \$5.6 million and \$13.2 million, respectively, which were partially offset by repayments of long-term debt of \$11.8 million in Asia. In the nine months of fiscal 2013, we repurchased \$22.6 million of our common stock. Exercise of stock options and the related tax benefits contributed \$13.8 million. In the nine months of fiscal 2012, financing activities utilized cash of \$50.5 million, primarily reflecting the repurchase of common stock of \$58.3 million. During the nine months of fiscal 2012, we borrowed \$98.0 million on the revolver and subsequently repaid the entire amount. Borrowings on short-term debt were \$5.7 million and capital lease payments were \$1.3 million. Exercise of stock options and the related tax benefits contributed \$3.4 million.

As a result of the above, total cash and cash equivalents increased by \$68.1 million to \$228.6 million in the nine months of fiscal 2013 compared to an increase of \$10.9 million to \$119.8 million in the comparable period of fiscal 2012.

All obligations under our 2011 Senior Secured Revolving Credit Facility are secured by, among other things, substantially all of our U.S. assets. This credit agreement contains various covenants which, absent prepayment in full of the indebtedness and other obligations, or the receipt of waivers, limit our ability to conduct certain specified business transactions, buy or sell assets out of the ordinary course of business, engage in sale and leaseback transactions, pay dividends and take certain other actions. There are no prepayment penalties on loans under this

credit facility.

We are in compliance with all covenants and conditions under our credit agreements. Since we believe that we will continue to comply with these covenants and conditions, we believe that we have the financial resources and the capital available to fund the foreseeable organic growth in our business and to remain active in pursuing further acquisition opportunities. See Note 8 to the Consolidated Financial Statements included in our 2012 Annual Report on Form 10-K for a detailed description of debt.

Table of Contents**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK****Market Risks**

Our cash flows and earnings are subject to fluctuations resulting from changes in interest rates, foreign currency exchange rates and raw material costs. We manage our exposure to these market risks through internally established policies and procedures and, when deemed appropriate, through the use of derivative financial instruments. Our policy does not allow speculation in derivative instruments for profit or execution of derivative instrument contracts for which there are no underlying exposures. We do not use financial instruments for trading purposes and are not a party to any leveraged derivatives. We monitor our underlying market risk exposures on an ongoing basis and believe that we can modify or adapt our hedging strategies as needed.

Counterparty Risks

We have entered into interest rate swap agreements to manage risk on a portion of our long-term floating-rate debt. We have entered into lead forward purchase contracts to manage risk on the cost of lead. We have entered into foreign exchange forward contracts to manage risk on foreign currency exposures. The Company's agreements are with creditworthy financial institutions. Those contracts that result in a liability position at December 30, 2012 are \$2.6 million (pre-tax), therefore there is no risk of nonperformance by these counterparties. Those contracts that result in an asset position at December 30, 2012 are \$6.0 million (pre-tax) and the impact on the Company due to nonperformance by the counterparties has been evaluated and not deemed material.

Interest Rate Risks

We are exposed to changes in variable U.S. interest rates on borrowings under our credit agreements. On a selective basis, from time to time, we enter into interest rate swap agreements to reduce the negative impact that increases in interest rates could have on our outstanding variable rate debt. Changes in the fair value of these contracts for the quarters ended December 30, 2012 and January 1, 2012 have been recorded in the income statement in other (income) expense, net.

At December 30, 2012 and March 31, 2012, the aggregate notional amount of interest rate swap agreements is \$85.0 million. These agreements expire between February – May 2013.

Under the interest rate swaps, the Company receives three-month LIBOR and pays a fixed interest rate which averaged 4.28% on December 30, 2012 and January 1, 2012.

A 100 basis point increase in interest rates would have increased annual interest expense by approximately \$0.8 million on the variable rate portions of our debt.

Commodity Cost Risks – Lead Contracts

We have a significant risk in our exposure to certain raw materials. Our largest single raw material cost is for lead, for which the cost remains volatile. In order to hedge against increases in our lead cost, we have entered into contracts with financial institutions to fix the price of lead. A vast majority of such contracts are for a period not extending beyond one year. We had the following contracts outstanding at the dates shown below:

Date	\$ s Under Contract (in millions)	# Pounds Purchased (in millions)	Average Cost/Pound	Approximate % of Lead Requirements ⁽¹⁾
December 30, 2012	\$ 56.8	57.6	\$ 0.99	12%
March 31, 2012	56.6	60.0	0.94	12
January 1, 2012	51.0	56.1	0.91	13

⁽¹⁾ Based on approximate annual lead requirements for the periods then ended.

Edgar Filing: EnerSys - Form 10-Q

For the remaining quarter of this fiscal year, we believe approximately 93% of the cost of our lead requirement is known. This takes into account the hedge contracts in place at December 30, 2012, lead purchased by December 30, 2012 that will be reflected in future costs under our FIFO accounting treatment, and the benefit from our lead tolling program.

We estimate that a 10% increase in our cost of lead would have increased our cost of goods sold by approximately \$13 million and \$41 million in the third quarter and nine months of fiscal 2013, respectively.

Table of Contents**Foreign Currency Exchange Rate Risks**

We manufacture and assemble our products globally in the Americas, Europe and Asia. Approximately 60% of our sales and expenses are transacted in foreign currencies. Our sales revenue, production costs, profit margins and competitive position are affected by the strength of the currencies in countries where we manufacture or purchase goods relative to the strength of the currencies in countries where our products are sold. Additionally, as we report our financial statements in U.S. dollars, our financial results are affected by the strength of the currencies in countries where we have operations relative to the strength of the U.S. dollar. The principal foreign currencies in which we conduct business are the Euro, Swiss franc, British pound, Polish zloty, Chinese renminbi and Mexican peso.

We quantify and monitor our global foreign currency exposures. Our largest foreign currency exposure is from the purchase and conversion of U.S. dollar based lead costs into local currencies in Europe. Additionally, we have currency exposures from intercompany financing and trade transactions. On a selective basis, we enter into foreign currency forward contracts and option contracts to reduce the impact from the volatility of currency movements; however, we cannot be certain that foreign currency fluctuations will not impact our operations in the future.

To hedge these exposures, we have entered into forward contracts with financial institutions to fix the value at which we will buy or sell certain currencies. The vast majority of such contracts are for a period not extending beyond one year. Forward contracts outstanding as of December 30, 2012 and March 31, 2012 were \$92.8 million and \$53.5 million, respectively. The details of contracts outstanding as of December 30, 2012 were as follows:

Transactions Hedged	\$US Equivalent (in millions)	Average Rate Hedged	Approximate % of Annual Requirements ⁽¹⁾
Sell Euros for U.S. dollars	\$ 18.1	\$/ 1.32	10%
Sell Euros for Polish zloty	14.7	PLN/ 4.17	20
Sell Euros for British pounds	29.1	£/ 0.80	40
Sell Japanese yen for U.S. dollars	18.0	\$/¥ 79.24	90
Sell Australian dollars for U.S. dollars	2.3	\$/AUD 1.03	23
Sell U.S. dollars for Mexican pesos	2.5	MXN/\$ 13.44	50
Sell Australian dollars for Euros	3.0	/AUD 1.26	23
Other	5.1		
Total	\$ 92.8		

⁽¹⁾ Based on the fiscal year currency requirements.

Foreign exchange translation adjustments are recorded in the consolidated condensed statements of comprehensive income.

Based on changes in the timing and amount of interest rate and foreign currency exchange rate movements and our actual exposures and hedges, actual gains and losses in the future may differ from our historical results.

ITEM 4. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures are effective.

(b) Internal Control Over Financial Reporting. There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

From time to time, we are involved in litigation incidental to the conduct of our business. We do not expect that any of this litigation, individually or in the aggregate, will have a material adverse effect on our financial condition, results of operations or cash flow.

Item 1A. Risk Factors

In addition to the other information set forth in this Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended March 31, 2012, which could materially affect our business, financial condition or future results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

The following table summarizes the number of shares of common stock we purchased from participants in our equity incentive plans as well as repurchases of common stock authorized by the Board of Directors. As provided by our equity incentive plans, vested options outstanding may be exercised through surrender to the Company of option shares or vested options outstanding under the Plan to satisfy the applicable aggregate exercise price (and any withholding tax) required to be paid upon such exercise.

Purchases of Equity Securities

Period	(a) Total number of shares (or units) purchased	(b) Average price paid per share (or unit)	(c)	(d)
			Total number of shares (or units) purchased as part of publicly announced plans or programs	Maximum number (or approximate dollar value) of shares (or units) that may be purchased under the plans or programs ⁽¹⁾ ⁽²⁾
October 1 - October 28, 2012		\$		\$ 73,613,303
October 29 - November 25, 2012	580,640	33.04	580,640	53,587,029
November 26 - December 30, 2012	103,839	33.67	102,552	50,072,291
Total	684,479	\$ 33.07	683,192	

⁽¹⁾ On May 26, 2011, the Company's Board of Directors authorized the Company to repurchase up to the number of shares exercised through previous stock option awards and common stock issued under the 2010 Equity Incentive Plan. As of October 28, 2012, November 25, 2012 and December 30, 2012, this repurchase limit amounted to a total 684,642 shares, 104,002 shares, and 2,096 shares, respectively, that may be repurchased under this program. For purposes of presenting the approximate dollar value of shares that may be purchased under this program, we multiplied the remaining balance under this program by \$34.49 per share, which is the average closing price of the Company's common stock during the period.

⁽²⁾ On May 24, 2012, the Company's Board of Directors authorized the Company to repurchase up to \$50 million of its common stock.

Item 4. Mine Safety Disclosures

Not applicable.

Table of Contents

ITEM 6. EXHIBITS

Exhibit Number	Description of Exhibit
3.1	Fifth Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to Amendment No. 3 to EnerSys Registration Statement on Form S-1 (File No. 333-115553) filed on July 13, 2004).
3.2	Amended and Restated Bylaws (filed herewith).
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) Under the Securities Exchange Act of 1934 (filed herewith).
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) Under the Securities Exchange Act of 1934 (filed herewith).
32.1	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Table of Contents

SIGNATURES

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

ENERSYS (Registrant)

By /s/ Michael J. Schmidlein
Michael J. Schmidlein
Senior Vice President Finance & Chief Financial
Officer

Date: February 6, 2013

Table of Contents

EnerSys

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
3.1	Fifth Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to Amendment No. 3 to EnerSys Registration Statement on Form S-1 (File No. 333-115553) filed on July 13, 2004).
3.2	Amended and Restated Bylaws (filed herewith).
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) Under the Securities Exchange Act of 1934 (filed herewith).
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) Under the Securities Exchange Act of 1934 (filed herewith).
32.1	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document