

EnerSys  
Form 10-Q  
November 09, 2011  
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**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 October 2, 2011

**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)

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**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 November 4, 2011: 47,700,867 shares**

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**ENERSYS**

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**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)**

	October 2, 2011	March 31, 2011
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 95,594	\$ 108,869
Accounts receivable, net of allowance for doubtful accounts (October 2, 2011 - \$11,622; March 31, 2011 - \$10,547)	474,252	464,072
Inventories, net	345,504	335,003
Deferred taxes	21,819	19,801
Prepaid and other current assets	69,188	70,203
Total current assets	1,006,357	997,948
Property, plant, and equipment, net	331,700	344,385
Goodwill	333,547	343,666
Other intangible assets, net	98,085	98,819
Other assets	39,684	43,569
Total assets	\$ 1,809,373	\$ 1,828,387
<b>Liabilities and equity</b>		
Current liabilities:		
Short-term debt	\$ 19,552	\$ 3,160
Current portion of long-term debt and capital lease obligations	1,006	862
Accounts payable	243,683	251,814
Accrued expenses	202,595	207,736
Total current liabilities	466,836	463,572
Long-term debt and capital lease obligations	270,276	249,378
Deferred taxes	77,809	79,589
Other liabilities	52,011	56,855
Total liabilities	866,932	849,394
Commitments and contingencies		
Equity:		
Common Stock, \$0.01 par value per share, 135,000,000 shares authorized; 52,136,965 shares issued and 47,690,080 outstanding at October 2, 2011; 51,834,353 shares issued and 50,034,353 outstanding at March 31, 2011	521	518
Additional paid-in capital	469,331	461,597
Treasury stock, at cost, 4,446,885 shares held as of October 2, 2011 and 1,800,000 shares held as of March 31, 2011	(78,183)	(19,800)
Retained earnings	478,621	416,836

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Accumulated other comprehensive income	67,084	115,180
Total EnerSys stockholders' equity	937,374	974,331
Non-controlling interest	5,067	4,662
Total equity	942,441	978,993
Total liabilities and equity	\$ 1,809,373	\$ 1,828,387

See accompanying notes.

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

	Quarter ended	
	October 2, 2011	October 3, 2010
Net sales	\$ 547,140	\$ 472,843
Cost of goods sold	432,745	362,122
Gross profit	114,395	110,721
Operating expenses	71,953	63,475
Legal proceedings settlement income	(900)	
Restructuring charges	902	2,750
Operating earnings	42,440	44,496
Interest expense	4,083	6,040
Other (income) expense, net	(33)	1,063
Earnings before income taxes	38,390	37,393
Income tax expense	10,101	10,844
Net earnings	\$ 28,289	\$ 26,549
Net earnings per common share:		
Basic	\$ 0.57	\$ 0.54
Diluted	\$ 0.57	\$ 0.53
Weighted-average shares of common stock outstanding:		
Basic	49,469,694	49,120,985
Diluted	49,806,964	49,746,602

See accompanying notes.

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

	Six Months ended	
	October 2, 2011	October 3, 2010
Net sales	\$ 1,116,369	\$ 907,812
Cost of goods sold	880,003	700,477
Gross profit	236,366	207,335
Operating expenses	144,799	121,886
Legal proceedings settlement income	(900)	
Restructuring charges	1,312	3,473
Operating earnings	91,155	81,976
Interest expense	7,497	12,067
Other (income) expense, net	1,194	972
Earnings before income taxes	82,464	68,937
Income tax expense	20,679	19,361
Net earnings	\$ 61,785	\$ 49,576
Net earnings per common share:		
Basic	\$ 1.24	\$ 1.01
Diluted	\$ 1.23	\$ 1.00
Weighted-average shares of common stock outstanding:		
Basic	49,761,160	48,970,233
Diluted	50,237,620	49,594,758

See accompanying notes.

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

	<b>Six Months Ended</b>	
	<b>October 2, 2011</b>	<b>October 3, 2010</b>
<b>Cash flows from operating activities</b>		
Net earnings	\$ 61,785	\$ 49,576
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	24,253	22,445
Provision for doubtful accounts	1,751	519
Derivatives not designated in hedging relationships:		
Net losses	2,369	
Cash settlements	(1,727)	
Deferred income taxes	42	(445)
Stock-based compensation	5,734	4,336
Non-cash interest expense	3,790	3,955
(Gain) loss on disposal of property, plant, and equipment	(652)	328
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(24,950)	(28,934)
Inventory	(21,471)	(42,219)
Prepaid and other current assets	(10,944)	(6,119)
Other assets	967	(1,121)
Accounts payable	(9,922)	4,956
Accrued expenses	(6,181)	(4,684)
Other liabilities	2,378	4,480
<b>Net cash provided by operating activities</b>	<b>27,222</b>	<b>7,073</b>
<b>Cash flows from investing activities</b>		
Capital expenditures	(24,153)	(24,252)
Purchases of businesses, net of cash acquired	(1,110)	(1,495)
Proceeds from disposal of property, plant, and equipment	71	53
<b>Net cash used in investing activities</b>	<b>(25,192)</b>	<b>(25,694)</b>
<b>Cash flows from financing activities</b>		
Net increase in short-term debt	16,251	113
Borrowings from revolving credit facility	19,000	
Payments of long-term debt		(19,582)
Capital lease obligations and other	(1,233)	153
Net effect from exercising of stock options and vesting of equity awards	(96)	4,198
Repurchase of common stock of \$58,383, net of payable to broker of \$8,495 - see Note 13	(49,888)	
Excess tax benefits from exercises of stock options and vesting of equity awards	3,099	3,280
<b>Net cash used in financing activities</b>	<b>(12,867)</b>	<b>(11,838)</b>
Effect of exchange rate changes on cash and cash equivalents	(2,438)	2,445
<b>Net decrease in cash and cash equivalents</b>	<b>(13,275)</b>	<b>(28,014)</b>
Cash and cash equivalents at beginning of period	108,869	201,042
<b>Cash and cash equivalents at end of period</b>	<b>\$ 95,594</b>	<b>\$ 173,028</b>



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See accompanying notes.

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

	<b>Quarter ended</b>		<b>Six months ended</b>	
	<b>October 2, 2011</b>	<b>October 3, 2010</b>	<b>October 2, 2011</b>	<b>October 3, 2010</b>
Net earnings	\$ 28,289	\$ 26,549	\$ 61,785	\$ 49,576
Other comprehensive income (loss):				
Net unrealized gain (loss) on derivative instruments, net of tax	(10,825)	5,394	(8,079)	1,831
Pension funded status adjustment, net of tax	104	(209)	77	(114)
Foreign currency translation adjustments	(55,071)	49,479	(40,094)	16,410
Total comprehensive income (loss)	\$ (37,503)	\$ 81,213	\$ 13,689	\$ 67,703

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 2011 Annual Report on Form 10-K (SEC File No. 001-32253), which was filed on May 31, 2011.

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 2012 end on July 3, 2011, October 2, 2011, January 1, 2012, and March 31, 2012, respectively. The four quarters in fiscal 2011 ended on July 4, 2010, October 3, 2010, January 2, 2011, and March 31, 2011, respectively.

**2. Recently Issued Accounting Standards**

In June 2011, the Financial Accounting Standards Board (FASB) issued ASU No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. ASU No. 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of shareholders' equity. All non-owner changes in shareholders' equity instead must be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Also, reclassification adjustments for items that are reclassified from other comprehensive income to net income must be presented on the face of the financial statements. Recently, FASB has decided to delay the effective date of certain provisions in the Update. This guidance will be effective for the Company in the first quarter of fiscal 2013 and is not expected to have a material impact on its financial statements.

In September 2011, the FASB issued ASU 2011-08, Testing Goodwill for Impairment, to simplify how entities test goodwill for impairment. The amendments in the Update permit an entity to first assess qualitative factors to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount. If this is the case, companies will need to perform a more detailed two-step goodwill impairment test which is used to identify potential goodwill impairments and to measure the amount of goodwill impairment losses to be recognized, if any. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The Company plans to adopt this update for its annual goodwill impairment test performed in fiscal 2013 and thereafter. The Company does not believe the adoption of this update will have a material impact on its financial statements.

**3. Inventories**

Inventories, net consist of:

	October 2, 2011	March 31, 2011
Raw materials	\$ 94,218	\$ 92,928
Work-in-process	109,383	100,261
Finished goods	141,903	141,814
Total	\$ 345,504	\$ 335,003

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Inventory reserves for obsolescence and other estimated losses were \$16,502 and \$15,052 at October 2, 2011 and March 31, 2011, respectively, and have been included in the net amounts shown above.

**Table of Contents****4. 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 October 2, 2011 and March 31, 2011 and the basis for that measurement:

	Total Fair Value Measurement October 2, 2011	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	\$ (5,463)	\$	\$ (5,463)	\$
Lead forward contracts	(6,973)		(6,973)	
Foreign currency forward contracts	(1,911)		(1,911)	
Total derivatives	\$ (14,347)	\$	\$ (14,347)	\$

	Total Fair Value Measurement March 31, 2011	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	\$ (5,847)	\$	\$ (5,847)	\$
Lead forward contracts	9,575		9,575	
Foreign currency forward contracts	(2,591)		(2,591)	
Total derivatives	\$ 1,137	\$	\$ 1,137	\$

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 \$350,000, 2011 senior secured revolving credit facility ( 2011 Credit Facility ), the 75,000 Chinese renminbi (RMB) (\$11,800) credit facility ( China Term Loan ), and short-term debt approximate their carrying value, as they are variable rate debt and the current terms are comparable to market terms as of the balance sheet dates.

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The 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 October 2, 2011, the Company's stock price closed at \$20.02 per share. The Convertible Notes have a conversion option at \$40.60 per share, and due to current conditions in the financial markets, the Company's Convertible Notes were trading at 93% of face value on October 2, 2011, and 125% of face value on March 31, 2011. As of October 2, 2011 and March 31, 2011, the unamortized discount on the Convertible Notes was \$27,513 and \$30,663, respectively.

The carrying amounts and estimated fair values of the Company's derivatives and Convertible Notes at October 2, 2011 and March 31, 2011 were as follows:

	October 2, 2011		March 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial assets:</b>				
Derivatives <sup>(1)</sup>	\$	\$	\$ 9,575	\$ 9,575
<b>Financial liabilities:</b>				
Convertible Notes	\$ 144,987 <sup>(2)</sup>	\$ 160,925 <sup>(3)</sup>	\$ 141,837 <sup>(2)</sup>	\$ 215,625 <sup>(3)</sup>
Derivatives <sup>(1)</sup>	14,347	14,347	8,438	8,438

<sup>(1)</sup> Represents interest rate swap agreements, lead and foreign currency hedges (see Note 5 for asset and liability positions of the interest rate swap agreements, lead and foreign currency hedges at October 2, 2011 and March 31, 2011).

<sup>(2)</sup> The carrying amounts of the Convertible Notes at October 2, 2011 and March 31, 2011 represent the \$172,500 principal value, less the unamortized debt discount (see Note 10).

<sup>(3)</sup> The fair value amounts of the Convertible Notes at October 2, 2011 and March 31, 2011 represent the trading values of the Convertible Notes with a principal value of \$172,500.

**5. Derivative Financial Instruments**

The Company utilizes derivative instruments to reduce its exposure to commodity price, foreign exchange risks 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 lead purchases. Management considers the lead hedge forward contracts to be effective against changes in the cash flows of the underlying lead purchases based on the criteria under FASB guidance. The vast majority of such contracts are for a period not extending beyond one year and the notional amounts at October 2, 2011 and March 31, 2011 were \$63,167 and \$68,212, respectively.

*Foreign Currency Forward Contracts*

The Company uses foreign currency forward contracts to hedge a portion of the Company's exposure to certain lead purchases and to certain foreign currency denominated revenues so that gains and losses on these contracts offset changes in the underlying foreign currency denominated exposures. Each contract is for a period not extending beyond one year. As of October 2, 2011 and March 31, 2011, the Company had entered into a total of \$71,930 and \$82,829, respectively, of such contracts.

In the coming twelve months, the Company anticipates that \$5,617 of the current pretax loss 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 October 2, 2011 and March 31, 2011, the Company maintained interest rate swap agreements that converted \$85,000 of variable-rate debt to a fixed-rate basis, utilizing the three-month London Interbank Offered Rate, or LIBOR, as a floating rate reference. These agreements, which expire between February 2013 and May 2013, no longer qualified for hedge accounting at the end of fiscal 2011 as a result of the refinancing of the Company's previous credit facility. Changes in the fair value of these agreements during the second quarter and six months of fiscal 2012 have been recorded in the Consolidated Condensed Statements of Income in other (income) expense, net. In the comparable periods of fiscal 2011, the changes in the fair value of these agreements were recorded in AOCI.

*Foreign Currency Forward Contracts*

The Company also enters into foreign currency forward contracts to hedge foreign currency fluctuations on intercompany loans and foreign currency denominated receivables. These are not designated as hedging instruments. The notional amounts of these contracts were \$18,000 as of October 2, 2011. Changes in the fair value of these agreements have been recorded in the Consolidated Condensed Statements of Income in other (income) expense, net.

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****October 2, 2011 and March 31, 2011**

Derivatives Designated as Cash Flow Hedges	Balance Sheet		Asset Derivatives October 2, 2011    March 31, 2011		Balance Sheet		Liability Derivatives October 2, 2011    March 31, 2011	
	Location	Fair Value	Fair Value	Location	Fair Value	Fair Value		
Lead hedge contracts	Prepaid and other current assets	\$	\$ 9,575	Accrued expenses	\$ 6,973	\$		
Foreign currency forward contracts	Prepaid and other current assets			Accrued expenses	669		2,591	
<b>Total</b>		\$	\$ 9,575		\$ 7,642	\$	2,591	

**Table of Contents****Fair Value of Derivative Instruments**

October 2, 2011 and March 31, 2011

	Balance Sheet	Liability Derivatives	
		October 2, 2011	March 31, 2011
Derivatives Not Designated as Hedging Instruments	Location	Fair Value	Fair Value
Interest rate swap agreements	Accrued expenses	\$ 3,328	\$
Interest rate swap agreements	Other liabilities	2,135	5,847
Foreign currency forward contracts	Accrued expenses	1,242	
<b>Total</b>		\$ 6,705	\$ 5,847

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

For the quarters ended October 2, 2011 and October 3, 2010

Cash Flow Hedging Relationships	Amount of Pretax Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion)		Location of Gain (Loss)	Amount of Pretax Gain (Loss) Reclassified from AOCI (Effective Portion)	
	October 2, 2011	October 3, 2010	Income (Effective Portion)	October 2, 2011	October 3, 2010
			Reclassified from AOCI into		
Interest rate swap agreements	\$	\$ (1,444)	Interest expense	\$	\$ (1,846)
Lead hedge forward contracts	(10,723)	11,815	Cost of goods sold	3,697	1,249
Foreign currency forward contracts	(2,084)	(2,270)	Cost of goods sold	(2,175)	399
<b>Total</b>	\$ (12,807)	\$ 8,101		\$ 1,522	\$ (198)

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

For the six months ended October 2, 2011 and October 3, 2010

Cash Flow Hedging Relationships	Amount of Pretax Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion)		Location of Gain (Loss)	Amount of Pretax Gain (Loss) Reclassified from AOCI (Effective Portion)	
	October 2, 2011	October 3, 2010	Income (Effective Portion)	October 2, 2011	October 3, 2010
			Reclassified from AOCI into		
Interest rate swap agreements	\$	\$ (1,444)	Interest expense	\$	\$ (1,846)
Lead hedge forward contracts	(10,723)	11,815	Cost of goods sold	3,697	1,249
Foreign currency forward contracts	(2,084)	(2,270)	Cost of goods sold	(2,175)	399
<b>Total</b>	\$ (12,807)	\$ 8,101		\$ 1,522	\$ (198)

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	October 2, 2011	October 3, 2010		October 2, 2011	October 3, 2010
Interest rate swap agreements	\$	\$ (3,116)	Interest expense	\$	\$ (3,821)
Lead hedge forward contracts	(12,145)	1,874	Cost of goods sold	2,802	(3,842)
Foreign currency forward contracts	(1,928)	(1,266)	Cost of goods sold	(4,110)	2,337
<b>Total</b>	\$ (14,073)	\$ (2,508)		\$ (1,308)	\$ (5,326)

**Table of Contents****The Effect of Derivative Instruments on the Consolidated Condensed Statements of Income****For the quarters ended October 2, 2011 and October 3, 2010**

Derivatives Not Designated as Hedging Relationships	Amount of Pretax Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion)		Location of Loss Recognized in
			Income on Derivatives
	October 2, 2011	October 3, 2010	(Ineffective Portion)
Interest rate swap agreements	\$ (171)	\$	Other (income) expense, net
<b>Total</b>	\$ (171)	\$	

**The Effect of Derivative Instruments on the Consolidated Condensed Statements of Income****For the six months ended October 2, 2011 and October 3, 2010**

Derivatives Not Designated as Hedging Relationships	Amount of Pretax Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion)		Location of Loss Recognized in
			Income on Derivatives
	October 2, 2011	October 3, 2010	(Ineffective Portion)
Interest rate swap agreements	\$ (881)	\$	Other (income) expense, net
<b>Total</b>	\$ (881)	\$	

**Table of Contents****The Effect of Derivative Instruments on the Consolidated Condensed Statements of Income****For the quarters ended October 2, 2011 and October 3, 2010**

Derivatives Not Designated as Hedging Relationships	Amount of Pretax Gain (Loss) Recognized in Income on Derivatives		Location of Loss Recognized in Income on Derivatives
	October 2, 2011	October 3, 2010	
Foreign currency forward contracts	\$ (1,407)	\$	Other (income) expense, net
<b>Total</b>	\$ (1,407)	\$	

**The Effect of Derivative Instruments on the Consolidated Condensed Statements of Income****For the six months ended October 2, 2011 and October 3, 2010**

Derivatives Not Designated as Hedging Relationships	Amount of Pretax Gain (Loss) Recognized in Income on Derivatives		Location of Loss Recognized in Income on Derivatives
	October 2, 2011	October 3, 2010	
Foreign currency forward contracts	\$ (1,487)	\$	Other (income) expense, net
<b>Total</b>	\$ (1,487)	\$	

**Table of Contents****6. Income Taxes**

The Company's income tax provisions for all periods consist of federal, state and foreign income taxes. The tax provisions for the second quarters of fiscal 2012 and 2011 were based on the estimated effective tax rates applicable for the full years ending March 31, 2012 and March 31, 2011, respectively, after giving effect to items specifically related to the interim periods.

The effective income tax rates for the second quarters of fiscal 2012 and 2011 were 26.3% and 29.0%, respectively. The effective income tax rates for the six months of 2012 and 2011 were 25.1% and 28.1%, respectively. The rate decreases in the second quarter and six months of fiscal 2012 as compared to the comparable prior year periods are primarily due to changes in the mix of earnings among tax jurisdictions.

**7. Warranties**

The Company provides for estimated product warranty expenses when the related products are sold, with related liabilities included within accrued expenses. 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		Six months ended	
	October 2, 2011	October 3, 2010	October 2, 2011	October 3, 2010
Balance at beginning of period	\$ 38,185	\$ 31,301	\$ 36,006	\$ 31,739
Current period provisions	5,945	5,026	12,130	8,931
Costs incurred	(4,988)	(4,485)	(9,429)	(8,037)
Foreign exchange and other	(1,117)	1,378	(682)	587
Balance at end of period	\$ 38,025	\$ 33,220	\$ 38,025	\$ 33,220

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### **8. 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 condition, results of operations, or cash flows (see Note 19 to the Consolidated Financial Statements included in the Company's 2011 Annual Report on Form 10-K).

In fiscal 2009, the Court of Commerce in Lyon, France ruled that the Company was partially responsible for a fire in a French hotel under construction. The Company's portion of damages was assessed at 2,700 or \$4,200, which was duly recorded by the Company, but the ruling was appealed. In a subsequent ruling by the Court of Appeal of Lyon, France, the portion of damages was reduced, entitling the Company to a refund of the monies paid of 671 or \$900, which has been recorded in the current quarter of fiscal 2012. The Company still has an appeal with the Supreme Court of France.

#### **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.

As more fully described in Note 19 to the Consolidated Financial Statements included in the Company's 2011 Annual Report on Form 10-K, the Company has potential environmental liabilities at its Sumter, South Carolina facility and has reserves of \$3,063 at October 2, 2011, and \$3,279 at March 31, 2011. Based on information available at this time, management believes that the Company's reserves are sufficient to satisfy its environmental liabilities.

In September 2011, the Company's facility in Jiangsu Province, China, was closed by government authorities for an environmental review, as were, to the Company's knowledge, all lead processing facilities in that province. In November 2011, the government authorities allowed the plant to reopen on a conditional basis, the final terms of which the Company is still negotiating.

#### **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 October 2, 2011 and March 31, 2011, the Company has hedged the price to purchase 62,337 and 63,396 pounds of lead, respectively, for a total purchase price of \$63,167 and \$68,212, 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 of 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 \$89,930 and \$82,829, respectively, of foreign currency forward contracts with financial institutions as of October 2, 2011 and March 31, 2011.

#### **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 October 2, 2011 and March 31, 2011, 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****9. Restructuring Plans**

The Company has acquisition related restructuring plans and non-acquisition related restructuring plans and bases its restructuring accounting and disclosures on the applicable accounting guidance. As a result, charges to net earnings were made in the periods in which restructuring plan liabilities were incurred.

**Acquisition related restructuring plan**

In fiscal 2010, the Company acquired the stock of OEB Traction Batteries and certain operating assets and liabilities of the reserve power battery business of Accu Holding AG and its Swedish sales subsidiary (all collectively referred to as Oerlikon). The Company completed the process of closing the two manufacturing facilities of Oerlikon during the third quarter of fiscal 2011, which resulted in the reduction of approximately 105 employees. Based on commitments incurred to date, the Company recorded \$3,815 in fiscal 2010 and 2011 in charges relating to this plan and \$726 during the six months of fiscal 2012. As of October 2, 2011, the reserve balance associated with these actions is \$192. The Company expects to finalize the plan with an additional \$100 of restructuring charges in fiscal 2012 in Europe.

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

	<b>Employee Severance</b>	<b>Plant Closure and Other</b>	<b>Total</b>
Balance at March 31, 2011	\$ 257	\$ 146	\$ 403
Accrued	83	643	726
Costs incurred	(238)	(718)	(956)
Foreign currency impact and other	13	6	19
<b>Balance at October 2, 2011</b>	<b>\$ 115</b>	<b>\$ 77</b>	<b>\$ 192</b>

**Non-acquisition related restructuring plans**

In February and May 2009, the Company announced a plan to restructure certain of its European and American operations, which will result in a reduction of approximately 515 employees upon completion across its operations. These actions are primarily in Europe, the most significant of which was the closure of its leased Italian manufacturing facility and the opening of a new Italian distribution center. The Company estimates that the total charges for these actions will amount to approximately \$33,000, which includes cash expenses of approximately \$24,000, primarily for employee severance-related payments, and a non-cash charge of approximately \$9,000, primarily for impairment of fixed assets.

Based on commitments incurred to date, the Company recorded restructuring charges of \$31,894 in fiscal 2009 through fiscal 2011, with \$97 of additional charges during the six months of fiscal 2012. The Company incurred \$5,629 of costs against the accrual during fiscal 2011, with an additional \$1,998 of costs incurred during the six months of fiscal 2012. As of October 2, 2011, the reserve balance associated with these actions is \$483. The Company does not expect to record any significant additional restructuring charges in fiscal 2012 related to these actions.

During fiscal 2011, the Company announced a further 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 \$5,000, 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 \$3,830 in fiscal 2011, with \$231 of additional charges, offset by a favorable accrual adjustment of \$435 related to the fiscal 2011 plan recorded in the six months of fiscal 2012. The Company incurred \$1,316 of costs against the accrual during fiscal 2011, with an additional \$1,251 of costs incurred during the six months of fiscal 2012. As of October 2, 2011, the reserve balance associated with these actions is \$1,000. The Company expects to be committed to an additional \$1,500 of restructuring charges in fiscal 2012 related to these actions.

During fiscal 2012, the Company announced restructuring primarily at its German operations, which will result in the reduction of approximately 10 employees upon completion. The Company estimates that the total charges for these actions will amount to approximately \$700, primarily from cash expenses for employee severance-related payments.



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During the first six months of fiscal 2012, the Company recorded restructuring charges of \$693 and incurred \$181 of costs against the accrual. As of October 2, 2011, the reserve balance associated with these actions is \$511. The Company does not expect to be committed to additional restructuring charges in fiscal 2012 related to these actions.

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

	<b>Employee Severance</b>
Balance at March 31, 2011	\$ 4,920
Accrual adjustment Fiscal 2011 plan	(435)
Accrued	1,021
Costs incurred	(3,430)
Foreign currency impact and other	(82)
 Balance at October 2, 2011	 \$ 1,994

**10. Debt**

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

	<b>October 2, 2011</b>	<b>March 31, 2011</b>
3.375% Convertible Notes, net of discount, due 2038	\$ 144,987	\$ 141,837
2011 Credit Facility due 2016	119,000	100,000
China Term Loan due 2017	6,266	6,112
Capital lease obligations and Other	1,029	2,291
	271,282	250,240
Less current portion	1,006	862
 Total long-term debt and capital lease obligations	 \$ 270,276	 \$ 249,378

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.

The following represents the principal amount of the liability component, the unamortized discount, and the net carrying amount of our Convertible Notes as of October 2, 2011 and March 31, 2011, respectively:

	<b>October 2, 2011</b>	<b>March 31, 2011</b>
Principal	\$ 172,500	\$ 172,500
Unamortized discount	(27,513)	(30,663)
 Net carrying amount	 \$ 144,987	 \$ 141,837
 Carrying amount of equity component	 \$ 29,850	 \$ 29,850

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As of October 2, 2011, the remaining discount will be amortized over a period of 44 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 \$1,592 and \$1,463, respectively, during the quarters ended October 2, 2011 and October 3, 2010 and \$3,150 and \$2,896, respectively, during the six months ended October 2, 2011 and October 3, 2010.

**Table of Contents****Available Lines of Credit**

As of October 2, 2011 and March 31, 2011, the Company had available and undrawn, under all its lines of credit, \$314,322 and \$356,447, respectively. Included in the October 2, 2011 and March 31, 2011 amounts are \$72,378 and \$95,049, respectively, of uncommitted lines of credit.

As of October 2, 2011 and March 31, 2011, the Company had \$1,250 and \$1,150, respectively, of standby letters of credit. As of October 2, 2011 and March 31, 2011, the Company had no bank guarantees.

**11. 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	
	October 2, 2011	October 3, 2010	October 2, 2011	October 3, 2010
Service cost	\$ 70	\$ 65	\$ 172	\$ 141
Interest cost	166	162	635	617
Expected return on plan assets	(176)	(156)	(449)	(406)
Amortization and deferral	58	56	6	4
<b>Net periodic benefit cost</b>	<b>\$ 118</b>	<b>\$ 127</b>	<b>\$ 364</b>	<b>\$ 356</b>

	United States Plans Six months ended		International Plans Six months ended	
	October 2, 2011	October 3, 2010	October 2, 2011	October 3, 2010
Service cost	\$ 140	\$ 130	\$ 353	\$ 276
Interest cost	332	323	1,288	1,209
Expected return on plan assets	(352)	(312)	(907)	(794)
Amortization and deferral	116	113	13	8
<b>Net periodic benefit cost</b>	<b>\$ 236</b>	<b>\$ 254</b>	<b>\$ 747</b>	<b>\$ 699</b>

Significant assumptions used to determine the net periodic benefit cost for the US and international plans were as follows:

	United States Plans Quarter ended		International Plans Quarter ended	
	October 2, 2011	October 3, 2010	October 2, 2011	October 3, 2010
Discount rate	5.7%	6.5%	4.0 - 5.5%	3.8 - 6.0%
Expected return on plan assets	8.0%	8.0%	5.5 - 7.0%	5.5 - 7.0%
Rate of compensation increase	N/A	N/A	2.0 - 4.0%	2.0 - 3.5%

The Company anticipates contributing approximately \$2,349 to its defined benefit pension plans in fiscal 2012, based on current actuarial information. The Company has defined contribution plans covering all U.S. based employees who are not covered by a collective bargaining agreement and substantially all UK employees, both direct and salaried.



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**12. Stock-Based Compensation**

As of October 2, 2011, the Company maintains the EnerSys 2010 Equity Incentive Plan ( 2010 EIP ) 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. As of October 2, 2011, the Company had 2,875,202 shares available for future grants.

The Company recognized equity-based compensation expense associated with its equity incentive plans of \$3,016, with a related tax benefit of \$793, for the second quarter of fiscal 2012, and \$2,226 with a related tax benefit of \$645, for the second quarter of fiscal 2011. The Company recognized equity-based compensation expense associated with its equity incentive plans of \$5,734, with a related tax benefit of \$1,446, for the six months of fiscal 2012, and \$4,336 with a related tax benefit of \$1,215, for the six months of fiscal 2011.

As of October 2, 2011 and March 31, 2011, unrecognized compensation expense associated with unvested equity incentive awards outstanding was \$24,743 and \$15,403, respectively. The October 2, 2011 unrecognized compensation expense amount is expected to be recognized over a weighted average period of 25 months.

Common stock activity for the six months of fiscal 2012 included the exercise of 93,760 options and the vesting of 257,290 restricted stock units and for the comparable period in fiscal 2011 included the exercise of 516,161 options and the vesting of 176,149 restricted stock units. Net cash (paid) received, reflecting the cost of equity awards surrendered for option price and withholding taxes were (\$96) and \$4,198, respectively, for the six months of fiscal 2012 and 2011.

In the six months of fiscal 2012, the Company granted to management and other key employees 134,263 restricted stock units, and 224,397 market share units. In the six months of fiscal 2011, the Company granted to management and other key employees 287,212 restricted stock units and 124,093 market share units.

As of October 2, 2011 there were 767,019 non-qualified stock options, 613,388 restricted stock units and 348,490 market share units outstanding. At March 31, 2011, there were 860,779 non-qualified stock options, 741,299 restricted stock units and 124,093 market share units outstanding.

**Table of Contents****13. Stockholders Equity***Common Stock*

The following demonstrates the change in the number of shares of Common Stock outstanding during the six months ended October 2, 2011:

Shares outstanding as of March 31, 2011	50,034,353
Repurchase of common shares	(2,646,885)
Shares issued as part of equity-based compensation plans, net of equity awards surrendered for option price and taxes	302,612
Shares outstanding as of October 2, 2011	47,690,080

*Treasury Stock*

During the six months ended October 2, 2011, the Company purchased 2,646,885 shares of its common stock for \$58,383 from institutional shareholders. Of these shares, 409,054 shares purchased for \$8,495 were settled and paid subsequent to October 2, 2011.

*Accumulated Other Comprehensive Income*

The components of accumulated other comprehensive income are as follows:

	March 31, 2011	Before-Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount	October 2, 2011
Pension funded status adjustment	\$ (3,512)	\$ 77	\$	\$ 77	\$ (3,435)
Unrealized gain (loss) on derivative instruments	4,436	(12,763)	4,684	(8,079)	(3,643)
Foreign currency translation adjustment	114,256	(40,094)		(40,094)	74,162
Accumulated other comprehensive income	\$ 115,180	\$ (52,780)	\$ 4,684	\$ (48,096)	\$ 67,084



**Table of Contents****14. Earnings Per Share**

Net earnings per common share basic is based on the weighted average number of shares of the Company's common stock outstanding. Net earnings per common share diluted gives effect to all potentially dilutive common shares that were outstanding during the period. As of October 2, 2011 and October 3, 2010, the Company had outstanding stock options, market share units and restricted stock units that could potentially dilute basic earnings per share in the future. Weighted average common shares basic and common shares diluted were as follows:

	Quarter ended		Six months ended	
	October 2, 2011	October 3, 2010	October 2, 2011	October 3, 2010
Weighted average shares of common stock outstanding basic	49,469,694	49,120,985	49,761,160	48,970,233
Assumed exercise and lapse of equity awards, net of shares assumed reacquired	337,270	625,617	476,460	624,525
Weighted average common shares diluted	49,806,964	49,746,602	50,237,620	49,594,758
Anti-dilutive equity awards not included in weighted average common shares diluted	526,808	574,928	422,122	460,725

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 the second quarter of fiscal 2012 and 2011, 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****15. 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		Six months ended	
	October 2, 2011	October 3, 2010	October 2, 2011	October 3, 2010
<b>Net sales by segment to unaffiliated customers</b>				
Europe	\$ 245,337	\$ 207,359	\$ 498,329	\$ 395,860
Americas	252,250	221,171	511,478	426,840
Asia	49,553	44,313	106,562	85,112
<b>Total net sales</b>	<b>\$ 547,140</b>	<b>\$ 472,843</b>	<b>\$ 1,116,369</b>	<b>\$ 907,812</b>
<b>Intersegment sales</b>				
Europe	\$ 13,287	\$ 15,826	\$ 29,419	\$ 29,511
Americas	10,054	13,118	20,200	23,551
Asia	4,001	8,002	7,055	15,010
<b>Total intersegment sales</b>	<b>\$ 27,342</b>	<b>\$ 36,946</b>	<b>\$ 56,674</b>	<b>\$ 68,072</b>
<b>Operating earnings by segment</b>				
Europe	\$ 14,597	\$ 9,291	\$ 28,734	\$ 19,195
Americas	27,396	34,119	59,014	60,078
Asia	449	3,836	3,819	6,176
Legal proceedings settlement income	900		900	
Restructuring charges (Europe)	(902)	(2,750)	(1,312)	(3,473)
<b>Total operating earnings <sup>(1)</sup></b>	<b>\$ 42,440</b>	<b>\$ 44,496</b>	<b>\$ 91,155</b>	<b>\$ 81,976</b>

<sup>(1)</sup> The Company does not allocate interest expense or other (income) expense to the reportable segments.

**16. 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 October 2, 2011 that required recognition or disclosure in the Consolidated Condensed Financial Statements. The Company however, announced the following acquisitions:

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The Company has entered into a definitive agreement to launch a joint venture in South Africa to produce and market batteries for industrial applications and will have majority ownership in the joint venture in cooperation with Powertech Batteries, which is a part of Allied Electronics Corporation Limited (Altron). The joint venture will serve both reserve power and motive power customers across sub-Saharan Africa, including South Africa.

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The Company has entered into a definitive agreement to launch a joint venture in Germany to produce large format lithium-ion battery cells. The Company will have a majority interest in the joint venture in cooperation with GAIA Akkumulatorenwerke GmbH ( GAIA ), a wholly owned subsidiary of Lithium Technology Corporation ( LTC ). The joint venture will include LTC 's contribution of certain intellectual property, and its lithium-ion manufacturing capability located in Nordhausen, Germany. The Company will contribute cash for working capital and capital expenditures.

The Company has also completed the acquisition of Industrial Battery Holding S.A., the parent company of EnerSystem, a market leader in the South American motive power and reserve power battery markets, with headquarters in Buenos Aires, Argentina and with manufacturing plants in Argentina and Brazil as well as operations in Chile.

All these undertakings will be effective in the Company 's third quarter of fiscal 2012 and on an aggregate basis represent an investment of approximately \$40,000.

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**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 2011 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 material 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 foreign 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;

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;

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

unanticipated 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;

unanticipated quality problems associated with our products;

our ability to implement business strategies, including our acquisition strategy, 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; and

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terrorist acts or acts of war, whether in the United States or abroad, 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. 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 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.



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### **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 of the United States, and approximately 60% of our net sales were generated outside of 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.

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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:

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

changes in our market share in the geographic business segments where we 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, UPS applications for computer and computer-controlled systems, and other specialty power applications, including security systems, for 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.

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### ***Economic Climate***

The global economic recovery has been in place since the second quarter of fiscal 2010. However, recent economic indicators suggest a mixed trend among different geographical regions. We continue to focus on reducing our manufacturing costs through investments in automation and restructuring.

### ***Volatility of Commodities and Foreign Currencies***

Our most significant commodity and foreign currency exposures are related to lead and the euro. 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 significantly as they have in the past several years. The increase in our cost of lead due to increases in average lead prices was approximately \$19 million and \$37 million in the current quarter and six months of fiscal 2012, respectively, compared to the comparable prior year periods.

### ***Customer Pricing***

Our selling prices fluctuated during the last several years to offset the volatile cost of commodities. Beginning in the third quarter of fiscal 2009, as a result of reductions in the cost of lead, our average selling prices began to decline on a sequential quarterly basis. As the cycle of lead costs turned upward in the early part of fiscal 2010, we began to increase average selling prices to help offset the higher costs. During the current quarter and six months of fiscal 2012, our selling prices increased to reflect rising commodity prices. Selling price increases of approximately \$13 million offset increased lead cost of \$19 million during the current quarter and selling price increases of approximately \$27 million offset increased lead cost of \$37 million in the six months of fiscal 2012. Approximately 35% to 40% of our revenue is currently subject to agreements that adjust pricing to a market-based index for lead.

### ***Liquidity and Capital Resources***

Our capital structure and liquidity remain strong. As of October 2, 2011, we had approximately \$96 million of cash and cash equivalents, approximately \$242 million of undrawn, committed credit lines, and approximately \$72 million of uncommitted credit lines. 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.

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

<i>Current quarter by segment</i>	Quarter ended October 2, 2011		Quarter ended October 3, 2010		Increase (Decrease)	
	Percentage		Percentage		In Millions	%
	In Millions	of Total Net Sales	In Millions	of Total Net Sales		
Europe	\$ 245.3	44.8%	\$ 207.4	43.8%	\$ 37.9	18.3%
Americas	252.3	46.1	221.1	46.8	31.2	14.1
Asia	49.6	9.1	44.3	9.4	5.3	11.8
Total net sales	\$ 547.2	100.0%	\$ 472.8	100.0%	\$ 74.4	15.7%

<i>Year to date by segment</i>	Six months ended October 2, 2011		Six months ended October 3, 2010		Increase (Decrease)	
	Percentage		Percentage		In Millions	%
	In Millions	of Total Net Sales	In Millions	of Total Net Sales		
Europe	\$ 498.3	44.6%	\$ 395.9	43.6%	\$ 102.4	25.9%
Americas	511.5	45.8	426.8	47.0	84.7	19.8
Asia	106.6	9.6	85.1	9.4	21.5	25.2
Total net sales	\$ 1,116.4	100.0%	\$ 907.8	100.0%	\$ 208.6	23.0%

Net sales increased \$74.4 million or 15.7% in the second quarter of fiscal 2012 from the comparable period in fiscal 2011. This increase for the quarter was the result of an 8% increase in organic volume, a 3% increase due to pricing, a 2% increase from acquisitions and a 3% increase from foreign currency translation impact. Net sales increased \$208.6 million or 23.0% in the six months of fiscal 2012 from the comparable period in fiscal 2011. This increase for the six months of fiscal 2012 was the result of a 12% increase in organic volume, a 3% increase due to pricing, a 2% increase from acquisitions and a 6% increase from foreign currency translation impact.

*Segment sales*

The improved year over year economic and market conditions have had a significant impact on our unit sales volume. Our Europe and Americas segments experienced organic volume improvements in the second quarter of fiscal 2012, compared to the comparable period of 2011, while our Asia segment has temporarily slowed its growth opportunities to focus on margins.

Our Europe segment's net sales increased \$37.9 million or 18.3% in the second quarter of fiscal 2012, as compared to the second quarter of fiscal 2011. Increase in organic volume contributed approximately 6%, while price increases and acquisitions contributed approximately 3% each to the improvement and currency translation impact contributed about 6%. Revenue increased \$102.4 million or 25.9% in the six months of fiscal 2012, as compared to the six months of fiscal 2011, primarily due to a 12% increase due to currency translation impact. Increase in organic volume contributed approximately 7%, while price increases and acquisitions contributed approximately 3% and 4%, respectively.

Our Americas segment's revenue increased \$31.2 million or 14.1% in the second quarter of fiscal 2012, as compared to the second quarter of fiscal 2011, primarily due to higher organic volume, which contributed approximately a 10% increase. Pricing and acquisitions contributed approximately 3% and 1%, respectively, to the improvement. Revenue increased \$84.7 million or 19.8% in the six months of fiscal 2012, as compared to the six months of fiscal 2011, primarily due to higher organic volume which contributed approximately a 15% increase and pricing, acquisitions and foreign currency changes contributed approximately 3%, 1% and 1%, respectively.

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Our Asia segment's revenue increased \$5.3 million or 11.8% in the second quarter of fiscal 2012, as compared to the second quarter of fiscal 2011, primarily due to foreign currency changes which contributed approximately 8% while pricing and organic volume contributed approximately 3% and 1%, respectively. Revenue increased \$21.5 million or 25.2% in the six months of fiscal 2012, as compared to the six months of fiscal 2011, primarily due to organic volume growth of 14%, pricing of 1% and foreign currency changes of 10%.

**Table of Contents***Product line sales*

	Quarter ended October 2, 2011		Quarter ended October 3, 2010		Increase (Decrease)	
	Percentage		Percentage			
	In Millions	of Total Net Sales	In Millions	of Total Net Sales	In Millions	%
Reserve Power	\$ 267.3	48.9%	\$ 247.3	52.3%	\$ 20.0	8.1%
Motive Power	279.9	51.1	225.5	47.7	54.4	24.1
Total net sales	\$ 547.2	100.0%	\$ 472.8	100.0%	\$ 74.4	15.7%

	Six months ended October 2, 2011		Six months ended October 3, 2010		Increase (Decrease)	
	Percentage		Percentage			
	In Millions	of Total Net Sales	In Millions	of Total Net Sales	In Millions	%
Reserve Power	\$ 533.2	47.8%	\$ 454.9	50.1%	\$ 78.3	17.2%
Motive Power	583.2	52.2	452.9	49.9	130.3	28.8
Total net sales	\$ 1,116.4	100.0%	\$ 907.8	100.0%	\$ 208.6	23.0%

Sales of our reserve power products in the second quarter and six months of fiscal 2012 increased \$20.0 million or 8.1% and \$78.3 million or 17.2%, respectively, compared to the comparable periods of fiscal 2011. In the second quarter of fiscal 2012, acquisitions and foreign currency changes contributed approximately 3% each, while pricing contributed approximately 2% to the improvement. In the six months of fiscal 2012, organic volume and foreign currency changes contributed approximately 6% each, while acquisitions and pricing contributed approximately 4% and 1%, respectively, to the improvement.

Sales of our motive power products in the second quarter and six months of fiscal 2012 increased \$54.4 million or 24.1% and \$130.3 or 28.8%, respectively, compared to the comparable periods of fiscal 2011. The second quarter increase was primarily due to higher organic volume, which contributed approximately a 16% increase. Pricing and foreign currency changes contributed 4% each to the improvement. In the six months of fiscal 2012, organic volume increase was approximately 17% with pricing and foreign currency changes contributing 5% and 7%, respectively.

**Gross Profit**

	Quarter ended October 2, 2011		Quarter ended October 3, 2010		Increase (Decrease)	
	Percentage		Percentage			
	In Millions	of Total Net Sales	In Millions	of Total Net Sales	In Millions	%
Gross Profit	\$ 114.4	20.9%	\$ 110.7	23.4%	\$ 3.7	3.3%

	Six months ended October 2, 2011		Six months ended October 3, 2010		Increase (Decrease)	
	Percentage		Percentage			
	In Millions	of Total of Total	In Millions	of Total of Total	In Millions	%

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	Net Sales		Net Sales			
Gross Profit	\$ 236.4	21.2%	\$ 207.3	22.8%	\$ 29.1	14.0%

Gross profit increased \$3.7 million or 3.3% in the second quarter of fiscal 2012 and increased \$29.1 million or 14.0% in the six months of fiscal 2012, when compared to the comparable periods of fiscal 2011, due mainly to higher sales volume and pricing partially offset by higher commodity costs.

Gross profit, as a percentage of net sales decreased 250 basis points in the second quarter and 160 points in the six month period of fiscal 2012, when compared to the comparable periods of fiscal 2011. This decrease is primarily attributed to higher commodity costs partially offset by on-going cost reduction programs, higher selling prices and increased volume, as discussed below.

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We estimate that the cost of lead alone, our most significant raw material, increased our cost of sales by approximately \$19 million and \$37 million, respectively in the second quarter and six months of fiscal 2012, compared to the comparable periods in fiscal 2011. Selling price increases offset approximately \$13 million and \$27 million, respectively, of the increased lead cost in the second quarter and in the six months of fiscal 2012.

Our sales initiatives will continue to emphasize pricing activities to improve gross profit and continue to focus on improving product mix to higher margin products.

Additionally, we remain highly focused on our long-standing and on-going cost reduction programs, which we believe continue to be effective in reducing our costs.

**Operating Items**

	Quarter ended October 2, 2011		Quarter ended October 3, 2010		Increase (Decrease)	
	Percentage		Percentage		In Millions	%
	In Millions	of Total Net Sales	In Millions	of Total Net Sales		
Operating expenses	\$ 71.9	13.1%	\$ 63.5	13.4%	\$ 8.4	13.4%
Legal proceedings settlement income	\$ (0.9)	(0.2)%	\$	%	\$ (0.9)	NM
Restructuring charges	\$ 0.9	0.2%	\$ 2.7	0.6%	\$ (1.8)	(67.2)%

	Six months ended October 2, 2011		Six months ended October 3, 2010		Increase (Decrease)	
	Percentage		Percentage		In Millions	%
	In Millions	of Total Net Sales	In Millions	of Total Net Sales		
Operating expenses	\$ 144.8	13.0%	\$ 121.9	13.4%	\$ 22.9	18.8%
Legal proceedings settlement income	\$ (0.9)	(0.1)%	\$	%	\$ (0.9)	NM
Restructuring charges	\$ 1.3	0.1%	\$ 3.4	0.4%	\$ (2.1)	(62.2)%

NM = not meaningful

Operating expenses as a percentage of net sales decreased 30 and 40 basis points, respectively, in the second quarter and six months of fiscal 2012 compared to the second quarter and six months of fiscal 2011. Operating expenses, excluding the effect of foreign currency translation, increased 8.1% or \$5.1 million in the second quarter of fiscal 2012 and increased 11.2% or \$13.5 million in the six months of fiscal 2012 compared to the comparable period of fiscal 2011, due primarily to higher sales volume. Selling expenses, our main component of operating expenses, were 58.6% and 59.2% of total operating expenses in the second quarter and six months of fiscal 2012 compared to 58.3% and 59.6% of total operating expenses in the second quarter and six months of fiscal 2011.

**Legal proceedings settlement income**

In fiscal 2009, the Court of Commerce in Lyon, France ruled that the Company was partially responsible for a fire in a French hotel under construction. The Company's portion of damages was assessed at 2.7 million or \$4.2 million, which was duly recorded by the Company, but the



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ruling was appealed. In a subsequent ruling by the Court of Appeal of Lyon, France, the portion of damages was reduced, entitling the Company to a refund of the monies paid of 0.7 million or \$0.9 million, which has been recorded in the current quarter of fiscal 2012. The Company still has an appeal with the Supreme Court of France.

### ***Restructuring charges***

Included in our second quarter and six months of fiscal 2012 operating results are \$0.9 million and \$1.3 million of restructuring charges, respectively, primarily for staff reductions in Europe. Included in our second quarter and six months of fiscal 2011 operating results are \$2.7 million and \$3.4 million, respectively, of restructuring charges for staff reductions in Europe.

**Table of Contents****Operating Earnings**

<i>Current quarter by segment</i>	Quarter ended October 2, 2011		Quarter ended October 3, 2010		Increase (Decrease)	
	Percentage		Percentage		In Millions	%
	In Millions	of Total Net Sales (1)	In Millions	of Total Net Sales (1)		
Europe	\$ 14.7	6.0%	\$ 9.3	4.5%	\$ 5.4	57.1%
Americas	27.3	10.9	34.1	15.4	(6.8)	(19.7)
Asia	0.5	0.9	3.8	8.7	(3.3)	(88.3)
Subtotal	42.5	7.8	47.2	10.0	(4.7)	(10.2)
Legal proceedings settlement income-Europe	0.9	0.4			0.9	NM
Restructuring charges-Europe	(0.9)	(0.4)	(2.7)	(1.3)	1.8	(67.2)
<b>Total operating earnings</b>	<b>\$ 42.5</b>	<b>7.8%</b>	<b>\$ 44.5</b>	<b>9.4%</b>	<b>\$ (2.0)</b>	<b>(4.6)%</b>

(1) The percentages shown for the segments are computed as a percentage of the applicable segment's net sales.

<i>Year to date by segment</i>	Six months ended October 2, 2011		Six months ended October 3, 2010		Increase (Decrease)	
	Percentage		Percentage		In Millions	%
	In Millions	of Total Net Sales (1)	In Millions	of Total Net Sales (1)		
Europe	\$ 28.8	5.8%	\$ 19.2	4.9%	\$ 9.6	49.7%
Americas	58.9	11.5	60.0	14.1	(1.1)	(1.8)
Asia	3.9	3.6	6.2	7.3	(2.3)	(38.2)
Subtotal	91.6	8.2	85.4	9.4	6.2	7.2
Legal proceedings settlement income-Europe	0.9	0.2			0.9	NM
Restructuring charges-Europe	(1.3)	(0.3)	(3.4)	(0.9)	2.1	(62.2)
<b>Total operating earnings</b>	<b>\$ 91.2</b>	<b>8.2%</b>	<b>\$ 82.0</b>	<b>9.0%</b>	<b>\$ 9.2</b>	<b>11.2%</b>

(1) The percentages shown for the segments are computed as a percentage of the applicable segment's net sales. Operating earnings decreased \$2.0 million or 4.6% in the second quarter and increased \$9.2 million or 11.2% in the six months of fiscal 2012 in comparison to the second quarter and six months of fiscal 2011. Operating earnings as a percentage of net sales, as shown in the table above, decreased 160 basis points in the second quarter of fiscal 2012 and decreased 80 basis points in the six months of fiscal 2012 when compared to the comparable periods of 2011.

We experienced an increase in operating earnings in our Europe segment in the second quarter of fiscal 2012 in comparison to the comparable quarter in the prior year, with the operating margin increasing 150 basis points to 6.0%. This improvement in our Europe segment earnings, despite a negative impact of approximately \$2 million due to a three-week strike at our manufacturing plant in Poland, is primarily attributable to an improvement in organic volume and pricing, and benefits of the restructuring programs on both production and operating expenses, partially offset by higher commodity costs.

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Operating earnings increased in our Europe segment in the six months of fiscal 2012 in comparison to the comparable period in the prior year, with the operating margin increasing 90 basis points to 5.8%. This improvement in Europe earnings is primarily attributable to an increase in organic volume and pricing and the benefits of the restructuring programs on both production and operating expenses, partially offset by higher commodity costs.

Our Americas segment had a decrease in operating earnings in the second quarter of fiscal 2012 in comparison to the comparable quarter in the prior year, with the operating margin decreasing 450 basis points to 10.9%. The operating margin decrease is primarily attributable to higher commodity costs, pricing pressure in general and product mix, partially offset by higher organic volume. Americas operating margins in the prior year were an all time record.

Operating earnings in our Americas segment decreased in the six months of fiscal 2012 in comparison to the comparable period in the prior year, with the operating margin decreasing 260 basis points to 11.5%. Earnings declined in our Americas segment despite a 15% increase in organic volumes due to pricing pressure and increased commodity costs.

Operating earnings decreased 88.3% in our Asia segment in the second quarter of fiscal 2012 in comparison to the comparable quarter in the prior year, with the operating margin decreasing to 0.9% from 8.7%. Operating earnings decreased 38.2% in the six months of

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fiscal 2012 in comparison to the comparable period in the prior year, with the operating margin as a percentage of sales decreasing from 7.3% to 3.6%. This reduction in our Asia segment earnings in both the second quarter and six months of fiscal 2012 was primarily attributable to higher commodity and freight costs, and more difficult pricing conditions. In addition, approximately \$1.0 million start-up costs related to our new facility in Chongqing were incurred in the second quarter along with approximately \$0.4 million of costs related to a temporary closure of our facility in Jiangsu Province, China, by government authorities for an environmental review, as were, to our knowledge, all lead processing facilities in that province. During this temporary shutdown, we have been satisfying demand for products made in Jiangsu through our other Chinese facilities and other facilities throughout the world. In November 2011, the government authorities allowed the plant to reopen on a conditional basis, the final terms of which the Company is still negotiating. Start-up costs related to Chongqing were approximately \$1.6 million in the six months of fiscal 2012 and in the comparable period in fiscal 2011, we had no significant start-up costs for Chongqing.

**Interest Expense**

	Quarter ended October 2, 2011		Quarter ended October 3, 2010		Increase (Decrease)	
	Percentage		Percentage		In Millions	%
	In Millions	of Total Net Sales	In Millions	of Total Net Sales		
Interest expense	\$ 4.1	0.8%	\$ 6.1	1.3%	\$ (2.0)	(32.4)%

	Six months ended October 2, 2011		Six months ended October 3, 2010		Increase (Decrease)	
	Percentage		Percentage		In Millions	%
	In Millions	of Total Net Sales	In Millions	of Total Net Sales		
Interest expense	\$ 7.5	0.7%	\$ 12.1	1.3%	\$ (4.6)	(37.9)%

Interest expense of \$4.1 million in the second quarter of fiscal 2012 (net of interest income of \$0.2 million) was \$2.0 million lower than the interest expense of \$6.1 million in the second quarter of fiscal 2011 (net of interest income of \$0.3 million). Interest expense of \$7.5 million in the six months of fiscal 2012 (net of interest income of \$0.5 million) was \$4.6 million lower than the \$12.1 million (net of interest income of \$0.5 million) in the six months of fiscal 2011.

The decrease in interest expense in the second quarter of fiscal 2012 compared to the second quarter of 2011 is attributable primarily to the interest rate swaps that were eligible for hedge accounting in the prior year quarter. The Company recorded interest expense of \$1.8 million on the interest rate swaps during the second quarter of fiscal 2011. In the second quarter of fiscal 2012, the swaps were no longer eligible for hedge accounting and the losses realized on the swaps amounting to \$0.2 million were included in other (income) expense, net.

The decrease in interest expense in the six months of fiscal 2012 compared to the six months of fiscal 2011 is attributable primarily to the interest rate swaps that were eligible for hedge accounting in the prior period. The Company recorded interest expense of \$3.8 million on the interest rate swaps during the six months of fiscal 2011. In the six months of fiscal 2012, the swaps were no longer eligible for hedge accounting and the losses realized on the swaps amounting to \$0.9 million were included in other (income) expense, net.

Included in interest expense are non-cash charges for deferred financing fees of \$0.3 million and \$0.6 million, respectively, in the second quarter and six months of fiscal 2012 and \$0.7 million and \$1.1 million, respectively, in the second quarter and six months of fiscal 2011.

Included in interest expense is non-cash, accreted interest on the Convertible Notes of \$1.6 million and \$3.2 million, respectively, in the second quarter and six months of fiscal 2012 and \$1.4 million and \$2.9 million, respectively, in the second quarter and six months of fiscal 2011. (See Note 10 to the Consolidated Condensed Financial Statements).

Our average debt outstanding (reflecting the reduction of the Convertible Notes discount) was \$273.0 million and \$266.1 million in the second quarter and six months of fiscal 2012, compared to \$343.3 million and \$346.7 million, respectively, in the second quarter and six months of fiscal 2011. The average Convertible Notes discount excluded from our average debt outstanding was \$28.3 million and \$29.1 million,

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respectively, in the second quarter and six months of fiscal 2012 and \$34.2 million and \$35.2 million, respectively, in the second quarter and six months of fiscal 2011.

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	Quarter ended October 2, 2011		Quarter ended October 3, 2010		Increase (Decrease)	
	Percentage		Percentage			
	In Millions	of Total Net Sales	In Millions	of Total Net Sales	In Millions	%
Other (income) expense, net	\$	%	\$ 1.0	0.2%	\$ (1.0)	NM

	Six months ended October 2, 2011		Six months ended October 3, 2010		Increase (Decrease)	
	Percentage		Percentage			
	In Millions	of Total Net Sales	In Millions	of Total Net Sales	In Millions	%
Other (income) expense, net	\$ 1.2	0.1%	\$ 1.0	0.1%	\$ 0.2	22.8%

Other (income) expense, net for the second quarter of fiscal 2012 decreased by \$1.0 million compared to \$1.0 million in the second quarter of fiscal 2011. The favorable impact in the second quarter of fiscal 2012 is mainly attributable to \$0.6 million foreign currency gains in the second quarter of fiscal 2012 compared to \$1.3 million foreign currency losses in the prior year quarter, offset by miscellaneous charges of \$0.6 million and taxes other than income of \$0.3 million.

Other expense, net was \$1.2 million in the six months of fiscal 2012 compared to \$1.0 million in the comparable period of fiscal 2011. This \$0.2 million unfavorable change is attributable to \$0.7 million foreign currency gains in the six months of fiscal 2012 compared to \$0.9 million foreign currency losses in the comparable prior year period, offset by miscellaneous charges of \$0.8 million and mark to market valuation loss on interest rate swaps of \$0.9 million in the current fiscal period.

**Earnings Before Income Taxes**

	Quarter ended October 2, 2011		Quarter ended October 3, 2010		Increase (Decrease)	
	Percentage		Percentage			
	In Millions	of Total Net Sales	In Millions	of Total Net Sales	In Millions	%
Earnings before income taxes	\$ 38.4	7.0%	\$ 37.4	7.9%	\$ 1.0	2.7%

	Six months ended October 2, 2011		Six months ended October 3, 2010		Increase (Decrease)	
	Percentage		Percentage			
	In Millions	of Total Net Sales	In Millions	of Total Net Sales	In Millions	%
Earnings before income taxes	\$ 82.5	7.4%	\$ 68.9	7.6%	\$ 13.6	19.6%

As a result of the above, earnings before income taxes in the second quarter of fiscal 2012 increased \$1.0 million or 2.7% compared to the second quarter of fiscal 2011 and earnings before taxes in the six months of fiscal 2012 increased \$13.6 million or 19.6% compared to the six months of fiscal 2011. Earnings before income taxes as a percentage of sales were 7.0% and 7.4%, respectively, in the second quarter and six months of fiscal 2012 in comparison to 7.9% and 7.6%, respectively, in the second quarter and six months of fiscal 2011.



**Table of Contents****Income Tax Expense**

	Quarter ended October 2, 2011		Quarter ended October 3, 2010		Increase (Decrease)	
	Percentage		Percentage			
	In Millions	of Total Net Sales	In Millions	of Total Net Sales	In Millions	%
Income tax expense	\$ 10.1	1.8%	\$ 10.8	2.3%	\$ (0.7)	(6.9)%
Effective tax rate		26.3%		29.0%		(2.7)%

	Six months ended October 2, 2011		Six months ended October 3, 2010		Increase (Decrease)	
	Percentage		Percentage			
	In Millions	of Total Net Sales	In Millions	of Total Net Sales	In Millions	%
Income tax expense	\$ 20.7	1.9%	\$ 19.3	2.1%	\$ 1.4	6.8%
Effective tax rate		25.1%		28.1%		(3.0)%

The Company's income tax provisions for both periods consist of federal, state and foreign income taxes. The tax provisions for the second quarters of fiscal 2012 and fiscal 2011 were based on the estimated effective tax rates applicable for the full years ending March 31, 2012 and March 31, 2011, respectively, after giving effect to items specifically related to the interim periods.

The effective income tax rates for the second quarters of fiscal 2012 and fiscal 2011 were 26.3% and 29.0%, respectively. The effective income tax rates for the six months of fiscal 2012 and 2011 were 25.1% and 28.1%, respectively. The rate decrease in the second quarter and six months of fiscal 2012 as compared to the comparable prior year periods are primarily due to a change in the mix of earnings among tax jurisdictions.

**Net Earnings**

	Quarter ended October 2, 2011		Quarter ended October 3, 2010		Increase (Decrease)	
	Percentage		Percentage			
	In Millions	of Total Net Sales	In Millions	of Total Net Sales	In Millions	%
Net earnings	\$ 28.3	5.2%	\$ 26.6	5.6%	\$ 1.7	6.6%

	Six months ended October 2, 2011		Six months ended October 3, 2010		Increase (Decrease)	
	Percentage		Percentage			
	In Millions	of Total Net Sales	In Millions	of Total Net Sales	In Millions	%
Net earnings	\$ 61.8	5.5%	\$ 49.6	5.5%	\$ 12.2	24.6%



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As a result of the above, net earnings in the second quarter of fiscal 2012 were \$28.3 million or 5.2% of net sales, compared to net earnings in the second quarter of fiscal 2011 of \$26.6 million or 5.6% of net sales. Net earnings in the six months of fiscal 2012 were \$61.8 million or 5.5% of net sales, compared to net earnings in the six months of fiscal 2011 of \$49.6 million or 5.5% of net sales.

Net earnings per common share in the second quarter of fiscal 2012 were \$0.57 per basic share and diluted share, compared to \$0.54 per basic share and \$0.53 per diluted share in the second quarter of fiscal 2011. Net earnings per common share in the six months of fiscal 2012 were \$1.24 per basic share and \$1.23 per diluted share, compared to \$1.01 per basic share and \$1.00 per diluted share in the six months of fiscal 2011.

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### **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 2011 Annual Report on Form 10-K.

### **Liquidity and Capital Resources**

During the six months of fiscal 2012, operating activities provided cash of \$27.2 million compared to \$7.1 million in the comparable period of fiscal 2011. In the six months of fiscal 2012, net earnings of \$61.8 million and depreciation and amortization of \$24.3 million were offset by cash used for the increase in primary working capital of \$56.3 million, net of currency translation changes. In the six months of fiscal 2011, operating activities provided cash of \$7.1 million and was mainly driven by net earnings of \$49.6 million and depreciation and amortization of \$22.4 million, substantially offset by cash used for the increase in primary working capital of \$66.2 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 \$576.1 million (yielding a primary working capital percentage of 26.3%) at October 2, 2011, \$514.0 million at October 3, 2010 (yielding a primary working capital percentage of 27.2%) and \$547.3 million (yielding a primary working capital percentage of 25.0%) at March 31, 2011. The primary working capital percentage of 26.3% at October 2, 2011 is 1.3 percentage points above that for March 31, 2011, and 0.9 percentage points below that for the prior year quarter. The normal trend is that this percentage is lowest at fiscal year-end.

Primary working capital increased during the second quarter of fiscal 2012, primarily due to an increase in accounts receivable. We experienced a slight sequential increase in inventory levels at the end of the quarter which was almost entirely offset by an increase in accounts payable.

Primary working capital and primary working capital percentages at October 2, 2011, March 31, 2011 and October 3, 2010 are computed as follows:

Balance At	(In Millions)				Quarter	Primary
	Trade Receivables	Inventory	Accounts Payable	Total	Revenue Annualized	Working Capital %
October 2, 2011	\$ 474.3	\$ 345.5	\$ (243.7)	\$ 576.1	\$ 2,188.6	26.3%
March 31, 2011	464.1	335.0	(251.8)	547.3	2,192.2	25.0
October 3, 2010	418.5	302.0	(206.5)	514.0	1,891.4	27.2

Investing activities used cash of \$25.2 million in the six months of fiscal 2012, compared to cash used of \$25.7 million in the comparable period in fiscal 2011. Capital expenditures in the six months of fiscal 2012 were \$24.2 million compared to \$24.3 million in the comparable period of fiscal 2011. Investing activities in the six months of fiscal 2012 included an increase in our holdings in a subsidiary for a total purchase price of approximately \$1.0 million and the prior year comparable period included acquisitions of \$1.5 million.

Financing activities utilized cash of \$12.9 million in the six months of fiscal 2012, primarily reflecting the repurchase of common stock of \$49.9 million (\$58.4 million, net of payable to broker \$8.5 million) and capital lease payments of \$1.2 million offset by borrowings on short-term debt and revolver of \$16.3 million and \$19.0 million, respectively and exercise of stock options and the related tax benefits that contributed \$3.0 million. In the six months of fiscal 2011, financing activities utilized cash of \$11.8 million, reflecting the scheduled payments of long-term debt and short term repayments of \$19.6 million, partially offset by the exercise of stock options and the related tax benefits totaling \$7.5 million.

As a result of the above, total cash and cash equivalents decreased by \$13.3 million to \$95.6 million in the six months of fiscal 2012 compared to a decrease of \$28.0 million to \$173.0 million in the comparable period of fiscal 2011.

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.



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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 2011 Annual Report on Form 10-K for a detailed description of debt.

### **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.

#### ***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. At the end of fiscal 2011, these interest rate swaps became ineligible for hedge accounting due to the refinancing of the Company's then existing credit facility. Changes in the fair value of these contracts for the quarter ended October 2, 2011 have therefore been recorded in the income statement in other (income) expense, net while changes in fair value for the comparable period in fiscal 2011 were recorded in accumulated other comprehensive income.

At October 2, 2011 and March 31, 2011, the aggregate notional amount of interest rate swap agreements is \$85.0 million. These agreements expire between February 2013 – May 2013.

Under the interest rate swaps, the Company receives three-month LIBOR and pays a fixed interest rate which averaged 4.28% and 4.73% on October 2, 2011 and October 3, 2010, respectively.

A 100 basis point increase in interest rates would increase annual interest expense by approximately \$1.2 million on the variable rate portions of our debt.

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*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: