EnerSys
Form 10-Q
October 29, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 27, 2009

¨ **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)

Delaware	**23-3058564**
(State of Incorporation)	**(I.R.S. Employer Identification No.)**

2366 Bernville Road

Reading, Pennsylvania 19605

(Address of principal executive offices)

Telephone Number: 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. x 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	x	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 x NO.

Common Stock outstanding at October 26, 2009: 48,221,015 shares

Please note that, pursuant to Rule 405 of Regulation S-T, EnerSys is not required to file with the Securities and Exchange Commission, or post on its corporate website, any Interactive Data File prior to June 15, 2010.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

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Consolidated Condensed Balance Sheets

(In Thousands, Except Share and Per Share Data)

	September 27, 2009 (Unaudited)	March 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 218,988	$ 163,161
Accounts receivable, net	351,614	356,200
Inventories, net	227,937	209,329
Deferred taxes	17,584	16,994
Prepaid and other current assets	40,609	32,522
Total current assets	856,732	778,206
Property, plant, and equipment, net	317,982	301,365
Goodwill	323,201	301,658
Other intangible assets, net	79,304	79,544
Other assets	32,868	32,078
Total assets	$ 1,610,087	$ 1,492,851
Liabilities and equity		
Current liabilities:		
Short-term debt	$ 589	$ 7,363
Current portion of long-term debt and capital lease obligations	27,044	25,302
Accounts payable	162,150	127,586
Accrued expenses	187,097	186,756
Total current liabilities	376,880	347,007
Long-term debt and capital lease obligations	340,005	342,991
Deferred taxes	64,896	63,669
Other liabilities	66,251	62,602
Total liabilities	848,032	816,269
EnerSys stockholders equity:		
Common Stock, $0.01 par value per share, 135,000,000 shares authorized; 50,008,886 shares issued and 48,208,886 outstanding at September 27, 2009; 49,775,396 shares issued and 47,975,396 outstanding at March 31, 2009	500	498
Additional paid-in capital	423,181	416,481
Treasury stock, at cost, 1,800,000 shares held	(19,800)	(19,800)
Retained earnings	262,422	241,106
Accumulated other comprehensive income	91,496	34,055
Total EnerSys stockholders equity	757,799	672,340

Noncontrolling interest	4,256	4,242
Total equity	762,055	676,582
Total liabilities and equity	$ 1,610,087	$ 1,492,851

See accompanying notes.

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Consolidated Condensed Statements of Income (Unaudited)

(In Thousands, Except Share and Per Share Data)

	Fiscal quarters ended	
	September 27, 2009	**September 28, 2008**
Net sales	$ 367,325	$ 526,754
Cost of goods sold	278,708	417,780
Gross profit	88,617	108,974
Operating expenses	60,284	64,105
Restructuring charges	3,184	985
Operating earnings	25,149	43,884
Interest expense	5,622	6,953
Other expense, net	824	923
Earnings before income taxes	18,703	36,008
Income tax expense	5,798	11,587
Net earnings	$ 12,905	$ 24,421
Net earnings per common share:		
Basic	$ 0.27	$ 0.49
Diluted	$ 0.26	$ 0.48
Weighted-average shares of common stock outstanding:		
Basic	48,031,005	49,578,424
Diluted	48,838,160	50,621,441

See accompanying notes.

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Consolidated Condensed Statements of Income (Unaudited)

(In Thousands, Except Share and Per Share Data)

	Six fiscal months ended	
	September 27, 2009	**September 28, 2008**
Net sales	$ 707,590	$ 1,118,822
Cost of goods sold	541,512	897,246
Gross profit	166,078	221,576
Operating expenses	114,692	134,013
Gain on sale of manufacturing facility		(10,884)
Legal proceedings charge		3,366
Restructuring charges	6,703	3,143
Operating earnings	44,683	91,938
Interest expense	11,000	13,594
Charges related to refinancing		5,209
Other expense, net	2,706	3,562
Earnings before income taxes	30,977	69,573
Income tax expense	9,661	19,954
Net earnings	$ 21,316	$ 49,619
Net earnings per common share:		
Basic	$ 0.44	$ 1.00
Diluted	$ 0.44	$ 0.98
Weighted-average shares of common stock outstanding:		
Basic	47,983,703	49,454,074
Diluted	48,646,427	50,564,479

See accompanying notes.

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Consolidated Condensed Statements of Cash Flows (Unaudited)

(In Thousands)

	Six fiscal months ended	
	September 27, 2009	**September 28, 2008**
Cash flows from operating activities		
Net earnings	$ 21,316	$ 49,619
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	22,531	25,954
Gain on sale of manufacturing facility		(10,884)
Write-off of deferred financing fees		3,963
Provision for doubtful accounts	2,266	1,189
Increase (reduction) in deferred taxes	103	(5,111)
Stock-based compensation	3,741	2,459
Accretion of non-cash interest expense	2,662	1,709
Gain on disposal and impairment of fixed assets	(391)	(149)
Changes in assets and liabilities:		
Accounts receivable	25,751	17,221
Inventory	(4,664)	20,092
Prepaid expenses and other current assets	(6,070)	(5,441)
Other assets	1,114	(433)
Accounts payable	25,439	(47,521)
Accrued expenses	(10,007)	10,049
Other liabilities	(2,405)	1,565
Net cash provided by operating activities	81,386	64,281
Cash flows from investing activities		
Capital expenditures	(19,799)	(26,821)
Acquisitions	(4,160)	(108)
Proceeds from disposal of property, plant, and equipment	1,181	7,635
Net cash used in investing activities	(22,778)	(19,294)
Cash flows from financing activities		
Net decrease in short-term debt	(6,919)	(22,924)
Proceeds from the issuance of long-term debt		397,500
Payments of long-term debt	(5,844)	(353,388)
Payments of capital lease obligations, net	(214)	(285)
Exercise of stock options	874	5,885
Tax benefits from exercises of stock options	1,149	4,734
Deferred financing costs		(10,546)
Net cash (used in) provided by financing activities	(10,954)	20,976
Effect of exchange rate changes on cash	8,173	(977)
Net increase in cash and cash equivalents	55,827	64,986
Cash and cash equivalents at beginning of period	163,161	20,620
Cash and cash equivalents at end of period	$ 218,988	$ 85,606

See accompanying notes.

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Consolidated Condensed Statements of Comprehensive Income (Unaudited)

(In Thousands)

	Fiscal quarters ended		Six fiscal months ended	
	September 27, 2009	September 28, 2008	September 27, 2009	September 28, 2008
Net earnings	$ 12,905	$ 24,421	$ 21,316	$ 49,619
Other comprehensive income (loss):				
Net unrealized (loss) gain on derivative instruments, net of tax	(3,050)	13,648	206	8,431
Minimum pension liability, net of tax		268	(207)	255
Foreign currency translation adjustments	19,515	(44,730)	57,442	(35,422)
Total comprehensive income (loss)	$ 29,370	$ (6,393)	$ 78,757	$ 22,883

See accompanying notes.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited)

(In Thousands, Except Share and Per Share Data)

NOTE 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 adjustments, consisting of normal recurring accruals 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 2009 Annual Report on Form 10-K (SEC File No. 001-32253) which was filed on June 1, 2009.

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 fiscal quarters in 2010 end on June 28, 2009, September 27, 2009, December 27, 2009, and March 31, 2010, respectively. The four fiscal quarters in 2009 ended on June 29, 2008, September 28, 2008, December 28, 2008, and March 31, 2009, respectively.

NOTE 2: RECENTLY ADOPTED ACCOUNTING STANDARDS

On April 1, 2009, the Company adopted new guidance, which provides guidance for the accounting, reporting and disclosure of noncontrolling interests and requires, among other things, that noncontrolling interests be recorded as equity in the consolidated financial statements. The guidance became effective for the Company as of April 1, 2009 and had no material impact on its results of operations. The adoption of this guidance resulted in the reclassification of $4,256 and $4,242 of Minority Interests (now referred to as noncontrolling interests) to a separate component of Total Equity on the Consolidated Balance Sheet as of September 27, 2009 and March 31, 2009, respectively. The impact of adopting the guidance on our statements of income and cash flow was deemed immaterial.

On April 1, 2009, the Company adopted new guidance, which is intended to improve reporting by creating greater consistency in the accounting and financial reporting of business combinations, resulting in more complete, comparable, and relevant information for investors and other users of financial statements. To achieve this goal, the new standard requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. Accordingly, any business combination we engage in on or after April 1, 2009 will be recorded and disclosed according to the guidance. We expect the new guidance will have an impact on our consolidated financial statements at the time we acquire new businesses in the future.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited) (Continued)

(In Thousands, Except Share and Per Share Data)

On April 1, 2009, the Company adopted new guidance, which changed the accounting treatment for convertible securities which the issuer may settle fully or partially in cash. Cash settled convertible securities will be separated into their debt and equity components. The value assigned to the debt component will be the estimated fair value, as of the issuance date, of a similar debt instrument without the conversion feature. The difference between the proceeds for the convertible debt and the amount reflected as a debt liability will be recorded as additional paid-in capital. As a result, the debt will be recorded at a discount reflecting its below market coupon interest rate. The debt will subsequently be accreted to its par value over its expected life, with the rate of interest that reflects the market rate at issuance being reflected on the income statement. This change in methodology will affect the calculations of our net income and earnings per share. This guidance is effective for financial statements issued by the Company for the first quarter of fiscal 2010. The adoption of this guidance had the following impact on the Company s financial position and results of operations, applied on a retrospective basis: a) the separation of our Convertible Notes into its debt and equity components reduced long term debt as of inception by $46,280 and, b) the accretion of debt discount increased interest expense by a non-cash expense of approximately $1,709 in the six fiscal months of 2009, and will increase up to approximately $8,000 annually through fiscal 2015.

NOTE 3: INVENTORIES

Inventories, net consist of:

	September 27, 2009	March 31, 2009
Raw materials	$ 61,275	$ 50,469
Work-in-process	69,258	57,506
Finished goods	97,404	101,354
Total	$ 227,937	$ 209,329

Inventory reserves for obsolescence and other estimated losses were $16,077 and $16,725 at September 27, 2009, and March 31, 2009, respectively, and have been included in the net amounts shown above.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited) (Continued)

(In Thousands, Except Share and Per Share Data)

NOTE 4: FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company adopted accounting guidance in fiscal 2009, which among other things, requires enhanced disclosures about assets and liabilities measured at fair value. We utilize the market approach to measure fair value for our financial assets and liabilities. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The adoption of the guidance did not have a material effect on our consolidated financial statements.

The guidance includes a fair value hierarchy that is intended to increase consistency and comparability in fair value measurements and related disclosures. The fair value hierarchy is based on inputs to valuation techniques that are used to measure fair value that are either observable or unobservable. Observable inputs reflect assumptions market participants would use in pricing an asset or liability based on market data obtained from independent sources while unobservable inputs reflect a reporting entity s pricing based upon their own market assumptions. The fair value hierarchy consists of the following three levels:

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 table represents our assets and liabilities, measured at fair value on a recurring basis as of September 27, 2009 and the basis for that measurement:

	Total Fair Value Measurement September 27, 2009	Quoted Priced in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest rate swap agreements	$ (11,295)	$	$ (11,295)	$
Lead forward contracts	1,175		1,175	
Foreign currency forward contracts	(1,349)		(1,349)	
Total derivatives	$ (11,469)	$	$ (11,469)	$

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

The fair value of lead forward contracts were 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 Company s financial instruments include cash and cash equivalents, accounts receivable, accounts payable and debt. The Company uses interest rate swap agreements to manage risk on a portion of its floating-rate debt.

Because of short maturities, the carrying amount of cash and cash equivalents and short-term debt approximates fair value.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited) (Continued)

(In Thousands, Except Share and Per Share Data)

The fair value of the Company s Term A Loan approximates its carrying value, as it is variable rate debt. The Convertible Notes, with a face value of $172,500, were issued when our stock price was trading at $30.19 per share. On September 25, 2009, our stock price closed at $21.72 per share. Because the Convertible Notes have an initial conversion price of approximately $40.60 per share, and due to current conditions in the financial markets, our Convertible Notes were trading at 89% of face value on September 25, 2009 and at 64% of face value on March 31, 2009. As of September 27, 2009 and March 31, 2009, $39,356 and $42,019, respectively, of the Convertible Notes carrying value were included in the equity component in accordance with the guidance, (see Note 11 regarding Debt).

The Company uses lead hedge contracts to manage its lead cost risk. The Company uses foreign currency forward and purchased option contracts to manage risk on the purchase and conversion of U.S. dollar based lead costs into local currencies in Europe, as well as currency exposures from intercompany trade transactions. The carrying amounts and estimated fair values of the Company s financial instruments at September 27, 2009 and March 31, 2009 are as follows:

	September 27, 2009		**March 31, 2009**	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial assets:				
Cash and cash equivalents	$ 218,988	$ 218,988	$ 163,161	$ 163,161
Financial liabilities:				
Long-term debt				
Term A Loan	$ 213,750	$ 213,750	$ 216,563	$ 216,563
Senior Unsecured				
Convertible Notes	133,144(1)	153,525(2)	130,481(1)	110,400(2)
Euro Term Loan	19,061	19,061	19,261	19,261
Capital lease obligations	1,050	1,050	1,118	1,118
Derivatives	(11,469)	(11,469)	(11,777)	(11,777)

(1) The carrying amounts of the Convertible Notes at September 27, 2009 and March 31, 2009 represent the $172,500 principal value, less the amounts allocated to the equity component in accordance with accounting guidance.

(2) The fair value amounts of the Convertible Notes represent the trading values of the $172,500 principal value of the Convertible Notes at September 27, 2009 and March 31, 2009.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited) (Continued)

(In Thousands, Except Share and Per Share Data)

NOTE 5: ACCOUNTING FOR DERIVATIVES

The Company accounts for derivative instruments and hedging activities in accordance with the applicable accounting guidance. The guidance establishes accounting and reporting standards for derivative instruments and hedging activities, and requires that all derivatives be recognized as either assets or liabilities at fair value. The Company does not enter into derivative contracts for speculative trading purposes. Derivatives are used to hedge the volatility arising from movements in a portion of the cost of lead purchases as well as to hedge certain interest rates and foreign exchange rate risks. The changes in the fair value of these contracts are recorded in Accumulated Other Comprehensive Income until the related purchased lead, incurred interest rates or foreign currency exposures are charged to earnings. At that time, the portion recorded in Accumulated Other Comprehensive Income is recognized in the Statements of Income. The amount of Accumulated Other Comprehensive Income related to interest rates, lead and foreign exchange contracts at September 27, 2009 and March 31, 2009, net of tax, was an unrecognized loss of $7,455 and $7,654, respectively.

During the second fiscal quarters of 2010 and 2009, the Company recorded (losses) of $(1,584) and $(785), respectively, on interest rate swaps, which were recorded as (increases) in interest expense. During the second fiscal quarters 2010 and 2009, the Company recorded gains (losses) of $5,317 and $(13,966), respectively, on the settlement of lead hedge contracts and gains (losses) of $103 and $(927), respectively, on foreign currency hedges, which were recorded as decreases (increases) to cost of goods sold or included in inventory at the respective quarter ends.

During the six fiscal months of 2010 and 2009, the Company recorded (losses) of $(3,100) and $(1,652), respectively, on interest rate swaps, which were recorded as (increases) in interest expense. During the six fiscal months of 2010 and 2009, the Company recorded gains (losses) of $8,433 and $(25,216), respectively, on the settlement of lead hedge contracts and gains (losses) of $1,173 and $(2,878), respectively, on foreign currency hedges, which were recorded as decreases (increases) to cost of goods sold or included in inventory at the respective quarter ends.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited) (Continued)

(In Thousands, Except Share and Per Share Data)

In the coming twelve months, the Company anticipates that approximately a $7,080 pretax loss will be reclassified from other comprehensive income as part of interest expense. As this amount represents effective hedge results, a comparable offsetting amount of incrementally lower interest expense will be realized in connection with the variable interest debt being hedged. In the coming twelve months, the Company anticipates that approximately a $176 pretax loss will be reclassified from other comprehensive income as part of cost of goods sold and inventory. As this amount represents effective hedge results, a comparable offsetting amount of incrementally lower lead cost will be realized in connection with the variable lead cost and foreign exchange being hedged. Actual future amounts that will be reclassified from other comprehensive income to interest expense, cost of goods sold and inventory will ultimately depend on future interest rates, foreign exchange rates and lead prices.

Presented below in tabular form is information on the location and amounts of derivative fair values in the statement of financial position and derivative gains and losses in the statements of financial performance:

Fair Value of Derivative Instruments

September 27, 2009 and March 31, 2009

		Asset Derivatives		Liability Derivatives	
Description	**Balance Sheet Location**	**September 27, 2009**	**March 31, 2009**	**September 27, 2009**	**March 31, 2009**
Derivatives designated as hedging instruments					
Interest rate swap agreements	Other liabilities	$	$	$ 11,295	$ 13,628
Lead hedge forward contracts	Prepaid and other current assets	1,175	2,191		
Foreign currency forward contracts	Accrued expenses			1,349	340
Total derivatives designated as hedging instruments		$ 1,175	$ 2,191	$ 12,644	$ 13,968

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited) (Continued)

(In Thousands, Except Share and Per Share Data)

The Effect of Derivative Instruments on the Statements of Financial Performance

For the three fiscal months ended September 27, 2009 and September 28, 2008

Cash Flow Hedging Relationships	Amount of Pretax Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)		Location of Gain (Loss) Reclassified from Accumulated OCI into Income	Amount of Pretax Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	
	September 27, 2009	September 28, 2008	(Effective Portion)	September 27, 2009	September 28, 2008
Interest rate swap agreements	$ (2,048)	$ (1,777)	Interest expense	$ (1,584)	$ (785)
Lead hedge contracts	2,173	4,106	Cost of goods sold/Inventory	5,317	(13,966)
Foreign currency forward contracts	(980)	2,989	Cost of goods sold/Inventory	103	(927)
Total derivatives designated as hedging instruments	$ (855)	$ 5,318		$ 3,836	$ (15,678)

The Effect of Derivative Instruments on the Statements of Financial Performance

For the six fiscal months ended September 27, 2009 and September 28, 2008

Cash Flow Hedging Relationships	Amount of Pretax Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)		Location of Gain (Loss) Reclassified from Accumulated OCI into Income	Amount of Pretax Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	
	September 27, 2009	September 28, 2008	(Effective Portion)	September 27, 2009	September 28, 2008
Interest rate swap agreements	$ (767)	$ 5,700	Interest expense	$ (3,100)	$ (1,652)
Lead hedge contracts	7,417	(24,039)	Cost of goods sold/Inventory	8,433	(25,216)
Foreign currency forward contracts	164	1,563	Cost of goods sold/Inventory	1,173	(2,878)
Total derivatives designated as hedging instruments	$ 6,814	$ (16,776)		$ 6,506	$ (29,746)

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited) (Continued)

(In Thousands, Except Share and Per Share Data)

NOTE 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 fiscal quarters of 2010 and 2009 were based on the estimated effective tax rates applicable for the full years ending March 31, 2010 and March 31, 2009, respectively, after giving effect to items specifically related to the interim periods.

The effective income tax rates for the second fiscal quarters of 2010 and 2009 were 31.0% and 32.2%, respectively. The rate decrease in the second fiscal quarter of 2010 as compared to the comparable prior year period is due to a change in the mix of earnings to lower tax rate jurisdictions in the second fiscal quarter of 2010. The effective income tax rates for the six fiscal months of 2010 and 2009 were 31.2% and 28.7%, respectively. The rate increase in the six fiscal months of 2010 as compared to the comparable prior year period is primarily due to a lower effective tax rate on the gain from the sale of our manufacturing facility in England and a $1,100 tax benefit primarily due to the settlement of a foreign tax audit, both occurring during the six fiscal months of 2009.

The effective income tax rate for the fiscal year ended March 31, 2009 was 31.2%. In fiscal 2009, changes in the mix of earnings among our various legal entities in multiple foreign jurisdictions had an approximate one percentage point decrease on our fiscal 2009 effective tax rate.

NOTE 7: WARRANTY

The Company provides for estimated product warranty expenses when the related products are sold, with related liabilities primarily 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:

	Fiscal quarters ended		Six fiscal months ended	
	September 27, 2009	September 28, 2008	September 27, 2009	September 28, 2008
Balance at beginning of period	$ 30,719	$ 35,897	$ 30,914	$ 34,037
Current period provisions	2,102	4,372	3,701	10,167
Cost incurred	(3,114)	(3,904)	(6,066)	(7,985)
Foreign exchange and other	632	(1,342)	1,790	(1,196)
Balance at end of period	$ 30,339	$ 35,023	$ 30,339	$ 35,023

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited) (Continued)

(In Thousands, Except Share and Per Share Data)

NOTE 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 2009 Annual Report on Form 10-K).

Environmental Issues

As a result of its operations, the Company is subject to various federal, state, local, and foreign 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 foreign occupational safety and health regulations, including laws and regulations relating to exposure to lead in the workplace.

As more fully described in Notes 19 and 20 to the Consolidated Financial Statements included in the Company s 2009 Annual Report on Form 10-K, the Company is involved in ongoing environmental matters at certain of its United States and foreign facilities. The Company may have potential environmental liabilities at its Sumter, South Carolina facility and has established reserves in accrued restructuring and accrued expenses of $3,908 at September 27, 2009, and $4,007 at March 31, 2009. Based on information available at this time, management believes that the Company s reserves are sufficient to satisfy its environmental liabilities.

Lead Contracts

To stabilize its costs, the Company has 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. Under these contracts, at September 27, 2009 and March 31, 2009, the Company was committed to purchase 45,880 and 29,665 pounds of lead, respectively, for a total purchase price of $44,101 and $14,897, 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 Company s largest exposure is from the purchase and conversion of U.S. dollar based lead costs into local currencies in Europe and Mexico. Additionally, the Company has currency exposures from intercompany trade transactions. To hedge these exposures, the Company has entered into a total of $54,600 and $19,390, respectively, of foreign currency forward contracts with financial institutions as of September 27, 2009 and March 31, 2009.

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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 debt. At September 27, 2009 and March 31, 2009, such agreements effectively convert $170,000 of the Company s 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.

NOTE 9: GAIN ON SALE OF MANUFACTURING FACILITY

During the six fiscal months of 2009, as part of its ongoing European restructuring program, the Company received net proceeds of approximately $7,400 from the sale of its Manchester, England manufacturing facility and recorded a gain of $10,884 ($8,597 net of tax). This sale is consistent with the Company s strategy to migrate its production to lower cost facilities. Included in the pre-tax gain was the removal of $6,623 in environmental reserves associated with the Manchester facility, as these liabilities were assumed by the new owner.

NOTE 10: RESTRUCTURING PLANS

The Company has acquisition related restructuring plans and non-acquisition related restructuring plans.

Acquisition related restructuring

The acquisition related restructuring plans were initiated in connection with the acquisition of the assets, stock and business of substantially all of the subsidiaries and affiliates comprising the reserve power and motive power businesses of the Energy Storage Group of Invensys plc. (ESG) in 2002. The Company is continuing to take actions to complete the 2002 plan.

As discussed in Note 8, Commitments, Contingencies and Litigation, the Company may have potential environmental liabilities at its Sumter, South Carolina facility. Reserves for the Sumter facility are included in the non-acquisition related restructuring plans roll-forward shown below. The environmental reserves related to the Manchester facility, which was sold in the first fiscal quarter of 2009, have been removed from the acquisition related restructuring reserves shown below, as these liabilities were assumed by the new owner.

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A roll-forward of the acquisition related restructuring reserve for the six fiscal months of 2010 is as follows:

	Employee Severance	Contractual Obligations	Environmental	Plant Closures & Other	Total
Balance at March 31, 2009	$ 782	$ 736	$	$ 66	$ 1,584
Accrued					
Costs incurred					
Accrual adjustment				203	203
Foreign currency impact and other	125	25		68	218
Balance at September 27, 2009	$ 907	$ 761	$	$ 337	$ 2,005

ESG acquisition

In 2002, following EnerSys acquisition of ESG, the Company formulated an exit and restructuring plan for certain ESG facilities in North America and Europe. One of the European facilities we acquired remains open after significant restructuring and now operates at a lower operating cost base. The facility identified in the United States has been closed and the Manchester, England facility has been sold. The balance of the ESG acquisition-related restructuring reserve at September 27, 2009 is $2,005.

Non-acquisition related restructuring plans

2009 restructuring plan

In February and May 2009, the Company announced plans to restructure its European and American operations, which will eliminate approximately 443 employees across its operations upon completion. These actions are primarily in Europe, the most significant of which is the closure of its leased Italian manufacturing facility and the opening of a new Italian distribution center to continue to provide responsive service to its customers in that market. The Company estimates that the total charges for these actions will amount to approximately $32,000, which includes cash expenses of approximately $23,000, primarily for employee severance-related payments, and a non-cash charge of approximately $9,000, primarily for fixed asset impairments. Based on commitments incurred to date, the Company recorded a restructuring charge of $19,087 during the fourth fiscal quarter of 2009 and $6,336 during the six fiscal months of 2010. The six fiscal months of 2010 charge included $95 of non-cash impairment charges. As of September 27, 2009, the reserve balance associated with these actions is $8,542. The Company expects to commit to approximately $6,000 of the restructuring charges during the balance of fiscal 2010.

A roll-forward of the 2009 restructuring plan reserve for the six fiscal months of 2010 is as follows:

	Employee Severance	Contractual Obligations	Environmental	Plant Closures & Other	Total
Balance at March 31, 2009	$ 10,289	$	$	$	$ 10,289
Accrual	6,241				6,241
Costs incurred	(8,685)				(8,685)
Foreign currency impact and other	697				697

Balance at September 27, 2009	$	8,542	$		$		$	8,542

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Other combined restructuring plans

Other non-acquisition related restructuring plans were initiated in connection with the following cost-reduction programs: in the Europe region in fiscal 2008, to facilitate the integration of EnerSys AD, formerly Energia AD (Energia), a producer of industrial batteries, located in Bulgaria, into the Company s operations; in the Europe region in fiscal 2006; and in the Americas region in fiscal 2002. These plans individually are not material and accordingly have been aggregated.

A roll-forward of these other non-acquisition related restructuring reserves for the six fiscal months of 2010 is as follows:

	Employee Severance	Contractual Obligations	Environmental	Plant Closures & Other	Total
Balance at March 31, 2009	$ 1,803	$	$ 2,370	$ 115	$ 4,288
Accrual	132				132
Costs incurred	(826)		(99)	(26)	(951)
Foreign currency impact and other	88			5	93
Balance at September 27, 2009	$ 1,197	$	$ 2,271	$ 94	$ 3,562

Americas 2002 Restructuring

During the fiscal year ended March 31, 2002, the Company decided to close and downsize certain manufacturing locations in the Americas, reduce product offerings, reduce sales and distribution facilities, and implement other consolidation initiatives. As of September 27, 2009, the reserve balance associated with these actions is $2,320, a portion of which the Company expects to spend in the current fiscal year and the balance, primarily related to environmental costs, at an indeterminate time in the future.

European 2006 Restructuring

During fiscal 2006, the Company incurred restructuring charges of $6,217, primarily for the motive power segment, to cover estimated costs in Europe for staff reductions of 112 employees, exiting a product line, and closing several ancillary locations. The charges included a non-cash write-off of $1,410, primarily for machinery and equipment. As of September 27, 2009, the reserve balance associated with these actions is $398, which mostly represents severance obligations the Company anticipates spending during this fiscal year or upon the individual employees determination.

European 2007 Restructuring

On May 23, 2007, the Company announced its commitment to restructure certain of its European operations. The restructuring was designed to improve operational efficiencies and eliminate redundant costs primarily as a result of the Energia transaction. The restructuring facilitated the integration of Energia s reserve and motive power businesses into the Company s worldwide operations. Restructuring actions commenced upon the completion of the requisite labor consultations, and the Company had substantially completed these actions as of March 31, 2009. The total charges for the European restructuring are approximately $17,000, which includes cash expenses of approximately $12,500, primarily for employee severance-related payments for 265 employees, and a non-cash charge of approximately $4,500, primarily for fixed asset impairments. Based on commitments incurred to date, the Company recorded a restructuring charge of $366 in the six fiscal months of 2010. The six fiscal months of 2010 charge included $234 of non-cash impairment charges. As of September 27, 2009 the reserve balance associated with these actions is $844.

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NOTE 11: DEBT, WRITE-OFF OF DEFERRED FINANCING FEES AND LOSS ON TERMINATION OF INTEREST RATE SWAP AGREEMENT

Senior Unsecured 3.375% Convertible Notes

On May 28, 2008, the Company completed a registered offering of $172,500 aggregate principal amount of 3.375% Convertible Senior Notes Due 2038 (Convertible Notes). The Company received net proceeds of $168,200 after the deduction of commissions and offering expenses. The Company used all of the net proceeds to repay a portion of its then existing senior secured Term Loan B.

The Convertible Notes are general senior unsecured obligations and rank equally with the Company s existing and future senior unsecured obligations and are junior to any of the Company s future secured obligations to the extent of the value of the collateral securing such obligations. The Convertible Notes are not guaranteed by, and are structurally subordinate in right of payment to, all of the (i) existing and future indebtedness and other liabilities of the Company s subsidiaries and (ii) preferred stock of the Company s subsidiaries to the extent of their respective liquidation preferences.

The Convertible Notes require the semi-annual payment of interest in arrears on June 1 and December 1 of each year beginning December 1, 2008, at 3.375% per annum on the principal amount outstanding. The Convertible Notes will accrete principal beginning on June 1, 2015 and will bear contingent interest, if any, beginning with the six-month interest period commencing on June 1, 2015 under certain circumstances. The Convertible Notes will mature on June 1, 2038. Prior to maturity the holders may convert their Convertible Notes into shares of the Company s common stock under certain circumstances. When issued, the initial conversion rate was 24.6305 shares per $1,000 principal amount of Convertible Notes, which was equivalent to an initial conversion price of approximately $40.60 per share.

At any time after June 6, 2015, the Company may at its option redeem the Convertible Notes, in whole or in part, for cash, at a redemption price equal to 100% of the accreted principal amount of Convertible Notes to be redeemed, plus any accrued and unpaid interest. A holder of Convertible Notes may require the Company to repurchase some or all of the holder s Convertible Notes for cash upon the occurrence of a fundamental change as defined in the indenture and on each of June 1, 2015, 2018, 2023, 2028 and 2033 at a price equal to 100% of the accreted principal amount of the Convertible Notes being repurchased, plus accrued and unpaid interest, if any, in each case. 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. The Convertible Notes will mature on June 1, 2038, unless earlier converted, redeemed or repurchased.

If applicable, the Company will pay a make-whole premium on Convertible Notes converted in connection with certain fundamental changes that occur prior to June 6, 2015. The amount of the make-whole premium, if any, will be based on the Company s common stock price and the effective date of the fundamental change. The indenture contains a detailed description of how the make-whole premium will be determined and a table showing the make-whole premium that would apply at various stock prices. No make-whole premium would be paid if the price of the Company s common stock on the effective date of the fundamental change is less than $29.00. Any make-whole premium will be payable in shares of the Company s common stock (or the consideration into which the Company s common stock has been exchanged in the fundamental change) on the conversion date for the Convertible Notes converted in connection with the fundamental change.

The Convertible Notes were issued in an offering registered under the Securities Act of 1933, as amended (Securities Act).

At September 27 and March 31, 2009, there was $172,500 aggregate principal amount of the Convertible Notes outstanding.

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In May 2008, the Financial Accounting Standards Board (FASB) issued new guidance on the accounting for convertible debt instruments that may be settled in cash upon conversion (including partial settlement). This guidance specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. The guidance was effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, and must be applied retrospectively to all periods presented. The Company adopted the guidance effective May 28, 2008, the date of the Convertible Notes offering.

The adoption of the new guidance had the following effect on our Consolidated Statement of Income for the fiscal quarter and six fiscal months ended September 28, 2008:

	Fiscal quarter ended September 28, 2008			Six fiscal months ended September 28, 2008		
	Previously Reported	As Adjusted	Effect of Change	Previously Reported	As Adjusted	Effect of Change
Interest expense	$ 5,765	$ 6,953	$ 1,188	$ 11,952	$ 13,594	$ 1,642
Income tax expense	12,002	11,587	(415)	20,528	19,954	(574)
Net income	25,194	24,421	(773)	50,687	49,619	(1,068)
Basic net income per share	0.51	0.49	(0.02)	1.02	1.00	(0.02)
Diluted net income per share	0.50	0.48	(0.02)	1.00	0.98	(0.02)

The adoption of the new guidance had the following effect on our Consolidated Balance Sheet as of March 31, 2009:

	March 31, 2009		
	Previously Reported	As Adjusted	Effect of Change
Prepaid and other current assets	$ 32,734	$ 32,522	$ (212)
Other assets	32,657	32,078	(579)
Accrued expenses	188,186	186,756	(1,430)
Long-term debt and capital lease obligations	385,010	342,991	(42,019)
Long-term deferred tax liability	48,963	63,669	14,706
Additional paid-in capital	385,872	416,481	30,609
Accumulated earnings	243,763	241,106	(2,657)

The adoption of the new guidance**,** had no effect on our Consolidated Statement of Cash Flows for the six months ended September 28, 2008.

The following represents the principal amount of the liability component, the unamortized discount, and the net carrying amount of our Convertible Notes as of September 27, 2009 and March 31, 2009, respectively:

	September 27, 2009	March 31, 2009
Principal	$ 172,500	$ 172,500
Unamortized discount	(39,356)	(42,019)

Net carrying amount	$	133,144	$ 130,481

As of September 27, 2009, the remaining discount will be amortized over a period of 68 months. The conversion price of the $172,500 in aggregate principal amount of the Convertible Notes is approximately $40.60 per share and the number of shares on which the aggregate consideration to be delivered upon conversion is 4,248,761.

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The effective interest rate on the liability component of the Convertible Notes is 8.50% for the quarters ended September 27, 2009 and September 28, 2008. The amount of interest cost recognized for the amortization of the discount on the liability component of the Convertible Notes was $1,345 and $1,237, respectively, during the three months ended September 27, 2009 and September 28, 2008, and $2,662 and $1,709, respectively, during the six months ended September 27, 2009 and September 28, 2008.

Senior Secured Credit Facility

In June 2008, the Company completed the refinancing of $192,000 of the outstanding combined balance of the senior secured Term Loan B and its then existing revolving credit facility with a new $350,000 senior secured credit facility comprising a $225,000 Term A Loan and a new, undrawn $125,000 revolving credit facility.

The $225,000 senior secured Term A Loan is subject to a quarterly principal amortization of 1.25% in Year 1, 1.88% in Years 2-3, 2.50% in Year 4, 3.13% in Year 5 and 14.38% in Year 6 and matures on June 27, 2014. The $125,000 revolving credit facility matures on June 27, 2013. Borrowings under the credit agreements bear interest at a floating rate based, at our option, upon (i) a LIBOR rate plus an applicable percentage (currently 1.50%), or (ii) the greater of the federal funds rate plus 0.5% or the prime rate, plus an applicable percentage (currently 0.50%). There are no prepayment penalties on loans under the $350,000 senior secured credit facility.

At September 27, and March 31, 2009, there was $213,750 and $216,563, respectively, outstanding under the new Term A Loan and there were no borrowings under the revolving credit facility.

At September 27, and March 31, 2009, there were $20,744 and $28,612, respectively, of borrowings outstanding outside the United States.

Obligations under the new senior secured credit facility are secured by substantially all of our existing and hereafter acquired assets located in the United States, including substantially all of the capital stock of our United States subsidiaries that are guarantors under the new credit facility, and 65% of the capital stock of certain of our foreign subsidiaries that are owned by our United States companies. The Company s credit agreements contain various covenants that, absent prepayment in full of the indebtedness and other obligations, or the receipt of waivers, would limit the Company s ability to conduct certain specified business transactions including incurring debt, mergers, consolidations or similar transactions, buying or selling assets out of the ordinary course of business, engaging in sale and leaseback transactions, repurchasing the Company s common stock, paying dividends and certain other actions. At September 27, 2009, the Company was in compliance with all such covenants.

In connection with the issuance of the $172,500 Convertible Notes and the refinancing under the new $350,000 senior secured credit facility, the Company wrote-off $3,963 of unamortized deferred financing costs associated with the prior senior secured credit facility, and incurred $10,950 in new deferred financing costs. The Company also terminated interest rate swap agreements of $30,000, which had been placed in October 2005, at a loss of $1,246.

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Prior Senior Secured Credit Facility

The $355,900 senior secured Term Loan B was subject to a 0.25% quarterly principal amortization and was scheduled to mature on March 17, 2011. The $100,000 revolving credit line was scheduled to mature on March 17, 2009. Borrowings under the credit agreements bore interest at a floating rate based, at our option, upon (i) a LIBOR rate plus an applicable percentage (1.75% at time of termination), or (ii) the greater of the federal funds rate plus 0.5% or the prime rate, plus an applicable percentage (0.75% at time of termination). The facility required prepayment based upon certain excess cash flow amounts, as defined. There was no prepayment penalty on loans under the $455,900 senior secured credit facility.

Amendments of Credit Agreements

On October 16, 2008, the Company amended its Euro 25,000 Credit Agreement in order to incorporate into the agreement, changes and covenants from the new $350,000 senior secured credit facility and change the guarantor from EnerSys Capital Inc. to EnerSys.

On May 16, 2008, the Company completed the Fifth Amendment to the $480,000 Senior Secured Credit Agreement, which allowed for the issuance of up to $205,000 of unsecured indebtedness. The proceeds from the unsecured indebtedness were required to be used to pay down the senior secured Term Loan B. On May 28, 2008, the Company used the net proceeds of $168,200 from the Convertible Notes to pay down a portion of the senior secured Term Loan B.

On May 15, 2008, the Company amended its Euro 25,000 Credit Agreement to allow for the issuance of up to $205,000 of unsecured indebtedness. The proceeds from the unsecured indebtedness were required to be used to pay down the senior secured Term Loan B. Additionally, the amendment authorized the Company to enter into a new $350,000 U.S. Credit Agreement on terms substantially similar to the existing Credit Agreement.

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NOTE 12: RETIREMENT PLANS

The following table presents the interim disclosure requirements of components of the Company s net periodic benefit cost related to its defined benefit pension plans.

	United States Plans Fiscal quarters ended		International Plans Fiscal quarters ended	
	September 27, 2009	September 28, 2008	September 27, 2009	September 28, 2008
Service cost	$ 66	$ 76	$ 160	$ 949
Interest cost	159	147	643	700
Expected return on plan assets	(123)	(160)	(320)	(445)
Amortization and deferral	82	45	4	
Net periodic benefit cost	$ 184	$ 108	$ 487	$ 1,204

	United States Plans Six fiscal months ended		International Plans Six fiscal months ended	
	September 27, 2009	September 28, 2008	September 27, 2009	September 28, 2008
Service cost	$ 133	$ 151	$ 310	$ 1,942
Interest cost	318	292	1,258	1,434
Expected return on plan assets	(246)	(319)	(628)	(912)
Amortization and deferral	163	89	8	
Net periodic benefit cost	$ 368	$ 213	$ 948	$ 2,464

Significant assumptions used in the accounting for the pension benefit plans are as follows:

	United States Plans Six fiscal months ended		International Plans Six fiscal months ended	
	September 27, 2009	September 28, 2008	September 27, 2009	September 28, 2008
Discount rate	6.0%	6.0%	4.3 - 6.0%	4.3 - 6.0%
Expected return on plan assets	8.0%	8.0%	5.5 - 7.5%	5.5 - 8.0%
Rate of compensation increase	N/A	N/A	2.0 - 3.5%	2.0 - 3.0%

The Company presently anticipates contributing a total of approximately $1,600 to its defined benefit pension plans in fiscal 2010, based on current actuarial information.

The Company has a 401(k) plan covering all U.S. based employees who are not covered by a collective bargaining agreement.

NOTE 13: EQUITY INCENTIVE PLANS

At September 27, 2009, the Company maintained three equity incentive plans: the 2000 Management Equity Plan, the 2004 Equity Incentive Plan and the 2006 Equity Incentive Plan, that reserve 11,289,232 shares of the Company s common stock for the grant of various classes of equity including nonqualified stock options, restricted stock, restricted stock units and other forms of equity-based compensation. The Company s equity incentive plans are used to provide an incentive to employees and non-employee directors of the Company to remain in the service of the Company and to increase their interest in the success of the Company in order to promote the long-term interests of the Company. The plans seek to promote the highest level of performance by providing an economic interest in the long-term performance of the Company. As of September 27, 2009, the Company had 1,190,555 shares available for future grants.

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Stock Incentive Plans

Non-qualified stock options have been granted to employees under the equity incentive plans at prices not less than the fair market value of the shares on the dates the options were granted. Options issued prior to fiscal 2009 vest and become exercisable 25% per year over a four-year period from the date of grant. Non-qualified stock options issued in fiscal 2009 and 2010 vest and become exercisable 33.3% per year over a three-year period from the date of grant. Options generally expire in 10 years from the date of grant.

In May 2009, under the Company s equity incentive plans, it granted 159,242 stock options, which vest six months following the date of grant and are exercisable for three and one-half years from the date of grant, at an exercise price of $16.24 per stock option, and 380,264 stock options, which vest ratably over a three-year period following the date of grant and are exercisable for ten years from the date of grant, at an exercise price of $16.20 per stock option.

The compensation cost to be recorded is based on the fair value at the grant date. The fair value of the options granted in the first fiscal quarter of 2010 was estimated at the date of grant using the Black-Scholes option-pricing model with the following assumptions. The 159,242 stock options had a risk-free interest rate of 0.93%, dividend yield of zero, expected life of 2 years and expected volatility of 56.6%. The 380,264 stock options had a risk-free interest rate of 2.01%, dividend yield of zero, expected life of 5 years and expected volatility of 56.6%.

The Company recognized equity-based compensation expense associated with stock option grants of $1,060, with a related tax benefit of $318, for the second fiscal quarter of 2010, and $584, with a related tax benefit of $189, for the second fiscal quarter of 2009. The Company recognized equity-based compensation expense associated with stock option grants of $1,741, with a related tax benefit of $522, for the six fiscal months of 2010, and $974, with a related tax benefit of $281, for the six fiscal months of 2009. For the full fiscal year 2009, the Company recognized equity-based compensation expense associated with stock option grants of $1,906, with a related tax benefit of $636.

The following table summarizes the Company s stock option activity during the six fiscal months ended September 27, 2009:

	Number of Options	Weighted Average Remaining Contract Term (Years)	Weighted Average Exercise Price	Aggregate Intrinsic Value
Options outstanding as of March 31, 2009	2,643,175	4.2	$ 16.70	$ 1,752
Granted	539,506		16.21	
Exercised	(202,544)		11.01	2,057
Cancelled	(5,661)		18.25	
Options outstanding as of September 27, 2009	2,974,476	4.4	$ 17.00	$ 17,463
Options exercisable as of September 27, 2009	2,114,204	3.1	$ 16.03	$ 13,946
Options expected to vest as of March 31, 2010	162,742	2.2	$ 16.19	$ 901

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The following table summarizes information regarding stock options outstanding and exercisable at September 27, 2009:

	Options Outstanding					Options Exercisable		
Range of Exercise Prices	Number of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price		Number of Options	Weighted Average Exercise Price	
$10.01-15.00	1,279,307	3.2	$	11.13	1,269,265	$	11.11
$15.01-20.00	804,028	7.5		16.88	129,938		18.23
$20.01-25.00	484,863	2.4		21.86	484,863		21.86
$25.01-30.00	142,072	1.6		29.36	142,072		29.36
Over $30.00	264,206	8.7		30.19	88,066		30.19
	2,974,476	4.4	$	17.00	2,114,204	$	16.03

A summary of the status of the Company s non-vested options as of September 27, 2009, and changes during the six fiscal months ended September 27, 2009, is presented below.

	Number of Options	Weighted Average Grant-Date Fair Value	
Non-vested at March 31, 2009	503,847	$	9.80
Granted	539,506		7.41
Vested	(183,081)		9.51
Forfeited			
Non-vested at September 27, 2009	860,272	$	8.36

Restricted Stock

In fiscal 2006, the Company approved grants of 263,282 shares of restricted stock at a weighted average fair market value on the date of grants of $13.18 per share. In fiscal 2007, the Company approved grants of 9,000 shares of restricted stock at a weighted average fair market value on the date of grants of $16.11 per share. Restricted stock was granted at the fair market value of the Company s common stock on the date of grant and vests 25% per year over a four-year period from the date of grant.

At September 27, and March 31, 2009, respectively, 63,201 and 64,452 shares of restricted stock were outstanding.

The Company recognized equity-based compensation expense related to the vesting of restricted stock grants of $32, with a related tax benefit of $9, for the second fiscal quarter of 2010 and $114, with a related tax benefit of $36, for the second fiscal quarter of 2009. The Company recognized equity-based compensation expense associated with the vesting of restricted stock grants of $109, with a related tax benefit of $33, for the six fiscal months of 2010, and $229, with a related tax benefit of $66, for the six fiscal months of 2009. For the full fiscal year 2009, the Company recognized equity-based compensation expense associated with the vesting of restricted stock grants of $460, with a related tax benefit of $152.

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Restricted Stock Units

The Company approved grants to management and other key employees of 366,367 restricted stock units on May 18, 2009, at the fair market value on that date of $16.20 per share, 226,210 restricted stock units on May 21, 2008, at the fair market value on that date of $30.19 per share and 141,140 restricted stock units on May 29, 2007, at the fair market value on that date of $18.25 per share. These restricted stock units are granted at the fair market value of the Company s common stock on the date of grant and vest 25% per year over a four-year period from the date of grant. The Company approved grants to non-employee directors of 19,089 restricted stock units, which were granted on August 10, 2009, at the fair market value on that date of $22.00 per share, and 18,404 restricted stock units, which were granted on August 28, 2008, at the fair market value on that date of $26.08 per share. These restricted stock units vest and become exercisable thirteen months from the date of grants.

The Company recognized equity-based compensation expense related to the vesting of restricted stock units of $1,045, with a related tax benefit of $313, for the second fiscal quarter of 2010, and of $721, with a related tax benefit of $233, for the second fiscal quarter of 2009. The Company recognized equity-based compensation expense associated with the vesting of restricted stock units of $1,892, with a related tax benefit of $568, for the six fiscal months of 2010, and $1,257, with a related tax benefit of $362, for the six fiscal months of 2009. For the full fiscal year 2009, the Company recognized equity-based compensation expense associated with the vesting of restricted stock unit grants of $2,655, with a related tax benefit of $893.

All Award Plans

As of September 27, 2009, unrecognized compensation expense associated with the non-vested equity incentive awards outstanding was $17,031 and is expected to be recognized over a weighted average period of 36 months.

Employee Stock Purchase Plan

On July 26, 2004, the Company adopted, and its stockholders approved, an Employee Stock Purchase Plan (ESPP). The ESPP was amended by the Board of Directors on November 9, 2004. This ESPP is considered by the Company to be non-compensatory and no compensation expense is recorded when shares are issued under the ESPP.

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ENERSYS

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited) (Continued)

(In Thousands, Except Share and Per Share Data)

NOTE 14: EARNINGS PER SHARE

Net earnings per share basic is based on the weighted average number of shares of the Company s common stock outstanding. Net earnings per share diluted gives effect to all dilutive potential common shares that were outstanding during the period. At September 27, 2009 and September 28, 2008, the Company had outstanding stock options, restricted stock 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:

	Fiscal quarters ended		Six fiscal months ended	
	September 27, 2009	September 28, 2008	September 27, 2009	September 28, 2008
Weighted average shares of common stock outstanding basic	48,031,005	49,578,424	47,983,703	49,454,074
Assumed exercise of stock options, net of shares assumed reacquired	807,155	1,043,017	662,724	1,110,405
Weighted average common shares diluted	48,838,160	50,621,441	48,646,427	50,564,479
Antidilutive options and unvested restricted stock and restricted stock units not included in weighted average common shares diluted	1,698,256	142,072	1,784,268	274,175

The aggregate number of shares that the Company could be obligated to issue upon conversion of its $172,500 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 fiscal quarter and six fiscal months of 2010 and 2009, 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.

NOTE 15: SECONDARY OFFERING

In August 2009, certain of the Company s stockholders sold 3,200,000 shares of the Company s common stock pursuant to an effective shelf registration statement filed with the Securities and Exchange Commission on May 19, 2008. The offered shares were sold by those stockholders of the Company, including affiliates of Metalmark Capital LLC and certain other institutional stockholders.

In May 2008, concurrently with the Convertible Notes offering, certain of the Company s stockholders sold 3,690,000 shares of the Company s common stock pursuant to an effective shelf registration statement filed with the Securities and Exchange Commission on May 19, 2008. The offered shares were sold by those stockholders of the Company, including affiliates of Metalmark Capital LLC and certain other institutional stockholders.

The Company did not receive any proceeds from the common stock offerings; however, under the terms of its securityholder agreement, the Company did incur fees related to the offerings of $150 in the six fiscal months of 2010 and $330 in the six fiscal months of 2009.

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ENERSYS

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited) (Continued)

(In Thousands, Except Share and Per Share Data)

NOTE 16: BUSINESS SEGMENTS

The Company has the following two reportable business segments:

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

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, rail car lighting and rail signaling equipment.

The following table provides selected financial data for the Company s reportable business segments:

	Reserve Power	Motive Power	Consolidated
Fiscal quarter ended September 27, 2009:			
Net sales	$ 198,053	$ 169,272	$ 367,325
Total operating earnings	$ 22,988	$ 2,161	$ 25,149
Fiscal quarter ended September 28, 2008:			
Net sales	$ 246,052	$ 280,702	$ 526,754
Total operating earnings	$ 26,412	$ 17,472	$ 43,884
Six fiscal months ended September 27, 2009:			
Net sales	$ 380,832	$ 326,758	$ 707,590
Total operating earnings	$ 42,421	$ 2,262	$ 44,683
Six fiscal months ended September 28, 2008:			
Net sales	$ 504,842	$ 613,980	$ 1,118,822
Total operating earnings	$ 53,583	$ 38,355	$ 91,938

The Company markets its products and services in over 100 countries. Sales are attributed to countries based on the location of customers. The following represent the net sales to unaffiliated customers of our country of domicile and the other top four countries which collectively comprise approximately 70% of our consolidated net sales for the periods presented:

	Fiscal quarters ended		Six fiscal months ended	
	September 27, 2009	September 28, 2008	September 27, 2009	September 28, 2008

United States	$ 149,252	$ 201,103	$ 286,672	$ 406,749
Germany	38,372	64,501	71,137	141,990
France	33,511	52,884	68,202	115,099
Italy	17,990	31,594	37,570	76,645
United Kingdom	19,989	30,511	38,116	68,003

NOTE 17: SUBSEQUENT EVENTS

The Company evaluated subsequent events through October 29, 2009, the date and time this Quarterly Report on Form 10-Q statement was issued, according to the guidance for subsequent events. No significant subsequent events were noted in the period.

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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 state 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 2009 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, 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;

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

unanticipated litigation and regulatory proceedings to which we might be subject;

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- changes in our market share in the business segments and regions 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;
- 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
- 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 includes all material factors of which we are aware. 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 and primary working capital percentage (see definitions in Liquidity and Capital Resources below) along with capital expenditures, in their 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

We are 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 have two business segments: reserve power and motive power. Net sales classifications by segment are as follows:

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

- **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, rail car lighting and rail signaling equipment.

We evaluate business segment performance based primarily upon operating earnings, exclusive of highlighted items. All corporate and centrally incurred regional 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 and, as a result, our level of debt.

We operate and manage our business in three primary geographic regions of the world the Americas, Europe and Asia. 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. Approximately 60% of our net sales were generated outside of North America. Our management structure and financial reporting systems, and associated internal controls and procedures, are all consistent with our two business segments and three geographic regions in which we operate. 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 business segments and regions 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.

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Uncertain Economic Climate

Market conditions in our industry had generally remained strong through the first quarter of our last fiscal year. The economic climate has since deteriorated with worldwide industrial production and capital spending slowing, both of which have an impact on customer demand, the volatility of commodity costs and foreign currency exchange rates, access to capital funding and availability of credit. As explained below, we have taken numerous steps to restructure our manufacturing base to minimize our production costs and have taken steps to bolster our financial liquidity. We believe we have the capital available to meet our business needs and to continue to remain aggressive in pursuing further acquisition opportunities.

Volatility of Commodities

Volatility of commodity costs, foreign currency exchange rates and customer demand have caused large swings in our production costs. In addition, as the economy improves in future periods, we anticipate that our commodity costs may be subject to inflationary cost increases. During the last three fiscal years, the costs of our raw materials, of which lead is the primary one, have fluctuated significantly. Our estimated lead cost due to decreases in average lead prices in the six fiscal months of 2010 from the six fiscal months of 2009 was a decrease of approximately $99 million.

Customer Pricing

We have been subjected to pricing pressures over the past several years. We anticipate continuing competitive pricing pressure as Chinese and other foreign producers expand their export capacity and increase their marketing presence in our major United States and European markets. Additionally, in our current environment, lower activity has weakened customer demand, and this may contribute to additional pricing pressures.

Our selling prices had increased substantially during the last several years to partially offset the higher cost of commodities. However, beginning in the second fiscal quarter of 2009, as a result of reductions in the cost of lead, our average selling prices began to decline as measured on a sequential quarterly basis. As the cycle of lead costs turned upward in the early part of calendar year 2009, we began to increase average selling prices to help offset the higher costs. Approximately 35% of our revenue is currently subject to agreements that adjust pricing to a market-based index for lead.

Cost Savings Initiatives-Restructuring

To minimize the impacts discussed above, we have taken actions to further rationalize our production facilities and move capacity to lower cost facilities.

Cost savings programs remain a continuous element of our business strategy and are directed primarily at further reductions in plant manufacturing and raw materials costs and our operating expenses, primarily selling, general and administrative. We view the current economic climate as a time for us to continue to further consolidate operations and undertake additional restructuring of our business.

Our fiscal 2008 European restructuring programs, primarily related to the Energia acquisition, and the 2009 restructuring program, primarily related to our Italian operation, are examples of such cost savings initiatives. We anticipated reduced demand for certain of our products and services as a result of global economic conditions, and we took numerous steps to address this downturn.

Our operating results for the six fiscal months of 2010 reflect some of the benefits of those actions with the remainder to be experienced in future periods. We believe that these restructuring actions will have a favorable pre-tax earnings impact of approximately $33 million, or $0.48 per share, on an annualized basis when fully implemented by the end of fiscal 2011.

Liquidity and Capital Resources

The worldwide deterioration in the economic climate has been a major concern in the past year and a half. However, we took actions near the beginning of fiscal 2009 that, we believe, helped position us to weather the current economic downturn. See the discussion in Note 11 to Consolidated Condensed Financial Statements in Item 1 above for a more complete description of our $172.5 million Convertible Notes, and the impact of our retrospective adoption of the guidance for convertible debt instruments that may be settled in cash upon conversion.

Also, immediately following the closing of the $172.5 million Convertible Notes issue, we commenced refinancing the outstanding combined balance of the senior secured Term Loan B and our existing revolving credit facility of $300 million, with a new $350 million senior secured facility comprising a $225 million Term A Loan and a new $125 million revolving credit facility. Our solid performance in earnings and cash flow during fiscal 2009 provided us with the opportunity to repurchase 1.8 million of our outstanding common shares at a cost of $19.8 million, which we expect will improve our future earnings per share performance.

In addition, as of September 27, 2009, we believe we have a sound capital structure and substantial liquidity for our current operations, with $219 million of cash and short term investments, approximately $130 million of undrawn, committed credit lines, and over $130 million of uncommitted credit lines. We believe that we have the financial resources to weather the current economic downturn and the capital available to remain active in pursuing further acquisition opportunities.

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RESULTS OF OPERATIONS

NET SALES

	Fiscal quarter ended September 27, 2009		Fiscal quarter ended September 28, 2008		Increase (Decrease)	
Current quarter by segment	**In Millions**	**Percentage of Total Net Sales**	**In Millions**	**Percentage of Total Net Sales**	**In Millions**	**Percentage**
Reserve power	$ 198.0	53.9%	$ 246.1	46.7%	$ (48.1)	(19.5)%
Motive power	169.3	46.1	280.7	53.3	(111.4)	(39.7)
Total	$ 367.3	100.0%	$ 526.8	100.0%	$ (159.5)	(30.3)%

	Six fiscal months ended September 27, 2009		Six fiscal months ended September 28, 2008		Increase (Decrease)	
Year to date by segment	**In Millions**	**Percentage of Total Net Sales**	**In Millions**	**Percentage of Total Net Sales**	**In Millions**	**Percentage**
Reserve power	$ 380.8	53.8%	$ 504.8	45.1%	$ (124.0)	(24.6)%
Motive power	326.8	46.2	614.0	54.9	(287.2)	(46.8)
Total	$ 707.6	100.0%	$ 1,118.8	100%	$ (411.2)	(36.8)%

	Fiscal quarter ended September 27, 2009		Fiscal quarter ended September 28, 2008		Increase (Decrease)	
Current quarter by region	**In Millions**	**Percentage of Total Net Sales**	**In Millions**	**Percentage of Total Net Sales**	**In Millions**	**Percentage**
Europe [(1)]	$ 168.0	45.7%	$ 266.1	50.5%	$ (98.1)	(36.8)%
Americas	164.5	44.8	221.9	42.1	(57.4)	(25.8)
Asia	34.8	9.5	38.8	7.4	(4.0)	(10.5)
Total	$ 367.3	100.0%	$ 526.8	100.0%	$ (159.5)	(30.3)%

	Six fiscal months ended September 27, 2009		Six fiscal months ended September 28, 2008		Increase (Decrease)	
Year to date by region	**In Millions**	**Percentage of Total Net Sales**	**In Millions**	**Percentage of Total Net Sales**	**In Millions**	**Percentage**
Europe [(1)]	$ 324.2	45.8%	$ 586.3	52.4%	$ (262.1)	(44.7)%
Americas	314.8	44.5	451.2	40.3	(136.4)	(30.2)
Asia	68.6	9.7	81.3	7.3	(12.7)	(15.6)
Total	$ 707.6	100.0%	$ 1,118.8	100.0%	$ (411.2)	(36.8)%

(1) Includes Europe, Middle East and Africa

Net sales decreased $159.5 million or 30.3% in the second fiscal quarter of 2010 and decreased $411.2 million or 36.8% in the six fiscal months of 2010 over the comparable periods in fiscal 2009. Declining foreign currencies, primarily the euro compared to the U.S. dollar, resulted in a 3% decrease in net sales in the second fiscal quarter of 2010 and a 4% decrease in the six fiscal months of 2010, over the comparable periods in

fiscal 2009. The euro exchange rate to the U.S. dollar averaged 1.44 ($/) in the second fiscal quarter of 2010 and 1.41 ($/) in the six fiscal months of 2010, compared to 1.50 ($/) in the second fiscal quarter of 2009 and 1.54 ($/) in the six fiscal months of 2009.

Approximately 6% of the decrease in our sales in both the second fiscal quarter and six fiscal months of 2010 over the comparable periods in fiscal 2009 are attributable to selling price reductions.

The organic change in sales (sales change excluding the effects of foreign currency translation and price increases) was a decrease of 21% in the second fiscal quarter of fiscal 2010, and a decrease of 27% in the six fiscal months of 2010 from the comparable period in fiscal 2009.

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Segments

Sales in our motive power segment in the second fiscal quarter and six fiscal months of 2010, decreased $111.4 million or 39.7% and $287.2 million or 46.8%, respectively, compared to the comparable periods of the prior year. Our motive power segment experienced the effects of the global economic decline with a decrease of approximately 31% in organic volume in the second fiscal quarter of 2010. The motive power segment also experienced a 6% reduction in selling prices and a 3% decrease from the effects of declining foreign currencies, compared to the comparable quarter of the fiscal 2009. In the six fiscal months of 2010, organic volume reduction was approximately 37% with selling prices decreasing by 6% and declining foreign currencies contributing 4%.

Sales in our reserve power segment in the second fiscal quarter and six fiscal months of 2010 decreased $48.1 million or 19.5% and $124.0 million or 24.6%, respectively, compared to the comparable periods of the prior year. In the second fiscal quarter of 2010, price reductions contributed 6% of the decrease, declining foreign currencies contributed 3%, and organic volume decline contributed approximately 10% to reserve power sales decline. In the six fiscal months of 2010, lower organic volume was approximately 15%, declining foreign currencies contributed 4%, and selling price reduction contributed 6%, compared to the comparable six months of the prior year.

Regions

The poor macro-economic market conditions worldwide have reduced industrial production and capital spending, and both have a significant impact on our unit sales volume. All of our regions experienced net sales reductions in the second fiscal quarter and six fiscal months of 2010, compared to the comparable periods of 2009.

Our Europe region s revenue decreased $98.1 million or 36.8% in the second fiscal quarter of 2010, as compared to the second fiscal quarter of 2009, primarily due to lower organic volume which contributed approximately a 25% reduction. Declining European currencies resulted in approximately a 5% reduction, and price reductions contributed approximately 7% to the decline. Our Europe region s revenue decreased $262.1 million or 44.7% in the six fiscal months of 2010, as compared to the six fiscal months of 2009, primarily due to lower organic volume which contributed approximately a 31% reduction. Declining European currencies resulted in approximately a 7% reduction, and price reductions contributed approximately 7% to the decline.

Our Americas region s revenue decreased $57.4 million or 25.8% in the second fiscal quarter of 2010, as compared to the second fiscal quarter of 2009, primarily due to lower organic volume which contributed approximately a 21% reduction and reduced prices contributed approximately a 4% reduction. Our Americas region s revenue decreased $136.4 million or 30.2% in the six fiscal months of 2010, as compared to the six fiscal months of 2009, primarily due to lower organic volume which contributed approximately a 26% reduction and reduced prices contributed approximately a 3% reduction.

Our Asia region s revenue decreased $4.0 million or 10.5% in the second fiscal quarter of 2010, as compared to the second fiscal quarter of 2009, primarily due to lower organic volume which contributed approximately a 2% reduction and reduced prices contributed approximately a 9% reduction. Our Asia region s revenue decreased $12.7 million or 15.6% in the six fiscal months of 2010, as compared to the six fiscal months of 2009, primarily due to lower organic volume which contributed approximately a 1% reduction and reduced prices contributed approximately a 14% reduction.

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GROSS PROFIT

	Fiscal quarter ended September 27, 2009		Fiscal quarter ended September 28, 2008		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	Percentage
Gross Profit	$ 88.6	24.1%	$ 109.0	20.7%	$ (20.4)	(18.7)%

	Six fiscal months ended September 27, 2009		Six fiscal months ended September 28, 2008		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	Percentage
Gross Profit	$ 166.1	23.5%	$ 221.6	19.8%	$ (55.5)	(25.0)%

Gross profit decreased 18.7% or $20.4 million in the second fiscal quarter of 2010, and decreased 25.0% or $55.5 million in the six fiscal months of 2010 when compared to the second fiscal quarter and six fiscal months of 2009.

Gross profit as a percentage of net sales improved on a sequential quarterly basis in six of the last seven fiscal quarters. In the second quarter of 2010, gross profit as a percentage of net sales improved on a sequential quarterly basis by 130 basis points to 24.1%, primarily due to the effects of higher volume.

Gross profit percentage of net sales improved 340 basis points in the second fiscal quarter of 2010, in comparison to the second fiscal quarter of 2009. The increase in the second fiscal quarter of 2010 gross profit percentage is primarily attributed to product mix, lower commodity costs and on-going cost reduction programs, which were partially offset by lower selling prices, as discussed below.

We estimate that the cost of lead alone, our most significant raw material, decreased our cost of sales by $45 million and $99 million, respectively, in second fiscal quarter and six fiscal months of 2010, compared to the comparable periods in fiscal 2009.

Our selling price reductions of $31 million and $62 million were less than our commodity cost decreases by approximately $14 million and $37 million, respectively, in the second fiscal quarter and in the six fiscal months of 2010.

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 continue to be highly effective in reducing our costs. This was a significant factor in the improvement of our gross profit percentages in the second fiscal quarter of 2010 to 24.1% and to 23.5% in the six fiscal months of 2010.

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OPERATING ITEMS

	Fiscal quarter ended September 27, 2009		Fiscal quarter ended September 28, 2008		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	Percentage
Operating expenses	$ 60.3	16.4%	$ 64.1	12.2%	$ (3.8)	(6.0)%
Restructuring charges	$ 3.2	0.9%	$ 1.0	0.2%	$ 2.2	N/A

	Six fiscal months ended September 27, 2009		Six fiscal months ended September 28, 2008		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	Percentage
Operating expenses	$ 114.7	16.2%	$ 134.0	12.0%	$ (19.3)	(14.4)%
Gain on sale of manufacturing facility	$	%	$ (10.9)	(1.0)%	$ 10.9	NA
Restructuring charges	$ 6.7	0.9%	$ 3.1	0.3%	$ 3.6	NA
Legal proceedings charge	$	%	$ 3.4	0.3%	$ (3.4)	NA

Operating expenses, excluding the effect of foreign currency translation, decreased 3.0% or $1.9 million in the second fiscal quarter of 2010 and decreased 0.8% or $1.0 million in the six fiscal months of 2010, when compared to the comparable periods of 2009, due primarily to lower sales volume. Operating expenses as a percentage of net sales increased 420 basis points in the second fiscal quarter and six fiscal months of 2010, in comparison to the comparable periods in fiscal 2009. Selling expenses, our main component of operating expenses, were 55.8% and 58.6% of total operating expenses in the second fiscal quarter and the six fiscal months of 2010, respectively, compared to 63.0% and 62.8%, respectively of total operating expenses in the second fiscal quarter and the six fiscal months of 2009.

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We have not been able to reduce selling expenses and operating costs as rapidly as sales have fallen. However, we continue to focus on expense saving initiatives and to further reducing our operating expenses.

Gain on sale of manufacturing facility

Included in our six fiscal months of 2009 operating results are $10.9 million of highlighted gains resulting from the sale of our manufacturing facility in Manchester, England. Included in the gain was the release of $6.6 million of environmental reserves established through purchase accounting of the ESG acquisition in fiscal 2002. The sale of the facility was a planned element of the ongoing European restructuring program and is consistent with our strategy to migrate our production to lower cost facilities.

Restructuring charges

Included in our second fiscal quarter and six fiscal months of 2010 operating results are $3.2 million and $6.7 million, respectively, of highlighted restructuring charges primarily for staff reductions made in Europe and the Americas.

Included in our second fiscal quarter and six fiscal months of 2009 operating results are $1.0 million and $3.1 million, respectively, of highlighted restructuring charges primarily for staff reductions made in Europe.

Legal proceedings charge

Included in our six fiscal months of 2009 operating results were $3.4 million of highlighted expenses resulting from a June 2008 ruling from the Court of Commerce in Lyon, France that our French subsidiary, EnerSys Sarl, was partially responsible for a 1999 fire in a French hotel under construction. The fire occurred prior to the acquisition of EnerSys Sarl in 2002. The Company has appealed this ruling.

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OPERATING EARNINGS

Current quarter by segment	Fiscal quarter ended September 27, 2009 In Millions	Percentage of Total Net Sales(2)	Fiscal quarter ended September 28, 2008 In Millions	Percentage of Total Net Sales(2)	Increase (Decrease) In Millions	Percentage
Reserve power	$ 23.7	12.0%	$ 26.6	10.8%	$ (2.9)	(11.0)%
Motive power	4.6	2.7	18.3	6.5	(13.7)	(74.5)
Subtotal	28.3	7.7	44.9	8.5	(16.6)	(36.9)
Restructuring charges-Reserve	(0.7)	(0.3)	(0.2)	(0.1)	(0.5)	NA
Restructuring charges-Motive	(2.5)	(1.5)	(0.8)	(0.3)	(1.7)	NA
Total operating earnings	$ 25.1	6.8%	$ 43.9	8.3%	$ (18.8)	(42.8)%

Year to date by segment	Six fiscal months ended September 27, 2009 In Millions	Percentage of Total Net Sales(2)	Six fiscal months ended September 28, 2008 In Millions	Percentage of Total Net Sales(2)	Increase (Decrease) In Millions	Percentage
Reserve power	$ 44.5	11.7%	$ 47.6	9.4%	$ (3.1)	(6.4)%
Motive power	6.9	2.1	40.0	6.5	(33.1)	(82.8)
Subtotal	51.4	7.3	87.6	7.8	(36.2)	(41.3)
Gain on sale of manufacturing facility-Reserve			10.9	2.2	(10.9)	NA
Restructuring charges-Reserve	(2.1)	(0.4)	(1.5)	(0.3)	(0.6)	(40.0)
Restructuring charges-Motive	(4.6)	(1.5)	(1.7)	(0.3)	(2.9)	NA
Legal proceedings charge-Reserve			(3.4)	(0.7)	3.4	NA
Total operating earnings	$ 44.7	6.3%	$ 91.9	8.2%	$ (47.2)	(51.4)%

Current quarter by region	Fiscal quarter ended September 27, 2009 In Millions	Percentage of Total Net Sales(2)	Fiscal quarter ended September 28, 2008 In Millions	Percentage of Total Net Sales(2)	Increase (Decrease) In Millions	Percentage
Europe [1]	$ 1.4	0.8%	$ 20.2	7.6%	$ (18.8)	(93.3)%
Americas	22.2	13.5	21.2	9.5	1.0	0.5
Asia	4.7	13.5	3.5	8.9	1.2	36.2
Subtotal	28.3	7.7	44.9	8.5	(16.6)	(36.9)
Restructuring charges-Europe	(3.2)	(1.9)	(1.0)	(0.4)	(2.2)	NA
Total operating earnings	$ 25.1	6.8%	$ 43.9	8.3%	$ (18.8)	(42.8)%

Year to date by region	Six fiscal months ended September 27, 2009 In Millions	Percentage of Total Net Sales(2)	Six fiscal months ended September 28, 2008 In Millions	Percentage of Total Net Sales(2)	Increase (Decrease) In Millions	Percentage

Europe [1]	$ 2.0	0.6%	$ 45.7	7.8%	$ (43.7)	(95.6)%
Americas	38.0	12.1	35.2	7.8	2.8	8.0
Asia	11.4	16.6	6.7	8.3	4.7	70.0
Subtotal	51.4	7.3	87.6	7.8	(36.2)	(41.3)
Gain on sale of manufacturing facility- Europe			10.9	1.9	(10.9)	NA
Restructuring charges- Europe	(6.0)	(1.8)	(3.2)	(0.6)	(2.8)	(87.5)
Restructuring charges- Americas	(0.7)	(0.3)			(0.7)	NA
Legal proceedings charge- Europe			(3.4)	(0.3)	3.4	NA
Total operating earnings	$ 44.7	6.3%	$ 91.9	8.2%	$ (47.2)	(51.4)%

[1] Includes Europe, Middle East and Africa

[2] The percentages shown for the regions and segments are computed as a percentage of the applicable region or segment s net sales.

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Operating earnings decreased 42.8% or $18.8 million in the second fiscal quarter of 2010 and decreased 51.4% or $47.2 million in the six fiscal months of 2010, in comparison to the second fiscal quarter and six fiscal months of 2009. Operating earnings as a percentage of net sales as shown in the table above, decreased 150 basis points in the second fiscal quarter of 2010, and decreased 190 basis points in the six fiscal months of 2010, when compared to the comparable periods of 2009.

Operating earnings in the second fiscal quarter and six fiscal months of 2010 included $3.2 million and $6.7 million, respectively, of highlighted restructuring charges. Operating earnings in the second fiscal quarter and six months of 2009 included $1.0 million of highlighted charges and a net favorable $4.3 million of highlighted credits and charges, respectively, as shown in the table above. In addition, as discussed above, our operating earnings were significantly affected by a decline in sales volume and selling prices; partially offset by lower raw material costs and our continuing cost savings programs.

Operating earnings decreased 11.0% in our reserve power business in the second fiscal quarter of 2010 in comparison to the comparable quarter in the prior year, while the operating margin increased 120 basis points to 12.0%. Despite a $48.1 million reduction, or 19.5%, in net sales, we realized a significant improvement in margins, primarily attributable to improved product mix, cost reduction initiatives, and falling commodity costs. Operating earnings decreased 74.5% in our motive power business in the second fiscal quarter of 2010 in comparison to the comparable quarter in the prior year, with the operating margin decreasing 380 basis points to 2.7%. The primary reason for this decline in earnings and operating margins was the $111.4 million reduction, or 39.7%, in net sales in the quarter, as motive power demand has fallen dramatically due to the global economic recession.

Operating earnings decreased 93.3% in our Europe region in the second fiscal quarter of 2010 in comparison to the comparable quarter in the prior year, with the operating margin decreasing 680 basis points to 0.8%. This significant reduction in our Europe region earnings is primarily attributable to a $98.1 million reduction, or 36.8%, in net sales, as European macro-economic conditions remained very weak.

Operating earnings in our Americas region increased 0.5% in the second fiscal quarter of 2010 in comparison to the comparable quarter in the prior year, with the operating margin increasing 400 basis points to 13.5%, despite a $57.4 million reduction, or 25.8%, in net sales, primarily from better product mix, cost reduction initiatives and improved commodity cost/price realization.

Operating earnings in our Asia region increased 36.2% in the second fiscal quarter of 2010, with the operating margin increasing 460 basis points to 13.5%. The significant improvement in Asia s earnings was primarily attributable to cost improvement initiatives and improved commodity cost/price realization.

Operating earnings decreased 6.4% in our reserve power business in the six fiscal months of 2010 in comparison to the comparable period in the prior year, with the operating margin increasing 230 basis points to 11.7%. Despite a $124.0 million reduction, or 24.6%, in net sales, we realized a significant improvement in margins, primarily attributable to improved product mix, cost reduction initiatives, and falling commodity costs. Operating earnings decreased 82.8% in our motive power business in the six fiscal months of 2010, in comparison to the comparable period in the prior year, with the operating margin decreasing 440 basis points to 2.1%. The primary reason for this decline in earnings and operating margins was the $287.2 million reduction, or 46.8%, in net sales in the period, as motive power demand has fallen dramatically due to the global economic recession.

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Operating earnings decreased 95.6% in our Europe region in the six fiscal months of 2010 in comparison to the comparable period in the prior year, with the operating margin decreasing 720 basis points to 0.6%. This significant reduction in Europe earnings is primarily attributable to a $262.1 million reduction, or 44.7%, in net sales, as European macro-economic conditions remained very weak.

Operating earnings in our Americas region increased 8.0% in the six fiscal months of 2010 in comparison to the comparable period in the prior year, while the operating margin increased 430 basis points to 12.1%. Earnings improved in our Americas region despite a $136.4 million reduction, or 30.2%, in net sales, primarily from better product mix, cost reduction initiatives and improved commodity cost/price realization.

Operating earnings in our Asia region increased 70.0% in the six fiscal months of 2010 in comparison to the comparable period in the prior year, with the operating margin increasing 830 basis points to 16.6%. The significant improvement in our Asia region earnings was primarily attributable to cost improvement initiatives and improved commodity cost/price realization and a $1 million gain from the sale of assets. Earnings improved in our Asia region despite of a $12.7 million reduction, or 15.6%, in net sales, primarily from better product mix, cost reduction initiatives and improved commodity cost/price realization.

INTEREST EXPENSE

	Fiscal quarter ended September 27, 2009		Fiscal quarter ended September 28, 2008		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	Percentage
Interest expense	$ 5.6	1.5%	$ 7.0	1.3%	$ (1.4)	(20.0)%

	Six fiscal months ended September 27, 2009		Six fiscal months ended September 28, 2008		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	Percentage
Interest expense	$ 11.0	1.6%	$ 13.6	1.2%	$ (2.6)	(19.1)%

Interest expense of $5.6 million in the second fiscal quarter of 2010 (net of interest income of $0.2 million) was $1.4 million lower than the $7.0 million in the second fiscal quarter of 2009 (net of interest income of $0.3 million). Interest expense of $11.0 million in the six fiscal months of 2010 (net of interest income of $0.4 million) was $2.6 million lower than the $13.6 million (net of interest income of $0.5 million) in the six fiscal months of 2009.

The decrease in interest expense in the second fiscal quarter and six fiscal months of 2010 compared to the comparable periods in fiscal 2009 is attributed primarily to lower borrowing levels resulting from strong net cash provided by operating activities and lower interest rates.

Our average debt outstanding (less the Convertible Notes discount) was $365.6 million and $369.3 million, respectively, in the second fiscal quarter and six fiscal months of 2010, compared to our average debt outstanding (less the Convertible Notes discount) of $406.1 million and $409.4 million, respectively, in the second fiscal quarter and six fiscal months of 2009. Included in our average debt outstanding was the Convertible Note discount of $40.3 million and $41.0 million, respectively in the second fiscal quarter and six fiscal months of 2010 and $45.4 million and $37.9 million, respectively, in the second fiscal quarter and six fiscal months of 2009.

Our average cash interest rates incurred in the second fiscal quarter and six fiscal months of 2010 were 4.3% and 4.3%, respectively, compared to 5.0% and 5.2%, respectively, in the second fiscal quarter and six fiscal months of 2009.

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Included in interest expense are non-cash, accreted interest on the Convertible Notes of $1.3 million and $2.7 million, respectively, in the second fiscal quarter and six fiscal months of 2010 and $1.2 million and $1.7 million, respectively, in the second fiscal quarter and six fiscal months of 2009.

Also included in interest expense are non-cash charges for deferred financing fees of $0.4 million and $0.9 million, respectively, in the second fiscal quarter and six fiscal months of 2010, compared to $0.5 million and $0.9 million, respectively, in the second fiscal quarter and six fiscal months of 2009.

CHARGES RELATED TO REFINANCING

	Six fiscal months ended September 27, 2009		Six fiscal months ended September 28, 2008		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	Percentage
Write-off of deferred financing fees	$	%	$ 4.0	0.4%	$ (4.0)	NA%
Loss on termination of interest rate swap agreements			1.2	0.1	(1.2)	NA
Charges related to refinancing	$	%	$ 5.2	0.5%	$ (5.2)	NA%

In the six fiscal months of 2009, we incurred charges in connection with the refinancing of amounts borrowed under our prior senior secured credit facility. These charges included approximately $4.0 million in write offs of deferred financing fees and $1.2 million of losses incurred as a result of the termination of certain interest rate swap agreements.

OTHER EXPENSE, NET

	Fiscal quarter ended September 27, 2009		Fiscal quarter ended September 28, 2008		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	Percentage
Other expense (income), net	$ 0.8	0.2%	$ 0.9	0.2%	$ (0.1)	(11.1)%

	Six fiscal months ended September 27, 2009		Six fiscal months ended September 28, 2008		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	Percentage
Other expense (income), net	$ 2.7	0.4%	$ 3.5	0.3%	$ (0.8)	(24.0)%

Other expense, net was $0.8 million in the second fiscal quarter of 2010 compared to $0.9 million in the comparable period of fiscal 2009.

Other expense, net was $2.7 million in the six fiscal months of 2010 compared to $3.5 million in the comparable period of fiscal 2009. This $0.8 million favorable change is primarily attributed to a $0.5 million write off of minority interest losses in the six fiscal months of 2009.

Additionally, the six fiscal months of 2010 and 2009 included $0.1 million and $0.3 million, respectively, of professional fees associated with secondary offerings.

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EARNINGS BEFORE INCOME TAXES

	Fiscal quarter ended September 27, 2009		Fiscal quarter ended September 28, 2008		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	Percentage
Earnings before income taxes	$ 18.7	5.1%	$ 36.0	6.8%	$ (17.3)	(48.1)%

	Six fiscal months ended September 27, 2009		Six fiscal months ended September 28, 2008		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	Percentage
Earnings before income taxes	$ 31.0	4.4%	$ 69.6	6.2%	$ (38.6)	(55.5)%

As a result of the above, earnings before income taxes in the second fiscal quarter of 2010 decreased $17.3 million or 48.1% and earnings before income taxes in the six fiscal months of 2010 decreased $38.6 million or 55.5% compared to six fiscal months of 2009. Earnings before income taxes as a percentage of sales were 5.1% and 4.4%, respectively, in the second fiscal quarter and six fiscal months of 2010 in comparison to 6.8% and 6.2%, respectively, in the second fiscal quarter and six fiscal months of 2009.

INCOME TAX EXPENSE

	Fiscal quarter ended September 27, 2009		Fiscal quarter ended September 28, 2008		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	Percentage
Income tax expense	$ 5.8	1.6%	$ 11.6	2.2%	$ (5.8)	(50.0)%
Effective tax rate	31.0%		32.2%		(1.2)%	

	Six fiscal months ended September 27, 2009		Six fiscal months ended September 28, 2008		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	Percentage
Income tax expense	$ 9.7	1.4%	$ 20.0	1.8%	$ (10.3)	(51.6)%
Effective tax rate	31.2%		28.7%		2.5%	

The effective income tax rates for the second fiscal quarters of 2010 and 2009 were 31.0% and 32.2%, respectively. The rate decrease in the second fiscal quarter of 2010 as compared to the comparable prior year period is due to a change in the mix of earnings to lower tax rate jurisdictions in the second fiscal quarter of 2010. The effective income tax rates for the six fiscal months of 2010 and 2009 were 31.2% and 28.7%, respectively. The rate increase in the six fiscal months of 2010 as compared to the comparable prior year period is primarily due to a lower effective tax rate on the gain from the sale of our manufacturing facility in Manchester, England, and a $1.1 million tax benefit primarily due to the settlement of a foreign tax audit, both occurring during the six fiscal months of 2009.

NET EARNINGS

	Fiscal quarter ended September 27, 2009		Fiscal quarter ended September 28, 2008		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	Percentage
Net earnings	$ 12.9	3.5%	$ 24.4	4.6%	$ (11.5)	(47.2)%

	Six fiscal months ended September 27, 2009		Six fiscal months ended September 28, 2008		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	Percentage
Net earnings	$ 21.3	3.0%	$ 49.6	4.4%	$ (28.3)	(57.1)%

As a result of the above, net earnings in the second fiscal quarter of 2010 were $12.9 million (3.5% of net sales), or a decrease of 47.2% compared to net earnings in the second fiscal quarter of 2009 of $24.4 million (4.6% of net sales). Net earnings in the six months of fiscal 2010 were $21.3 million (3.0% of net sales), or a decrease of 57.1% compared to net earnings in the six fiscal months of 2009 of $49.6 million (4.4% of net sales).

Net earnings per common share in the second fiscal quarter of 2010 were $0.27 per basic share and $0.26 per diluted share compared to $0.49 per basic share and $0.48 per diluted share in the second fiscal quarter of 2009. Net earnings per common share in the six fiscal months 2010 were $0.44 per basic and diluted shares, compared to $1.00 per basic and $0.98 per diluted share in the six fiscal months 2009.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In May 2008, the FASB issued new guidance on accounting for convertible debt instruments that may be settled in cash upon conversion. This guidance changed the accounting treatment for convertible securities which the issuer may settle fully or partially in cash. Under the guidance, cash settled convertible securities are separated into their debt and equity components. The value assigned to the debt component is the estimated fair value, as of the issuance date, of a similar debt instrument without the conversion feature, and the difference between the proceeds for the convertible debt and the amount reflected as a debt liability is recorded as additional paid-in capital. As a result, the debt is recorded at a discount reflecting its below market coupon interest rate. The debt will subsequently be accreted to its par value over its expected life, with the rate of interest that reflects the market rate at issuance being reflected on the income statement. This change in methodology affects the calculations of net income and earnings per share for many issuers of cash settled convertible securities. This new guidance is effective for financial statements issued by us for the first quarter of fiscal year 2010 and must be applied retrospectively to fiscal 2009.

Accordingly, the adoption of the guidance had an impact on our financial position and results of operations, applied on a retrospective basis: a) the separation of our convertible debt into its debt and equity components which reduced long term debt and increased equity by $46.3 million and, b) the accretion of debt discount increased interest expense by a non-cash charge of approximately $1.7 million, retrospectively in the six fiscal months of 2009, increasing to approximately $8 million in fiscal 2015.

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There have been no other 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 Annual Report on Form 10-K for the fiscal year ended March 31, 2009.

LIQUIDITY AND CAPITAL RESOURCES

Operating activities provided cash of $81.4 million for the six fiscal months of 2010, compared to cash provided of $64.3 million in the comparable period of fiscal 2009.

In the six fiscal months of 2010, cash from operating activities was provided primarily from net earnings of $21.3 million, depreciation of $22.5 million and $46.5 million from the reduction in primary working capital.

In the six fiscal months of 2009, cash from operating activities was provided primarily from net earnings of $49.6 million, depreciation of $26.0 million and an increase in accrued expenses of $10.0 million, partially offset by the negative effects of $10.2 million used for primary working capital and a $10.9 million adjustment to reconcile net earnings to net cash provided by operating activities, related to the gain on sale of a manufacturing facility in Manchester, England.

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 $417.4 million (yielding a primary working capital percentage of 28.4%) at September 27, 2009, $437.9 million (yielding a primary working capital percentage of 27.8%) at March 31, 2009, and $562.8 million (yielding a primary working capital percentage of 26.7%) at September 28, 2008. The primary working capital percentage of 28.4% at September 27, 2009 is 0.6 percentage points above that for March 31, 2009, and 1.7 percentage points above that for the prior year quarter.

Primary working capital decreased during the six fiscal months of 2010, due to an increase in accounts payable and a decrease in trade receivables, partially offset by the increase in inventory. Trade receivables decreased as a result of lower sales, but increased as a percentage of annualized sales. We recognize there is additional credit risk in the current economic environment and we are taking appropriate steps to mitigate this risk. However, we do not believe the increase in credit risk in the six fiscal months of 2010 is material to our overall business. Since March 31, 2009, we increased our reserve for bad debts by approximately $2.8 million, to a level that we believe is adequate at this time. Over the past year, we significantly reduced inventory levels as demand softened and we are continuing to adjust production levels and inventory balances to correspond with changes in demand. We increased inventory a modest amount during the six fiscal months ended September 27, 2009, after excluding the effect of declining foreign currencies. Despite the favorable decrease in primary working capital during the six fiscal months of 2010, the primary working capital percentage increased 0.6 percentage points, reflecting a 30% decrease in annualized sales resulting from the slowdown in global commerce.

Primary working capital and primary working capital percentages at September 27, 2009, March 31, 2009 and September 28, 2008 are computed as follows:

Balance At	Trade Receivables	Inventory	Accounts Payable	Total	Quarter Revenue Annualized	Primary Working Capital%
			(in millions)			
September 27, 2009	$ 351.6	$ 227.9	$ (162.1)	$ 417.4	$ 1,469.2	28.4%
March 31, 2009	356.2	209.3	(127.6)	437.9	1,572.6	27.8%
September 28, 2008	464.4	303.8	(205.4)	562.8	2,107.0	26.7%

Investing activities used cash of $22.8 million in the six fiscal months of fiscal 2010, compared to cash used of $19.3 million in the comparable period in fiscal 2009. This increase was primarily due to the proceeds of $7.6 million received in the six fiscal months of 2009, primarily from the sale of the Manchester, England facility. Capital expenditures were $19.8 million in the six fiscal months of 2010, compared to $26.8 million in the six fiscal months of 2009. The capital spending in the six fiscal months of 2010 includes the continuation of a capacity expansion of our thin plate, pure lead manufacturing facilities for which we anticipate spending a total of approximately $50 million on this project before expected completion in fiscal 2010.

Financing activities used cash of $11.0 million in the six fiscal months of 2010, primarily for the repayment of short-term debt. This compares to $21.0 million of cash provided in the comparable period of fiscal 2009. During the six fiscal months fiscal 2009, we repaid $351.4 million borrowed under our prior senior secured credit facility with the issuance of $172.5 million of Convertible Notes, and $225.0 million of Term A loans borrowed under our new $350 million senior secured credit facility. In addition, we repaid $22.9 million of short term debt in the six fiscal months of 2010. The exercise of stock options and the related tax benefits contributed $2.0 million in the six fiscal months of 2010, compared to $10.6 million in the comparable period of fiscal 2009. Finally, in the six fiscal months of the prior year, we made cash payments of $10.5 million for deferred financing costs related to the new Convertible Notes and senior secured credit facility.

As a result of the above, total cash and cash equivalents increased by $55.8 million to $219.0 million in the six fiscal months of 2010 compared to an increase of $65.0 million to $85.6 million in the comparable period of fiscal 2009.

All obligations under our U.S. Credit Agreement are secured by, among other things, substantially all of our U.S. assets. All obligations under our Euro Credit Agreement are secured by a pledge of the shares of our Italian subsidiary and a guaranty from EnerSys. Our U.S. and Euro Credit Agreements contain 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.

We currently 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 adequate availability of funds to meet our cash requirements. See Note 8 to the Consolidated Financial Statements included in our 2009 Annual Report on Form 10-K for a detailed description of debt.

RELATED PARTY TRANSACTIONS

In the six fiscal months of 2010, certain of the Company s stockholders sold 3,200,000 shares of our common stock pursuant to an effective shelf registration statement filed with the Securities and Exchange Commission on May 19, 2008. The offered shares were sold by those stockholders of the Company, including affiliates of Metalmark Capital LLC and certain other institutional stockholders.

In the six fiscal months of 2009, concurrently with the Convertible Notes offering, certain of the our stockholders sold 3,690,000 shares of our common stock in a secondary offering pursuant to an effective shelf registration statement filed with the Securities and Exchange Commission on May 19, 2008. The offered shares were sold by certain of our stockholders, including affiliates of Metalmark Capital LLC and certain other institutional stockholders.

We did not receive any proceeds from the common stock offerings; however, under the terms of our securityholder agreement, we did incur fees related to the offerings of $0.1 million in the six fiscal months of 2010 and $0.3 million in the six fiscal months of 2009.

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 September 27, 2009 and March 31, 2009 such agreements effectively convert $170.0 million of our 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 our net financial investment position and the amount of cash to be paid or received by us under these agreements. The following commentary provides details for the outstanding interest rate swap agreements:

In October 2005, we entered into interest rate swap agreements to fix interest rates on $75.0 million of floating rate debt through December 22, 2010. The fixed rates per year plus an applicable credit spread began December 22, 2005, and are 4.25% during the first year, 4.525% the second year, 4.80% the third year, 5.075% the fourth year, and 5.47% in the fifth year.

In August 2007, we entered into interest rate swap agreements, which became effective in February 2008, to fix interest rates on $40.0 million of floating rate debt through February 22, 2011, at 4.85% per year.

In November 2007, we entered into interest rate swap agreements which became effective in May 2008, to fix interest rates on $40.0 million of floating rate debt through May 7, 2013, at 4.435% per year.

In December 2007, we entered into $45.0 million of interest rate swap agreements which became effective in February and May 2008, to fix the interest rates on $20.0 million of floating rate debt through February 22, 2013, at 4.134% per year and to fix the interest rates on $25.0 million of floating rate debt through May 7, 2013, at 4.138% per year.

In connection with the issuance of $172.5 million aggregate principal amount of Convertible Notes and the repayment of a portion of the senior secured Term Loan B in May 2008, we terminated $30 million of interest rate swap agreements which had been placed in October, 2005, at a loss of $1.2 million.

A 100 basis point increase in interest rates would increase interest expense by approximately $0.7 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 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 at the dates shown below:

Date	$ s Under Contract (in millions)	# Pounds Purchased (in millions)	Average Cost/Pound	Approximate% of Lead Requirements (1)
September 27, 2009	$ 44.1	45.9	$ 0.96	13%
March 31, 2009	$ 14.9	29.7	$ 0.50	7%
September 28, 2008	$ 33.1	40.5	$ 0.82	9%

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

For the remaining two quarters of this fiscal year, approximately 80% of the cost of our lead requirements are known. This takes into account the hedge contracts in place at September 27, 2009, and lead purchased by September 27, 2009 that will be reflected in future costs under our FIFO accounting treatment, and the benefit from our lead tolling program.

We estimate that a 10% increase in our cost of lead per pound over our cost in fiscal 2009 would increase our fiscal 2010 annual total cost of goods sold by approximately $38 million or 4% of annualized six fiscal months of 2010 total cost of goods sold.

Foreign Currency Exchange Rate Risks

We manufacture and assemble our products primarily in Bulgaria, China, France, Germany, Mexico, Poland, the United Kingdom and the United States. Over half of our sales and expenses are translated in foreign currencies. Our sales revenue, production costs, profit margins and competitive position are affected by the strength of the currencies in countries where we manufacture or purchase goods relative to the strength of the currencies in countries where our products are sold. Additionally, as we report our financial statements in U.S. dollars, our financial results are affected by the strength of the currencies in countries where we have operations relative to the strength of the U.S. dollar. The principal foreign currencies in which we conduct business are the euro, British pound, Polish zloty and Chinese renminbi.

We quantify and monitor our global foreign currency exposures. On a selective basis we will enter into foreign currency forward contracts and option contracts to reduce our impact from the volatility of currency movements. Based primarily on statistical currency correlations on our exposures in fiscal 2010, we are confident that the pretax effect on annual earnings of changes in the principal currencies in which we conduct our business would not be in excess of approximately $12 million in more than one year out of twenty years.

Our largest exposure is from the purchase and conversion of U.S. dollar-based lead costs into local currencies in Europe. Additionally, we have currency exposures from intercompany trade transactions. To hedge these exposures, we have entered into forward contracts with financial institutions to fix the value at which we will buy or sell certain currencies. Each contract is for a period not extending beyond one year. As of September 27, 2009 and March 31, 2009, we had entered into a total of $54.6 million and $19.4 million, respectively, as follows:

	September 27, 2009			March 31, 2009		
Transactions Hedged	$US Equivalent (in millions)	Average Rate Hedged	Approximate% of Annual requirements (1)	$US Equivalent (in millions)	Average Rate Hedged	Approximate % of Annual requirements (1)
Sell euros for U.S. dollars	$ 18.8	$/ 1.39	11%	$ 2.0	$/ 1.39	1%
Sell euros for Polish zloty	26.3	PLN/ 4.27	47%	8.4	PLN/ 4.40	18%
Sell euros for UK pounds	7.3	/£0.86	31%	6.4	/£0.91	24%
Sell U.S. dollars for Singapore dollars				2.0	Sgd/$1.51	39%
Other	2.2			0.6		
Total	$ 54.6			$ 19.4		

(1) Based on the fiscal year currency requirements.

Foreign exchange translation adjustments are recorded in the Consolidated Condensed Statements of Comprehensive Income.

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

ITEM 4. CONTROLS AND PROCEDURES.

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

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

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PART II OTHER INFORMATION.

Item 1. Legal Proceedings.

In the first fiscal quarter of 2009, the Court of Commerce in Lyon, France ruled that our French subsidiary, EnerSys Sarl, which we acquired in 2002, was partially responsible for a 1999 fire in a French hotel under construction. EnerSys Sarl s portion of the damages was assessed at 2.7 million euros, or $4.2 million. We recorded a $3.4 million charge in the first fiscal quarter of 2009. The remaining balance of approximately $0.8 million had been accrued previously in connection with our acquisition of the assets, stock and business of substantially all of the subsidiaries and affiliates comprising the Energy Storage Group of Invensys plc (ESG) in 2002. The assessment was paid in the third fiscal quarter of 2009. We have appealed this ruling.

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

Item 1A. Risk Factors.

In addition to the other information set forth in this Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended March 31, 2009, which could materially affect our business, financial condition or future results.

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

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

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

Purchases of Equity Securities

Period	(a) Total number of shares (or units) purchased	(b) Average price paid per share (or unit)	(c) Total number of shares (or units) purchased as part of publicly announced plans or programs	(d) Maximum number (or approximate dollar value) of shares (or units) that may be purchased under the plans or programs
June 29 July 26, 2009	11,657	$ 17.15		
July 27 August 23, 2009	37,260	21.81		
August 24 September 27, 2009				
Total	48,917	$ 20.17		

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Item 4. Submission of Matters to a Vote of Security Holders

(a) The 2009 Annual Meeting of Stockholders of the Registrant was held on July 23, 2009.

(b) The following Class II directors were elected at the annual meeting: Hwan-yoon F. Chung, Arthur T. Katsaros and Gen. Robert Magnus, USMC (Retired)

(c) The following matters were voted on at the Annual Meeting:

Proposal 1: Election of Directors

	Number of Votes Cast			
Name of Director	**For**	**Withheld**	**Abstentions**	**Broker Non-Votes**
Hwan-yoon F. Chung	42,027,315	3,120,333	NA	NA
Arthur T. Katsaros	42,432,971	2,714,677	NA	NA
Gen. Robert Magnus, USMC (Retired)	44,227,703	919,945	NA	NA

Proposal 2: Ratification of the appointment of Ernst & Young LLP as the Company s registered public accounting firm for the fiscal year ending March 31, 2010.

Number of Votes Cast			
For	**Against or Withheld**	**Abstentions**	**Broker Non-Votes**
44,724,666	399,494	23,487	

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Item 6. Exhibits.

Exhibit Number	Description of Exhibit
3.1	Fifth Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to Amendment No. 3 to EnerSys Registration Statement on Form S-1 (File No. 333-115553) filed on July 13, 2004).
3.2	Bylaws (incorporated by reference to Exhibits 3.2 to Amendment No. 3 to EnerSys Registration Statement on Form S-1 (File No. 333-115553) filed on July 13, 2004).
4.1	2004 Securityholder Agreement (incorporated by reference to Exhibit 4.2 to Amendment No. 4 to EnerSys Registration Statement on Form S-1 (File No. 333-115553) filed on July 26, 2004).
4.2	Consent to Waiver dated as of November 1, 2007, between EnerSys, Morgan Stanley Dean Witter Capital Partners IV, L.P. and MSDW IV 892 Investors, L.P. (incorporated by reference to Exhibit 4.2 to EnerSys Annual Report on Form 10-K (File No. 001-32253) filed on June 11, 2008).
4.3	Consent to Waiver dated as of February 2, 2008, by and between Morgan Stanley Dean Witter Capital Partners IV, L.P., MSDW IV 892 Investors, L.P. and EnerSys. (incorporated by reference to Exhibit 4.3 to EnerSys Annual Report on Form 10-K (File No. 001-32253) filed on June 11, 2008).
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) Under the Securities Exchange Act of 1934 (filed herewith).
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) Under the Securities Exchange Act of 1934 (filed herewith).
32.1	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).

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SIGNATURES

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

ENERSYS (Registrant)

By /s/ Michael J. Schmidtlein
Michael J. Schmidtlein
Vice President & Corporate Controller
(Functioning as Principal Financial Officer at the date of this report)

Date: October 29, 2009

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EnerSys

EXHIBIT INDEX

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