

EnerSys  
Form 10-Q  
August 11, 2010  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended July 4, 2010

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-32253

**EnerSys**

(Exact name of registrant as specified in its charter)

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<b>Delaware</b> (State or other jurisdiction of incorporation or organization)	<b>23-3058564</b> (I.R.S. Employer Identification No.)
<b>2366 Bernville Road</b> <b>Reading, Pennsylvania</b> (Address of principal executive offices)	<b>19605</b> (zip code)
<b>Registrant's telephone number, including area code 610-208-1991</b>	

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule

12b-2 of the Securities Exchange Act of 1934.

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).

YES  NO.

**Common Stock outstanding at August 6, 2010: 49,100,512 shares**

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**ENERSYS**

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

	<b>July 4, 2010</b>	<b>March 31, 2010</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 173,814	\$ 201,042
Accounts receivable, net	352,915	383,641
Inventories, net	277,795	254,371
Deferred taxes	17,914	16,378
Prepaid and other current assets	45,834	39,849
Total current assets	868,272	895,281
Property, plant, and equipment, net	302,679	315,141
Goodwill	307,610	317,265
Other intangible assets, net	90,472	90,136
Other assets	31,259	34,187
Total assets	\$ 1,600,292	\$ 1,652,010
<b>Liabilities and equity</b>		
Current liabilities:		
Short-term debt	\$ 73	\$ 43
Current portion of long-term debt and capital lease obligations	25,772	26,695
Accounts payable	176,579	198,345
Accrued expenses	178,544	194,430
Total current liabilities	380,968	419,513
Long-term debt and capital lease obligations	319,077	323,748
Deferred taxes	68,449	70,023
Other liabilities	52,293	54,502
Total liabilities	820,787	867,786
Equity:		
Common Stock, \$0.01 par value per share, 135,000,000 shares authorized; 50,900,512 shares issued and 49,100,512 outstanding at July 4, 2010; 50,381,832 shares issued and 48,581,832 outstanding at March 31, 2010	508	504
Additional paid-in capital	437,288	428,579
Treasury stock, at cost, 1,800,000 shares held as of July 4, 2010 and March 31, 2010	(19,800)	(19,800)
Retained earnings	326,437	303,410
Accumulated other comprehensive income	30,667	67,204
Total EnerSys stockholders' equity	775,100	779,897
Non-controlling interest	4,405	4,327

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Total equity	779,505	784,224
Total liabilities and equity	\$ 1,600,292	\$ 1,652,010

See accompanying notes.

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

	Quarter ended	
	July 4, 2010	June 28, 2009
Net sales	\$ 434,969	\$ 340,265
Cost of goods sold	338,355	262,804
Gross profit	96,614	77,461
Operating expenses	58,411	54,408
Restructuring charges	723	3,519
Operating earnings	37,480	19,534
Interest expense	6,027	5,378
Other expense (income), net	(91)	1,882
Earnings before income taxes	31,544	12,274
Income tax expense	8,517	3,863
Net earnings	\$ 23,027	\$ 8,411
Net earnings per common share:		
Basic	\$ 0.47	\$ 0.18
Diluted	\$ 0.47	\$ 0.17
Weighted-average shares of common stock outstanding:		
Basic	48,819,481	47,936,401
Diluted	49,442,915	48,454,695

See accompanying notes.

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

	<b>Quarter ended</b>	
	<b>July 4, 2010</b>	<b>June 28, 2009</b>
<b>Cash flows from operating activities</b>		
Net earnings	\$ 23,027	\$ 8,411
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	11,176	10,554
Provision for doubtful accounts	148	780
Change in deferred income taxes	(70)	(183)
Stock-based compensation	2,110	1,606
Non-cash interest expense	1,860	1,747
Gain on disposal of fixed assets	0	(534)
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	18,907	37,179
Inventory	(32,404)	5,674
Prepaid and other current assets	(9,342)	(3,015)
Other assets	(520)	988
Accounts payable	(15,164)	13,953
Accrued expenses	(12,524)	(11,732)
Other liabilities	59	(2,667)
Net cash (used in) provided by operating activities	(12,737)	62,761
<b>Cash flows from investing activities</b>		
Capital expenditures	(10,871)	(9,962)
Acquisitions	(1,195)	0
Proceeds from disposal of property, plant, and equipment	0	1,194
Net cash used in investing activities	(12,066)	(8,768)
<b>Cash flows from financing activities</b>		
Net increase (decrease) in short-term debt	51	(4,264)
Payments of long-term debt	(6,414)	0
Capital lease obligations and other	337	(110)
Net effect from exercising of stock options and vesting of equity awards	3,526	(260)
Tax benefits from exercises of stock options	3,077	410
Net cash provided by (used in) financing activities	577	(4,224)
Effect of exchange rate changes on cash and cash equivalents	(3,002)	4,732
Net (decrease) increase in cash and cash equivalents	(27,228)	54,501
Cash and cash equivalents at beginning of period	201,042	163,161
Cash and cash equivalents at end of period	\$ 173,814	\$ 217,662

See accompanying notes.





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	Quarter ended	
	July 4, 2010	June 28, 2009
Net earnings	\$ 23,027	\$ 8,411
Other comprehensive (loss) income:		
Net unrealized (loss) gain on derivative instruments, net of tax	(3,563)	3,256
Pension funded status adjustment, net of tax	95	(212)
Foreign currency translation adjustments	(33,069)	37,932
Total comprehensive (loss) income	\$ (13,510)	\$ 49,387

See accompanying notes.

**Table of Contents****ENERSYS****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 2010 Annual Report on Form 10-K (SEC File No. 001-32253), which was filed on June 1, 2010.

The Company reports interim financial information for 13-week periods, except for the first quarter, which always begins on April 1, and the fourth quarter, which always ends on March 31. The four quarters in fiscal 2011 end on July 4, 2010, October 3, 2010, January 2, 2011, and March 31, 2011, respectively. The four quarters in fiscal 2010 ended on June 28, 2009, September 27, 2009, December 27, 2009, and March 31, 2010, respectively.

**NOTE 2: Recently Issued Accounting Standards**

There were no new accounting standards that became applicable to the Company during the first quarter of fiscal 2011. See Note 1 of the Company's 2010 Annual Report on Form 10-K for new accounting pronouncements.

**NOTE 3: Inventories**

Inventories, net consist of:

	<b>July 4, 2010</b>	<b>March 31, 2010</b>
Raw materials	\$ 69,529	\$ 66,288
Work-in-process	85,435	80,397
Finished goods	122,831	107,686
Total	\$ 277,795	\$ 254,371

Inventory reserves for obsolescence and other estimated losses were \$12,407 and \$11,678 at July 4, 2010 and March 31, 2010, respectively, and have been included in the net amounts shown above.

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The Financial Accounting Standards Board ( FASB ) guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This 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 Company uses the following valuation techniques to measure fair value for its financial assets and financial liabilities:

Level 1 Inputs are unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs are quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable and market-corroborated inputs which are derived principally from or corroborated by observable market data.

Level 3 Inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable.

The following tables represent the financial assets and (liabilities), measured at fair value on a recurring basis as of July 4, 2010 and March 31, 2010 and the basis for that measurement:

	Total Fair Value Measurement July 4, 2010	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	\$ (9,407)	\$	\$ (9,407)	\$
Lead forward contracts	(4,788)		(4,788)	
Foreign currency forward contracts	977		977	
Total derivatives	\$ (13,218)	\$	\$ (13,218)	\$

	Total Fair Value Measurement March 31, 2010	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest rate swap agreements	\$ (9,710)	\$	\$ (9,710)	\$
Lead forward contracts	62		62	
Foreign currency forward contracts	1,911		1,911	
Total derivatives	\$ (7,737)	\$	\$ (7,737)	\$

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

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

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The Company's financial instruments include cash, cash equivalents, debt and derivatives.

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

The fair value of the Company's senior secured credit facility approximates its carrying value, as it is variable rate debt. The senior unsecured 3.375% Convertible Notes due 2038 (the "Convertible Notes"), with a face value of \$172,500, were issued when the Company's stock price was trading at \$30.19 per share. On July 2, 2010, the Company's stock price closed at \$21.32 per share. Because the Convertible Notes have a conversion option at \$40.60 per share, and due to current conditions in the financial markets, the Company's Convertible Notes were trading at 91% of face value on July 2, 2010 and at 94% of face value on March 31, 2010. As of July 4, 2010 and March 31, 2010, the unamortized discount on the Convertible Notes was \$35,147 and \$36,580, respectively, and included in the equity component of the Consolidated Condensed Balance Sheets in accordance with the accounting guidance (see Note 10 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 Company uses interest rate swap agreements to manage risk on a portion of its floating-rate debt.

The carrying amounts and estimated fair values of the Company's financial instruments at July 4, 2010 and March 31, 2010 are as follows:

	July 4, 2010		March 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial assets:</b>				
Cash and cash equivalents	\$ 173,814	\$ 173,814	\$ 201,042	\$ 201,042
Derivatives <sup>(3)</sup>	977	977	1,973	1,973
<b>Financial liabilities:</b>				
<b>Long-Term Debt</b>				
Term A Loan	\$ 196,875	\$ 196,875	\$ 201,094	\$ 201,094
Convertible Notes	137,353 <sup>(1)</sup>	156,975 <sup>(2)</sup>	135,920 <sup>(1)</sup>	161,978 <sup>(2)</sup>
Euro Term Loan	8,149	8,149	11,158	11,158
Other	39	39	41	41
Capital lease obligations	2,433	2,433	2,230	2,230
Derivatives <sup>(3)</sup>	14,195	14,195	9,710	9,710

(1) The carrying amounts of the Convertible Notes at July 4, 2010 and March 31, 2010 represent the \$172,500 principal value, less the unamortized debt discount (see Note 10).

(2) The fair value amounts of the Convertible Notes represent the trading values of the \$172,500 principal value of the Convertible Notes at July 2, 2010 and March 31, 2010.

(3) Represents interest rate swap agreements, lead and foreign currency hedges.



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

**(In Thousands, Except Share and Per Share Data)**

**NOTE 5: Derivative Financial Instruments**

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 and inventories. At that time, the portion recorded in accumulated other comprehensive income is recognized in the Consolidated Condensed Statements of Income. The amount of accumulated other comprehensive income related to interest rates, lead and foreign exchange contracts at July 4, 2010 and March 31, 2010, net of tax, was an unrecognized loss of \$8,598 and \$5,034, respectively.

During the first quarters of fiscal 2011 and 2010, the Company recorded losses of (\$1,975) and (\$1,516), respectively, on interest rate swaps, which were recorded as increases in interest expense. During the first quarters of fiscal 2011 and 2010, the Company recorded (losses) gains of (\$3,606) and \$3,116, respectively, on the settlement of lead hedge contracts and gains of \$1,938 and \$1,070, respectively, on foreign currency hedges, which were recorded as decreases or increases to cost of goods sold or included in inventory at the respective quarter ends.

In the coming twelve months, the Company anticipates that \$5,374 of the current pretax loss will be reclassified from Accumulated Other Comprehensive Income as part of interest expense. In the coming twelve months, the Company anticipates that \$3,686 of the current pretax loss will be reclassified from Accumulated Other Comprehensive Income as part of cost of goods sold and inventory. This amount represents the current unrealized impact of hedging lead and foreign exchange rates, which will change as market rates change in the future, and will ultimately be realized in the income statement as an offset to the corresponding actual impact of incrementally lower lead cost to be realized in connection with the variable lead cost and foreign exchange being hedged.

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Presented below in tabular form is information on the location and amounts of derivative fair values in the Consolidated Condensed Balance Sheets and derivative gains and losses in the Consolidated Condensed Statements of Income:

**Fair Value of Derivative Instruments Designated as Hedging Instruments****In the Consolidated Condensed Balance Sheets****July 4, 2010 and March 31, 2010**

Description	Balance Sheet Location	Asset Derivatives		Liability Derivatives	
		July 4, 2010	March 31, 2010	July 4, 2010	March 31, 2010
Interest rate swap agreements	Other assets	\$	\$	Other liabilities	\$ 9,407 \$ 9,710
Lead hedge forward contracts	Prepaid and other current assets		62	Accrued expenses	4,788
Foreign currency forward contracts	Prepaid and other current assets	977	1,911	Accrued expenses	
<b>Total derivatives designated as hedging instruments</b>		<b>\$ 977</b>	<b>\$ 1,973</b>		<b>\$ 14,195 \$ 9,710</b>

**The Effect of Derivative Instruments on the Consolidated Condensed Statements of Income****For the quarters ended July 4, 2010 and June 28, 2009**

Cash Flow Hedging Relationships	Amount of Pretax Gain (Loss) Recognized in OCI (1) on Derivatives (Effective Portion)		Location of Gain (Loss) Reclassified from Accumulated OCI (1) into Income (Effective Portion)	Amount of Pretax Gain (Loss) Reclassified from Accumulated OCI(1) (Effective Portion)	
	July 4, 2010	June 28, 2009		July 4, 2010	June 28, 2009
Interest rate swap agreements	\$ (1,672)	\$ 1,281	Interest expense	\$ (1,975)	\$ (1,516)
Lead hedge contracts	(8,456)	5,244	Cost of goods sold/Inventory	(3,606)	3,116
Foreign currency forward contracts	1,004	1,144	Cost of goods sold/Inventory	1,938	1,070
	\$ (9,124)	\$ 7,669		\$ (3,643)	\$ 2,670



**Total derivatives designated as hedging instruments**

(1) OCI = Other comprehensive income

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The Company's income tax provisions for all periods consist of federal, state and foreign income taxes. The tax provisions for the first quarters of fiscal 2011 and 2010 were based on the estimated effective tax rates applicable for the full years ending March 31, 2011 and March 31, 2010, respectively, after giving effect to items specifically related to the interim periods.

The effective income tax rates for the first quarters of fiscal 2011 and 2010 were 27.0% and 31.5%, respectively. The rate decrease in the first quarter of fiscal 2011 as compared to the comparable prior year period is due to a change in the mix of earnings among tax jurisdictions.

**NOTE 7: Warranties**

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

	Quarter ended	
	July 4, 2010	June 28, 2009
Balance at beginning of period	\$ 31,739	\$ 30,914
Current period provisions	3,905	1,599
Costs incurred	(3,552)	(2,952)
Foreign exchange and other	(791)	1,158
Balance at end of period	\$ 31,301	\$ 30,719

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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 2010 Annual Report on Form 10-K).

*Environmental Issues*

As a result of its operations, the Company is subject to various federal, state, and local, as well as international environmental laws and regulations and is exposed to the costs and risks of handling, processing, storing, transporting, and disposing of hazardous substances, especially lead and acid. The Company's operations are also subject to federal, state, local and international occupational safety and health regulations, including laws and regulations relating to exposure to lead in the workplace.

As more fully described in Notes 19 to the Consolidated Financial Statements included in the Company's 2010 Annual Report on Form 10-K, the Company may have potential environmental liabilities at its Sumter, South Carolina facility and has reserves of \$3,527 at July 4, 2010, and \$3,682 at March 31, 2010. 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. The vast majority of such contracts are for a period not extending beyond one year. Under these contracts, at July 4, 2010 and March 31, 2010, the Company has hedged the price to purchase 50,641 and 63,335 pounds of lead, respectively, for a total purchase price of \$44,922 and \$60,724, 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. Additionally, the Company has currency exposures from intercompany trade transactions. To hedge these exposures, the Company has entered into a total of \$75,578 and \$64,234, respectively, of foreign currency forward contracts with financial institutions as of July 4, 2010 and March 31, 2010.

*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 July 4, 2010 and March 31, 2010, 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.

**Table of Contents****ENERSYS****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited) (Continued)****(In Thousands, Except Share and Per Share Data)****NOTE 9: Restructuring Plans**

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

***Acquisition related restructuring plans established through purchase accounting***

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 Energy Storage Group of Invensys plc. ( ESG ). In 2002, following EnerSys' acquisition of ESG, the Company formulated an exit and restructuring plan for certain ESG facilities in North America and Europe.

The balance of the ESG acquisition-related restructuring reserve at July 4, 2010 is \$1,472 including employee-severance liability in the United Kingdom of \$949 and demolition related costs in Germany of \$423. The reserves were initially established in the opening balance sheets of these acquired entities and were not included in earnings of the Company.

A roll-forward of the acquisition related restructuring reserve for the first quarter of fiscal 2011 is as follows:

	<b>Employee Severance</b>	<b>Contractual Obligations</b>	<b>Plant Closures &amp; Other</b>	<b>Total</b>
Balance at March 31, 2010	\$ 983	\$ 441	\$ 145	\$ 1,569
Costs incurred			(35)	(35)
Foreign currency impact and other	(34)	(18)	(10)	(62)
Balance at July 4, 2010	\$ 949	\$ 423	\$ 100	\$ 1,472

***Acquisition related restructuring plans charged to earnings***

In fiscal 2010, the Company acquired the stock of OEB Traction Batteries and certain operating assets and liabilities of the reserve power battery business of Accu Holding AG and its Swedish sales subsidiary (all collectively referred to as Oerlikon ). The Company is finalizing plans for restructuring Oerlikon and in the first quarter of fiscal year 2011 incurred \$96 in charges related to this plan with an ending accrual balance of \$869.

A roll-forward of the acquisition related restructuring reserve for the first quarter of fiscal 2011 is as follows:

	<b>Employee Severance</b>	<b>Total</b>
Balance at March 31, 2010	\$ 1,292	\$ 1,292
Accrued	96	96
Costs incurred	(519)	(519)
Balance at July 4, 2010	\$ 869	\$ 869

***Non-acquisition related restructuring plans***

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The Company bases its accounting and disclosures primarily on FASB guidance on Accounting for Costs Associated with Exit or Disposal Activities. As a result, charges to net earnings were made in the periods in which restructuring plans liabilities were incurred.

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In February and May 2009, the Company announced a plan to restructure certain of its European and American operations, which will result in a reduction of approximately 515 employees upon completion across its operations. These actions are primarily in Europe, the most significant of which was the closure of its leased Italian manufacturing facility and the opening of a new Italian distribution center. The Company estimates that the total charges for these actions will amount to approximately \$33,000, which includes cash expenses of approximately \$24,000, primarily for employee severance-related payments, and a non-cash charge of approximately \$9,000, primarily for impairment of fixed assets. Based on commitments incurred to date, the Company recorded restructuring charges of \$31,457 in fiscal 2009 and 2010 with \$627 of additional charges in the first quarter of fiscal 2011. The Company also incurred \$2,224 of costs against the accrual in the first quarter of fiscal 2011. As of July 4, 2010, the reserve balance associated with these actions is \$5,535. The Company expects to be committed to approximately \$1,000 of the remaining restructuring charges in fiscal 2011.

	<b>Employee Severance</b>	<b>Total</b>
Balance at March 31, 2010	\$ 7,482	\$ 7,482
Accrued	627	627
Costs incurred	(2,224)	(2,224)
Foreign currency impact and other	(350)	(350)
Balance at July 4, 2010	\$ 5,535	\$ 5,535

**NOTE 10: Debt**

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

	<b>July 4, 2010</b>	<b>March 31, 2010</b>
Term A Loan: Payable in quarterly installments of 1.25% in year 1, 1.88% in years 2-3, 2.50% in year 4, 3.13% in year 5 and 14.39% in year 6, with the remaining balance due on June 27, 2014, bearing interest at 1.96% at July 4, 2010	\$ 196,875	\$ 201,094
Convertible Notes bearing interest at 3.375% (net of discount of \$35,147 and \$36,580, respectively)	137,353	135,920
Euro Term Loan: Payable in quarterly installments between 1,000 and 1,750 beginning March 31, 2008 through June 30, 2011, bearing interest at 1.90% at July 4, 2010	8,149	11,158
Other debt	39	41
Capital lease obligations	2,433	2,230
Sub-total	344,849	350,443
Less current portion	25,772	26,695
Total long-term debt and capital lease obligations	\$ 319,077	\$ 323,748

***Senior Unsecured 3.375% Convertible Notes***

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 existing or 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.

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

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, unless earlier converted, redeemed or repurchased. 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.

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 per share. 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.

At July 4, 2010 and March 31, 2010, there was \$172,500 aggregate principal amount of the Convertible Notes outstanding.

The following represents the principal amount of the liability component, the unamortized discount, and the net carrying amount of our Convertible Notes as of July 4, 2010 and March 31, 2010, respectively:

	<b>July 4, 2010</b>	<b>March 31, 2010</b>
Principal	\$ 172,500	\$ 172,500
Unamortized discount	(35,147)	(36,580)
Net carrying amount	\$ 137,353	\$ 135,920

As of July 4, 2010, the remaining discount will be amortized over a period of 59 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.

The effective interest rate on the liability component of the Convertible Notes was 8.50% during the first quarters of fiscal 2011 and 2010. The amount of interest cost recognized for the amortization of the discount on the liability component of the Convertible Notes was \$1,434 and \$1,317, respectively, during the quarters ended July 4, 2010 and June 28, 2009.





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

**(In Thousands, Except Share and Per Share Data)**

***Senior Secured Credit Facility***

In June 2008, the Company completed the refinancing of \$192,000 of the then 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 14.39% 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 the Company's 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 July 4, 2010 and March 31, 2010, there was \$196,875 and \$201,094, respectively, outstanding under the new Term A Loan and there were no borrowings under the revolving credit facility.

Obligations under the new senior secured credit facility are secured by substantially all of the Company's existing and hereafter acquired assets located in the United States, including substantially all of the capital stock of the Company's United States subsidiaries that are guarantors under the new credit facility, and 65% of the capital stock of certain of the Company's foreign subsidiaries that are owned by the Company's 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 July 4, 2010, the Company was in compliance with all such covenants.

***Other debt excluding capital lease obligations***

At July 4, 2010 and March 31, 2010, there were \$8,188 and \$11,199, respectively, of borrowings outstanding outside the United States including the Euro Term Loan and other debt.

**Table of Contents****ENERSYS****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited) (Continued)****(In Thousands, Except Share and Per Share Data)****NOTE 11: 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 Quarter ended		International Plans Quarter ended	
	July 4, 2010	June 28, 2009	July 4, 2010	June 28, 2009
Service cost	\$ 65	\$ 67	\$ 135	\$ 150
Interest cost	161	159	592	615
Expected return on plan assets	(156)	(123)	(388)	(307)
Amortization and deferral	57	81	4	3
Net periodic benefit cost	\$ 127	\$ 184	\$ 343	\$ 461

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

	United States Plans Quarter ended		International Plans Quarter ended	
	July 4, 2010	June 28, 2009	July 4, 2010	June 28, 2009
Discount rate	6.5%	6.0%	3.8 - 6.0%	4.3 - 6.0%
Expected return on plan assets	8.0%	8.0%	5.5 - 7.0%	5.5 - 7.5%
Rate of compensation increase	N/A	N/A	2.0 - 3.5%	2.0 - 3.5%

The Company presently anticipates contributing approximately \$1,800 to its defined benefit pension plans in fiscal 2011, based on current actuarial information.

The Company has defined contribution plans covering all U.S. based employees who are not covered by a collective bargaining agreement and substantially all UK employees, both direct and salaried.

**NOTE 12: Stock-Based Compensation**

At July 4, 2010, the Company maintains three equity incentive plans: the EnerSys Amended and Restated 2000 Management Equity Plan, the 2004 Equity Incentive Plan and the Amended and Restated 2006 Equity Incentive Plan, which reserved 11,289,232 shares of the Company's common stock for the grant of various types of equity awards including nonqualified stock options, restricted stock, restricted stock units, market share units and other forms of equity-based compensation. The Company's equity incentive plans are used to provide an incentive to employees and non-employee directors of the Company to promote the highest level of performance by providing an economic interest in the long-term performance of the Company. As of July 4, 2010, the Company had 972,226 shares available for future grants.

**Stock Incentive Plans**

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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. Stock options issued prior to fiscal 2009 vest and become exercisable 25% per year over a four-year period from the date of grant. Stock options issued in fiscal 2009 and 2010 generally vest and become exercisable 33.3% per year over a three-year period from the date of grant. No stock options were granted in the first quarter of fiscal 2011. Stock options generally expire 10 years from the date of grant.

The Company recognized equity-based compensation expense associated with stock option grants of \$645, with a related tax benefit of \$174, for the first quarter of fiscal 2011, and \$681, with a related tax benefit of \$204, for the first quarter of fiscal 2010.

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

The following table summarizes the Company's stock option activity during the quarter ended July 4, 2010:

	Number of Options	Weighted Average Remaining Contract Term (Years)	Weighted Average Exercise Price	Aggregate Intrinsic Value
Options outstanding as of March 31, 2010	2,431,233	4.0	\$ 17.69	\$ 19,191
Granted				
Exercised	(459,639)		13.83	5,322
Cancelled	(37,621)		29.57	
Options outstanding as of July 4, 2010	1,933,973	4.3	\$ 18.38	\$ 8,850
Options exercisable as of July 4, 2010	1,575,515	3.4	\$ 18.11	\$ 7,534

The following table summarizes information regarding stock options outstanding and exercisable at July 4, 2010:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
\$10.01-15.00	602,947	2.2	\$ 11.38	602,947	\$ 11.38
\$15.01-20.00	644,293	7.1	16.91	362,275	17.11
\$20.01-25.00	341,171	1.8	21.84	341,171	21.84
\$25.01-30.00	116,251	0.3	29.36	116,251	29.36
Over \$30.00	229,311	7.9	30.19	152,871	30.19
	1,933,973	4.3	\$ 18.38	1,575,515	\$ 18.11

A summary of the status of the Company's non-vested options as of July 4, 2010, and changes during the quarter ended July 4, 2010, is presented below.

	Number of Options	Weighted Average Grant-Date Fair Value
Non-vested at March 31, 2010	614,607	\$ 9.08

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Granted		
Cancelled	(169)	8.00
Vested	(255,980)	9.01
Non-vested at July 4, 2010	358,458	\$ 8.99

### ***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 July 4, 2010 and March 31, 2010, 1,000 shares of restricted stock were outstanding.

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**ENERSYS**

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

**(In Thousands, Except Share and Per Share Data)**

The Company recognized equity-based compensation expense related to the vesting of restricted stock grants of \$2, with a related tax benefit of \$1, for the first quarter of fiscal 2011 and \$77, with a related tax benefit of \$23, for the first quarter of fiscal 2010.

***Restricted Stock Units***

In May 2010, under the Company's equity incentive plans, the Company granted to management and other key employees 287,212 restricted stock units, which vest ratably over a four-year period following the date of grant, and 124,093 market share units, which vest on the third anniversary of the date of grant. Restricted stock units are granted at the fair market value of the Company's common stock on the date of grant and vest and are settled in common stock 25% per year over a four-year period from the date of grant.

Market share units are granted at fair value on the date of grant and vest and are settled in common shares on the third anniversary of the date of grant. Market share units are converted into between zero and two shares of common stock for each unit granted at the end of a three-year performance cycle. The conversion ratio is calculated by dividing the average closing share price of the Company's common stock during the ninety calendar days immediately preceding the vesting date by the average closing share price of the Company's common stock during the ninety calendar days immediately preceding the grant date, with the resulting quotient capped at two. This quotient is then multiplied by the number of market share units granted to yield the number of shares of common stock to be delivered on the vesting date.

The compensation cost to be recorded is based on the fair value at the grant date. The fair value of the restricted stock units granted in the first quarter of fiscal 2011 was based on the market price of \$25.67 per share at the date of grant. The fair value of the market share units granted in the first quarter of fiscal 2011 was estimated at the date of grant at \$34.45 per share using a binominal matrix-pricing model with the following assumptions: a risk-free interest rate of 1.30%, dividend yield of zero, time to maturity of 3 years and expected volatility of 43.0%.

At July 4, 2010, 854,113 restricted stock units and 124,093 market share units were outstanding. At March 31, 2010, 608,630 restricted stock units were outstanding.

The Company recognized equity-based compensation expense related to the vesting of restricted stock units and market share units of \$1,463, with a related tax benefit of \$395, for the first quarter of fiscal 2011, and \$848, with a related tax benefit of \$254, for the first quarter of fiscal 2010.

**Table of Contents****ENERSYS****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited) (Continued)****(In Thousands, Except Share and Per Share Data)****NOTE 13: 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 July 4, 2010 and June 28, 2009, the Company had outstanding stock options, restricted stock, market share units and restricted stock units that could potentially dilute basic earnings per share in the future. Weighted average common shares basic and common shares diluted were as follows:

	<b>Quarter ended</b>	
	<b>July 4, 2010</b>	<b>June 28, 2009</b>
Weighted average shares of common stock outstanding basic	48,819,481	47,936,401
Assumed exercise of stock options, net of shares assumed reacquired	623,434	518,294
<b>Weighted average common shares diluted</b>	<b>49,442,915</b>	<b>48,454,695</b>
Anti-dilutive options, unvested restricted stock and restricted stock units not included in weighted average common shares diluted	346,521	1,870,279

The aggregate number of common shares that the Company could be obligated to issue upon conversion of its Convertible Notes that the Company sold in May 2008, is 4,248,761. It is the Company's current intent to settle the principal amount of any conversions in cash, and any additional conversion consideration in cash, shares of the Company's common stock or a combination of cash and shares. No contingent shares were included in diluted shares outstanding during the first quarters of fiscal 2011 and 2010, as the specified conversion price exceeded the average market price of the Company's common stock, and the inclusion of contingent shares would have been anti-dilutive.



**Table of Contents****ENERSYS****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited) (Continued)****(In Thousands, Except Share and Per Share Data)****NOTE 14: Business Segments**

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

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

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

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

The following table provides selected financial data for the Company's reportable business segments for the quarters ended July 4, 2010 and June 28, 2009:

	Quarter ended	
	July 4, 2010	June 28, 2009
<b>Net sales by segment</b>		
Europe	\$ 188,501	\$ 156,144
Americas	205,669	150,234
Asia	40,799	33,887
<b>Total net sales</b>	<b>\$ 434,969</b>	<b>\$ 340,265</b>
<b>Operating earnings</b>		
Europe	\$ 9,904	\$ 679
Americas	25,959	15,683
Asia	2,340	6,690
Restructuring charges (Europe)	(723)	(2,801)
Restructuring charges (Americas)		(717)
<b>Total operating earnings</b>	<b>\$ 37,480</b>	<b>\$ 19,534</b>

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The Company services customers from over 100 countries. The following represent the net sales to unaffiliated customers of our country of domicile and the other top countries which collectively comprise over 75% of our consolidated net sales for the periods presented:

	Quarter ended	
	July 4, 2010	June 28, 2009
United States	\$ 188,335	\$ 137,420
France	36,739	34,691
Germany	33,604	32,765
China	25,549	27,558
Italy	21,492	19,580
United Kingdom	21,491	18,127

The following represents property, plant and equipment, net by segment at July 4, 2010 and March 31, 2010:

	July 4, 2010	March 31, 2010
Europe	\$ 145,156	\$ 156,953
Americas	137,906	138,217
Asia	19,617	19,971
Total property, plant and equipment, net	\$ 302,679	\$ 315,141

**NOTE 15: Subsequent Events**

The Company evaluated all subsequent events through the date that the consolidated financial statements were issued. No material subsequent events have occurred since July 4, 2010 that required recognition or disclosure in the consolidated financial statements.

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

The Private Securities Litigation Reform Act of 1995 (the Reform Act) provides a safe harbor for forward-looking statements made by or on behalf of EnerSys. EnerSys and its representatives may, from time to time, make written or verbal forward-looking statements, including statements contained in our filings with the Securities and Exchange Commission and its reports to stockholders. Generally, the inclusion of the words believe, expect, intend, estimate, anticipate, will, and similar expressions identify statements that constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and that are intended to come within the safe harbor protection provided by those sections. All statements addressing operating performance, events, or developments that EnerSys expects or anticipates will occur in the future, including statements relating to sales growth, earnings or earnings per share growth, and market share, as well as statements expressing optimism or pessimism about future operating results, are forward-looking statements within the meaning of the Reform Act. The forward-looking statements are and will be based on management's then-current views and assumptions regarding future events and operating performance, and are applicable only as of the dates of such statements.

Forward-looking statements involve risks, uncertainties and assumptions. Although we do not make forward-looking statements unless we believe we have a reasonable basis for doing so, we cannot guarantee their accuracy. Actual results may differ materially from those expressed in these forward-looking statements due to a number of uncertainties and risks, including the risks described in the Company's 2010 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;

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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;

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

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

unanticipated quality problems associated with our products;

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

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

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

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

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

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

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

our ability to attract and retain qualified personnel;

our ability to maintain good relations with labor unions;

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

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

terrorist acts or acts of war, whether in the United States or abroad, could cause damage or disruption to our operations, our suppliers, channels to market or customers, or could cause costs to increase, or create political or economic instability.

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

In the following discussion and analysis of results of operations and financial condition, certain financial measures may be considered non-GAAP financial measures under Securities and Exchange Commission rules. These rules require supplemental explanation and reconciliation, which is provided in this Quarterly Report on Form 10-Q. EnerSys management uses the non-GAAP measures primary working capital, primary working capital percentage (see definitions in Liquidity and Capital Resources below) and capital expenditures in its evaluation of business segment cash flow and financial position performance. These disclosures have limitations as an analytical tool, should not be viewed as a substitute for cash flow determined in accordance with GAAP, and should not be considered in isolation or as a substitute for analysis of the Company's results as reported under GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies. Management believes that this non-GAAP supplemental information is helpful in understanding the Company's ongoing operating results.

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### ***Overview***

We are the global leader in stored energy solutions for industrial applications. We also manufacture, market and distribute related products such as chargers, power equipment and battery accessories, and we provide related after-market and customer-support services for industrial batteries. We market and sell our products globally to over 10,000 customers in more than 100 countries through a network of distributors, independent representatives and our internal sales force.

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

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

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

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

Additionally, see Note 14 to the Consolidated Condensed Financial Statements for revenue by country and other required disclosures.

We evaluate business segment performance based primarily upon operating earnings, exclusive of highlighted items. All corporate and centrally incurred costs are allocated to the business segments based principally on net sales. We evaluate business segment cash flow and financial position performance based primarily upon capital expenditures and primary working capital levels (see definition of primary working capital in Liquidity and Capital Resources below). Although we monitor the three elements of primary working capital (receivables, inventory and payables), our primary focus is on the total amount, due to the significant impact it has on our cash flow and, as a result, our level of debt.

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

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

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

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

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

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

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

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

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

**Reserve power products** are used for backup power for the continuous operation of critical applications in telecommunications systems, 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 aircraft and military aircraft, submarines, ships and tactical 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.

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### *Economic Climate*

Market conditions in our industry were generally strong in fiscal 2008 and through the first quarter of fiscal 2009. Global economic activity declined sharply after that and our revenue reached a recent low point in the first quarter of fiscal 2010. Since then, economic activity has improved and our quarterly revenue increased throughout fiscal 2010 along with global increases in industrial production and capital spending. Historically we have experienced a modest sequential decline in sales volume in the first quarter of most fiscal years. We were pleased that the first quarter revenue of fiscal 2011 was virtually the same as the fourth quarter of fiscal 2010, excluding the negative effect of weaker foreign currencies. The global economic recovery has had sufficient positive impact on our sales in the first quarter to offset the historical negative impact.

### *Volatility of Commodities and Foreign Currencies*

Volatility of commodity costs and foreign currency exchange rates have caused large swings in our production costs. Lead is the primary commodity we purchase and the euro is the primary foreign currency to which we are exposed. As the global economic climate changes, we anticipate that our commodity costs may continue to fluctuate significantly as they have in the past several years. Our estimated lead cost due to increases in average lead prices in the first quarter of fiscal 2011 from the first quarter of fiscal 2010 was an increase of approximately \$48 million.

### *Customer Pricing*

We have been subjected to pricing pressures over the past several years, which we expect will continue. Additionally, in our current environment, increased commodity costs and improved customer demand have contributed to pricing improvements. Our selling prices fluctuated substantially during the last several years to partially offset the volatile cost of commodities. Beginning in the third quarter of fiscal 2009, as a result of reductions in the cost of lead, our average selling prices began to decline as measured on a sequential quarterly basis. As the cycle of lead costs turned upward in the early part of fiscal 2010, we began to increase average selling prices to help offset the higher costs. During fiscal 2010 and the first quarter of fiscal 2011, our selling prices increased to reflect the rising commodity prices. Approximately 35% of our revenue is currently subject to agreements that adjust pricing to a market-based index for lead.



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*Cost Savings Initiatives-Restructuring*

To help improve our level of profitability, we have taken actions to further rationalize and automate 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 viewed the recent economic decline as a time for us to accelerate the consolidation of certain operations and undertake additional restructuring of our business.

In fiscal 2010, we began the restructuring programs primarily related to the Oerlikon acquisition in Europe. Our operating results for the first quarter of fiscal 2011 reflect some of the benefits of those actions with the remainder to be experienced in future periods. We believe that the restructuring actions taken over the last three years will have a favorable pre-tax earnings impact of approximately \$36 million, or \$0.51 per share, on an annualized basis when fully implemented by the end of fiscal 2011.

*Liquidity and Capital Resources*

Our capital structure and liquidity remain strong. As of July 4, 2010, we had approximately \$174 million of cash and cash equivalents, approximately \$130 million of undrawn, committed credit lines, and over \$120 million of uncommitted credit lines. We believe that we have the financial resources and the capital available to fund the foreseeable organic growth in our business and to remain active in pursuing further acquisition opportunities.

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

Current quarter by segment	Quarter ended July 4, 2010		Quarter ended June 28, 2009		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	Percentage
Europe	\$ 188.5	43.3%	\$ 156.1	45.9%	\$ 32.4	20.7%
Americas	205.7	47.3	150.3	44.1	55.4	36.9
Asia	40.8	9.4	33.9	10.0	6.9	20.4
Total net sales	\$ 435.0	100.0%	\$ 340.3	100.0%	\$ 94.7	27.8%

Net sales increased \$94.7 million or 27.8% in the first quarter of fiscal 2011 from the comparable period in fiscal 2010. This increase was the result of a 19% increase in organic volume, complemented by a 6% increase from acquisitions and 6% increase due to pricing, partially offset by a 3% decrease from weaker foreign currencies, primarily the euro and British pound.

**Segment sales**

The improving economic and market conditions have had a significant impact on our unit sales volume. All of our segments experienced organic volume improvements in the first quarter of fiscal 2011, compared to the comparable period of 2010.

Our Europe segment's net sales increased \$32.4 million or 20.7% in the first quarter of fiscal 2011, as compared to the first quarter of fiscal 2010, primarily due to an increase in organic volume of 16%. Price increases and acquisitions contributed approximately 8% and 5%, respectively, to the improvement, which was partially offset by 8% due to weaker foreign currencies.

Our Americas segment's revenue increased \$55.4 million or 36.9% in the first quarter of fiscal 2011, as compared to the first quarter of fiscal 2010, primarily due to higher organic volume, which contributed approximately a 22% increase. Pricing, acquisitions and foreign currency changes contributed approximately 6%, 8% and 1%, respectively, to the improvement.

Our Asia segment's revenue increased \$6.9 million or 20.4% in the first quarter of fiscal 2011, as compared to the first quarter of fiscal 2010, primarily due to higher organic volume of 14%, pricing of 2% and 4% due to foreign currency changes.

**Product line sales**

	Quarter ended (In Millions)	
	July 4, 2010	June 28, 2009
Reserve power	\$ 207.6	\$ 182.8
Motive power	227.4	157.5
Total net sales	\$ 435.0	\$ 340.3

Sales of our reserve power products in the first quarter of fiscal 2011 increased \$24.8 million or 13.6% compared to the first quarter of fiscal 2010. In the first quarter of fiscal 2011, organic volume growth contributed 12% of the increase, pricing and acquisitions contributed approximately 3% and 2%, respectively, to the improvement, which was partially offset by a 3% decrease due to foreign currency changes.

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Sales of our motive power products in the first quarter of fiscal 2011 increased \$69.9 million or 44.4% compared to the first quarter of fiscal 2010, primarily due to higher organic volume, which contributed approximately a 27% increase. Pricing and acquisitions contributed 11% and 10%, respectively, to the improvement which was partially offset by a 4% decrease due to foreign currency changes.

**Table of Contents****Gross Profit**

	Quarter ended July 4, 2010		Quarter ended June 28, 2009		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	Percentage
Gross Profit	\$ 96.6	22.2%	\$ 77.5	22.8%	\$ 19.1	24.7%

Gross profit increased 24.7% or \$19.1 million in the first quarter of fiscal 2011, when compared to the first quarter of fiscal 2010.

Gross profit, as a percentage of net sales decreased 60 basis points in the first quarter of fiscal 2011, in comparison to the first quarter of fiscal 2010. The decrease in the first quarter of fiscal 2011 gross profit percentage is primarily attributed to product mix and higher commodity costs offset by on-going cost reduction programs and higher selling prices, as discussed below.

We estimate that the cost of lead alone, our most significant raw material, increased our cost of sales by approximately \$48 million in the first quarter of fiscal 2011, compared to the comparable period in fiscal 2010. Selling price increases offset approximately \$22 million of the increased lead cost in the first quarter of fiscal 2011.

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

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

**Operating Items**

	Quarter ended July 4, 2010		Quarter ended June 28, 2009		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	Percentage
Operating expenses	\$ 58.4	13.4%	\$ 54.4	16.0%	\$ 4.0	7.4%
Restructuring charges	\$ 0.7	0.2%	\$ 3.5	1.0%	\$ (2.8)	NM

NM = not meaningful

Operating expenses, excluding the effect of foreign currency translation, increased 9.5% or \$5.1 million in the first quarter of fiscal 2011 when compared to the first quarter of fiscal 2010, due primarily to higher sales volume. Operating expenses as a percentage of net sales decreased 260 basis points in the first quarter in comparison to the first quarter of fiscal 2010. This decrease in the percentage is largely the result of leveraging our operating expenses. Selling expenses, our main component of operating expenses, were 61.0% of total operating expenses in the first quarter compared to 61.6% of total operating expenses in the first quarter of fiscal 2010. Additionally, the first quarters of fiscal 2011 and 2010 included \$0.2 million and \$0.4 million, respectively, of professional fees associated with acquisition activities.

**Restructuring charges**

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Included in our first quarter of fiscal 2011 operating results are \$0.7 million of restructuring charges primarily for staff reductions made in Europe, and included in our first quarter of fiscal 2010 operating results are \$3.5 million of restructuring charges primarily for staff reductions made in Europe and Americas.

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

	Quarter ended July 4, 2010		Quarter ended June 28, 2009		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales (1)	In Millions	Percentage of Total Net Sales (1)	In Millions	Percentage
<b>Current quarter by segment</b>						
Europe	\$ 9.9	5.3%	\$ 0.7	0.4%	\$ 9.2	NM%
Americas	26.0	12.6	15.6	10.4	10.4	65.5
Asia	2.3	5.7	6.7	19.7	(4.4)	(65.0)
Subtotal	38.2	8.8	23.0	6.7	15.2	65.7
Restructuring charges-Europe	(0.7)	(0.4)	(2.8)	(1.8)	2.1	NM
Restructuring charges-Americas			(0.7)	(0.5)	0.7	NM
<b>Total operating earnings</b>	<b>\$ 37.5</b>	<b>8.6%</b>	<b>\$ 19.5</b>	<b>5.7%</b>	<b>\$ 18.0</b>	<b>91.9%</b>

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

Operating earnings increased 91.9% or \$18.0 million in the first quarter of fiscal 2011 in comparison to the first quarter of fiscal 2010. Operating earnings as a percentage of net sales, as shown in the table above, increased 290 basis points in the first quarter of fiscal 2011 when compared to the comparable period of 2010. Operating earnings improved primarily due to higher sales volume, price realization and cost reduction initiatives, partially offset by higher commodity costs. There were additional offsets from restructuring charges in Europe in first quarter of fiscal 2011 and in Europe and Americas in the first quarter of fiscal 2010.

We experienced a substantial increase in operating earnings in our Europe segment in the first quarter of fiscal 2011 in comparison to the comparable quarter in the prior year, with the operating margin increasing 490 basis points to 5.3%. This improvement in our Europe segment earnings is primarily attributable to an improvement in net sales and benefits of the restructuring programs on both production and other operating expenses.

Our Americas segment had a large increase in operating earnings in the first quarter of fiscal 2011 in comparison to the comparable quarter in the prior year, with the operating margin increasing 220 basis points to 12.6%. The margin improvement was primarily from higher sales volume, price realization and cost reduction initiatives, partially offset by higher commodity costs.

Operating earnings decreased in our Asia segment in the first quarter of fiscal 2011 in comparison to the comparable quarter in the prior year, with the operating margin decreasing to 5.7% from 19.7%. Higher commodity and freight costs and more difficult pricing conditions accounted for the lower operating earnings in Asia than in the first quarter of fiscal 2010.

**Table of Contents****Interest Expense**

	Quarter ended July 4, 2010		Quarter ended June 28, 2009		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	Percentage
Interest expense	\$ 6.0	1.4%	\$ 5.4	1.6%	\$ 0.6	12.1%

Interest expense of \$6.0 million in the first quarter of fiscal 2011 (net of interest income of \$0.2 million) was \$0.6 million higher than the interest expense of \$5.4 million in the first quarter of fiscal 2010 (net of interest income of \$0.2 million).

The increase in interest expense in the first quarter of fiscal 2011 compared to the comparable period in fiscal 2010 is attributable primarily to a longer quarterly period and higher short term interest rates in the first quarter of fiscal 2011 versus first quarter of fiscal 2010. This was partially offset by lower borrowing levels.

Our average debt outstanding (reflecting the reduction of the Convertible Notes discount) was \$350.1 million in the first quarter of fiscal 2011, compared to \$373.2 million in the first quarter of fiscal 2010. The average Convertible Note discount excluded from our average debt outstanding was \$35.9 million in the first quarter of fiscal 2011 and \$41.6 million in the first quarter of fiscal 2010.

Included in interest expense for the first quarter of fiscal 2011 and 2010 are non-cash charges of \$0.4 million and \$0.5 million, respectively, for deferred financing fees, plus \$1.4 million and \$1.3 million, respectively, of non-cash interest expense related to the Convertible Notes (See Note 10 to the Consolidated Condensed Financial Statements).

**Other Expense (Income), Net**

	Quarter ended July 4, 2010		Quarter ended June 28, 2009		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	Percentage
Other expense (income), net	\$ (0.1)	%	\$ 1.9	0.5%	\$ (2.0)	NM

Other expense (income), net was (\$0.1) million for the first quarter of 2011 and \$1.9 million in the prior year period of fiscal 2010. This was mainly attributable to net foreign currency transaction losses in fiscal 2010.

**Earnings Before Income Taxes**

	Quarter ended July 4, 2010		Quarter ended June 28, 2009		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	Percentage
Earnings before income taxes	\$ 31.5	7.2%	\$ 12.3	3.6%	\$ 19.2	NM

As a result of the above, earnings before income taxes in the first quarter of fiscal 2011 increased \$19.2 million compared to the first quarter of fiscal 2010. Earnings before income taxes as a percentage of sales were 7.2% in the first quarter of fiscal 2011 in comparison to 3.6% in the first quarter of fiscal 2010.





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

	Quarter ended July 4, 2010		Quarter ended June 28, 2009		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	Percentage
Income tax expense	\$ 8.5	2.0%	\$ 3.9	1.1%	\$ 4.6	NM
Effective tax rate		27.0%		31.5%		(4.5)%

The effective income tax rates for the first quarters of fiscal 2011 and 2010 were 27.0% and 31.5%, respectively. The rate decrease in the first quarter of fiscal 2011 as compared to the comparable prior year period is due to a change in the mix of earnings among tax jurisdictions.

**Net Earnings**

	Quarter ended July 4, 2010		Quarter ended June 28, 2009		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	Percentage
Net earnings	\$ 23.0	5.2%	\$ 8.4	2.5%	\$ 14.6	NM

As a result of the above, net earnings in the first quarter of fiscal 2011 were \$23.0 million (5.2% of net sales), compared to net earnings in the first quarter of fiscal 2010 of \$8.4 million (2.5% of net sales).

Net earnings per common share in the first quarter of fiscal 2011 were \$0.47 per basic and diluted share, compared to \$0.18 per basic share and \$0.17 per diluted share in the first quarter of fiscal 2010.

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

There have been no material changes to our critical accounting policies from those discussed under the caption *Critical Accounting Policies and Estimates* in *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations* in our Annual Report on Form 10-K for the fiscal year ended March 31, 2010.

***Liquidity And Capital Resources***

Operating activities utilized cash of \$12.7 million for the first quarter of fiscal 2011, compared to cash provided of \$62.8 million in the comparable period of fiscal 2010. The major difference in operating cash in the two periods is the level of primary working capital. In the first quarter of fiscal 2011, we used \$28.7 million to increase primary working capital. In the prior year first quarter, we realized positive cash flow from primary working capital of \$56.8 million as we were in a period of declining sales. The use of cash in the current quarter was partially offset by \$34.2 million of net earnings, depreciation and amortization, compared with \$19.0 million for those items in the first quarter of the prior year.

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 \$454.1 million (yielding a primary working capital percentage of 26.1%) at July 4, 2010, \$398.0 million (yielding a primary working capital percentage of 29.2%) at June 28, 2009, and \$439.7 million (yielding a primary working capital percentage of 24.4%) at March 31, 2010. The primary working capital percentage of 26.1% at July 4, 2010 is 1.7 percentage points above that for March 31, 2010, and 3.1 percentage points below that for the prior year quarter.

Primary working capital increased during the first quarter of fiscal 2011 due to an increase in inventory and a decrease in accounts payable, offset by a decrease in accounts receivable. Trade receivables decreased as a result of a modest improvement in collections. We experienced a planned increase in inventory, partly in preparation for anticipated new business. We are working with a major customer in our Reserve Power product line that will result in significant incremental sales in the future. A large amount of inventory has been placed in existing and new distribution centers to be in the right locations for future shipments. In addition, we have increased inventory to cover the normal plant closures in the summer. A major portion of the decrease in accounts payable in the first quarter of fiscal 2011 was due to the drop in commodity prices, particularly that of lead.

Primary working capital and primary working capital percentages at July 4, 2010, March 31, 2010 and June 28, 2009 are computed as follows:

<b>Balance At</b>	<b>(In Millions)</b>				<b>Quarter Revenue Annualized</b>	<b>Primary Working Capital %</b>
	<b>Trade Receivables</b>	<b>Inventory</b>	<b>Accounts Payable</b>	<b>Total</b>		
July 4, 2010	\$ 352.9	\$ 277.8	\$ (176.6)	\$ 454.1	\$ 1,739.9	26.1%
March 31, 2010	383.6	254.4	(198.3)	439.7	1,802.1	24.4%
June 28, 2009	331.0	212.6	(145.6)	398.0	1,361.1	29.2%

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Investing activities used cash of \$12.1 million in the first quarter of fiscal 2011, compared to cash used of \$8.8 million in the comparable period in fiscal 2010. This increase was primarily due to the increase in capital expenditures, which were \$10.9 million in the first quarter of fiscal 2011, compared to \$9.9 million in the first quarter of fiscal 2010, and an acquisition with a total purchase price of approximately \$1.2 million.

Financing activities provided cash of \$0.6 million in the first quarter of fiscal 2011, reflecting the exercise of stock options and the related tax benefits that contributed \$6.6 million offset by regularly scheduled repayments of long-term debt.

As a result of the above, total cash and cash equivalents decreased by \$27.2 million to \$173.8 million in the first quarter of fiscal 2011 compared to an increase of \$54.5 million to \$217.7 million in the comparable period of fiscal 2010.

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. There are no prepayment penalties on loans under the \$350 million senior secured credit facility.

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 2010 Annual Report on Form 10-K for a detailed description of debt.

***Related Party Transactions***

In the first quarter of fiscal 2011, there were no related party transactions.

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

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

***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 July 4, 2010 and March 31, 2010, 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 were 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 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 \$30.0 million of these interest rate swap agreements at a loss of \$1.2 million.

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.

A 100 basis point increase in interest rates would increase interest expense by approximately \$0.4 million on the non-hedged variable rate portions of our debt.

**Table of Contents****Commodity Cost Risks Lead Contracts**

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

Date	\$ s Under Contract (in millions)	# Pounds Purchased (in millions)	Average Cost/Pound	Approximate % of Lead Requirements <sup>(1)</sup>
July 4, 2010	\$ 44.9	50.6	\$ 0.89	13%
March 31, 2010	\$ 60.7	63.4	\$ 0.96	17%
June 28, 2009	\$ 17.4	28.5	\$ 0.61	7%

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

For the remaining three quarters of this fiscal year, approximately 40% of the cost of our lead requirement is known. This takes into account the hedge contracts in place at July 4, 2010, lead purchased by July 4, 2010 that will be reflected in future costs under our FIFO accounting treatment, and the benefit from our lead tolling program.

We estimate that a 10% increase in our cost of lead would increase our cost of goods sold by approximately \$11 million or 3% of net sales based on revenue and costs in the first quarter of fiscal 2011.

**Foreign Currency Exchange Rate Risks**

We manufacture and assemble our products primarily in Bulgaria, China, the Czech Republic, France, Germany, Mexico, Poland, the United Kingdom and the United States. Approximately 60% of our sales and expenses are transacted in foreign currencies. Our sales revenue, production costs, profit margins and competitive position are affected by the strength of the currencies in countries where we manufacture or purchase goods relative to the strength of the currencies in countries where our products are sold. Additionally, as we report our financial statements in U.S. dollars, our financial results are affected by the strength of the currencies in countries where we have operations relative to the strength of the U.S. dollar. The principal foreign currencies in which we conduct business are the euro, British pound, Polish zloty, Chinese renminbi and Mexican peso.

We quantify and monitor our global foreign currency exposures on a regular basis. Periodically, 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 estimated exposures in fiscal 2011, 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 \$10 million in more than one year out of twenty years.

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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 July 4, 2010 and March 31, 2010, we had contracts outstanding of \$75.6 million and \$64.2 million, respectively, as follows:

Transactions Hedged	July 4, 2010			March 31, 2010		
	\$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	\$ 28.5	\$/ 1.27	16%	\$ 25.6	\$/ 1.37	18%
Sell euros for Polish zloty	29.2	PLN/ 4.10	54%	30.5	PLN/ 4.11	52
Sell euros for British pounds	8.0	/£ 0.87	45%	8.1	/£ 0.89	46
Sell euros for Chinese renminbi	3.8	¥/ 8.41	100%			
Sell U.S. dollars for Chinese renminbi	3.7	¥/\$ 6.76	26%			
Other	2.4					
<b>Total</b>	<b>\$ 75.6</b>			<b>\$ 64.2</b>		

(1) Based on the fiscal year currency requirements.

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

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

**ITEM 4. CONTROLS AND PROCEDURES.**

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

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

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

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

**Item 1A. Risk Factors.**

In addition to the other information set forth in this Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended March 31, 2010, 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**

<b>Period</b>	<b>(a) Total number of shares (or units) purchased</b>	<b>(b) Average price paid per share (or unit)</b>	<b>(c) Total number of shares (or units) purchased as part of publicly announced plans or programs</b>	<b>(d) Maximum number (or approximate dollar value) of shares (or units) that may be purchased under the plans or programs</b>
April 1 - May 2, 2010		\$		
May 3 - May 30, 2010	100,974	25.02		
May 31 - July 4, 2010	16,719	23.80		
Total	117,693	\$ 24.85		

**Table of Contents****Item 6. Exhibits.**

<b>Exhibit Number</b>	<b>Description of Exhibit</b>
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 Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) Under the Securities Exchange Act of 1934 (filed herewith).
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) Under the Securities Exchange Act of 1934 (filed herewith).
32.1	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document



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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**  
**Senior Vice President Finance & Chief Financial Officer**

Date: August 11, 2010

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EnerSys

**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description of Exhibit</b>
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).
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