

EnerSys  
Form 10-Q  
February 05, 2014

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 EXCHANGE ACT  
OF 1934

For the quarterly period ended December 29, 2013

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

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

Commission File Number: 001-32253

EnerSys  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

2366 Bernville Road  
Reading, Pennsylvania 19605

(Address of principal executive offices) (Zip Code)

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

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

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

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

Large accelerated filer  Accelerated filer

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

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

Common Stock outstanding at January 31, 2014: 47,161,914 shares

ENERSYS  
INDEX – FORM 10-Q

|  | Page      |
|--|-----------|
| <u>PART I – FINANCIAL INFORMATION</u>  |           |
| Item 1. <u>Financial Statements</u>  |           |
| <u>Consolidated Condensed Balance Sheets (Unaudited) as of December 29, 2013 and March 31, 2013</u>  | <u>3</u>  |
| Consolidated Condensed Statements of Income (Unaudited) for the Quarters Ended December 29, 2013 and December 30, 2012                               | 4         |
| Consolidated Condensed Statements of Income (Unaudited) for the Nine Months Ended December 29, 2013 and December 30, 2012                            | <u>5</u>  |
| Consolidated Condensed Statements of Comprehensive Income (Unaudited) for the Quarters and Nine Months Ended December 29, 2013 and December 30, 2012 | <u>6</u>  |
| Consolidated Condensed Statements of Cash Flows (Unaudited) for the Nine Months Ended December 29, 2013 and December 30, 2012                        | <u>7</u>  |
| <u>Notes to Consolidated Condensed Financial Statements (Unaudited)</u>  | <u>8</u>  |
| 1 <u>Basis of Presentation</u>   | <u>8</u>  |
| 2 <u>Acquisitions</u>  | <u>8</u>  |
| 3 <u>Inventories</u>   | <u>9</u>  |
| 4 <u>Goodwill Impairment Charge</u>  | <u>9</u>  |
| 5 <u>Fair Value of Financial Instruments</u>   | <u>9</u>  |
| 6 <u>Derivative Financial Instruments</u>  | <u>11</u> |
| 7 <u>Income Taxes</u>  | <u>13</u> |
| 8 <u>Warranties</u>  | <u>14</u> |
| 9 <u>Commitments, Contingencies and Litigation</u>   | <u>14</u> |
| 10 <u>Restructuring Plans</u>  | <u>15</u> |
| 11 <u>Debt</u>   | <u>16</u> |
| 12 <u>Retirement Plans</u>   | <u>17</u> |
| 13 <u>Stock-Based Compensation</u>   | <u>18</u> |
| 14 <u>Stockholders' Equity and Noncontrolling Interests</u>  | <u>18</u> |
| 15 <u>Earnings Per Share</u>   | <u>21</u> |
| 16 <u>Business Segments</u>  | <u>22</u> |
| 17 <u>Subsequent Events</u>  | <u>22</u> |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>   | <u>23</u> |
| Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>  | <u>33</u> |
| Item 4. <u>Controls and Procedures</u>   | <u>35</u> |
| <u>PART II – OTHER INFORMATION</u>   |           |

|  |           |
|--|-----------|
| Item 1. <u>Legal Proceedings</u>   | <u>36</u> |
| Item 1A. <u>Risk Factors</u>   | <u>36</u> |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>37</u> |
| Item 4. <u>Mine Safety Disclosures</u>                                     | <u>38</u> |
| Item 6. <u>Exhibits</u>  | <u>39</u> |
| <u>SIGNATURES</u>  | <u>40</u> |

Table of Contents

## PART I –FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## ENERSYS

## Consolidated Condensed Balance Sheets (Unaudited)

(In Thousands, Except Share and Per Share Data)

|  | December 29,<br>2013 | March 31, 2013 |
|--|----------------------|----------------|
| Assets   |                      |                |
| Current assets:  |                      |                |
| Cash and cash equivalents  | \$211,641            | \$249,348      |
| Accounts receivable, net of allowance for doubtful accounts: December 29, 2013 - \$9,368; March 31, 2013 - \$9,292   | 535,024              | 448,068        |
| Inventories, net   | 360,839              | 353,941        |
| Deferred taxes   | 41,502               | 37,786         |
| Prepaid and other current assets   | 86,619               | 63,819         |
| Total current assets   | 1,235,625            | 1,152,962      |
| Property, plant, and equipment, net  | 368,356              | 350,126        |
| Goodwill   | 429,484              | 345,499        |
| Other intangible assets, net   | 156,087              | 103,701        |
| Other assets   | 52,790               | 35,579         |
| Total assets   | \$2,242,342          | \$1,987,867    |
| Liabilities and Equity   |                      |                |
| Current liabilities:   |                      |                |
| Short-term debt  | \$32,607             | \$22,702       |
| Current portion of long-term debt and capital lease obligations  | 365                  | 311            |
| Accounts payable   | 242,261              | 249,359        |
| Accrued expenses   | 212,818              | 195,187        |
| Total current liabilities  | 488,051              | 467,559        |
| Long-term debt and capital lease obligations   | 281,033              | 155,476        |
| Deferred taxes   | 99,925               | 88,036         |
| Other liabilities  | 83,572               | 90,418         |
| Total liabilities  | 952,581              | 801,489        |
| Commitments and contingencies  | —                    | —              |
| Redeemable noncontrolling interests  | 7,279                | 11,095         |
| Redeemable equity component of Convertible Notes   | 11,577               | —              |
| Equity:  |                      |                |
| Common Stock, \$0.01 par value per share, 135,000,000 shares authorized; 53,257,394 shares issued and 47,227,415 shares outstanding at December 29, 2013; 52,970,281 shares issued and 47,840,204 shares outstanding at March 31, 2013 | 532                  | 529            |
| Additional paid-in capital   | 496,055              | 501,646        |
| Treasury stock, at cost, 6,029,979 shares held as of December 29, 2013; 5,130,077 shares held as of March 31, 2013   | (150,344             | ) (100,776     |
| Retained earnings  | 842,342              | 727,347        |
| Accumulated other comprehensive income   | 76,326               | 40,655         |
| Total EnerSys stockholders' equity   | 1,264,911            | 1,169,401      |
| Nonredeemable noncontrolling interests   | 5,994                | 5,882          |
| Total equity   | 1,270,905            | 1,175,283      |

|                              |             |             |
|------------------------------|-------------|-------------|
| Total liabilities and equity | \$2,242,342 | \$1,987,867 |
| See accompanying notes.      |             |             |

3

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Table of Contents

## ENERSYS

## Consolidated Condensed Statements of Income (Unaudited)

(In Thousands, Except Share and Per Share Data)

|   | Quarter ended        |                      |
|---|----------------------|----------------------|
|   | December 29,<br>2013 | December 30,<br>2012 |
| Net sales   | \$643,031            | \$557,320            |
| Cost of goods sold  | 475,909              | 413,622              |
| Gross profit  | 167,122              | 143,698              |
| Operating expenses  | 90,083               | 80,185               |
| Restructuring charges   | 12,920               | 3,776                |
| Goodwill impairment charge  | 5,179                | —                    |
| Operating earnings  | 58,940               | 59,737               |
| Interest expense  | 4,597                | 4,612                |
| Other (income) expense, net   | 8,193                | 1,271                |
| Earnings before income taxes  | 46,150               | 53,854               |
| Income tax (benefit) expense  | (6,240               | ) 15,177             |
| Net earnings  | 52,390               | 38,677               |
| Net losses attributable to noncontrolling interests                 | (2,910               | ) (507               |
| Net earnings attributable to EnerSys stockholders                   | \$55,300             | \$39,184             |
| Net earnings per common share attributable to EnerSys stockholders: |                      |                      |
| Basic   | \$ 1.17              | \$0.81               |
| Diluted   | \$ 1.10              | \$0.80               |
| Dividends per common share  | \$0.125              | \$—                  |
| Weighted-average number of common shares outstanding:               |                      |                      |
| Basic   | 47,351,750           | 48,176,206           |
| Diluted   | 50,214,782           | 48,682,346           |
| See accompanying notes.   |                      |                      |

Table of Contents

## ENERSYS

## Consolidated Condensed Statements of Income (Unaudited)

(In Thousands, Except Share and Per Share Data)

|   | Nine months ended    |                      |
|---|----------------------|----------------------|
|   | December 29,<br>2013 | December 30,<br>2012 |
| Net sales   | \$1,809,175          | \$1,705,442          |
| Cost of goods sold  | 1,357,564            | 1,275,099            |
| Gross profit  | 451,611              | 430,343              |
| Operating expenses  | 249,419              | 232,025              |
| Restructuring charges   | 14,460               | 5,441                |
| Goodwill impairment charge  | 5,179                | —                    |
| Operating earnings  | 182,553              | 192,877              |
| Interest expense  | 12,987               | 14,286               |
| Other (income) expense, net   | 11,066               | 727                  |
| Earnings before income taxes  | 158,500              | 177,864              |
| Income tax expense  | 24,542               | 50,612               |
| Net earnings  | 133,958              | 127,252              |
| Net losses attributable to noncontrolling interests                 | (3,528               | ) (1,526             |
| Net earnings attributable to EnerSys stockholders                   | \$137,486            | \$128,778            |
| Net earnings per common share attributable to EnerSys stockholders: |                      |                      |
| Basic   | \$2.89               | \$2.68               |
| Diluted   | \$2.77               | \$2.65               |
| Dividends per common share  | \$0.375              | \$—                  |
| Weighted-average number of common shares outstanding:               |                      |                      |
| Basic   | 47,598,076           | 48,088,580           |
| Diluted   | 49,641,848           | 48,609,751           |

Table of Contents

## ENERSYS

## Consolidated Condensed Statements of Comprehensive Income (Unaudited)

(In Thousands)

|   | Quarter ended        |                      | Nine months ended    |                      |   |
|---|----------------------|----------------------|----------------------|----------------------|---|
|   | December 29,<br>2013 | December 30,<br>2012 | December 29,<br>2013 | December 30,<br>2012 |   |
| Net earnings  | \$52,390             | \$38,677             | \$133,958            | \$127,252            |   |
| Other comprehensive income (loss):                          |                      |                      |                      |                      |   |
| Net unrealized gain on derivative instruments, net of tax   | 1,322                | 997                  | 3,612                | 3,588                |   |
| Pension funded status adjustment, net of tax                | 152                  | (90                  | ) 468                | (6                   | ) |
| Foreign currency translation adjustment                     | 7,665                | 12,705               | 30,332               | (3,476               | ) |
| Total other comprehensive income (loss), net of tax         | 9,139                | 13,612               | 34,412               | 106                  |   |
| Total comprehensive income                                  | 61,529               | 52,289               | 168,370              | 127,358              |   |
| Comprehensive loss attributable to noncontrolling interests | (3,157               | ) (679               | ) (4,787             | ) (2,119             | ) |
| Comprehensive income attributable to EnerSys stockholders   | \$64,686             | \$52,968             | \$173,157            | \$129,477            |   |

See accompanying notes.



Table of Contents

## ENERSYS

## Consolidated Condensed Statements of Cash Flows (Unaudited)

(In Thousands)

|   | Nine months ended    |                      |
|---|----------------------|----------------------|
|   | December 29,<br>2013 | December 30,<br>2012 |
| Cash flows from operating activities  |                      |                      |
| Net earnings  | \$ 133,958           | \$ 127,252           |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                      |                      |
| Depreciation and amortization   | 38,903               | 37,779               |
| Non-cash write-off of assets relating to restructuring                              | 5,298                | 3,636                |
| Non-cash write-off of other assets  | 5,000                | —                    |
| Goodwill impairment charge  | 5,179                | —                    |
| Derivatives not designated in hedging relationships:                                |                      |                      |
| Net losses (gains)  | 56                   | (1,541)              |
| Cash settlements  | (420)                | (1,965)              |
| Provision for doubtful accounts   | 278                  | 1,132                |
| Deferred income taxes   | (24,942)             | (1,135)              |
| Non-cash interest expense   | 6,594                | 6,512                |
| Stock-based compensation  | 12,186               | 10,960               |
| (Gain) loss on disposal of property, plant, and equipment                           | (301)                | 128                  |
| Changes in assets and liabilities:  |                      |                      |
| Accounts receivable   | (46,548)             | 848                  |
| Inventories   | 5,774                | (18,022)             |
| Prepaid and other current assets  | (15,720)             | (5,747)              |
| Other assets  | 95                   | 1,030                |
| Accounts payable  | (26,348)             | (18,441)             |
| Accrued expenses  | 11,218               | (7,373)              |
| Other liabilities   | (11,210)             | 444                  |
| Net cash provided by operating activities   | 99,050               | 135,497              |
| Cash flows from investing activities  |                      |                      |
| Capital expenditures  | (48,856)             | (37,624)             |
| Purchases of businesses   | (146,196)            | —                    |
| Proceeds from disposal of property, plant, and equipment                            | 1,373                | 113                  |
| Net cash used in investing activities   | (193,679)            | (37,511)             |
| Cash flows from financing activities  |                      |                      |
| Net increase in short-term debt   | 12,264               | 13,181               |
| Proceeds from revolving credit borrowings   | 213,100              | 230,450              |
| Repayments of revolving credit borrowings   | (93,300)             | (258,150)            |
| Proceeds from long-term debt - other  | —                    | 5,556                |
| Payments of long-term debt - other  | —                    | (11,800)             |
| Deferred financing costs  | (823)                | —                    |
| Capital lease obligations   | (277)                | (253)                |
| Option proceeds (taxes paid related to net share settlement of equity awards), net  | (7,945)              | 8,864                |
| Excess tax benefits from exercise of stock options and vesting of equity awards     | 4,614                | 4,965                |
| Purchase of treasury stock  | (49,568)             | (22,593)             |

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|  |           |           |   |
|--|-----------|-----------|---|
| Dividends paid to stockholders                               | (17,809   | ) —       |   |
| Payment of deferred consideration                            | (4,820    | ) —       |   |
| Purchase of noncontrolling interests                         | (6,012    | ) (2,131  | ) |
| Proceeds from noncontrolling interests                       | —         | 613       |   |
| Net cash provided by (used in) financing activities          | 49,424    | (31,298   | ) |
| Effect of exchange rate changes on cash and cash equivalents | 7,498     | 1,468     |   |
| Net (decrease) increase in cash and cash equivalents         | (37,707   | ) 68,156  |   |
| Cash and cash equivalents at beginning of period             | 249,348   | 160,490   |   |
| Cash and cash equivalents at end of period                   | \$211,641 | \$228,646 |   |
| See accompanying notes.                                      |           |           |   |

7

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Table of Contents

ENERSYS

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited)

(In Thousands, Except Share and Per Share Data)

1. Basis of Presentation

The accompanying interim unaudited consolidated condensed financial statements of EnerSys (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and notes required for complete financial statements. In the opinion of management, the unaudited consolidated condensed financial statements include all normal recurring adjustments considered necessary for the fair presentation of the financial position, results of operations, and cash flows for the interim periods presented. The financial statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in the Company's 2013 Annual Report on Form 10-K (SEC File No. 001-32253), which was filed on May 28, 2013.

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 2014 end on June 30, 2013, September 29, 2013, December 29, 2013, and March 31, 2014, respectively. The four quarters in fiscal 2013 ended on July 1, 2012, September 30, 2012, December 30, 2012, and March 31, 2013, respectively.

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

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

Certain amounts in the prior year's financial statements have been reclassified to conform to the current-year presentation for non-cash write-off of assets relating to restructuring.

Recently Adopted Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board ("FASB") finalized the disclosure requirements on how entities should present

financial information about reclassification adjustments from accumulated other comprehensive income in ASU No. 2013-02,

"Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." The standard

requires that companies present either in a single note or parenthetically on the face of the financial statements, the effect of significant

amounts reclassified from each component of accumulated other comprehensive income based on its source and the income statement line

items affected by the reclassification. If a component is not required to be reclassified to net income in its entirety, companies would instead

cross-reference to the related footnote for additional information. The Company adopted ASU No. 2013-02 as of April 1, 2013, and the

adoption did not have a material impact on the Company's consolidated condensed financial statements.

2. Acquisitions

During the third quarter of fiscal 2014, the Company completed the following acquisitions in the Americas, using both cash on hand and borrowings under the 2011 Credit Facility.

On October 8, 2013, the Company completed the acquisition of Purcell Systems Inc., a designer, manufacturer and marketer of thermally managed electronic equipment and battery cabinet enclosures, headquartered in Spokane, Washington, for \$119,540, net of cash acquired. The Company acquired tangible and intangible assets, including trademarks, technology, customer relationships and goodwill. Based on preliminary valuations performed, trademarks were valued at \$15,000, technology at \$5,000, customer relationships at \$25,000, and goodwill was recorded at \$68,818.

On November 1, 2013, the Company completed the acquisition of Quallion, LLC, a manufacturer of lithium ion cells and batteries for medical devices, defense, aviation and space, headquartered in Sylmer, California, for \$25,800, net of cash acquired. The Company acquired tangible and intangible assets, in connection with the acquisition, including trademarks, technology, customer relationships and goodwill. Based on preliminary valuations performed, trademarks were valued at \$2,000, technology at \$3,000, customer relationships at \$4,000, and goodwill was recorded at \$11,367.

The Company made an initial allocation of the purchase price to tangible and intangible assets acquired and liabilities assumed based on their estimated respective fair values as of the date of acquisition. The valuation of these tangible and identifiable intangible assets and liabilities is preliminary, subject to completion of a formal valuation process and further management review, and may be retrospectively adjusted, if necessary, as additional information becomes available. The fair valuation estimates particularly subject to change are those relating to accounts receivable and identifiable intangible assets subject to amortization. The excess of the purchase price over the tangible and identifiable intangible assets acquired and liabilities assumed has been allocated to goodwill. The Company expects to finalize the valuations and complete the purchase price allocations by 2014 fiscal year-end.

Table of Contents

## 3. Inventories

Inventories, net consist of:

|                 | December 29, 2013 | March 31, 2013 |
|-----------------|-------------------|----------------|
| Raw materials   | \$90,386          | \$88,787       |
| Work-in-process | 124,174           | 113,119        |
| Finished goods  | 146,279           | 152,035        |
| Total           | \$360,839         | \$353,941      |

## 4. Goodwill Impairment Charge

Goodwill is tested annually for impairment during the fourth quarter or earlier upon the occurrence of certain events or substantive changes in circumstances that indicate goodwill is more likely than not impaired. During the third quarter of fiscal 2014, the Company determined that the fair value of its subsidiary in India, which was acquired in fiscal 2012, was less than its carrying amount based on the Company's analysis of the estimated future expected cash flows the Company anticipates from the operations of this subsidiary. Accordingly, the Company recorded a non-cash charge of \$5,179 for goodwill impairment relating to this subsidiary.

The changes in the carrying amount of goodwill by reportable segment are as follows:

|   | Nine months ended December 29, 2013 |           |          |           |
|---|-------------------------------------|-----------|----------|-----------|
|   | EMEA                                | Americas  | Asia     | Total     |
| Balance at March 31, 2013               | \$166,708                           | \$150,031 | \$28,760 | \$345,499 |
| Goodwill acquired during the period     | —                                   | 80,415    | —        | 80,415    |
| Goodwill impairment charge              | —                                   | —         | (5,179)  | (5,179)   |
| Foreign currency translation adjustment | 10,148                              | (1,756)   | 357      | 8,749     |
| Balance at December 29, 2013            | \$176,856                           | \$228,690 | \$23,938 | \$429,484 |

## 5. Fair Value of Financial Instruments

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

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

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

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

The following tables represent the financial assets and (liabilities), measured at fair value on a recurring basis as of December 29, 2013 and March 31, 2013 and the basis for that measurement:

| Total Fair Value Measurement December 29, | Quoted Price in Active Markets for Identical | Significant Other Observable | Significant Unobservable Inputs |
|---|--|------------------------------|---------------------------------|
|---|--|------------------------------|---------------------------------|

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|                                    | 2013    | Assets<br>(Level 1) | Inputs<br>(Level 2) | (Level 3) |
|------------------------------------|---------|---------------------|---------------------|-----------|
| Lead forward contracts             | \$3,151 | \$—                 | \$3,151             | \$—       |
| Foreign currency forward contracts | 320     | —                   | 320                 | —         |
| Total derivatives                  | \$3,471 | \$—                 | \$3,471             | \$—       |

9

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Table of Contents

|                                    | Total Fair Value<br>Measurement<br>March 31,<br>2013 | Quoted Price in<br>Active Markets<br>for Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|------------------------------------|--|---|---|--|
| Interest rate swap agreements      | \$(654 )   | \$—   | \$(654 )  | \$—  |
| Lead forward contracts             | (2,832 )   | —   | (2,832 )  | —  |
| Foreign currency forward contracts | (11 )  | —   | (11 )   | —  |
| Total derivatives                  | \$(3,497 )   | \$—   | \$(3,497 )  | \$—  |

The fair values of interest rate swap agreements are based on observable prices as quoted for receiving the variable three month LIBOR and paying fixed interest rates and, therefore, were classified as Level 2. At December 29, 2013, the Company had no interest rate swap agreements.

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

**Financial Instruments**

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

The fair value of the Company’s short-term debt approximates its carrying value, as it is variable rate debt and the terms are comparable to market terms as of the balance sheet dates and is classified as Level 2.

The Company’s senior 3.375% convertible notes (“Convertible Notes”), with a face value of \$172,500, were issued when the Company’s stock price was trading at \$30.19 per share. On December 29, 2013, the Company’s stock price closed at \$70.09 per share. The Convertible Notes have a conversion option of \$40.33 per share which equates to 24.7953 shares of the Company’s common stock per one thousand dollars in principal amount of the Convertible Notes as of January 2, 2014, the date when the the holders were notified that they can submit the Convertible Notes for conversion. The conversion rate may be adjusted in accordance with the terms of the Convertible Notes and the indenture under which the Convertible Notes were issued. The fair value of these notes represent the trading values based upon quoted market prices and are classified as Level 2. The Convertible Notes were trading at 177% of face value on December 29, 2013, and 126% of face value on March 31, 2013. See Note 11 for further details.

The carrying amounts and estimated fair values of the Company’s derivatives and Convertible Notes at December 29, 2013 and March 31, 2013 were as follows:

|                            | December 29, 2013  |                          | March 31, 2013           |                          |
|----------------------------|--------------------|--------------------------|--------------------------|--------------------------|
|                            | Carrying<br>Amount | Fair Value               | Carrying<br>Amount       | Fair Value               |
| Financial assets:          |                    |                          |                          |                          |
| Derivatives <sup>(1)</sup> | \$3,521            | \$3,521                  | \$241                    | \$241                    |
| Financial liabilities:     |                    |                          |                          |                          |
| Convertible Notes          | \$160,923          | <sup>(2)</sup> \$305,325 | <sup>(2)</sup> \$155,273 | <sup>(3)</sup> \$217,350 |
| Derivatives <sup>(1)</sup> | 50                 | 50                       | 3,738                    | 3,738                    |

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

(2) The carrying amounts of the Convertible Notes at December 29, 2013 and March 31, 2013 represent the \$172,500 principal value, less the unamortized debt discount (see Note 11 for further details).

(3) The fair value amounts of the Convertible Notes at December 29, 2013 and March 31, 2013 represent the trading values of the Convertible Notes with a principal value of \$172,500.





Table of Contents

6. Derivative Financial Instruments

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

Derivatives in Cash Flow Hedging Relationships

Lead Hedge Forward Contracts

The Company enters into lead hedge forward contracts to fix the price for a portion of its lead purchases. Management considers the lead hedge forward contracts to be effective against changes in the cash flows of the underlying lead purchases. The vast majority of such contracts are for a period not extending beyond one year and the notional amounts at December 29, 2013 and March 31, 2013 were 64.2 million pounds and 56.3 million pounds, respectively.

Foreign Currency Forward Contracts

The Company uses foreign currency forward contracts to hedge a portion of the Company's foreign currency exposures for lead as well as other foreign currency exposures so that gains and losses on these contracts offset changes in the underlying foreign currency denominated exposures. The vast majority of such contracts are for a period not extending beyond one year. As of December 29, 2013 and March 31, 2013, the Company had entered into a total of \$79,803 and \$51,366, respectively, of such contracts.

In the coming twelve months, the Company anticipates that \$4,017 of pretax gain relating to lead and foreign currency forward contracts will be reclassified from accumulated other comprehensive income ("AOCI") as part of cost of goods sold. This amount represents the current unrealized impact of hedging lead and foreign exchange rates, which will change as market rates change in the future, and will ultimately be realized in the income statement as an offset to the corresponding actual changes in lead costs to be realized in connection with the variable lead cost and foreign exchange rates being hedged.

Derivatives not Designated in Hedging Relationships

Interest Rate Swap Agreements

As of March 31, 2013, the Company maintained interest rate swap agreements that converted \$65,000 of variable-rate debt to a fixed-rate basis, utilizing the three-month LIBOR, as a floating rate reference. These agreements expired during the first quarter ended June 30, 2013, and the Company had no interest rate swap agreements as of December 29, 2013. The Company recorded expense relating to changes in the fair value of these agreements in the consolidated condensed statements of income, within other (income) expense, net of \$7 and \$99 during the third quarter and nine months ended December 30, 2012, respectively.

Foreign Currency Forward Contracts

The Company also enters into foreign currency forward contracts to economically hedge foreign currency fluctuations on intercompany loans and foreign currency denominated receivables and payables. These are not designated as hedging instruments and changes in fair value of these instruments are recorded directly in the consolidated condensed statements of income. As of December 29, 2013 and March 31, 2013, the notional amount of these contracts was \$23,205 and \$21,749, respectively. The Company recorded income in the consolidated condensed statements of income within other (income) expense, net of \$124 and \$2,058 during the third quarter of fiscal 2014 and fiscal 2013, respectively, and expense of \$56 and income of \$1,640 for the nine months ended December 29, 2013 and December 30, 2012, respectively.

Table of Contents

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

Fair Value of Derivative Instruments  
December 29, 2013 and March 31, 2013

|                                    | Derivatives and Hedging Activities Designated as Cash Flow Hedges |                | Derivatives and Hedging Activities Not Designated as Hedging Instruments |                |
|------------------------------------|---|----------------|--|----------------|
|                                    | December 29, 2013   | March 31, 2013 | December 29, 2013  | March 31, 2013 |
| Prepaid and other current assets   |   |                |  |                |
| Foreign currency forward contracts | \$370   | \$—            | \$—  | \$241          |
| Lead hedge forward contracts       | 3,070   | —              | —  | —              |
| Other assets                       |   |                |  |                |
| Lead hedge forward contracts       | 81  | —              | —  | —              |
| Total assets                       | \$3,521   | \$—            | \$—  | \$241          |
| Accrued expenses                   |   |                |  |                |
| Interest rate swap agreements      | \$—   | \$—            | \$—  | \$654          |
| Lead hedge forward contracts       | —   | 2,832          | —  | —              |
| Foreign currency forward contracts | —   | 252            | 50   | —              |
| Total liabilities                  | \$—   | \$3,084        | \$50   | \$654          |

The Effect of Derivative Instruments on the Consolidated Condensed Statements of Income  
For the quarter ended December 29, 2013

|  | Pretax Gain (Loss) Recognized in AOCI on Derivative (Effective Portion) | Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion) | Pretax Gain (Loss) Reclassified from AOCI into Income (Effective Portion) |
|--|---|--|---|
| Derivatives Designated as Cash Flow Hedges |   |  |   |
| Lead hedge contracts                       | \$2,657   | Cost of goods sold   | \$1,293   |
| Foreign currency forward contracts         | 644   | Cost of goods sold   | 225   |
| Total                                      | \$3,301   |  | \$1,518   |

|   | Location of Gain (Loss) Recognized in Income on Derivative | Pretax Gain (Loss) |
|---|--|--------------------|
| Derivatives Not Designated as Hedging Instruments |  |                    |
| Foreign currency forward contracts                | Other (income) expense, net                                | \$124              |
| Total   |  | \$124              |

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

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

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

12

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Table of ContentsThe Effect of Derivative Instruments on the Consolidated Condensed Statements of Income  
For the nine months ended December 29, 2013

|   | Pretax Gain (Loss)<br>Recognized in<br>AOCI on<br>Derivative<br>(Effective Portion) | Location of<br>Gain (Loss)<br>Reclassified from<br>AOCI into Income<br>(Effective Portion) | Pretax Gain (Loss)<br>Reclassified from<br>AOCI into Income<br>(Effective Portion) |
|---|---|--|--|
| Derivatives Designated as Cash Flow Hedges        |   |  |  |
| Lead hedge contracts                              | \$4,781   | Cost of goods sold   | \$(322 )   |
| Foreign currency forward contracts                | (454 )  | Cost of goods sold   | (777 )   |
| Total   | \$4,327   |  | \$(1,099 )   |
| Derivatives Not Designated as Hedging Instruments |   | Location of Gain (Loss)<br>Recognized in Income on<br>Derivative                           | Pretax Gain (Loss)   |
| Foreign currency forward contracts                |   | Other (income) expense,<br>net   | \$(56 )  |
| Total   |   |  | \$(56 )  |

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

|   | Pretax Gain (Loss)<br>Recognized in<br>AOCI on<br>Derivative<br>(Effective Portion) | Location of<br>Gain (Loss)<br>Reclassified from<br>AOCI into Income<br>(Effective Portion) | Pretax Gain (Loss)<br>Reclassified from<br>AOCI into Income<br>(Effective Portion) |
|---|---|--|--|
| Derivatives Designated as Cash Flow Hedges        |   |  |  |
| Lead hedge contracts                              | \$5,275   | Cost of goods sold   | \$(2,254 )   |
| Foreign currency forward contracts                | 1,094   | Cost of goods sold   | 2,881  |
| Total   | \$6,369   |  | \$627  |
| Derivatives Not Designated as Hedging Instruments |   | Location of Gain (Loss)<br>Recognized in Income on<br>Derivative                           | Pretax Gain (Loss)   |
| Interest rate swap contracts                      |   | Other (income) expense, net  | \$(99 )  |
| Foreign currency forward contracts                |   | Other (income) expense, net  | 1,640  |
| Total   |   |  | \$1,541  |

## 7. Income Taxes

The Company's income tax provisions consist of federal, state and foreign income taxes. The tax provisions for the third quarters of fiscal 2014 and 2013 were based on the estimated effective tax rates applicable for the full years ending March 31, 2014 and March 31, 2013, respectively, after giving effect to items specifically related to the interim periods.

The effective income tax rates for the third quarters of fiscal 2014 and 2013 were (13.5)% and 28.2%, respectively. The effective income tax rates for the first nine months of fiscal 2014 and 2013 were 15.5% and 28.5%, respectively. The rate decrease in the third quarter and nine months of fiscal 2014 compared to the prior year periods is primarily due to the reversal of a previously recognized deferred tax valuation allowance related to one of the Company's foreign subsidiaries of \$24,925 and changes in the mix of earnings among tax jurisdictions. The valuation allowance release is the result of an operational restructuring approved during the third quarter of fiscal 2014.



Table of Contents

## 8. Warranties

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

|  | Quarter ended        |                      | Nine months ended    |                      |
|--|----------------------|----------------------|----------------------|----------------------|
|  | December<br>29, 2013 | December<br>30, 2012 | December<br>29, 2013 | December<br>30, 2012 |
| Balance at beginning of period           | \$41,524             | \$42,639             | \$42,591             | \$42,067             |
| Current period provisions                | 4,326                | 3,752                | 14,057               | 15,240               |
| Costs incurred                           | (5,132 )             | (4,308 )             | (17,448 )            | (14,886 )            |
| Warranty reserves of acquired businesses | 2,339                | —                    | 2,339                | —                    |
| Foreign currency translation adjustment  | 107                  | 161                  | 1,625                | (177 )               |
| Balance at end of period                 | \$43,164             | \$42,244             | \$43,164             | \$42,244             |

## 9. Commitments, Contingencies and Litigation

## Litigation and Other Legal Matters

The Company is involved in litigation incidental to the conduct of its business, the results of which, in the opinion of management, are not likely to be material to the Company's financial position, results of operations, or cash flows. See Note 18 to the Consolidated Financial Statements included in the Company's 2013 Annual Report on Form 10-K. There have been no significant changes since March 31, 2013.

## Environmental Issues

As a result of its operations, the Company is subject to various federal, state, and local, as well as international environmental laws and regulations and is exposed to the costs and risks of handling, processing, storing, transporting, and disposing of hazardous substances, especially lead and acid. The Company's operations are also subject to federal, state, local and international occupational safety and health regulations, including laws and regulations relating to exposure to lead in the workplace. See Note 18 to the Consolidated Financial Statements included in the Company's 2013 Annual Report on Form 10-K for a full description of environmental issues. There have been no significant changes since March 31, 2013.

## Lead Contracts

To stabilize its costs, the Company has entered into contracts with financial institutions to fix the price of lead. The vast majority of such contracts are for a period not extending beyond one year. Under these contracts, at December 29, 2013 and March 31, 2013, the Company has hedged the price to purchase 64.2 million pounds and 56.3 million pounds of lead, respectively, for a total purchase price of \$61,903 and \$56,601, 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 vast majority of such contracts are for a period not extending beyond one year. The Company's largest exposure is from the purchase and conversion of U.S. dollar based lead costs into local currencies in EMEA. Additionally, the Company has currency exposures from intercompany and third party trade transactions. To hedge these exposures, the Company has entered into a total of \$103,008 and \$73,115, respectively, of foreign currency forward contracts with financial institutions as of December 29, 2013 and March 31, 2013.

## Interest Rate Swap Agreements

The Company is exposed to changes in variable U.S. interest rates on borrowings under its 2011 Credit Facility. On a selective basis, from time to time, the Company enters into interest rate swap agreements to reduce the negative impact that increases in interest rates could have on its outstanding variable rate debt. These agreements expired during the first quarter ended June 30, 2013 and the Company had no interest rate swap agreements at December 29, 2013. At March 31, 2013, such agreements converted \$65,000 of variable-rate debt to a fixed-rate basis, utilizing the three-month LIBOR, as a floating rate reference. Fluctuations in LIBOR and fixed rates affect both the Company's net

financial investment position and the amount of cash to be paid or received under these agreements.

14

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Table of Contents

## 10. Restructuring Plans

During fiscal 2012, the Company announced restructuring plans related to its operations in EMEA, primarily consisting of the transfer of manufacturing of select products between certain of its manufacturing operations and restructuring of its selling, general and administrative operations, which resulted in the reduction of approximately 85 employees upon completion at the end of the second quarter of fiscal 2014. The total charges for these actions amounted to \$3,545, primarily from cash expenses for employee severance-related payments. The Company recorded restructuring charges of \$3,545 through fiscal 2013, with no additional charges during the nine months of fiscal 2014. The Company incurred \$3,346 of costs against the accrual through fiscal 2013, with \$185 of additional costs incurred against the accrual during the six months of fiscal 2014. This plan was completed as of September 29, 2013.

During fiscal 2013, the Company announced a further restructuring related to improving the efficiency of its manufacturing operations in EMEA. The Company estimates that the total charges for these actions will amount to approximately \$8,100, primarily from cash expenses for employee severance-related payments and non-cash expenses associated with the write-off of certain fixed assets and inventory. The Company estimates that these actions will result in the reduction of approximately 130 employees upon completion. During fiscal 2013, the Company recorded restructuring charges of \$3,998, consisting of non-cash charges of \$1,399 related to the write-off of fixed assets and inventory, along with cash charges related to employee severance and other charges of \$2,599. The Company recorded an additional \$2,381 in charges during the nine months of fiscal 2014. During fiscal 2013, the Company incurred \$952 of costs against the accrual, with an additional \$2,086 of costs incurred during the nine months of fiscal 2014. As of December 29, 2013, the reserve balance associated with these actions is \$2,017. The Company expects to be committed to an additional \$296 of restructuring charges in fiscal 2014 related to these actions, and expects to complete the program during fiscal 2015.

During fiscal 2013, the Company announced a restructuring related to the closure of its manufacturing facility located in Chaoan, People's Republic of China, pursuant to which the Company will transfer the manufacturing at that location to its other facilities in the People's Republic of China, to improve operational efficiencies. The Company estimates that the total charges related to this action will amount to \$3,400. During fiscal 2013, the Company recorded restructuring charges of \$2,691, consisting of non-cash charges of \$2,290 related to the write-off of fixed assets and inventory, along with cash charges related to employee severance and other charges of \$401. During the nine months of fiscal 2014, \$157 of additional other restructuring charges were accrued. During fiscal 2013, the Company incurred \$221 in costs against the accrual, with an additional \$294 of costs incurred during the nine months of fiscal 2014. As of December 29, 2013, the reserve balance associated with this action is \$44. The Company expects to be committed to an additional \$550 of restructuring charges related to these actions and expects to complete the restructuring during fiscal 2014.

During fiscal 2014, the Company announced further restructuring programs to improve the efficiency of its manufacturing operations in EMEA including the restructuring of its manufacturing operations in Bulgaria. The restructuring of the Bulgaria operations was announced during the third quarter of fiscal 2014 and consists of the transfer of motive power and a portion of reserve power battery manufacturing to the Company's facilities in Western Europe. The Company estimates that the total charges for all actions announced during fiscal 2014 will amount to approximately \$27,000, primarily from non-cash charges related to the write-off of fixed assets and inventory of \$13,000, along with cash charges for employee severance-related payments and other charges of \$14,000. The Company estimates that these actions will result in the reduction of approximately 460 employees upon completion. During the nine months of fiscal 2014, the Company recorded restructuring charges of \$11,922 consisting of non-cash charges of \$5,298 related to the write-off of fixed assets and inventory, along with cash charges of \$6,624 related to employee severance. During the nine months of fiscal 2014 the Company incurred \$408 in costs against the accrual. As of December 29, 2013, the reserve balance associated with these actions is \$6,445. The Company expects to be committed to an additional \$7,000 of restructuring charges in fiscal 2014 related to these actions, comprising of non-cash charges of \$4,400 and cash charges of \$2,600 and expects to complete the program during fiscal 2015. A roll-forward of the restructuring reserve is as follows:

| Employee | Other | Total |
|----------|-------|-------|
|----------|-------|-------|



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|                                   | Severance |         |          |
|-----------------------------------|-----------|---------|----------|
| Balance as of March 31, 2013      | \$1,738   | \$221   | \$1,959  |
| Accrued                           | 7,887     | 1,275   | 9,162    |
| Costs incurred                    | (2,596    | ) (377  | ) (2,973 |
| Foreign currency impact and other | 325       | 33      | 358      |
| Balance as of December 29, 2013   | \$7,354   | \$1,152 | \$8,506  |

15

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Table of Contents

## 11. Debt

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

|   | December 29, 2013 | March 31, 2013 |
|---|-------------------|----------------|
| 3.375% Convertible Notes, net of discount, due 2038 | \$160,923         | \$155,273      |
| 2011 Credit Facility, due 2018                      | 119,800           | —              |
| Capital lease obligations and other                 | 675               | 514            |
|   | 281,398           | 155,787        |
| Less current portion                                | 365               | 311            |
| Total long-term debt and capital lease obligations  | \$281,033         | \$155,476      |

## 3.375% Convertible Notes

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 at any time after March 1, 2015 or prior to that date under certain circumstances. When issued, the initial conversion rate was 24.6305 shares per one thousand dollars in principal amount of Convertible Notes, which was equivalent to an initial conversion price of \$40.60 per share. The conversion rate as of January 2, 2014, the date when the the holders were notified that they can submit the Convertible Notes for conversion was 24.7953 shares of the Company's common stock per one thousand dollars in principal amount of the Convertible Notes due to the cumulative impact of cash dividends paid on the Company's common stock. The conversion price is subject to adjustment under certain circumstances. 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 EnerSys common stock or a combination of cash and shares. Holders may convert their Convertible Notes prior to March 1, 2015, at the option of the holder, under the following circumstances: (i) during any calendar quarter (and only during such calendar quarter), if the last reported sale price (as defined in the indenture for the Convertible Notes) of a share of EnerSys common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeds 130% of the applicable conversion price in effect for the Convertible Notes on the last trading day of the immediately preceding calendar quarter, (ii) upon the occurrence of specified corporate events, or (iii) during the five business-day period after any five consecutive trading day period (the "measurement period") in which the "trading price" (as defined in the indenture for the Convertible Notes) of the Convertible Notes for each day of the measurement period was less than 98% of the product of the "last reported sale price" (as defined in the indenture for the Convertible Notes) of a share of EnerSys common stock and the applicable conversion rate on such day.

At December 31, 2013, the closing price of the Company's common stock exceeded 130% of the conversion price for more than 20 trading days during the period of 30 consecutive trading days ending December 31, 2013, thereby satisfying one of the early conversion events and as a result, the Convertible Notes became convertible on demand, and the holders were notified that they can elect to submit the Convertible Notes for conversion, between the notification date of January 2, 2014 and March 31, 2014. The carrying value of the Convertible Notes of \$160,923 continues to be reported as long-term debt on the Consolidated Condensed Balance Sheet as of December 29, 2013 as the Company intends to draw on the \$350,000, 2011 Credit Facility to settle the principal amount of any such conversions in cash. No gain or loss was recognized when the debt became convertible. The estimated fair value of the Convertible Notes was approximately \$305,325 as of December 29, 2013.

This optional conversion period is reset each quarter and the Company will reassess on the last day of each calendar quarter.

In addition, upon becoming convertible, a portion of the equity component that was recorded upon the issuance of the Convertible Notes was considered redeemable and that portion of the equity was reclassified to temporary equity in the Consolidated Condensed Balance Sheet. Such amount was determined based on the cash considerations to be paid upon conversion and the carrying amount of the debt. As the holders of the Convertible Notes will be paid in cash for the principal amount and issued shares or a combination of cash and shares for the remaining value of the Convertible Notes, the reclassification into temporary equity as of December 29, 2013 was \$11,577 based on the Convertible Notes principal of \$172,500 and the carrying value of \$160,923. If a conversion event takes place in the following

quarter, this temporary equity balance will be recalculated based on the difference between the Convertible Notes principal and the debt carrying value. If the Convertible Notes are settled during the fourth quarter of fiscal 2014, an amount equal to the fair value of the liability component immediately prior to the settlement will be deducted from the fair value of the total settlement consideration transferred and allocated to the liability component. Any difference between the amount allocated to the liability and the net carrying amount of the Convertible Notes (including any unamortized debt issue costs and discount) will be recognized in earnings as a gain or loss on debt extinguishment. Any remaining consideration is allocated to the reacquisition of the equity component and will be recognized as a reduction of EnerSys stockholders' equity.

The Convertible Notes are general senior unsecured obligations of the Company and will rank equally in right of payment to all of its other senior unsecured indebtedness and senior in right of payment with all indebtedness that is contractually subordinated to the notes. The Convertible Notes will be structurally subordinated to all existing and future claims of the Company's (including subsidiaries) creditors, including trade creditors, and will be effectively subordinated to any of our secured indebtedness (including capital leases) to the extent of the value of our assets that secure such indebtedness.

Table of Contents

The following represents the principal amount of the liability component, the unamortized discount, and the net carrying amount of the Convertible Notes as of December 29, 2013 and March 31, 2013:

|                      | December 29, 2013 | March 31, 2013 |
|----------------------|-------------------|----------------|
| Principal            | \$172,500         | \$172,500      |
| Unamortized discount | (11,577           | ) (17,227      |
| Net carrying amount  | \$160,923         | \$155,273      |

As of December 29, 2013, the remaining discount will be amortized over a period of 17 months. The conversion price of the \$172,500 in aggregate principal amount of the Convertible Notes as of January 2, 2014, is \$40.33 per share and the number of shares on which the aggregate consideration is to be delivered upon conversion is 4,277,213.

The effective interest rate on the liability component of the Convertible Notes was 8.50%. The amount of interest cost recognized for the amortization of the discount on the liability component of the Convertible Notes was \$1,923 and \$1,768, respectively, during the quarters ended December 29, 2013 and December 30, 2012 and \$5,650 and \$5,195, respectively, during the nine months ended December 29, 2013 and December 30, 2012.

**2011 Credit Facility**

The Company had \$119,800 revolver borrowings outstanding under its 2011 Credit Facility as of December 29, 2013. These borrowings were primarily utilized to fund new acquisitions.

**Short-Term Debt**

As of December 29, 2013 and March 31, 2013, the Company had \$32,607 and \$22,702, respectively, of short-term borrowings from banks. The weighted-average interest rates on these borrowings were approximately 6% and 11%, respectively.

**Available Lines of Credit**

As of December 29, 2013 and March 31, 2013, the Company had available and undrawn, under all its lines of credit, \$349,097 and \$469,123, respectively, including \$120,147 and \$120,373, respectively, of uncommitted lines of credit as of December 29, 2013 and March 31, 2013.

As of December 29, 2013 and March 31, 2013, the Company had \$1,322 and \$11,854, respectively, of standby letters of credit.

**Amendment to 2011 Credit Facility**

In August 2013 and December 2013, the Company amended its 2011 Credit Facility. The key amendments to the agreement were extending the maturity until September 2018, and increasing flexibility for entering into acquisitions and joint ventures, divestitures, stock buybacks and cash dividend payments. The Company incurred \$823 in deferred financing fees in connection with the amendments.

**12. Retirement Plans**

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

|                                | United States Plans                   |                      | International Plans                   |                      |
|--------------------------------|---------------------------------------|----------------------|---------------------------------------|----------------------|
|                                | Quarter ended<br>December 29,<br>2013 | December 30,<br>2012 | Quarter ended<br>December 29,<br>2013 | December 30,<br>2012 |
| Service cost                   | \$84                                  | \$93                 | \$211                                 | \$183                |
| Interest cost                  | 153                                   | 161                  | 614                                   | 604                  |
| Expected return on plan assets | (200                                  | ) (190               | ) (544                                | ) (471               |
| Amortization and deferral      | 106                                   | 97                   | 109                                   | 53                   |
| Net periodic benefit cost      | \$143                                 | \$161                | \$390                                 | \$369                |



Table of Contents

|                                | United States Plans  |                      | International Plans  |                      |
|--------------------------------|----------------------|----------------------|----------------------|----------------------|
|                                | Nine months ended    |                      | Nine months ended    |                      |
|                                | December 29,<br>2013 | December 30,<br>2012 | December 29,<br>2013 | December 30,<br>2012 |
| Service cost                   | \$265                | \$255                | \$617                | \$536                |
| Interest cost                  | 465                  | 488                  | 1,790                | 1,789                |
| Expected return on plan assets | (597                 | ) (567               | ) (1,580             | ) (1,400             |
| Amortization and deferral      | 373                  | 298                  | 320                  | 156                  |
| Net periodic benefit cost      | \$506                | \$474                | \$1,147              | \$1,081              |

## 13. Stock-Based Compensation

As of December 29, 2013, the Company maintains the EnerSys 2010 Equity Incentive Plan (“2010 EIP”). The 2010 EIP reserved 3,177,477 shares of common stock for the grant of various types of equity awards including nonqualified stock options, restricted stock, restricted stock units, market share units and other forms of stock-based compensation. The Company recognized stock-based compensation expense associated with its equity incentive plans of \$4,594 for the third quarter of fiscal 2014 and \$3,762 for the third quarter of fiscal 2013. The Company recognized stock-based compensation expense associated with its equity incentive plans of \$12,186 for the nine months ended December 29, 2013 and \$10,960 for the nine months ended December 30, 2012.

During the nine months ended December 29, 2013, the Company granted to non-employee directors 21,269 restricted stock units, pursuant to the EnerSys Deferred Compensation Plan for Non-Employee Directors.

During the nine months ended December 29, 2013, the Company granted to management and other key employees 158,629 restricted stock units that vest 25% each year over four years from the date of grant, and 189,438 market share units that vest three years from the date of grant.

Common stock activity during the nine months ended December 29, 2013 included the exercise of 5,859 options and the vesting of 216,432 restricted stock units and 222,123 market share units.

As of December 29, 2013, there were 72,127 non-qualified stock options, 566,969 restricted stock units and 669,428 market share units outstanding.

## 14. Stockholders’ Equity and Noncontrolling Interests

## Common Stock

The following demonstrates the change in the number of shares of Common Stock outstanding during the nine months ended December 29, 2013:

|   |            |
|---|------------|
| Shares outstanding as of March 31, 2013   | 47,840,204 |
| Purchase of treasury stock  | (899,902   |
| Shares issued as part of equity-based compensation plans, net of equity awards surrendered for option price and taxes | 287,113    |
| Shares outstanding as of December 29, 2013  | 47,227,415 |

## Treasury Stock

During the nine months ended December 29, 2013, the Company purchased 899,902 shares of its common stock for \$49,568. At December 29, 2013 and March 31, 2013, the Company held 6,029,979 and 5,130,077 shares as treasury stock, respectively.

Table of Contents

## Accumulated Other Comprehensive Income ("AOCI")

The components of AOCI, net of tax, are as follows:

|  | March 31, 2013 | Before<br>Reclassifications | Amounts<br>Reclassified from<br>AOCI | December 29,<br>2013 |
|--|----------------|-----------------------------|--------------------------------------|----------------------|
| Pension funded status adjustment                     | \$(13,169      | ) \$—                       | \$468                                | \$(12,701            |
| Net unrealized (loss) gain on derivative instruments | (832           | ) 2,921                     | 691                                  | 2,780                |
| Foreign currency translation adjustment              | 54,656         | 31,591                      | —                                    | 86,247               |
| Accumulated other comprehensive income               | \$40,655       | \$34,512                    | \$1,159                              | \$76,326             |

The following table presents reclassifications from AOCI during the third quarter ended December 29, 2013:

| Components of AOCI  | Amounts Reclassified<br>from AOCI | Location of Loss Recognized on Income<br>Statement  |
|---|-----------------------------------|---|
| Derivatives in Cash Flow Hedging Relationships:           |                                   |   |
| Net unrealized gain on derivative instruments             | \$(1,518                          | )   |
| Tax expense   | 563                               |   |
| Net unrealized gain on derivative instruments, net of tax | \$(955                            | ) Cost of goods sold  |
| Defined benefit pension costs:                            |                                   |   |
| Prior service costs and deferrals                         | \$236                             |   |
| Tax benefit   | (84                               | )   |
| Net periodic benefit cost, net of tax                     | \$152                             | Net periodic benefit cost, included in Cost of goods sold, Operating expenses - See Note 12 |

The following table presents reclassifications from AOCI during the nine months ended December 29, 2013:

| Components of AOCI  | Amounts Reclassified<br>from AOCI | Location of Loss Recognized on Income<br>Statement  |
|---|-----------------------------------|---|
| Derivatives in Cash Flow Hedging Relationships:           |                                   |   |
| Net unrealized loss on derivative instruments             | \$1,099                           |   |
| Tax benefit   | (408                              | )   |
| Net unrealized loss on derivative instruments, net of tax | \$691                             | Cost of goods sold  |
| Defined benefit pension costs:                            |                                   |   |
| Prior service costs and deferrals                         | \$708                             |   |
| Tax benefit   | (240                              | )   |
| Net periodic benefit cost, net of tax                     | \$468                             | Net periodic benefit cost, included in Cost of goods sold, Operating expenses - See Note 12 |





Table of Contents

The following demonstrates the change in equity attributable to EnerSys stockholders and nonredeemable noncontrolling interests during the nine months ended December 29, 2013:

|  | Equity Attributable<br>to EnerSys<br>Stockholders | Nonredeemable<br>Noncontrolling<br>Interests | Total Equity |
|--|---|--|--------------|
| Balance as of March 31, 2013   | \$1,169,401                                       | \$5,882                                      | \$1,175,283  |
| Total comprehensive income:  |   |  |              |
| Net earnings attributable to EnerSys stockholders and nonredeemable noncontrolling interests | 137,486   | 53   | 137,539      |
| Net unrealized gain on derivative instruments, net of tax                                    | 3,612   | —  | 3,612        |
| Pension funded status adjustment, net of tax   | 468   | —  | 468          |
| Foreign currency translation adjustment  | 31,591  | 59   | 31,650       |
| Total other comprehensive income, net of tax   | 35,671  | 59   | 35,730       |
| Total comprehensive income   | 173,157   | 112  | 173,269      |
| Other changes in equity:   |   |  |              |
| Purchase of treasury stock   | (49,568   | ) —  | (49,568 )    |
| Cash dividends - common stock (\$0.375 per share)  | (17,809   | ) —  | (17,809 )    |
| Reclassification of redeemable equity component of Convertible Notes                         | (11,577   | ) —  | (11,577 )    |
| Purchase of subsidiary shares from redeemable noncontrolling interest                        | (2,866  | ) —  | (2,866 )     |
| Other, including activity related to equity awards   | 4,173   | —  | 4,173        |
| Balance as of December 29, 2013  | \$1,264,911                                       | \$5,994                                      | \$1,270,905  |

The following demonstrates the change in redeemable noncontrolling interests during the nine months ended December 29, 2013:

|   | Redeemable<br>Noncontrolling<br>Interests |
|---|---|
| Balance as of March 31, 2013  | \$ 11,095                                 |
| Net losses  | (3,581 )                                  |
| Redemption value adjustment   | 4,229                                     |
| Purchase of subsidiary shares from redeemable noncontrolling interest | (3,146 )                                  |
| Foreign currency translation adjustment                               | (1,318 )                                  |
| Balance as of December 29, 2013                                       | \$ 7,279                                  |

During the current quarter of fiscal 2014, the Company recorded an increase to redeemable noncontrolling interests of \$4,229 to reflect the estimated redemption value of the redeemable noncontrolling interests. Any adjustment to the redemption value impacts retained earnings but does not impact net income. The Company thereafter negotiated with the redeemable noncontrolling interest shareholders to acquire all of their redeemable noncontrolling interest shares of \$3,146 for \$6,012. The difference between the amount paid and the carrying value of the noncontrolling interest was recorded as a reduction to additional paid-in capital and the noncontrolling interest was eliminated as of December 29, 2013.



Table of Contents

## 15. Earnings Per Share

The following table sets forth the reconciliation from basic to diluted weighted-average number of common shares outstanding and the calculations of net earnings per common share attributable to EnerSys stockholders.

|   | Quarter ended        |                      | Nine months ended    |                      |
|---|----------------------|----------------------|----------------------|----------------------|
|   | December<br>29, 2013 | December<br>30, 2012 | December<br>29, 2013 | December<br>30, 2012 |
| Net earnings attributable to EnerSys stockholders   | \$55,300             | \$39,184             | \$137,486            | \$128,778            |
| Weighted-average number of common shares outstanding:                                       |                      |                      |                      |                      |
| Basic   | 47,351,750           | 48,176,206           | 47,598,076           | 48,088,580           |
| Dilutive effect of:   |                      |                      |                      |                      |
| Common shares from exercise and lapse of equity awards,<br>net of shares assumed reacquired | 1,190,816            | 506,140              | 940,721              | 521,171              |
| Convertible Notes   | 1,672,216            | —                    | 1,103,051            | —                    |
| Diluted weighted-average number of common shares<br>outstanding                             | 50,214,782           | 48,682,346           | 49,641,848           | 48,609,751           |
| Basic earnings per common share attributable to EnerSys<br>stockholders                     | \$1.17               | \$0.81               | \$2.89               | \$2.68               |
| Diluted earnings per common share attributable to EnerSys<br>stockholders                   | \$1.10               | \$0.80               | \$2.77               | \$2.65               |
| Anti-dilutive equity awards not included in diluted<br>weighted-average common shares       | —                    | —                    | 8,881                | 131,594              |

The aggregate number of common shares that the Company could be obligated to issue upon conversion of its Convertible Notes as of December 29, 2013, is 4,277,213. It is the Company's current intent to settle the principal amount of any conversions in cash, and any additional conversion consideration ("conversion premium") in cash, shares of the Company's common stock or a combination of cash and shares. During the third quarter of fiscal 2014, the average price of the Company's common stock of \$66.90 per share exceeded the conversion price of \$40.60 per share on the Convertible Notes. For the current quarter and nine months ended December 29, 2013, 1,672,216 and 1,103,051 shares, respectively, relating to the conversion premium on the Convertible Notes were included in the diluted earnings per share using the "if converted" method.

Table of Contents

## 16. 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;  
 •EMEA, 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.

Summarized financial information related to the Company's reportable segments for the quarters and nine months ended December 29, 2013 and December 30, 2012, is shown below:

|  | Quarter ended     |                   | Nine months ended |                   |
|--|-------------------|-------------------|-------------------|-------------------|
|  | December 29, 2013 | December 30, 2012 | December 29, 2013 | December 30, 2012 |
| Net sales by segment to unaffiliated customers |                   |                   |                   |                   |
| EMEA   | \$251,273         | \$231,434         | \$705,614         | \$683,938         |
| Americas                                       | 326,932           | 275,752           | 930,238           | 841,380           |
| Asia   | 64,826            | 50,134            | 173,323           | 180,124           |
| Total net sales                                | \$643,031         | \$557,320         | \$1,809,175       | \$1,705,442       |
| Net sales by product line                      |                   |                   |                   |                   |
| Reserve power                                  | \$328,787         | \$265,167         | \$901,100         | \$839,747         |
| Motive power                                   | 314,244           | 292,153           | 908,075           | 865,695           |
| Total net sales                                | \$643,031         | \$557,320         | \$1,809,175       | \$1,705,442       |
| Intersegment sales                             |                   |                   |                   |                   |
| EMEA   | \$20,119          | \$14,270          | \$56,692          | \$59,654          |
| Americas                                       | 7,360             | 7,359             | 25,629            | 27,056            |
| Asia   | 5,138             | 9,531             | 22,901            | 23,675            |
| Total intersegment sales <sup>(1)</sup>        | \$32,617          | \$31,160          | \$105,222         | \$110,385         |
| Operating earnings by segment                  |                   |                   |                   |                   |
| EMEA   | \$21,367          | \$14,929          | \$52,693          | \$46,170          |
| Americas                                       | 48,484            | 45,334            | 133,352           | 133,420           |
| Asia   | 7,188             | 3,250             | 16,147            | 18,728            |
| Restructuring charges - EMEA                   | (12,762)          | (1,085)           | (14,302)          | (2,750)           |
| Restructuring charges - Asia                   | (158)             | (2,691)           | (158)             | (2,691)           |
| Goodwill impairment - Asia                     | (5,179)           | —                 | (5,179)           | —                 |
| Total operating earnings <sup>(2)</sup>        | \$58,940          | \$59,737          | \$182,553         | \$192,877         |

(1) Intersegment sales are presented on a cost-plus basis which takes into consideration the effect of transfer prices between legal entities.

(2) The Company does not allocate interest expense or other (income) expense to the reportable segments.

## 17. Subsequent Events

On January 27, 2014, the Company completed the acquisition of UTS Holdings Sdn. Bhd. and its subsidiaries, a distributor of motive and reserve power battery products and services, headquartered in Kuala Lumpur, Malaysia, representing an investment of approximately \$30,000.

On January 30, 2014, the Company announced the declaration of a quarterly cash dividend of \$0.125 per share of common stock to be paid on March 28, 2014, to stockholders of record as of March 14, 2014.

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

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

Forward-looking statements involve risks, uncertainties and assumptions. Although we do not make forward-looking statements unless we believe we have a reasonable basis for doing so, we cannot guarantee their accuracy. Actual results may differ materially from those expressed in these forward-looking statements due to a number of uncertainties and risks, including the risks described in the Company's 2013 Annual Report on Form 10-K and other unforeseen risks. You should not put undue reliance on any forward-looking statements. These statements speak only as of the date of this Quarterly Report on Form 10-Q, even if subsequently made available on our website or otherwise, and we undertake no obligation to update or revise these statements to reflect events or circumstances occurring after the date of this Quarterly Report on Form 10-Q.

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

- general cyclical patterns of the industries in which our customers operate;
- the extent to which we cannot control our fixed and variable costs;
- the raw materials in our products may experience significant fluctuations in market price and availability;
- certain raw materials constitute hazardous materials that may give rise to costly environmental and safety claims;
- legislation regarding the restriction of the use of certain hazardous substances in our products;
- risks involved in our operations such as disruption of markets, changes in import and export laws, environmental regulations, currency restrictions and currency exchange rate fluctuations;
- our ability to raise our selling prices to our customers when our product costs increase;
- the extent to which we are able to efficiently utilize our global manufacturing facilities and optimize our capacity;
- general economic conditions in the markets in which we operate;
- competitiveness of the battery markets throughout the world;
- our timely development of competitive new products and product enhancements in a changing environment and the acceptance of such products and product enhancements by customers;
- our ability to adequately protect our proprietary intellectual property, technology and brand names;
- litigation and regulatory proceedings to which we might be subject;
- changes in our market share in the geographic business segments where we operate;
- our ability to implement our cost reduction initiatives successfully and improve our profitability;
- quality problems associated with our products;
- our ability to implement business strategies, including our acquisition strategy, manufacturing expansion and restructuring plans;
- our acquisition strategy may not be successful in locating advantageous targets;
-

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

- our debt and debt service requirements which may restrict our operational and financial flexibility, as well as imposing unfavorable interest and financing costs;
- our ability to maintain our existing credit facilities or obtain satisfactory new credit facilities;
- adverse changes in our short and long-term debt levels under our credit facilities;
- our exposure to fluctuations in interest rates on our variable-rate debt;

Table of Contents

- our ability to attract and retain qualified personnel;
- our ability to maintain good relations with labor unions;
- credit risk associated with our customers, including risk of insolvency and bankruptcy;
- our ability to successfully recover in the event of a disaster affecting our infrastructure;
- terrorist acts or acts of war, could cause damage or disruption to our operations, our suppliers, channels to market or customers, or could cause costs to increase, or create political or economic instability; and
- the operation, capacity and security of our information systems and infrastructure.

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

In the following discussion and analysis of results of operations and financial condition, certain financial measures may be considered “non-GAAP financial measures” under Securities and Exchange Commission rules. These rules require supplemental explanation and reconciliation, which is provided in this Quarterly Report on Form 10-Q.

EnerSys’ management uses the non-GAAP measures “primary working capital”, “primary working capital percentage” 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.

Overview

EnerSys (the “Company,” “we,” or “us”) is the world’s largest manufacturer, marketer and distributor of industrial batteries. We also manufacture, market and distribute products such as battery chargers, power equipment, battery accessories, and outdoor equipment enclosure solutions. Additionally, we provide related aftermarket and customer-support services for our products. We market 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, EMEA and Asia, as described below. Our business is highly decentralized with manufacturing locations throughout the world. More than half of our manufacturing capacity is located outside the United States, and approximately 60% of our net sales were generated outside the United States. The Company has three reportable business segments based on geographic regions, defined as follows:

- Americas, which includes North and South America, with our segment headquarters in Reading, Pennsylvania, USA;
- EMEA, which includes Europe, the Middle East and Africa, with our segment headquarters in Zurich, Switzerland;
- and
- Asia, which includes Asia, Australia and Oceania, with our segment headquarters in Singapore.

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

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

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

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

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

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

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

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



## Table of Contents

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

Reserve power products are used for backup power for the continuous operation of critical applications in telecommunications systems, uninterruptible power systems, or “UPS” applications for computer and computer-controlled systems, and other specialty power applications, including security systems, premium starting, lighting and ignition applications, in switchgear, electrical control systems used in electric utilities, large-scale energy storage, energy pipelines, in commercial aircraft, satellites, 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, diesel locomotive starting and other rail equipment.

During the current quarter, we completed the acquisition of Purcell Systems, Inc., a designer, manufacturer and marketer of thermally managed electronic equipment and battery cabinet enclosures, headquartered in Spokane, Washington. With the acquisition of Purcell Systems, Inc., we will be supplementing our reserve power products with thermally managed cabinets and enclosures for electronic equipment and batteries. We also completed the acquisition of Quallion LLC, a manufacturer of lithium ion cells and batteries for high integrity applications including implantable medical devices, defense, aviation and space, headquartered in Sylmar, California.

### Economic Climate

Recent indicators continue to suggest a mixed trend in economic activity among the different geographical regions. The Americas economic activity continues to be strong. Our overall Asia region's economic growth is slowing but has been positively impacted by increased capital spending in telecommunications. The EMEA economy appears to have stabilized and should experience flat to moderate growth.

### Volatility of Commodities and Foreign Currencies

Our most significant commodity and foreign currency exposures are related to lead and the euro. Historically, volatility of commodity costs and foreign currency exchange rates have caused large swings in our production costs. As the global economic climate changes, we anticipate that our commodity costs may continue to fluctuate as they have in the past several years. Overall, on a consolidated basis, we have experienced stable trends more recently in our revenue and order rates and commodity cost changes have not been substantial.

### Customer Pricing

Our selling prices fluctuated during the last several years to offset the volatile cost of commodities. Approximately 35% of our revenue is currently subject to agreements that adjust pricing to a market-based index for lead. During the current quarter and nine months of fiscal 2014, our selling prices increased slightly, compared to the comparable prior year periods.

### Liquidity and Capital Resources

Our capital structure and liquidity remain strong. As of December 29, 2013, we had \$211.6 million of cash and cash equivalents and \$349 million, undrawn and available under all our lines of credit including approximately \$120 million of uncommitted credit lines. A substantial majority of the Company's cash and investments are held by foreign subsidiaries and are considered to be indefinitely reinvested and expected to be utilized to fund local operating activities, capital expenditure requirements and acquisitions. The Company believes that it has sufficient sources of domestic and foreign liquidity.

The Convertible Notes became convertible at the option of the holders effective January 2, 2014, as described in Note 11. If the Convertible Notes holders would exercise their conversion rights, we would pay the principal amount by drawing on our \$350 million 2011 Credit Facility and, at our election, issue shares or pay cash for any remaining value.

Our leverage has increased in fiscal 2014 mainly due to increased acquisitions activity, initiation of quarterly dividend payments and continuation of our share repurchase program. We believe that our strong capital structure and liquidity affords us access to capital for future acquisition and stock repurchase opportunities and continued dividend payments.



Table of Contents

## Results of Operations

## Net Sales

| Current quarter by segment | Quarter ended<br>December 29, 2013 |                                     | Quarter ended<br>December 30, 2012 |                                     | Increase (Decrease) |      |   |
|----------------------------|------------------------------------|-------------------------------------|------------------------------------|-------------------------------------|---------------------|------|---|
|                            | In<br>Millions                     | Percentage<br>of Total<br>Net Sales | In<br>Millions                     | Percentage<br>of Total<br>Net Sales | In<br>Millions      | %    |   |
| EMEA                       | \$251.3                            | 39.1 %                              | \$231.4                            | 41.5 %                              | \$19.9              | 8.6  | % |
| Americas                   | 327.0                              | 50.8 %                              | 275.8                              | 49.5 %                              | 51.2                | 18.6 | % |
| Asia                       | 64.8                               | 10.1 %                              | 50.1                               | 9.0 %                               | 14.7                | 29.3 | % |
| Total net sales            | \$643.1                            | 100.0 %                             | \$557.3                            | 100.0 %                             | \$85.8              | 15.4 | % |

  

| Year to date by segment | Nine months ended<br>December 29, 2013 |                                     | Nine months ended<br>December 30, 2012 |                                     | Increase (Decrease) |       |    |
|-------------------------|--|-------------------------------------|--|-------------------------------------|---------------------|-------|----|
|                         | In<br>Millions                         | Percentage<br>of Total<br>Net Sales | In<br>Millions                         | Percentage<br>of Total<br>Net Sales | In<br>Millions      | %     |    |
| EMEA                    | \$705.6                                | 39.0 %                              | \$683.9                                | 40.1 %                              | \$21.7              | 3.2   | %  |
| Americas                | 930.3                                  | 51.4 %                              | 841.4                                  | 49.3 %                              | 88.9                | 10.6  | %  |
| Asia                    | 173.3                                  | 9.6 %                               | 180.1                                  | 10.6 %                              | (6.8)               | (3.8) | )% |
| Total net sales         | \$1,809.2                              | 100.0 %                             | \$1,705.4                              | 100.0 %                             | \$103.8             | 6.1   | %  |

Net sales increased \$85.8 million or 15.4% in the third quarter of fiscal 2014 from the comparable period in fiscal 2013. This increase for the quarter was the result of a 9% increase in organic volume and a 6% increase due to acquisitions.

Net sales increased \$103.8 million or 6.1% in the nine months of fiscal 2014 from the comparable period in fiscal 2013. This increase for the nine months was the result of a 4% increase in organic volume and a 2% increase due to acquisitions.

## Segment sales

The EMEA segment's net sales increased \$19.9 million or 8.6% in the third quarter of fiscal 2014, as compared to the third quarter of fiscal 2013, primarily due to a 6% increase in organic volume and a 3% increase in foreign currency translation impact. Net sales increased \$21.7 million or 3.2% in the nine months of fiscal 2014, as compared to the nine months of fiscal 2013, primarily due to an increase of approximately 2% related to currency translation impact and a 1% increase in pricing.

The Americas segment's net sales increased \$51.2 million or 18.6% in the third quarter of fiscal 2014, as compared to the third quarter of fiscal 2013, primarily due to an increase of approximately 7% in organic volume and a 12% increase due to acquisitions. Net sales increased \$88.9 million or 10.6% in the nine months of fiscal 2014, as compared to the nine months of fiscal 2013, primarily due to higher organic volume of approximately 7% and a 4% increase due to acquisitions.

The Asia segment's net sales increased \$14.7 million or 29.3% in the third quarter of fiscal 2014, as compared to the third quarter of fiscal 2013, primarily due to higher organic volume of 34% partially offset by a decrease due to foreign currency translation impact of approximately 4% and a 1% decrease in pricing. Net sales decreased \$6.8 million or 3.8% in the nine months of fiscal 2014, as compared to the nine months of fiscal 2013, primarily due to a decrease of approximately 3% due to foreign currency translation and a 2% decrease due to pricing, partially offset by an increase of 1% due to organic volume.



Table of Contents

## Product line sales

|                 | Quarter ended<br>December 29, 2013 |                                     |   | Quarter ended<br>December 30, 2012 |                                     |   | Increase (Decrease) |      |   |
|-----------------|------------------------------------|-------------------------------------|---|------------------------------------|-------------------------------------|---|---------------------|------|---|
|                 | In<br>Millions                     | Percentage<br>of Total<br>Net Sales | % | In<br>Millions                     | Percentage<br>of Total<br>Net Sales | % | In<br>Millions      | %    |   |
| Reserve power   | \$328.8                            | 51.1                                | % | \$265.2                            | 47.6                                | % | \$63.6              | 24.0 | % |
| Motive power    | 314.3                              | 48.9                                | % | 292.1                              | 52.4                                | % | 22.2                | 7.6  | % |
| Total net sales | \$643.1                            | 100.0                               | % | \$557.3                            | 100.0                               | % | \$85.8              | 15.4 | % |

  

|                 | Nine months ended<br>December 29, 2013 |                                     |   | Nine months ended<br>December 30, 2012 |                                     |   | Increase (Decrease) |     |   |
|-----------------|--|-------------------------------------|---|--|-------------------------------------|---|---------------------|-----|---|
|                 | In<br>Millions                         | Percentage<br>of Total<br>Net Sales | % | In<br>Millions                         | Percentage<br>of Total<br>Net Sales | % | In<br>Millions      | %   |   |
| Reserve power   | \$901.1                                | 49.8                                | % | \$839.8                                | 49.2                                | % | \$61.3              | 7.3 | % |
| Motive power    | 908.1                                  | 50.2                                | % | 865.6                                  | 50.8                                | % | 42.5                | 4.9 | % |
| Total net sales | \$1,809.2                              | 100.0                               | % | \$1,705.4                              | 100.0                               | % | \$103.8             | 6.1 | % |

Net sales of our reserve power products in the third quarter of fiscal 2014 increased \$63.6 million or 24.0% compared to the third quarter of fiscal 2013. Organic volume and acquisitions contributed to this improvement by approximately 11% and 13%, respectively. Net sales in the nine months of fiscal 2014 increased \$61.3 million or 7.3% compared to the nine months of fiscal 2013. Organic volume and acquisitions contributed to this improvement by approximately 3% and 4%, respectively.

Net sales of our motive power products in the third quarter of fiscal 2014 increased by \$22.2 million or 7.6% compared to the third quarter of fiscal 2013. An improvement of approximately 7% in organic volume and a 1% increase due to foreign currency translation impact contributed to this improvement in the third quarter of fiscal 2014. Net sales in the nine months of fiscal 2014 increased \$42.5 million or 4.9% compared to the nine months of fiscal 2013, primarily due to a 4% increase in organic volume and a combined 1% increase due to pricing and foreign currency translation impact.

## Gross Profit

|              | Quarter ended<br>December 29, 2013 |                                     |   | Quarter ended<br>December 30, 2012 |                                     |   | Increase (Decrease) |      |   |
|--------------|------------------------------------|-------------------------------------|---|------------------------------------|-------------------------------------|---|---------------------|------|---|
|              | In<br>Millions                     | Percentage<br>of Total<br>Net Sales | % | In<br>Millions                     | Percentage<br>of Total<br>Net Sales | % | In<br>Millions      | %    |   |
| Gross Profit | \$167.2                            | 26.0                                | % | \$143.7                            | 25.8                                | % | \$23.5              | 16.3 | % |

  

|              | Nine months ended<br>December 29, 2013 |                                     |   | Nine months ended<br>December 30, 2012 |                                     |   | Increase (Decrease) |     |   |
|--------------|--|-------------------------------------|---|--|-------------------------------------|---|---------------------|-----|---|
|              | In<br>Millions                         | Percentage<br>of Total<br>Net Sales | % | In<br>Millions                         | Percentage<br>of Total<br>Net Sales | % | In<br>Millions      | %   |   |
| Gross Profit | \$451.6                                | 25.0                                | % | \$430.3                                | 25.2                                | % | \$21.3              | 4.9 | % |

Gross profit increased \$23.5 million or 16.3% in the third quarter of fiscal 2014 and increased \$21.3 million or 4.9% in the nine months of fiscal 2014 compared to the comparable periods of fiscal 2013. Gross profit, as a percentage of

net sales increased 20 basis points in the third quarter but decreased 20 basis points in the nine months of fiscal 2014, when compared to the comparable periods of fiscal 2013. The increase in the current quarter is primarily attributed to higher volume and pricing partially offset by higher commodity costs. The decrease in the nine months of fiscal 2014 compared to the prior year nine months is primarily due to higher commodity costs partially offset by higher volume and pricing.

Table of Contents

## Operating Items

|                            | Quarter ended<br>December 29, 2013 |                                     | Quarter ended<br>December 30, 2012 |                                     | Increase (Decrease) |        |
|----------------------------|------------------------------------|-------------------------------------|------------------------------------|-------------------------------------|---------------------|--------|
|                            | In<br>Millions                     | Percentage<br>of Total<br>Net Sales | In<br>Millions                     | Percentage<br>of Total<br>Net Sales | In<br>Millions      | %      |
| Operating expenses         | \$90.1                             | 14.0 %                              | \$80.2                             | 14.4 %                              | \$9.9               | 12.3 % |
| Restructuring charges      | \$13.0                             | 2.0 %                               | \$3.7                              | 0.7 %                               | \$9.3               | NM     |
| Goodwill impairment charge | \$5.2                              | 0.8 %                               | \$—                                | — %                                 | \$5.2               | NM     |

NM = not meaningful

|                            | Nine months ended<br>December 29, 2013 |                                     | Nine months ended<br>December 30, 2012 |                                     | Increase (Decrease) |       |
|----------------------------|--|-------------------------------------|--|-------------------------------------|---------------------|-------|
|                            | In<br>Millions                         | Percentage<br>of Total<br>Net Sales | In<br>Millions                         | Percentage<br>of Total<br>Net Sales | In<br>Millions      | %     |
| Operating expenses         | \$249.4                                | 13.8 %                              | \$232.0                                | 13.6 %                              | \$17.4              | 7.5 % |
| Restructuring charges      | \$14.5                                 | 0.8 %                               | \$5.4                                  | 0.3 %                               | \$9.1               | NM    |
| Goodwill impairment charge | \$5.2                                  | 0.3 %                               | \$—                                    | — %                                 | \$5.2               | NM    |

Operating expenses as a percentage of net sales decreased 40 basis points in the third quarter and increased 20 basis points in the nine months of fiscal 2014 compared to the third quarter and nine months of fiscal 2013. Operating expenses, excluding the effect of foreign currency translation, increased \$10.1 million or 12.6% in the third quarter of fiscal 2014 and increased \$18.1 million or 7.8% in the nine months of fiscal 2014 compared to the nine months of fiscal 2013. Increase in operating expenses in both the quarter and nine months is primarily due to increased sales volume, acquisitions, acquisition related fees and payroll related expenses. Selling expenses, our main component of operating expenses, were 55.4% and 57.5% of total operating expenses in the third quarter and nine months of fiscal 2014, respectively, compared to 58.0% and 59.4% of total operating expenses in the third quarter and nine months of fiscal 2013, respectively.

**Restructuring charges**

Included in our third quarter and nine months of fiscal 2014 operating results are \$13.0 million and \$14.5 million of restructuring charges, respectively, primarily for staff reductions and write-off of fixed assets and inventory in EMEA and relocating our motive power and a portion of our reserve power manufacturing from Bulgaria to our facilities in Western Europe. Included in our third quarter and nine months of fiscal 2013 operating results are \$3.7 million and \$5.4 million of restructuring charges, respectively, primarily for staff reductions and write-off of fixed assets and inventory in EMEA and Asia.

**Goodwill impairment charge**

Goodwill is tested annually for impairment during the fourth quarter or earlier upon the occurrence of certain events or substantive changes in circumstances that indicate goodwill is more likely than not impaired. During the third quarter of fiscal 2014, we determined that the fair value of our subsidiary in India, which was acquired in fiscal 2012, was less than its carrying amount based on our analysis of the estimated future expected cash flows we anticipate from the operations of this subsidiary. Accordingly, we recorded a non-cash charge of \$5,179 for goodwill impairment relating to this subsidiary (see Note 4 to the Consolidated Condensed Financial Statements).

Table of Contents

## Operating Earnings

| Current quarter by segment           | Quarter ended<br>December 29, 2013 |   |   | Quarter ended<br>December 30, 2012 |   |   | Increase (Decrease) |       |    |
|--------------------------------------|------------------------------------|---|---|------------------------------------|---|---|---------------------|-------|----|
|                                      | In<br>Millions                     | Percentage<br>of Total<br>Net Sales (1) | % | In<br>Millions                     | Percentage<br>of Total<br>Net Sales (1) | % | In<br>Millions      | %     |    |
| EMEA                                 | \$21.4                             | 8.5                                     | % | \$14.9                             | 6.5                                     | % | \$6.5               | 43.1  | %  |
| Americas                             | 48.5                               | 14.8                                    |   | 45.3                               | 16.4                                    |   | 3.2                 | 6.9   |    |
| Asia                                 | 7.2                                | 11.1                                    |   | 3.3                                | 6.5                                     |   | 3.9                 | 121.2 |    |
| Subtotal                             | 77.1                               | 12.0                                    |   | 63.5                               | 11.4                                    |   | 13.6                | 21.3  |    |
| Restructuring charges - EMEA         | (12.8)                             | (5.1)                                   | ) | (1.0)                              | (0.5)                                   | ) | (11.8)              | NM    |    |
| Restructuring charges - Asia         | (0.2)                              | (0.2)                                   | ) | (2.7)                              | (5.4)                                   | ) | 2.5                 | NM    |    |
| Goodwill impairment charge -<br>Asia | (5.2)                              | (8.0)                                   | ) | —                                  | —                                       |   | (5.2)               | NM    |    |
| Total operating earnings             | \$58.9                             | 9.2                                     | % | \$59.8                             | 10.7                                    | % | \$(0.9)             | (1.3) | )% |

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

NM = not meaningful

| Year to date by segment              | Nine months ended<br>December 29, 2013 |   |   | Nine months ended<br>December 30, 2012 |   |   | Increase (Decrease) |        |    |
|--------------------------------------|--|---|---|--|---|---|---------------------|--------|----|
|                                      | In<br>Millions                         | Percentage<br>of Total<br>Net Sales (1) | % | In<br>Millions                         | Percentage<br>of Total<br>Net Sales (1) | % | In<br>Millions      | %      |    |
| EMEA                                 | \$52.7                                 | 7.5                                     | % | \$46.2                                 | 6.8                                     | % | \$6.5               | 14.1   | %  |
| Americas                             | 133.4                                  | 14.3                                    |   | 133.3                                  | 15.9                                    |   | 0.1                 | 0.1    |    |
| Asia                                 | 16.1                                   | 9.3                                     |   | 18.8                                   | 10.4                                    |   | (2.7)               | (13.8) | )  |
| Subtotal                             | 202.2                                  | 11.2                                    |   | 198.3                                  | 11.6                                    |   | 3.9                 | 2.0    |    |
| Restructuring charges - EMEA         | (14.3)                                 | (2.0)                                   | ) | (2.7)                                  | (0.4)                                   | ) | (11.6)              | NM     |    |
| Restructuring charges - Asia         | (0.2)                                  | (0.1)                                   | ) | (2.7)                                  | (1.5)                                   | ) | 2.5                 | NM     |    |
| Goodwill impairment charge -<br>Asia | (5.2)                                  | (3.0)                                   | ) | —                                      | —                                       |   | (5.2)               | NM     |    |
| Total operating earnings             | \$182.5                                | 10.1                                    | % | \$192.9                                | 11.3                                    | % | \$(10.4)            | (5.4)  | )% |

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

Operating earnings decreased \$0.9 million or 1.3% in the third quarter and decreased \$10.4 million or 5.4% in the nine months of fiscal 2014 compared to the third quarter and nine months of fiscal 2013. Operating earnings as a percentage of net sales, decreased 150 basis points in the third quarter of fiscal 2014 and decreased 120 basis points in the nine months of fiscal 2014 when compared to the comparable periods of fiscal 2013.

The EMEA segment's operating earnings, excluding restructuring charges discussed above, increased in the third quarter of fiscal 2014 compared to the third quarter of fiscal 2013, with the operating margin increasing 200 basis points to 8.5%. Operating earnings, excluding restructuring charges, increased in the nine months of fiscal 2014 in comparison to the comparable period in the prior year, with the operating margin increasing 70 basis points to 7.5%. This improvement in EMEA earnings primarily reflects the increase in organic volume in the third quarter and a positive impact due to restructuring programs in both the current quarter and year to date periods.

The Americas segment had an increase in operating earnings in the third quarter of fiscal 2014 compared to the third quarter of fiscal 2013, with the operating margin decreasing 160 basis points to 14.8%. Operating earnings increased slightly in the nine months of fiscal 2014 in comparison to the comparable period in the prior year, with the operating margin decreasing 160 basis points to 14.3%. This decrease in both the quarter and nine months of fiscal 2014 compared to the prior year periods is primarily attributable to higher commodity costs and operating expenses and a less favorable product mix, partially offset by higher volume.



Operating earnings, excluding restructuring and goodwill impairment charges, increased in the Asia segment in the third quarter compared to the third quarter of fiscal 2013, with the operating margin increasing by 460 basis points to 11.1% primarily due to a significant improvement in organic volume of approximately 34%. Operating earnings decreased in the nine months of fiscal 2014 in comparison to the comparable period in the prior year, with the operating margin decreasing 110 basis points to 9.3%. The decrease in operating margin was primarily due to a less favorable product mix in the nine months of fiscal 2014 compared to the comparable prior year period.

Table of Contents

## Interest Expense

|                  | Quarter ended<br>December 29, 2013     |                                     |   | Quarter ended<br>December 30, 2012     |                                     |   | Increase (Decrease) |        |    |
|------------------|--|-------------------------------------|---|--|-------------------------------------|---|---------------------|--------|----|
|                  | In<br>Millions                         | Percentage<br>of Total<br>Net Sales | % | In<br>Millions                         | Percentage<br>of Total<br>Net Sales | % | In<br>Millions      | %      |    |
| Interest expense | \$4.6                                  | 0.7                                 | % | \$4.6                                  | 0.8                                 | % | \$—                 | —      | %  |
|                  | Nine months ended<br>December 29, 2013 |                                     |   | Nine months ended<br>December 30, 2012 |                                     |   | Increase (Decrease) |        |    |
|                  | In<br>Millions                         | Percentage<br>of Total<br>Net Sales | % | In<br>Millions                         | Percentage<br>of Total<br>Net Sales | % | In<br>Millions      | %      |    |
| Interest expense | \$13.0                                 | 0.7                                 | % | \$14.3                                 | 0.8                                 | % | \$(1.3              | ) (9.1 | )% |

Interest expense of \$4.6 million in the third quarter of fiscal 2014 (net of interest income of \$0.3 million) was comparable to the interest expense of \$4.6 million in the third quarter of fiscal 2013 (net of interest income of \$0.6 million). Interest expense of \$13.0 million in the nine months of fiscal 2014 (net of interest income of \$0.7 million) was \$1.3 million lower than the interest expense of \$14.3 million in the nine months of fiscal 2013 (net of interest income of \$1.0 million).

The decrease in interest expense in the nine months of fiscal 2014 compared to the comparable prior year period is primarily due to lower average debt outstanding.

Included in interest expense are non-cash charges for deferred financing fees of \$0.3 million and \$0.9 million, respectively, in the third quarter and nine months of fiscal 2014 and \$0.4 million and \$1.0 million, respectively, in the third quarter and nine months of fiscal 2013.

Included in interest expense is non-cash, accreted interest on the Convertible Notes of \$1.9 million and \$5.6 million, respectively, in the third quarter and nine months of fiscal 2014 and \$1.8 million and \$5.2 million, respectively, in the third quarter and nine months of fiscal 2013 (see Note 11 to the Consolidated Condensed Financial Statements).

Our average debt outstanding (reflecting the reduction of the Convertible Notes discount) was \$267.7 million and \$213.9 million in the third quarter and nine months of fiscal 2014, respectively, compared to \$249.3 million and \$258.8 million in the third quarter and nine months of fiscal 2013. The decrease in the nine months was mainly due to the repayment of outstanding debt under our 2011 Credit Facility and term loans in Asia. The average Convertible Notes discount excluded from our average debt outstanding was \$12.6 million and \$14.5 million in the third quarter and nine months of fiscal 2014, respectively, and \$20.0 million and \$21.7 million, respectively, in the third quarter and nine months of fiscal 2013.

## Other (Income) Expense, Net

|                             | Quarter ended<br>December 29, 2013     |                                     |   | Quarter ended<br>December 30, 2012     |                                     |   | Increase (Decrease) |    |
|-----------------------------|--|-------------------------------------|---|--|-------------------------------------|---|---------------------|----|
|                             | In<br>Millions                         | Percentage<br>of Total<br>Net Sales | % | In<br>Millions                         | Percentage<br>of Total<br>Net Sales | % | In<br>Millions      | %  |
| Other (income) expense, net | \$8.2                                  | 1.3                                 | % | \$1.3                                  | 0.2                                 | % | \$6.9               | NM |
|                             | Nine months ended<br>December 29, 2013 |                                     |   | Nine months ended<br>December 30, 2012 |                                     |   | Increase (Decrease) |    |
|                             | In                                     | Percentage                          |   | In                                     | Percentage                          |   | In                  | %  |

NM = not meaningful

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|                             | Millions | of Total  | Millions | of Total  | Millions  |    |
|-----------------------------|----------|-----------|----------|-----------|-----------|----|
|                             |          | Net Sales |          | Net Sales |           |    |
| Other (income) expense, net | \$ 11.0  | 0.6       | % \$ 0.7 | —         | % \$ 10.3 | NM |

Other (income) expense, net in the third quarter of fiscal 2014 was an expense of \$8.2 million compared to an expense of \$1.3 million in the third quarter of fiscal 2013. Other (income) expense, net in the nine months of fiscal 2014 was an expense of \$11.0 million compared to an expense of \$0.7 million in the nine months of fiscal 2013. The unfavorable impact in the third quarter and nine months of fiscal 2014 is mainly attributable to write-offs relating to non-operating assets and other charges of \$6.5 million in both the periods, higher foreign currency losses of \$1.2 million and \$3.8 million, in the current quarter and nine months, respectively, compared to \$0.4 million and \$1.6 million, respectively, in the comparable prior year periods. The prior year's nine months also had insurance recoveries of \$1.8 million.

Table of Contents

## Earnings Before Income Taxes

|                              | Quarter ended<br>December 29, 2013 |                                     | Quarter ended<br>December 30, 2012 |                                     | Increase (Decrease) |          |
|------------------------------|------------------------------------|-------------------------------------|------------------------------------|-------------------------------------|---------------------|----------|
|                              | In<br>Millions                     | Percentage<br>of Total<br>Net Sales | In<br>Millions                     | Percentage<br>of Total<br>Net Sales | In<br>Millions      | %        |
| Earnings before income taxes | \$46.1                             | 7.2 %                               | \$53.9                             | 9.7 %                               | \$(7.8)             | (14.3) % |

|                              | Nine months ended<br>December 29, 2013 |                                     | Nine months ended<br>December 30, 2012 |                                     | Increase (Decrease) |          |
|------------------------------|--|-------------------------------------|--|-------------------------------------|---------------------|----------|
|                              | In<br>Millions                         | Percentage<br>of Total<br>Net Sales | In<br>Millions                         | Percentage<br>of Total<br>Net Sales | In<br>Millions      | %        |
| Earnings before income taxes | \$158.5                                | 8.8 %                               | \$177.9                                | 10.4 %                              | \$(19.4)            | (10.9) % |

As a result of the above, earnings before income taxes in the third quarter of fiscal 2014 decreased \$7.8 million or 14.3% compared to the third quarter of fiscal 2013 and earnings before income taxes in the nine months of fiscal 2014 decreased \$19.4 million or 10.9% compared to the nine months of fiscal 2013. Earnings before income taxes as a percentage of net sales were 7.2% for the third quarter of fiscal 2014 compared to 9.7% in the third quarter of fiscal 2013 and 8.8% for the nine months of fiscal 2014 compared to 10.4% for the nine months of fiscal 2013.

## Income Tax Expense

|                    | Quarter ended<br>December 29, 2013 |                                     | Quarter ended<br>December 30, 2012 |                                     | Increase (Decrease) |    |
|--------------------|------------------------------------|-------------------------------------|------------------------------------|-------------------------------------|---------------------|----|
|                    | In<br>Millions                     | Percentage<br>of Total<br>Net Sales | In<br>Millions                     | Percentage<br>of Total<br>Net Sales | In<br>Millions      | %  |
| Income tax expense | \$(6.3)                            | (1.0) %                             | \$15.2                             | 2.7 %                               | \$(21.5)            | NM |
| Effective tax rate | (13.5)%                            |                                     | 28.2%                              |                                     | (41.7)%             |    |

NM = not meaningful

|                    | Nine months ended<br>December 29, 2013 |                                     | Nine months ended<br>December 30, 2012 |                                     | Increase (Decrease) |          |
|--------------------|--|-------------------------------------|--|-------------------------------------|---------------------|----------|
|                    | In<br>Millions                         | Percentage<br>of Total<br>Net Sales | In<br>Millions                         | Percentage<br>of Total<br>Net Sales | In<br>Millions      | %        |
| Income tax expense | \$24.5                                 | 1.4 %                               | \$50.6                                 | 3.0 %                               | \$(26.1)            | (51.5) % |
| Effective tax rate | 15.5%                                  |                                     | 28.5%                                  |                                     | (13.0)%             |          |

The Company's income tax provisions consist of federal, state and foreign income taxes. The tax provisions for the third quarters of fiscal 2014 and fiscal 2013 were based on the estimated effective tax rates applicable for the full years ending March 31, 2014 and March 31, 2013, respectively, after giving effect to items specifically related to the interim periods.

The effective income tax rates for the third quarters of fiscal 2014 and fiscal 2013 were (13.5)% and 28.2%, respectively. The effective income tax rates for the nine months of fiscal 2014 and fiscal 2013 were 15.5% and 28.5%, respectively. The rate decrease in the third quarter and nine months of fiscal 2014 as compared to the comparable prior year periods is primarily due to the reversal of a previously recognized deferred tax valuation allowance related to one

of our foreign subsidiaries of \$24.9 million and changes in the mix of earnings among tax jurisdictions. The valuation allowance release is the result of an operational restructuring approved during the third quarter of fiscal 2014.

#### 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 2013 Annual Report on Form 10-K.

Table of Contents

## Liquidity and Capital Resources

Operating activities provided cash of \$99.1 million in the nine months of fiscal 2014 compared to \$135.5 million in the comparable period of fiscal 2013. In the nine months of fiscal 2014, net earnings of \$134.0 million, depreciation and amortization of \$38.9 million, non-cash charges relating to write-off of goodwill and other assets of \$10.2 million, and restructuring charges of \$5.3 million, were partially offset by cash used for the increase in primary working capital of \$67.1 million and deferred taxes of \$24.9 million, net of currency translation changes. In the first nine months of fiscal 2013, net earnings of \$127.3 million and depreciation and amortization of \$37.8 million were offset by cash used for the increase in primary working capital of \$35.6 million, net of currency translation changes.

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 \$653.6 million (yielding a primary working capital percentage of 25.4%) at December 29, 2013, \$552.7 million (yielding a primary working capital percentage of 24.2%) at March 31, 2013 and \$611.7 million at December 30, 2012 (yielding a primary working capital percentage of 27.4%). The primary working capital percentage of 25.4% at December 29, 2013 is 120 basis points higher than that for March 31, 2013, and 200 basis points lower than that for the prior year period.

Primary working capital increased during the nine months of fiscal 2014, largely due to an increase in receivables which resulted from higher sales volume, acquisitions and a seasonal increase in days sales outstanding.

Primary working capital and primary working capital percentages at December 29, 2013, March 31, 2013 and December 30, 2012 are computed as follows:

(In Millions)

| Balance At        | Trade<br>Receivables | Inventory | Accounts<br>Payable | Total   | Quarter<br>Revenue<br>Annualized | Primary<br>Working<br>Capital % |   |
|-------------------|----------------------|-----------|---------------------|---------|----------------------------------|---------------------------------|---|
| December 29, 2013 | \$535.0              | \$360.8   | \$(242.2)           | \$653.6 | \$2,572.1                        | 25.4                            | % |
| March 31, 2013    | 448.1                | 353.9     | (249.3)             | 552.7   | 2,288.5                          | 24.2                            |   |
| December 30, 2012 | 460.1                | 380.0     | (228.4)             | 611.7   | 2,229.3                          | 27.4                            |   |

Investing activities used cash of \$193.7 million in the nine months of fiscal 2014, primarily comprised of acquisitions of \$146.2 million and capital expenditures of \$48.9 million. In the comparable period in fiscal 2013, investing activities used cash of \$37.5 million and primarily comprised of capital expenditures. There were no acquisitions in the prior year period.

Financing activities provided cash of \$49.4 million in the nine months of fiscal 2014 primarily due to borrowings and repayments under the 2011 Credit Facility of \$213.1 million and \$93.3 million, respectively, repurchase of our common stock for \$49.6 million and payment of cash dividends to our stockholders of \$17.8 million. Taxes paid related to net share settlement of equity awards, net of option proceeds and related tax benefits resulted in a net outflow of \$3.3 million. Net borrowings on short-term debt were \$12.3 million. We also acquired the share of noncontrolling interests in one of our foreign subsidiaries for \$6.0 million and paid deferred consideration of \$4.8 million in connection with an acquisition made in fiscal 2012. In the nine months of fiscal 2013, financing activities used cash of \$31.3 million, primarily reflecting borrowings and repayments of \$230.5 million and \$258.2 million, respectively, under the 2011 Credit Facility. Borrowings on long-term and short-term debt were \$5.6 million and \$13.2 million, respectively, which were partially offset by repayments of long-term debt of \$11.8 million in Asia. In the nine months of fiscal 2013, we repurchased \$22.6 million of our common stock. Exercise of stock options and the related tax benefits contributed \$13.8 million.

As a result of the above, total cash and cash equivalents decreased by \$37.7 million to \$211.6 million, respectively, in the nine months of fiscal 2014 compared to an increase of \$68.1 million to \$228.6 million, respectively, in the comparable period of fiscal 2013.

All obligations under our 2011 Credit Facility are secured by, among other things, substantially all of our U.S. assets. This credit agreement contains various covenants which, absent prepayment in full of the indebtedness and other obligations, or the receipt of waivers, limit our ability to conduct certain specified business transactions, buy or

sell assets out of the ordinary course of business, engage in sale and leaseback transactions, pay dividends and take certain other actions. There are no prepayment penalties on loans under this credit facility.

We are in compliance with all covenants and conditions under our credit agreement. As we believe that we will continue to comply with these covenants and conditions, we believe that we have the financial resources and the capital available to fund the foreseeable organic growth in our business and to remain active in pursuing further acquisition opportunities. See Note 8 to the Consolidated Financial Statements included in our 2013 Annual Report on Form 10-K for a detailed description of debt.

Table of Contents

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

## Market Risks

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

## Counterparty Risks

We have entered into interest rate swap agreements, lead forward purchase contracts and foreign exchange forward contracts to manage the risk associated with our exposures. The Company's agreements are with creditworthy financial institutions. Those contracts that result in a liability position at December 29, 2013 are \$1.1 million (pre-tax), therefore, there is minimal risk of nonperformance by these counterparties. Those contracts that result in an asset position at December 29, 2013 are \$4.5 million (pre-tax) and the vast majority of these will settle within one year. The impact on the Company due to nonperformance by the counterparties has been evaluated and not deemed material.

## Interest Rate Risks

We are exposed to changes in variable U.S. interest rates on borrowings under our 2011 Credit Facility. 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. We had no interest rate swap agreements as of December 29, 2013.

At March 31, 2013, the aggregate notional amount of interest rate swap agreements was \$65.0 million. These agreements expired in May 2013.

A 100 basis point increase in interest rates would have increased annual interest expense by approximately \$1.5 million on the variable rate portions of our debt.

## Commodity Cost Risks – Lead Contracts

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

| Date              | \$'s Under Contract<br>(in millions) | # Pounds Purchased<br>(in millions) | Average Cost/Pound | Approximate % of Lead Requirements (1) |
|-------------------|--------------------------------------|-------------------------------------|--------------------|--|
| December 29, 2013 | \$61.9                               | 64.2                                | \$0.96             | 14 %                                   |
| March 31, 2013    | 56.6                                 | 56.3                                | 1.00               | 12                                     |
| December 30, 2012 | 56.8                                 | 57.6                                | 0.99               | 12                                     |

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

For the remaining quarter of this fiscal year, we believe substantially all of the cost of our lead requirements is known. This takes into account the hedge contracts in place at December 29, 2013, lead purchased by December 29, 2013 that will be reflected in future costs under our FIFO accounting treatment, and the benefit from our lead tolling program. We estimate that a 10% increase in our cost of lead would have increased our cost of goods sold by approximately \$16 million and \$44 million in the third quarter and nine months of fiscal 2014.

## Foreign Currency Exchange Rate Risks

We manufacture and assemble our products globally in the Americas, EMEA and Asia. Approximately 60% of our sales and expenses are transacted in foreign currencies. Our sales revenue, production costs, profit margins and competitive position are affected by the strength of the currencies in countries where we manufacture or purchase



goods relative to the strength of the currencies in countries where our products are sold. Additionally, as we report our financial statements in U.S. dollars, our financial results are affected by the strength of the currencies in countries where we have operations relative to the strength of the U.S. dollar. The principal foreign currencies in which we conduct business are the Euro, Swiss franc, British pound, Polish zloty, Chinese renminbi and Mexican peso.

We quantify and monitor our global foreign currency exposures. Our largest foreign currency exposure is from the purchase and conversion of U.S. dollar based lead costs into local currencies in Europe. Additionally, we have currency exposures from intercompany financing and

Table of Contents

trade transactions. On a selective basis, we enter into foreign currency forward contracts and option contracts to reduce the impact from the volatility of currency movements; however, we cannot be certain that foreign currency fluctuations will not impact our operations in the future.

To hedge these exposures, we have entered into forward contracts with financial institutions to fix the value at which we will buy or sell certain currencies. The vast majority of such contracts are for a period not extending beyond one year. Forward contracts outstanding as of December 29, 2013 and March 31, 2013 were \$103.0 million and \$73.1 million, respectively. The details of contracts outstanding as of December 29, 2013 were as follows:

| Transactions Hedged                      | \$US<br>Equivalent<br>(in millions) | Average<br>Rate<br>Hedged |        | Approximate<br>% of Annual<br>Requirements (1) |   |
|--|-------------------------------------|---------------------------|--------|--|---|
| Sell Euros for U.S. dollars              | \$29.8                              | \$/€                      | 1.34   | 16   | % |
| Sell Euros for Polish zloty              | 39.0                                | PLN/€                     | 4.25   | 35   |   |
| Sell Euros for British pounds            | 20.6                                | £/€                       | 0.84   | 28   |   |
| Sell JPY for U.S. dollars                | 6.6                                 | ¥/\$                      | 102.22 | 80   |   |
| Sell U.S. dollars for Mexican pesos      | 4.4                                 | MXN/\$                    | 13.24  | 50   |   |
| Sell Australian dollars for Euros        | 1.5                                 | €/AUD                     | 1.44   | 9  |   |
| Sell Australian dollars for U.S. dollars | 1.1                                 | \$/AUD                    | 0.93   | 9  |   |
| Total                                    | \$103.0                             |                           |        |  |   |

<sup>(1)</sup> 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.

Table of Contents

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, 2013, which could materially affect our business, financial condition or future results, and the following:

Risk of conversion or repurchase of Convertible Notes could adversely affect the Company's liquidity.

Under the terms of our Convertible Notes, 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. Additionally, in the event that holders are permitted to convert their Convertible Notes at their option on any day prior to the close of business on the scheduled trading day immediately preceding March 1, 2015, because (1) during the five business-day period after any five consecutive trading day period (the "measurement period") in which the price per \$1,000 in original principal amount of the Convertible Notes for each trading day of the measurement period was less than 98% of the product of the "last reported sale price" (as defined in the indenture governing the Convertible Notes) of the Company's common stock and the applicable conversion rate for the Convertible Notes for such day; (2) during any calendar quarter after the calendar quarter ending June 30, 2008 (and only during such quarter), if the last reported sale price of the Company's common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeds 130% of the applicable conversion price in effect on the last trading day of the immediately preceding calendar quarter; or (3) upon the occurrence of specified corporate events, the Company may settle conversions (a) entirely in shares of its common stock, (b) entirely in cash, or (c) in cash for the accreted principal amount of the Convertible Notes and shares of its common stock, or cash and shares of its common stock, for the excess, if any, of the conversion value above the accreted principal amount. As of December 29, 2013, the Company has \$172.5 million of Convertible Notes outstanding, and the Convertible Notes have become convertible through March 31, 2014.

It is the Company's current intent to settle the principal amount of any such conversions in cash, and any additional conversion consideration at the conversion rate then applicable in cash, shares of the Company's common stock or a combination of cash and shares. To the extent that then existing domestic cash balances and cash flow from operations, together with borrowing capacity under then existing credit facilities, are insufficient to satisfy any such settlement or optional put or conversion, the Company may require additional financing from other sources. The Company's ability to obtain such additional financing in the future will depend in part upon prevailing capital market conditions, as well as conditions in the Company's business and its operating results; and those factors may affect its efforts to arrange additional financing on terms that are acceptable to the Company. The Convertible Notes will mature on June 1, 2038, unless earlier converted, redeemed or repurchased by the Company.

Table of Contents

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

## Purchases of Equity Securities by the Issuer and Affiliated Purchasers

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

## Purchases of Equity Securities

| Period                             | (a)<br>Total number of<br>shares (or units)<br>purchased | (b)<br>Average price<br>paid per share (or<br>unit) | (c)<br>Total number of<br>shares (or units)<br>purchased as part of<br>publicly announced<br>plans or programs | (d)<br>Maximum number (or<br>approximate dollar<br>value) of shares (or units)<br>that may be purchased<br>under the plans or<br>programs (1) (2) |
|------------------------------------|--|---|--|---|
| September 30 – October 27, 2013    | 354,485  | \$62.09   | 54,485   | \$ 46,722,282   |
| October 28 – November 24, 2013     | 93,544   | 67.56   | 93,544   | 40,402,842  |
| November 25 – December 29,<br>2013 | 90,654   | 69.25   | 90,581   | 34,130,321  |
| Total                              | 238,683  | \$66.95   | 238,610  |   |

The Company's Board of Directors has authorized the Company to repurchase up to such number of shares as shall equal the dilutive effects of any equity-based award granted during such fiscal year under the 2010 Equity Incentive Plan and the number of shares exercised through stock option awards during such fiscal year. This repurchase program has been exhausted for fiscal year 2014.

(2) The Company's Board of Directors authorized the Company to repurchase up to \$65 million of its common stock. This authorization expires on March 31, 2014.

Table of Contents

Item 4. Mine Safety Disclosures

Not applicable.

38

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Table of Contents

ITEM 6. EXHIBITS

| Exhibit Number | Description of Exhibit   |
|----------------|--|
| 2.1            | Amended and Restated Agreement and Plan of Merger, dated as of September 30, 2013, by and among EnerSys Capital Inc., ECI Merger Corporation, Purcell Systems, Inc. and Fortis Advisors LLC, as representative and with respect to Article VII thereof only (the schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K) (incorporated by reference to Exhibit 2.1 to EnerSys' Quarterly Report on Form 10-Q (File No. 001-32253) filed on November 6, 2013). |
| 3.1            | Fifth Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to Amendment No. 3 to EnerSys' Registration Statement on Form S-1 (File No. 333-115553) filed on July 13, 2004).   |
| 3.2            | Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to EnerSys' Quarterly Report on Form 10-Q (File No. 001-32253) filed on August 8, 2012).   |
| 10.1           | Credit Agreement, dated as of March 29, 2011, among EnerSys, Bank of America, N.A., as Administrative Agent, Wells Fargo Bank, National Association, as Syndication Agent, RB International Finance (USA) LLC and PNC Bank, National Association, as Co-Documentation Agents and Co-Managers and the various lending institutions party thereto (incorporated by reference to Exhibit 10.1 to EnerSys' Current Report on Form 8-K (File No. 001-32253) filed on March 29, 2011).             |
| 10.2           | Amendment to the Credit Agreement, dated as of August 2, 2013, among EnerSys, Bank of America, N.A., as Administrative Agent, Wells Fargo Bank, National Association, as Syndication Agent, RB International Finance (USA) LLC and PNC Bank, National Association, as Co-Documentation Agents and Co-Managers, and the various lending institutions (incorporated by reference to Exhibit 10.2 to EnerSys' Current Report on Form 8-K (File No. 001-32253) filed on August 6, 2013).         |
| 10.3           | Amendment to the Credit Agreement, dated as of December 18, 2013, among EnerSys, Bank of America, N.A., as Administrative Agent, Wells Fargo Bank, National Association, as Syndication Agent, RB International Finance (USA) LLC and PNC Bank, National Association, as Co-Documentation Agents and Co-Managers, and the various lending institutions filed herewith.   |
| 31.1           | Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) Under the Securities Exchange Act of 1934 (filed herewith).  |
| 31.2           | Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) Under the Securities Exchange Act of 1934 (filed herewith).  |
| 32.1           | Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).  |
| 101.INS        | XBRL Instance Document   |
| 101.SCH        | XBRL Taxonomy Extension Schema Document  |
| 101.CAL        | XBRL Taxonomy Extension Calculation Linkbase Document  |

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- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

39

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Table of Contents

SIGNATURES

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

ENERSYS (Registrant)

By /s/ Michael J. Schmidlein

Michael J. Schmidlein

Senior Vice President Finance & Chief Financial Officer

Date: February 5, 2014

40

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Table of ContentsEnerSys  
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41