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Form 10-Q

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ens:TwoThousandAndSeventeenCreditFacilityMember 2017-04-01 2017-10-01 0001289308 2017-03-31 0001289308

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2017-10-01 0001289308 2019-04-01 2018-09-30 0001289308 us-gaap:TransferredOverTimeMember 2018-04-01

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us-gaap:EstimateOfFairValueFairValueDisclosureMember 2018-03-31 0001289308

us-gaap:EstimateOfFairValueFairValueDisclosureMember 2018-09-30 0001289308

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us-gaap:CostOfSalesMember 2017-07-03 2017-10-01 0001289308 us-gaap:ForwardContractsMember

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2018-04-01 2018-09-30 0001289308 us-gaap:ForwardContractsMember

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2018-09-30 0001289308 us-gaap:AccruedLiabilitiesMember us-gaap:ForeignExchangeForwardMember

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ens:NonredeemableNoncontrollingInterestMember 2018-04-01 2018-09-30 0001289308 us-gaap:ParentMember

2018-04-01 2018-09-30 0001289308 ens:NonredeemableNoncontrollingInterestMember 2018-03-31 0001289308  
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2018-11-07 2018-11-07 0001289308 srt:MinimumMember us-gaap:SubsequentEventMember 2018-10-29  
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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended September 30, 2018**

**..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 23-3058564  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

2366 Bernville Road

Reading, Pennsylvania 19605

(Address of principal executive offices) (Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).  Yes  No

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Common Stock outstanding at November 2, 2018: 42,148,391 shares

**ENERSYS**  
**INDEX – FORM 10-Q**

	<b>Page</b>
<b><u>PART I – FINANCIAL INFORMATION</u></b>	
Item 1. <u>Financial Statements</u>	
<u>Consolidated Condensed Balance Sheets (Unaudited)</u> <u>as of September 30, 2018 and March 31, 2018</u>	<u>3</u>
<u>Consolidated Condensed Statements of Income</u> <u>(Unaudited) for the Quarters Ended September 30,</u> <u>2018 and October 1, 2017</u>	<u>4</u>
<u>Consolidated Condensed Statements of Income</u> <u>(Unaudited) for the Six Months Ended September 30,</u> <u>2018 and October 1, 2017</u>	<u>5</u>
<u>Consolidated Condensed Statements of</u> <u>Comprehensive Income (Unaudited) for the Quarters</u> <u>and Six Months Ended September 30, 2018 and</u> <u>October 1, 2017</u>	<u>6</u>
<u>Consolidated Condensed Statements of Cash Flows</u> <u>(Unaudited) for the Six Months Ended September 30,</u> <u>2018 and October 1, 2017</u>	<u>7</u>
<u>Notes to Consolidated Condensed Financial</u> <u>Statements (Unaudited)</u>	<u>8</u>
<u>1 Basis of Presentation</u>	<u>8</u>
<u>2 Inventories</u>	<u>10</u>
<u>3 Fair Value of Financial Instruments</u>	<u>10</u>
<u>4 Derivative Financial Instruments</u>	<u>11</u>
<u>5 Income Taxes</u>	<u>14</u>
<u>6 Warranty</u>	<u>15</u>
<u>7 Commitments, Contingencies and Litigation</u>	<u>15</u>
<u>8 Restructuring Plans</u>	<u>16</u>
<u>9 Debt</u>	<u>17</u>
<u>10 Retirement Plans</u>	<u>18</u>
<u>11 Stock-Based Compensation</u>	<u>18</u>
<u>12 Stockholders' Equity and Noncontrolling Interests</u>	<u>19</u>
<u>13 Earnings Per Share</u>	<u>21</u>
<u>14 Business Segments</u>	<u>22</u>
<u>15 Subsequent Events</u>	<u>22</u>
Item 2. <u>Management's Discussion and Analysis of Financial</u> <u>Condition and Results of Operations</u>	<u>23</u>
Item 3. <u>Quantitative and Qualitative Disclosures about</u> <u>Market Risk</u>	<u>33</u>
Item 4. <u>Controls and Procedures</u>	<u>35</u>

PART II – OTHER INFORMATION

Item 1. Legal Proceedings 36

Item 1A. Risk Factors 36

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 36

Item 4. Mine Safety Disclosures 36

Item 6. Exhibits 37

SIGNATURES 38



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

	<b>September 30, 2018</b>	<b>March 31, 2018</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 545,183	\$ 522,118
Accounts receivable, net of allowance for doubtful accounts: September 30, 2018 - \$9,913; March 31, 2018 - \$12,643	519,542	546,325
Inventories, net	396,404	414,234
Prepaid and other current assets	81,823	56,910
Total current assets	1,542,952	1,539,587
Property, plant, and equipment, net	398,173	390,260
Goodwill	339,441	352,805
Other intangible assets, net	141,229	147,141
Deferred taxes	43,184	44,402
Other assets	13,602	12,730
Total assets	\$ 2,478,581	\$ 2,486,925
<b>Liabilities and Equity</b>		
Current liabilities:		
Short-term debt	\$ 14,071	\$ 18,341
Accounts payable	249,934	258,982
Accrued expenses	189,834	214,207
Total current liabilities	453,839	491,530
Long-term debt, net of unamortized debt issuance costs	599,662	579,535
Deferred taxes	34,427	33,607
Other liabilities	187,851	181,142
Total liabilities	1,275,779	1,285,814
Commitments and contingencies		
Equity:		
Preferred Stock, \$0.01 par value, 1,000,000 shares authorized, no shares issued or outstanding at September 30, 2018 and at March 31, 2018	—	—
Common Stock, \$0.01 par value per share, 135,000,000 shares authorized; 54,828,496 shares issued and 42,148,391 shares outstanding at September 30, 2018; 54,595,105 shares issued and 41,915,000 shares outstanding at March 31, 2018	548	546
Additional paid-in capital	491,472	477,288
Treasury stock, at cost, 12,680,105 shares held as of September 30, 2018 and as of March 31, 2018	(560,991 )	(560,991 )
Retained earnings	1,398,758	1,320,549
Accumulated other comprehensive loss	(131,882 )	(41,717 )
Total EnerSys stockholders' equity	1,197,905	1,195,675
Nonredeemable noncontrolling interests	4,897	5,436
Total equity	1,202,802	1,201,111
Total liabilities and equity	\$ 2,478,581	\$ 2,486,925
See accompanying notes.		

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

	<b>Quarter ended</b>	
	<b>September 30, 2018</b>	<b>October 1, 2017</b>
Net sales	\$660,462	\$617,289
Cost of goods sold	499,582	457,041
Gross profit	160,880	160,248
Operating expenses	96,402	94,108
Restructuring charges	1,121	1,776
Operating earnings	63,357	64,364
Interest expense	6,413	6,509
Other (income) expense, net	(1,325 )	2,756
Earnings before income taxes	58,269	55,099
Income tax expense	10,822	11,948
Net earnings	47,447	43,151
Net earnings (losses) attributable to noncontrolling interests	23	(71 )
Net earnings attributable to EnerSys stockholders	\$47,424	\$43,222
Net earnings per common share attributable to EnerSys stockholders:		
Basic	\$1.13	\$1.01
Diluted	\$1.11	\$1.00
Dividends per common share	\$0.175	\$0.175
Weighted-average number of common shares outstanding:		
Basic	42,133,484	42,938,131
Diluted	42,773,706	43,327,361
See accompanying notes.		

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

	<b>Six months ended</b>	
	<b>September 30, 2018</b>	<b>October 1, 2017</b>
Net sales	\$1,331,392	\$1,239,914
Cost of goods sold	1,004,652	916,208
Inventory adjustment relating to exit activities	526	—
Gross profit	326,214	323,706
Operating expenses	195,818	186,761
Restructuring charges	2,860	2,609
Operating earnings	127,536	134,336
Interest expense	12,929	12,243
Other (income) expense, net	(997	) 6,028
Earnings before income taxes	115,604	116,065
Income tax expense	22,137	24,592
Net earnings	93,467	91,473
Net earnings attributable to noncontrolling interests	183	50
Net earnings attributable to EnerSys stockholders	\$93,284	\$91,423
Net earnings per common share attributable to EnerSys stockholders:		
Basic	\$2.22	\$2.12
Diluted	\$2.19	\$2.09
Dividends per common share	\$0.35	\$0.35
Weighted-average number of common shares outstanding:		
Basic	42,073,015	43,194,107
Diluted	42,673,844	43,745,218
See accompanying notes.		

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

	<b>Quarter ended</b>		<b>Six months ended</b>	
	<b>September 30, 2018</b>	<b>October 1, 2017</b>	<b>September 30, 2018</b>	<b>October 1, 2017</b>
Net earnings	\$47,447	\$43,151	\$93,467	\$91,473
Other comprehensive (loss) income:				
Net unrealized (loss) gain on derivative instruments, net of tax	(6,179 )	3,669	(5,174 )	616
Pension funded status adjustment, net of tax	300	338	600	665
Foreign currency translation adjustment	(14,150 )	28,131	(86,313 )	72,848
Total other comprehensive (loss) gain, net of tax	(20,029 )	32,138	(90,887 )	74,129
Total comprehensive income	27,418	75,289	2,580	165,602
Comprehensive (loss) income attributable to noncontrolling interests	(200 )	(6 )	(539 )	81
Comprehensive income attributable to EnerSys stockholders	\$27,618	\$75,295	\$3,119	\$165,521

See accompanying notes.

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

	<b>Six months ended</b>	
	<b>September</b>	<b>October 1,</b>
	<b>30, 2018</b>	<b>2017</b>
<b>Cash flows from operating activities</b>		
Net earnings	\$93,467	\$91,473
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	27,302	26,624
Write-off of assets relating to exit activities	1,073	210
Derivatives not designated in hedging relationships:		
Net losses (gains)	622	(12 )
Cash settlements	(760 )	(287 )
Provision for doubtful accounts	132	764
Deferred income taxes	827	(445 )
Non-cash interest expense	627	975
Stock-based compensation	9,129	9,523
Gain on disposal of property, plant, and equipment	(77 )	(8 )
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(1,556 )	2,412
Inventories	(21,691 )	(51,089 )
Prepaid and other current assets	(4,238 )	(5,385 )
Other assets	(1,369 )	(770 )
Accounts payable	864	1,912
Accrued expenses	(20,624 )	(32,366 )
Other liabilities	304	1,926
Net cash provided by operating activities	84,032	45,457
<b>Cash flows from investing activities</b>		
Capital expenditures	(35,500 )	(26,639 )
Purchase of businesses	—	(2,964 )
Proceeds from disposal of property, plant, and equipment	189	242
Net cash used in investing activities	(35,311 )	(29,361 )
<b>Cash flows from financing activities</b>		
Net repayments on short-term debt	(2,854 )	(5,375 )
Proceeds from 2017 Revolver borrowings	84,500	343,450
Proceeds from 2011 Revolver borrowings	—	147,050
Repayments of 2017 Revolver borrowings	(65,000 )	(58,250 )
Repayments of 2011 Revolver borrowings	—	(312,050 )
Proceeds from 2017 Term Loan	—	150,000
Repayments of 2011 Term Loan	—	(127,500 )
Debt issuance costs	—	(2,677 )
Option proceeds	8,264	651
Payment of taxes related to net share settlement of equity awards	(3,384 )	(7,407 )
Purchase of treasury stock	—	(121,191 )
Dividends paid to stockholders	(14,747 )	(14,967 )
Other	30	—
Net cash provided by (used in) financing activities	6,809	(8,266 )

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Effect of exchange rate changes on cash and cash equivalents	(32,465 )	31,954
Net increase in cash and cash equivalents	23,065	39,784
Cash and cash equivalents at beginning of period	522,118	500,329
Cash and cash equivalents at end of period	\$545,183	\$540,113
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 unaudited consolidated condensed financial statements have been prepared in accordance with generally accepted accounting principles 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 of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included, unless otherwise disclosed. Operating results for the three months and six months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2019.

The Consolidated Condensed Balance Sheet at March 31, 2018 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

The financial statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in the Company's 2018 Annual Report on Form 10-K (SEC File No. 001-32253), which was filed on May 30, 2018 (the "2018 Annual Report").

EnerSys (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 2019 end on July 1, 2018, September 30, 2018, December 30, 2018, and March 31, 2019, respectively. The four quarters in fiscal 2018 ended on July 2, 2017, October 1, 2017, December 31, 2017, and March 31, 2018, 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.

*Recently Adopted Accounting Pronouncements*

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" providing guidance on revenue from contracts with customers that supersedes most current revenue recognition guidance, including industry-specific guidance. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services.

The Company adopted the ASU on April 1, 2018 using the modified retrospective transition method. Under the modified retrospective transition method, the cumulative effect of applying Topic 606 to all contracts where all revenue has not been completely recognized under previously existing accounting principles that are not completed as of the date of adoption is recorded as an adjustment to the opening balance of retained earnings (if applicable) while the comparative periods are not restated and continue to be reported under the accounting standards in effect for those periods. There was no cumulative effect of adopting the standard at the date of initial application in retained earnings. Concurrent with the adoption of the ASU, the Company has updated its revenue recognition policy as follows:

The Company determines revenue recognition by applying the following steps:

1. identify the contract with a customer;
2. identify the performance obligations in the contract;
3. determine the transaction price;
4. allocate the transaction price to the performance obligations; and
5. recognize revenue as the performance obligations are satisfied.

The Company recognizes revenue when (or as) performance obligations are satisfied by transferring control of the performance obligation to a customer. Control of a performance obligation may transfer to the customer either at a point in time or over time depending on an evaluation of the specific facts and circumstances for each contract, including the terms and conditions of the contract as agreed with the customer, as well as the nature of the products or services to be provided.

The Company's primary performance obligation to its customers is the delivery of finished goods and products, pursuant to purchase orders. Control of the products sold typically transfers to its customers at the point in time when the goods are shipped as this is also when title generally passes to its customers under the terms and conditions of our customer arrangements.

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Each customer purchase order sets forth the transaction price for the products and services purchased under that arrangement. Some customer arrangements include variable consideration, such as volume rebates, some of which depend upon our customers meeting specified performance criteria, such as a purchasing level over a period of time. The Company uses judgment to estimate the most likely amount of variable consideration at each reporting date. When estimating variable consideration the Company also applies judgment when considering the probability of whether a reversal of revenue could occur and only recognize revenue subject to this constraint.



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### Table of Contents

Service revenues related to the work performed for the Company's customers by its maintenance technicians generally represent a separate and distinct performance obligation. Control for these services passes to the customer as the services are performed. Service revenues for the second quarter and six months of fiscal 2019 amounted to \$37,105 and \$69,200, respectively.

A small portion of the Company's customer arrangements oblige the Company to create customized products for its customers that require the bundling of both products and services into a single performance obligation because the individual products and services that are required to fulfill the customer requirements do not meet the definitions for a distinct performance obligation. These customized products generally have no alternative use to the Company and the terms and conditions of these arrangements give the Company the enforceable right to payment for performance completed to date, including a reasonable profit margin. For these arrangements, control transfers over time and the Company measures progress towards completion by selecting the input or output method that best depicts the transfer of control of the underlying goods and services to the customer for each respective arrangement. Methods used by the Company to measure progress toward completion include labor hours, costs incurred and units of production. Revenues recognized over time for the second quarter and six months of fiscal 2019 amounted to \$16,491 and \$34,895, respectively.

On September 30, 2018, the aggregate transaction price allocated to unsatisfied (or partially unsatisfied) performance obligations was approximately \$75,420, of which, the Company estimates that approximately \$33,076 will be recognized as revenue in fiscal 2019, \$33,944 in fiscal 2020, \$4,655 in fiscal 2021, \$3,723 in fiscal 2022 and \$22 in fiscal 2023.

The Company's typical payment terms are 30 days and sales arrangements do not contain any significant financing component for its customers.

Any payments that are received from a customer in advance, prior to the satisfaction of a related performance obligation and billings in excess of revenue recognized, are deferred and treated as a contract liability. Advance payments and billings in excess of revenue recognized are classified as current or non-current based on the timing of when recognition of revenue is expected. As of September 30, 2018, the current and non-current portion of contract liabilities were \$9,518 and \$7,009, respectively. As of March 31, 2018, the current and non-current portion of contract liabilities were \$9,387 and \$7,094, respectively. Amounts representing work completed and not billed to customers represent contract assets and were \$22,805 and \$24,810 as of September 30, 2018 and March 31, 2018, respectively. Revenues recognized during the second quarter and six months of fiscal 2019, that were included in the contract liability at the beginning of the current quarter and six months, amounted to \$661 and \$2,597, respectively.

The Company uses historic customer product return data as a basis of estimation for customer returns and records the reduction of sales at the time revenue is recognized. At September 30, 2018, the right of return asset related to the value of inventory anticipated to be returned from customers was \$2,647 and refund liability representing amounts estimated to be refunded to customers was \$5,013.

Freight charges billed to customers are included in sales and the related shipping costs are included in cost of sales in the Consolidated Condensed Statements of Income. If shipping activities are performed after a customer obtains control of a product, the Company applies a policy election to account for shipping as an activity to fulfill the promise to transfer the product to the customer.

The Company applies a policy election to exclude transaction taxes collected from customers from sales when the tax is both imposed on and concurrent with a specific revenue-producing transaction.

The Company generally provides customers with a product warranty that provides assurance that the products meet standard specifications and are free of defects. The Company maintains a reserve for claims incurred under standard product warranty programs. Performance obligations related to service warranties are not material to the consolidated financial statements.

The Company pays sales commissions to its sales representatives which may be considered as incremental costs to obtain a contract. However, since the recoverability period is less than one year, the Company has utilized the practical expedient to record these costs of obtaining a contract as an expense as they are incurred.

In March 2017, the FASB issued ASU No. 2017-07, "Compensation—Retirement Benefits (Topic 715)", which requires an entity to report the service cost component of pension and other postretirement benefit costs in the same line item as other compensation costs. The other components of net (benefit) cost will be required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. This standard is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted and requires the retrospective method to be applied to all periods presented. The Company adopted this guidance effective April 1, 2018. The service cost component of pension expense continues to be recognized in cost of goods sold whereas other components of pension expense have been reclassified to "Other (income) expense, net" in the Condensed Consolidated Statements of Income. The Company reclassified \$374 and \$735, from "Cost of goods sold" relating to the second quarter and six months of 2018, respectively, to "Other

(income) expense, net” in the Condensed Consolidated Statements of Income.

9

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**Table of Contents***Accounting Pronouncements Issued But Not Adopted as of September 30, 2018*

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842)”, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). This update requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase of the leased asset by the lessee. This classification will determine whether the lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. This update is effective for annual periods beginning after December 15, 2018, using a modified retrospective approach, with early adoption permitted. In order to evaluate the impact of ASU No. 2016-02, the Company has formed a project team and initiated the process of assessing critical components of this new guidance and the potential impact that the guidance will have on its financial position, results of operations and cash flows. This evaluation process includes a review of the Company’s leasing contracts and an assessment of the completeness of the Company’s lease population. The Company is also assessing the need for potential changes to its business processes, systems and controls to support the adoption of the new standard. Based upon the assessment to date, the Company believes that a key change upon adoption of the lease standard will be the recognition of leased assets and liabilities on its balance sheet but has not yet determined the impact on its results of operations or statement of cash flows.

In August 2017, the FASB issued ASU No. 2017-12, “Derivatives and Hedging (Topic 815)”: Targeted Improvements to Accounting for Hedging Activities, which amends and simplifies existing guidance in order to allow companies to more accurately present the economic effects of risk management activities in the financial statements. The guidance eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those years. Early adoption is permitted in any interim period or fiscal year before the effective date. The Company is currently assessing the potential impact that the adoption will have on its consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, “Income Statement - Reporting Comprehensive Income (Topic 220)”. The new standard will allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act (“Tax Act”). The amendments eliminate the stranded tax effects resulting from the Tax Act and will improve the usefulness of information reported to financial statements users. However, because the amendment only relates to the reclassification of the income tax effects of the Tax Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The guidance is effective for fiscal years beginning after December 15, 2018 with early adoption permitted, including the interim periods within those years. The Company is currently assessing the potential impact that the adoption will have on its consolidated financial statements.

**2. Inventories**

Inventories, net consist of:

	September 30, 2018	March 31, 2018
Raw materials	\$ 100,318	\$92,216
Work-in-process	113,554	136,068
Finished goods	182,532	185,950
Total	\$ 396,404	\$414,234

**3. Fair Value of Financial Instruments*****Recurring Fair Value Measurements***

The following tables represent the financial assets and (liabilities) measured at fair value on a recurring basis as of September 30, 2018 and March 31, 2018, and the basis for that measurement:

	Total Fair Value Measurement September 30, 2018	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Lead forward contracts	\$ (4,032 )	\$	— \$ (4,032 )	\$ —

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Foreign currency forward contracts	(121 )	—	(121 )	—
Total derivatives	\$ (4,153 )	\$	— \$ (4,153 )	\$ —

**Table of Contents**

	<b>Total Fair Value Measurement March 31, 2018</b>	<b>Quoted Price in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Lead forward contracts	\$ (3,877 )	\$ —	\$ (3,877 )	\$ —
Foreign currency forward contracts	22	—	22	—
Total derivatives	\$ (3,855 )	\$ —	\$ (3,855 )	