EnerSys
Form 10-Q
November 06, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 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	23-3058564
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2366 Bernville Road
Reading, Pennsylvania 19605
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: 610-208-1991

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

Common Stock outstanding at October 31, 2013: 47,401,370 shares

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

	September 29, 2013	March 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$272,690	$249,348
Accounts receivable, net of allowance for doubtful accounts: September 29, 2013 - $9,646; March 31, 2013 - $9,292	467,704	448,068
Inventories, net	352,134	353,941
Deferred taxes	36,866	37,786
Prepaid and other current assets	65,599	63,819
Total current assets	1,194,993	1,152,962
Property, plant, and equipment, net	354,942	350,126
Goodwill	351,911	345,499
Other intangible assets, net	103,040	103,701
Other assets	36,187	35,579
Total assets	$2,041,073	$1,987,867
Liabilities and Equity		
Current liabilities:		
Short-term debt	$20,676	$22,702
Current portion of long-term debt and capital lease obligations	234	311
Accounts payable	233,502	249,359
Accrued expenses	208,403	195,187
Total current liabilities	462,815	467,559
Long-term debt and capital lease obligations	159,134	155,476
Deferred taxes	89,220	88,036
Other liabilities	78,220	90,418
Total liabilities	789,389	801,489
Commitments and contingencies	—	—
Redeemable noncontrolling interests	9,439	11,095
Equity:		
Common Stock, $0.01 par value per share, 135,000,000 shares authorized; 53,257,321 shares issued and 47,465,952 outstanding at September 29, 2013; 52,970,281 shares issued and 47,840,204 shares outstanding at March 31, 2013	532	529
Additional paid-in capital	505,903	501,646
Treasury stock, at cost, 5,791,369 shares held as of September 29, 2013; 5,130,077 shares held as of March 31, 2013	(134,369)	(100,776)
Retained earnings	797,331	727,347
Accumulated other comprehensive income	66,940	40,655
Total EnerSys stockholders' equity	1,236,337	1,169,401
Nonredeemable noncontrolling interests	5,908	5,882
Total equity	1,242,245	1,175,283
Total liabilities and equity	$2,041,073	$1,987,867

See accompanying notes.

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ENERSYS

Consolidated Condensed Statements of Income (Unaudited)

(In Thousands, Except Share and Per Share Data)

	Quarter ended September 29, 2013	September 30, 2012
Net sales	$568,847	$554,212
Cost of goods sold	424,497	415,873
Gross profit	144,350	138,339
Operating expenses	82,226	74,159
Restructuring charges	1,119	1,295
Operating earnings	61,005	62,885
Interest expense	4,119	4,942
Other (income) expense, net	515	(1,794)
Earnings before income taxes	56,371	59,737
Income tax expense	15,220	16,726
Net earnings	41,151	43,011
Net losses attributable to noncontrolling interests	(188)	(779)
Net earnings attributable to EnerSys stockholders	$41,339	$43,790
Net earnings per common share attributable to EnerSys stockholders:		
Basic	$0.87	$0.91
Diluted	$0.84	$0.90
Dividends per common share	$0.125	$—
Weighted-average number of common shares outstanding:		
Basic	47,573,496	48,188,331
Diluted	49,405,818	48,719,916

See accompanying notes.

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ENERSYS

Consolidated Condensed Statements of Income (Unaudited)

(In Thousands, Except Share and Per Share Data)

	Six months ended September 29, 2013	September 30, 2012
Net sales	$1,166,144	$1,148,122
Cost of goods sold	881,655	861,477
Gross profit	284,489	286,645
Operating expenses	159,336	151,840
Restructuring charges	1,540	1,665
Operating earnings	123,613	133,140
Interest expense	8,390	9,674
Other (income) expense, net	2,873	(544)
Earnings before income taxes	112,350	124,010
Income tax expense	30,782	35,435
Net earnings	81,568	88,575
Net losses attributable to noncontrolling interests	(618)	(1,019)
Net earnings attributable to EnerSys stockholders	$82,186	$89,594
Net earnings per common share attributable to EnerSys stockholders:		
Basic	$1.72	$1.86
Diluted	$1.67	$1.84
Dividends per common share	$0.25	$—
Weighted-average number of common shares outstanding:		
Basic	47,721,239	48,044,767
Diluted	49,355,381	48,573,454

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

	Quarter ended		Six months ended	
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
Net earnings	$41,151	$43,011	$81,568	$88,575
Other comprehensive income (loss):				
Net unrealized gain on derivative instruments, net of tax	3,778	7,937	2,290	2,591
Pension funded status adjustment, net of tax	115	(131)	316	84
Foreign currency translation adjustment	24,601	15,794	22,667	(16,181)
Total other comprehensive income (loss), net of tax	28,494	23,600	25,273	(13,506)
Total comprehensive income	69,645	66,611	106,841	75,069
Comprehensive loss attributable to noncontrolling interests	(399)	(676)	(1,630)	(1,440)
Comprehensive income attributable to EnerSys stockholders	$70,044	$67,287	$108,471	$76,509

See accompanying notes.

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

	Six months ended September 29, 2013	September 30, 2012
Cash flows from operating activities		
Net earnings	$81,568	$88,575
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	25,320	25,070
Derivatives not designated in hedging relationships:		
Net losses	180	510
Cash settlements	(217)	(1,336)
Provision for doubtful accounts	612	(120)
Deferred income taxes	144	(902)
Non-cash interest expense	4,404	4,310
Stock-based compensation	7,592	7,198
Gain on disposal of property, plant, and equipment	(310)	(74)
Changes in assets and liabilities:		
Accounts receivable	(15,508)	(11,533)
Inventories	4,104	(14,077)
Prepaid and other current assets	1,314	(1,228)
Other assets	858	1,858
Accounts payable	(18,936)	(15,528)
Accrued expenses	237	(2,557)
Other liabilities	(185)	(1,396)
Net cash provided by operating activities	91,177	78,770
Cash flows from investing activities		
Capital expenditures	(24,736)	(26,674)
Purchases of businesses	(856)	—
Proceeds from disposal of property, plant, and equipment	1,263	89
Net cash used in investing activities	(24,329)	(26,585)
Cash flows from financing activities		
Net increase in short-term debt	443	5,402
Proceeds from revolving credit borrowings	—	173,250
Repayments of revolving credit borrowings	—	(182,800)
Proceeds from long-term debt - other	—	5,556
Payments of long-term debt - other	—	(10,638)
Deferred financing costs	(823)	—
Capital lease obligations	(161)	(282)
Option proceeds (taxes paid related to net share settlement of equity awards), net	(7,947)	8,922
Excess tax benefits from exercise of stock options and vesting of equity awards	4,614	4,965
Purchase of treasury stock	(33,593)	—
Dividends paid to stockholders	(11,902)	—
Purchase of noncontrolling interests	—	(2,131)
Proceeds from noncontrolling interests	—	613

Net cash (used in) provided by financing activities	(49,369)	2,857
Effect of exchange rate changes on cash and cash equivalents	5,863	(3,190)
Net increase in cash and cash equivalents	23,342	51,852
Cash and cash equivalents at beginning of period	249,348	160,490
Cash and cash equivalents at end of period	$272,690	$212,342

See accompanying notes.

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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. 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.

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. Inventories

Inventories, net consist of:

	September 29, 2013	March 31, 2013
Raw materials	$88,985	$88,787

Work-in-process	113,922	113,119
Finished goods	149,227	152,035
Total	$352,134	$353,941

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3. 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 September 29, 2013 and March 31, 2013 and the basis for that measurement:

	Total Fair Value Measurement September 29, 2013	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Lead forward contracts	$1,079	—	$1,079	$—
Foreign currency forward contracts	(559)	—	(559)	—
Total derivatives	$520	$—	$520	$—

	Total Fair Value Measurement March 31, 2013	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest rate swap agreements	$(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 September 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 unsecured 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 September 29, 2013, the Company’s stock price closed at $60.55 per share. The Convertible Notes have a conversion option at $40.60 per share. 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 154% of face value on September 29, 2013, and 126% of face value on March 31, 2013.

See Note 8 to the Consolidated Financial Statements included in the Company's 2013 Annual Report on Form 10-K for more details.

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

	September 29, 2013				March 31, 2013			
	Carrying Amount		Fair Value		Carrying Amount		Fair Value	
Financial assets:								
Derivatives (1)	$1,079		$1,079		$241		$241	
Financial liabilities:								
Convertible Notes	$159,000	(2)	$265,650	(3)	$155,273	(2)	$217,350	(3)
Derivatives (1)	559		559		3,738		3,738	

(1) Represents interest rate swap agreements, lead and foreign currency hedges (see Note 4 for asset and liability positions of the interest rate swap agreements, lead and foreign currency hedges at September 29, 2013 and March 31, 2013).

(2) The carrying amounts of the Convertible Notes at September 29, 2013 and March 31, 2013 represent the $172,500 principal value, less the unamortized debt discount (see Note 9 for further details).

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

4. 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 September 29, 2013 and March 31, 2013 were 94.2 million pounds and 56.3 million pounds, respectively.

Foreign Currency Forward Contracts

The Company purchases lead and other commodities in certain countries where the foreign currency exposure is different from the functional currency of that country. 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 September 29, 2013 and March 31, 2013, the Company had entered into a total of $83,443 and $51,366, respectively, of such contracts.

In the coming twelve months, the Company anticipates that $2,242 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 September 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 $77 and $92 during the second quarter and six months ended September 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 September 29, 2013 and March 31, 2013, the notional amount of these contracts was $16,251 and $21,749, respectively. The Company recorded income in the consolidated condensed

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statements of income within other (income) expense, net of $46 during the second quarter of fiscal 2014 and expense of $304 during the second quarter of fiscal 2013, respectively, and expense of $180 and $418 for the six months ended September 29, 2013 and September 30, 2012, respectively.

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
September 29, 2013 and March 31, 2013

	Derivatives and Hedging Activities Designated as Cash Flow Hedges		Derivatives and Hedging Activities Not Designated as Hedging Instruments	
	September 29, 2013	March 31, 2013	September 29, 2013	March 31, 2013
Prepaid and other current assets				
Foreign currency forward contracts	$—	$—	$ —	$ 241
Lead hedge forward contracts	1,004	—	—	—
Other assets				
Lead hedge forward contracts	75	—	—	—
Total assets	$1,079	$—	$ —	$ 241
Accrued expenses				
Interest rate swap agreements	$—	$—	$ —	$ 654
Lead hedge forward contracts	—	2,832	—	—
Foreign currency forward contracts	182	252	377	—
Total liabilities	$182	$3,084	$ 377	$ 654

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

Derivatives Designated as Cash Flow Hedges	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)
Lead hedge contracts	$2,427	Cost of goods sold	$(3,661)
Foreign currency forward contracts	(492)	Cost of goods sold	(411)
Total	$1,935		$(4,072)

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Pretax Gain (Loss)
Foreign currency forward contracts	Other (income) expense, net	$46
Total		$46

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

Derivatives Designated as Cash Flow Hedges	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)
Lead hedge contracts	$12,476	Cost of goods sold	$(1,967)
Foreign currency forward contracts	(706)	Cost of goods sold	1,094
Total	$11,770		$(873)

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	$(77)
Foreign currency forward contracts	Other (income) expense, net	(304)
Total		$(381)

The Effect of Derivative Instruments on the Consolidated Condensed Statements of Income
For the six months ended September 29, 2013

Derivatives Designated as Cash Flow Hedges	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)
Lead hedge contracts	$2,124	Cost of goods sold	$(1,615)
Foreign currency forward contracts	(1,098)	Cost of goods sold	(1,002)
Total	$1,026		$(2,617)

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Pretax Gain (Loss)
Foreign currency forward contracts	Other (income) expense, net	$(180)
Total		$(180)

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

Derivatives Designated as Cash Flow Hedges	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)
Lead hedge contracts	$6,063	Cost of goods sold	$(469)
Foreign currency forward contracts	1	Cost of goods sold	2,372
Total	$6,064		$1,903

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	$(92)
Foreign currency forward contracts	Other (income) expense, net	(418)
Total		$(510)

5. Income Taxes

The Company’s income tax provisions consist of federal, state and foreign income taxes. The tax provisions for the second 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 second quarters of fiscal 2014 and 2013 were 27.0% and 28.0%, respectively. The effective income tax rates for the first six months of fiscal 2014 and 2013 were 27.4% and 28.6%, respectively. The rate decrease in the second quarter and six months of fiscal 2014 compared to the prior year periods are primarily due to changes in the mix of earnings among tax jurisdictions and a reduction in income taxes related to a legal entity reorganization of certain foreign subsidiaries.

6. 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		Six months ended	
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
Balance at beginning of period	$42,202	$42,488	$42,591	$42,067
Current period provisions	2,302	5,892	7,645	11,488
Costs incurred	(4,477)	(6,083)	(10,230)	(10,578)
Foreign currency translation adjustment	1,497	342	1,518	(338)
Balance at end of period	$41,524	$42,639	$41,524	$42,639

7. 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 September 29, 2013 and March 31, 2013, the Company has hedged the price to purchase 94.2 million pounds and 56.3 million pounds of lead, respectively, for a total purchase price of $88,546 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 $99,694 and $73,115, respectively, of foreign currency forward contracts with financial institutions as of September 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 September 29, 2013 as well as no borrowings under its 2011 Credit Facility. 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.

8. 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 first six months of fiscal 2014. The Company incurred $3,346 of costs against the accrual through fiscal 2013, with $185 additional costs incurred against the accrual during the first six months of fiscal 2014. This plan has been 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 $1,387 in charges during the first six months of fiscal 2014. During fiscal 2013, the Company incurred $952 of costs against the accrual, with an additional $1,483 of costs incurred during the first six months of fiscal 2014. As of September 29, 2013, the reserve balance associated with these actions is $1,559. The Company expects to be committed to an additional $1,324 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

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$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 first six months of fiscal 2014, no additional restructuring charges were accrued. During fiscal 2013, the Company incurred $221 in costs against the accrual, with an additional $136 of costs incurred during the first six months of fiscal 2014. As of September 29, 2013, the reserve balance associated with this action is $44. The Company expects to be committed to an additional $700 of restructuring related to these actions and expects to complete the restructuring during fiscal 2014.

During fiscal 2014, 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 $1,300, primarily from cash expenses for employee severance-related payments and contract obligations. The Company estimates that these actions will result in the reduction of approximately 20 employees upon completion. During fiscal 2014, the Company recorded restructuring charges of $153 consisting of cash charges related to employee severance and incurred $139 of costs against the accrual. As of September 29, 2013, the reserve balance associated with these actions is $14. The Company expects to be committed to an additional $850 of restructuring charges in fiscal 2014 related to these actions, and expects to complete the program during fiscal 2015.

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

	Employee Severance	Other	Total
Balance as of March 31, 2013	$1,738	$221	$1,959
Accrued	1,540	—	1,540
Costs incurred	(1,786)	(157)	(1,943)
Foreign currency impact and other	56	5	61
Balance as of September 29, 2013	$1,548	$69	$1,617

9. Debt

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

	September 29, 2013	March 31, 2013
3.375% Convertible Notes, net of discount, due 2038	$159,000	$155,273
Capital lease obligations and other	368	514
	159,368	155,787
Less current portion	234	311
Total long-term debt and capital lease obligations	$159,134	$155,476

The Convertible Notes will mature on June 1, 2038. Prior to maturity, the holders may convert their Convertible Notes into shares of the Company’s common stock 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 $1,000 principal amount of Convertible Notes, which was equivalent to an initial conversion price of$40.60 per share. 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. The Convertible Notes will mature on June 1, 2038, unless earlier converted, redeemed or repurchased.

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.

The Convertible Notes are represented by a liability component, which is reported herein as long-term debt, net of discount and an equity component representing the convertible feature, which is included in additional paid-in capital in EnerSys stockholders' equity. See Note 8 to the Consolidated Financial Statements included in the Company's 2013 Annual Report on Form 10-K for early redemption features.

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

	September 29, 2013	March 31, 2013
Principal	$172,500	$172,500
Unamortized discount	(13,500)	(17,227)
Net carrying amount	$159,000	$155,273
Carrying amount of equity component	$29,850	$29,850

As of September 29, 2013, the remaining discount will be amortized over a period of 20 months. The conversion price of the $172,500 in aggregate principal amount of the Convertible Notes is $40.60 per share and the number of shares on which the aggregate consideration is to be delivered upon conversion is 4,248,761.

The effective interest rate on the liability component of the Convertible Notes was 8.50%. The amount of interest cost recognized for the amortization of the discount on the liability component of the Convertible Notes was $1,883 and $1,731, respectively, during the quarters ended September 29, 2013 and September 30, 2012 and $3,727 and $3,427, respectively, during the six months ended September 29, 2013 and September 30, 2012.

Short-Term Debt

As of September 29, 2013 and March 31, 2013, the Company had $20,676 and $22,702, respectively, of short-term borrowings from banks. The weighted-average interest rates on these borrowings were approximately 11% and 14%, respectively, at September 29, 2013 and September 30, 2012.

Available Lines of Credit

As of September 29, 2013 and March 31, 2013, the Company had available and undrawn, under all its lines of credit, $480,502 and $469,123, respectively. Included in the September 29, 2013 and March 31, 2013 were $131,752 and $120,373, respectively, of uncommitted lines of credit.

As of September 29, 2013 and March 31, 2013, the Company had $6,970 and $11,854, respectively, of standby letters of credit.

Amendment to 2011 Credit Facility

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

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10. 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		Quarter ended	
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
Service cost	$90	$81	$206	$176
Interest cost	156	163	596	591
Expected return on plan assets	(198)	(188)	(525)	(465)
Amortization and deferral	134	101	107	51
Net periodic benefit cost	$182	$157	$384	$353

	United States Plans		International Plans	
	Six months ended		Six months ended	
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
Service cost	$181	$162	$406	$353
Interest cost	312	327	1,176	1,185
Expected return on plan assets	(397)	(377)	(1,036)	(929)
Amortization and deferral	267	201	211	103
Net periodic benefit cost	$363	$313	$757	$712

11. Stock-Based Compensation

As of September 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 $4,569 for the second quarter of fiscal 2014 and $3,825 for the second quarter of fiscal 2013. The Company recognized stock-based compensation expense associated with its equity incentive plans of $7,592 for the six months ended September 29, 2013 and $7,198 for the six months ended September 30, 2012.

During the six months ended September 29, 2013, the Company granted to non-employee directors 20,148 restricted stock units, pursuant to the EnerSys Deferred Compensation Plan for non-employee directors.

During the six months ended September 29, 2013, the Company granted to management and other key employees 150,629 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 six months ended September 29, 2013 included the exercise of 5,786 options and the vesting of 216,432 restricted stock units and 222,123 market share units.

As of September 29, 2013, there were 72,200 non-qualified stock options, 556,847 restricted stock units and 668,208 market share units outstanding.

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12. Stockholders’ Equity and Noncontrolling Interests

Common Stock

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

Shares outstanding as of March 31, 2013	47,840,204
Purchase of treasury stock	(661,292)
Shares issued as part of equity-based compensation plans, net of equity awards surrendered for option price and taxes	287,040
Shares outstanding as of September 29, 2013	47,465,952

Treasury Stock

During the six months ended September 29, 2013, the Company purchased 661,292 shares of its common stock for $33,593. At September 29, 2013 and March 31, 2013, the Company held 5,791,369 and 5,130,077 shares as treasury stock, respectively.

Accumulated Other Comprehensive Income ("AOCI")

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

	March 31, 2013	Before Reclassifications	Amounts Reclassified from AOCI	September 29, 2013
Pension funded status adjustment	$(13,169)	$—	$316	$(12,853)
Net unrealized loss (gain) on derivative instruments	(832)	644	1,646	1,458
Foreign currency translation adjustment	54,656	23,679	—	78,335
Accumulated other comprehensive income	$40,655	$24,323	$1,962	$66,940

The following table presents reclassifications from other AOCI during the second quarter ended September 29, 2013:

Components of AOCI	Amounts Reclassified from AOCI	Location of Loss Recognized on Income Statement
Derivatives in Cash Flow Hedging Relationships:		
Net unrealized loss on derivative instruments	$4,072	
Tax benefit	(1,511)	
Net unrealized loss on derivative instruments, net of tax	$2,561	Cost of goods sold
Defined benefit pension costs:		
Prior service costs and deferrals	$235	
Tax benefit	(120)	
Net periodic benefit cost, net of tax	$115	Net periodic benefit cost, included in Cost of goods sold, Operating expenses - See Note 10

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The following table presents reclassifications from AOCI during the six months ended September 29, 2013:

Components of AOCI	Amounts Reclassified from AOCI	Location of Loss Recognized on Income Statement
Derivatives in Cash Flow Hedging Relationships:		
Net unrealized loss on derivative instruments	$2,617	
Tax benefit	(971)	
Net unrealized loss on derivative instruments, net of tax	$1,646	Cost of goods sold
Defined benefit pension costs:		
Prior service costs and deferrals	$472	
Tax benefit	(156)	
Net periodic benefit cost, net of tax	$316	Net periodic benefit cost, included in Cost of goods sold, Operating expenses - See Note 10

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

	Equity Attributable to EnerSys Stockholders	Nonredeemable Noncontrolling Interests	Total Equity
Balance as of March 31, 2013	$1,169,401	$5,882	$1,175,283
Total comprehensive income:			
Net earnings	82,186	12	82,198
Net unrealized gain on derivative instruments, net of tax	2,290	—	2,290
Pension funded status adjustment, net of tax	(196)	—	(196)
Foreign currency translation adjustment	24,191	14	24,205
Total other comprehensive income, net of tax	26,285	14	26,299
Total comprehensive income	108,471	26	108,497
Other changes in equity:			
Purchase of treasury stock	(33,593)	—	(33,593)
Cash dividends - common stock ($0.25 per share)	(11,902)	—	(11,902)
Other, including activity related to equity awards	3,960	—	3,960
Balance as of September 29, 2013	$1,236,337	$5,908	$1,242,245

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

	Redeemable Noncontrolling Interests
Balance as of March 31, 2013	$ 11,095
Net losses	(630)
Foreign currency translation adjustment	(1,026)
Balance as of September 29, 2013	$ 9,439

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13. 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		Six months ended	
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
Net earnings attributable to EnerSys stockholders	$41,339	$43,790	$82,186	$89,594
Weighted-average number of common shares outstanding:				
Basic	47,573,496	48,188,331	47,721,239	48,044,767
Dilutive effect of:				
Common shares from exercise and lapse of equity awards, net of shares assumed reacquired	801,839	531,585	815,674	528,687
Convertible Notes	1,030,483	—	818,468	—
Diluted weighted-average number of common shares outstanding	49,405,818	48,719,916	49,355,381	48,573,454
Basic earnings per common share attributable to EnerSys stockholders	$0.87	$0.91	$1.72	$1.86
Diluted earnings per common share attributable to EnerSys stockholders	$0.84	$0.90	$1.67	$1.84
Anti-dilutive equity awards not included in diluted weighted-average common shares	11,010	287,566	13,321	197,392

The aggregate number of common shares that the Company could be obligated to issue upon conversion of its Convertible Notes that the Company sold in May 2008 is 4,248,761. It is the Company’s current intent to settle the principal amount of any conversions in cash, and any additional conversion consideration in cash, shares of the Company’s common stock or a combination of cash and shares. During the second quarter of fiscal 2014, the average price of our common stock at $53.60 per share exceeded the conversion price of $40.60 per share on the Convertible Notes. For the current quarter and six months ended September 29, 2013, 1,030,483 and 818,468 shares, respectively, relating to the conversion premium on the Convertible Notes were included in the diluted earnings per share using the treasury stock method.

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14. Business Segments

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

- Americas, which includes North and South America, with segment headquarters in Reading, Pennsylvania, USA;
- 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 six months ended September 29, 2013 and September 30, 2012, is shown below:

	Quarter ended		Six months ended	
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
Net sales by segment to unaffiliated customers				
EMEA	$223,374	$ 215,453	$454,341	$ 452,504
Americas	287,683	276,704	603,306	565,628
Asia	57,790	62,055	108,497	129,990
Total net sales	$568,847	$ 554,212	$1,166,144	$ 1,148,122
Net sales by product line				
Reserve power	$279,494	$ 285,286	$572,313	$ 574,580
Motive power	289,353	268,926	593,831	573,542
Total net sales	$568,847	$ 554,212	$1,166,144	$ 1,148,122
Intersegment sales				
EMEA	$18,276	$ 23,222	$36,573	$ 45,384
Americas	8,176	9,143	18,269	19,697
Asia	10,052	7,785	17,763	14,144
Total intersegment sales (1)	$36,504	$ 40,150	$72,605	$ 79,225
Operating earnings by segment				
EMEA	$15,243	$ 14,021	$31,326	$ 31,241
Americas	43,143	43,572	84,868	88,086
Asia	3,738	6,587	8,959	15,478
Restructuring charges - EMEA	(1,119)	(1,295)	(1,540)	(1,665)
Total operating earnings (2)	$61,005	$ 62,885	$123,613	$ 133,140

(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.

15. Subsequent Events

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, WA, from Weston Presidio and other stockholders, representing an investment of approximately $115,000.

On October 31, 2013, the Company announced the declaration of a quarterly cash dividend of $0.125 per share of common stock to be paid on December 27, 2013, to stockholders of record as of December 13, 2013.

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, representing an investment of approximately $30,000.

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

FORWARD-LOOKING STATEMENTS

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

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

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- 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" (see definitions in "Liquidity and Capital Resources" below) and capital expenditures in its evaluation of business segment cash flow and financial position performance. These disclosures have limitations as an analytical tool, should not be viewed as a substitute for cash flow determined in accordance with GAAP, and should not be considered in isolation or as a substitute for analysis of the Company's results as reported under GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies. Management believes that this non-GAAP supplemental information is helpful in understanding the Company's ongoing operating results.

Overview

EnerSys (the "Company," "we," or "us") is the world's largest manufacturer, marketer and distributor of industrial batteries. We also manufacture, market and distribute related products such as chargers, power equipment and battery accessories, and we provide related after-market and customer-support services for industrial batteries. We market and sell our products globally to over 10,000 customers in more than 100 countries through a network of distributors, independent representatives and our internal sales force.

We operate and manage our business in three geographic regions of the world—Americas, 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.

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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.

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, WA.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.

Economic Climate

Recent indicators continue to suggest a mixed trend in economic activity among the different geographical regions. The Americas and Asia's economic expansion continues but at a slower rate. The ongoing financial crisis and austerity measures in Europe are a factor in slowing overall economic growth in this region.

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 six 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 September 29, 2013, we had $272.7 million of cash and cash equivalents and $481 million, undrawn and available under all our lines of credit including approximately $132 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.

Results of Operations

Net Sales

Current quarter by segment	Quarter ended September 29, 2013		Quarter ended September 30, 2012		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	%
EMEA	$223.3	39.3 %	$215.4	38.9 %	$7.9	3.7 %
Americas	287.7	50.6	276.7	49.9	11.0	4.0
Asia	57.8	10.1	62.1	11.2	(4.3)	(6.9)

Total net sales	$568.8	100.0	%	$554.2	100.0	%	$14.6	2.6	%

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Year to date by segment	Six months ended September 29, 2013			Six months ended September 30, 2012			Increase (Decrease)			
	In Millions	Percentage of Total Net Sales		In Millions	Percentage of Total Net Sales		In Millions		%	
EMEA	$454.3	39.0	%	$452.5	39.4	%	$1.8		0.4	%
Americas	603.3	51.7		565.6	49.3		37.7		6.7	
Asia	108.5	9.3		130.0	11.3		(21.5	)	(16.5	)
Total net sales	$1,166.1	100.0	%	$1,148.1	100.0	%	$18.0		1.6	%

Net sales increased $14.6 million or 2.6% in the second quarter of fiscal 2014 from the comparable period in fiscal 2013. This increase for the quarter was the result of a 1% increase in each of organic volume, pricing and currency translation impact.

Net sales increased $18.0 million or 1.6% in the six months of fiscal 2014 from the comparable period in fiscal 2013. This increase for the six months was the result of a slight increase in organic volume, price and currency translation impact.

Segment sales

The EMEA segment’s net sales increased $7.9 million or 3.7% in the second quarter of fiscal 2014, as compared to the second quarter of fiscal 2013, primarily due to foreign currency translation impact. Net sales increased $1.8 million or 0.4% in the six months of fiscal 2014, as compared to the six months of fiscal 2013, primarily due to an increase of approximately 2% related to currency translation impact, and 1% increase in pricing partially offset by a decrease of 2% in organic volume.

The Americas segment’s net sales increased $11.0 million or 4.0% in the second quarter of fiscal 2014, as compared to the second quarter of fiscal 2013, primarily due to an increase of approximately 4% in organic volume and a 1% increase in pricing, partially offset by a 1% decrease due to foreign currency translation impact. Net sales increased $37.7 million or 6.7% six months of fiscal 2014, as compared to the six months of fiscal 2013, primarily due to higher organic volume which contributed approximately 6% and a 1% increase due to pricing.

The Asia segment’s net sales decreased $4.3 million or 6.9% in the second quarter of fiscal 2014, as compared to the second quarter of fiscal 2013, primarily due to lower organic volume and foreign currency translation impact of approximately 3% each and a 1% decrease in pricing. Net sales decreased $21.5 million or 16.5% in the six months of fiscal 2014, as compared to the six months of fiscal 2013, primarily due to organic volume decrease of approximately 12% and a decrease of 3% and 1%, due to pricing and foreign currency translation, respectively. The prior periods' sales included a large project in Japan which has concluded.

Product line sales

	Quarter ended September 29, 2013			Quarter ended September 30, 2012			Increase (Decrease)			
	In Millions	Percentage of Total Net Sales		In Millions	Percentage of Total Net Sales		In Millions		%	
Reserve power	$279.5	49.1	%	$285.3	51.5	%	$(5.8	)	(2.0	)%
Motive power	289.3	50.9		268.9	48.5		20.4		7.6	
Total net sales	$568.8	100.0	%	$554.2	100.0	%	$14.6		2.6	%

	Six months ended September 29, 2013		Six months ended September 30, 2012		Increase (Decrease)	
	In Millions	Percentage of Total	In Millions	Percentage of Total	In Millions	%

		Net Sales			Net Sales					
Reserve power	$572.3	49.1	%	$574.6	50.0	%	$(2.3	)	(0.4	)%
Motive power	593.8	50.9		573.5	50.0		20.3		3.5	
Total net sales	$1,166.1	100.0	%	$1,148.1	100.0	%	$18.0		1.6	%

Net sales of our reserve power products in the second quarter of fiscal 2014 decreased $5.8 million or 2.0% compared to the second quarter of fiscal 2013. Organic volume decreased approximately 3% partially offset by an increase in pricing of approximately 1%. Net sales in the six months of fiscal 2014 decreased $2.3 million or 0.4% compared to the six months of fiscal 2013. Organic volume decreased by approximately 2% and was partially offset by both pricing and currency translation impact of approximately 1%.

Net sales of our motive power products in the second quarter of fiscal 2014 increased by $20.4 million or 7.6% compared to the second quarter of fiscal 2013. An improvement of approximately 6% in organic volume and a 1% increase due to foreign currency translation impact contributed to this improvement in the second quarter of fiscal 2014. Net sales in the six months of fiscal 2014 increased $20.3 million or

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3.5% compared to the six months of fiscal 2013, primarily due to a 2% increase in organic volume and a combined 1% increase due to pricing and foreign currency translation impact.

Gross Profit

	Quarter ended September 29, 2013		Quarter ended September 30, 2012		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	%
Gross Profit	$144.3	25.4 %	$138.3	25.0 %	$6.0	4.3 %

	Six months ended September 29, 2013		Six months ended September 30, 2012		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	%
Gross Profit	$284.4	24.4 %	$286.6	25.0 %	$(2.2)	(0.8)%

Gross profit increased $6.0 million or 4.3% in the second quarter of fiscal 2014 and decreased $2.2 million or 0.8% in the six months of fiscal 2014 compared to the comparable periods of fiscal 2013. Gross profit, as a percentage of net sales increased 40 basis points in the second quarter but decreased 60 basis points in the six months of fiscal 2014, when compared to the comparable prior year 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 six months of fiscal 2014 compared to the prior year six months is primarily due to higher commodity costs partially offset by organic volume and pricing.

Operating Items

	Quarter ended September 29, 2013		Quarter ended September 30, 2012		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	%
Operating expenses	$82.2	14.5 %	$74.1	13.4 %	$8.1	10.9 %
Restructuring charges	$1.1	0.2 %	$1.3	0.2 %	$(0.2)	(13.6)%

	Six months ended September 29, 2013		Six months ended September 30, 2012		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	%
Operating expenses	$159.3	13.7 %	$151.8	13.2 %	$7.5	4.9 %
Restructuring charges	$1.5	0.1 %	$1.7	0.1 %	$(0.2)	(7.5)%

Operating expenses as a percentage of net sales increased 110 and 50 basis points in the second quarter and six months of fiscal 2014 compared to the second quarter and six months of fiscal 2013. Operating expenses, excluding the effect of foreign currency translation, increased $7.8 million or 10.6% in the second quarter of fiscal 2014 and increased $8.0 million or 5.3% in the six months of fiscal 2014 compared to the six months of fiscal 2013. Increase in operating expenses in both the quarter and six months is primarily on account of increased sales volume, bad debt expense, acquisition related fees and payroll related expenses. Selling expenses, our main component of operating expenses, were 56.8% and 58.7% of total operating expenses in the second quarter and six months of fiscal 2014, respectively, compared to 59.5% and 60.1% of total operating expenses in the second quarter and six months of fiscal 2013, respectively.

Restructuring charges

Included in our second quarter and six months of fiscal 2014, operating results are $1.1 million and $1.5 million of restructuring charges, respectively, primarily for staff reductions in EMEA. Included in our second quarter and six months of fiscal 2013 operating results are $1.3 million and $1.7 million of restructuring charges, respectively, primarily for staff reductions and write-off of fixed assets and inventory in EMEA.

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Operating Earnings

Current quarter by segment	Quarter ended September 29, 2013		Quarter ended September 30, 2012		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales (1)	In Millions	Percentage of Total Net Sales (1)	In Millions	%
EMEA	$15.2	6.8 %	$14.1	6.5 %	$1.1	8.7 %
Americas	43.2	15.0	43.5	15.7	(0.3)	(1.0)
Asia	3.7	6.5	6.6	10.6	(2.9)	(43.3)
Subtotal	62.1	10.9	64.2	11.6	(2.1)	(3.2)
Restructuring charges-EMEA	(1.1)	(0.5)	(1.3)	(0.6)	0.2	(13.6)
Total operating earnings	$61.0	10.7 %	$62.9	11.4 %	$(1.9)	(3.0)%

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

Year to date by segment	Six months ended September 29, 2013		Six months ended September 30, 2012		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales (1)	In Millions	Percentage of Total Net Sales (1)	In Millions	%
EMEA	$31.3	6.9 %	$31.3	6.9 %	$—	0.3 %
Americas	84.9	14.1	88.0	15.6	(3.1)	(3.7)
Asia	8.9	8.3	15.5	11.9	(6.6)	(42.1)
Subtotal	125.1	10.7	134.8	11.7	(9.7)	(7.2)
Restructuring charges-EMEA	(1.5)	(0.3)	(1.7)	(0.4)	0.2	(7.5)
Total operating earnings	$123.6	10.6 %	$133.1	11.6 %	$(9.5)	(7.2)%

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

Operating earnings decreased $1.9 million or 3.0% in the second quarter and decreased $9.5 million or 7.2% in the six months of fiscal 2014 compared to the second quarter and six months of fiscal 2013. Operating earnings as a percentage of net sales, as shown in the table above, decreased 70 basis points in the second quarter of fiscal 2014 and decreased 100 basis points in the six 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 second quarter of fiscal 2014 compared to the second quarter of fiscal 2013, with the operating margin increasing 30 basis points to 6.8%. Operating earnings remained flat in the six months of fiscal 2014 in comparison to the comparable period in the prior year. This flat trend in EMEA earnings primarily reflects the current economic environment in this region.
The Americas segment had a slight decrease in operating earnings in the second quarter of fiscal 2014 compared to the second quarter of fiscal 2013, with the operating margin decreasing 70 basis points to 15.0%. Operating earnings decreased in the six months of fiscal 2014 in comparison to the comparable period in the prior year, with the operating margin decreasing 150 basis points to 14.1%. This decrease in both the quarter and six months of fiscal 2014 is primarily attributable to higher commodity costs and operating expenses and a less favorable product mix.
Operating earnings decreased in the Asia segment in the second quarter and six months of fiscal 2014 compared to the prior year periods, with the operating margin decreasing by 410 basis points and 360 basis points, respectively, in the current quarter and six months to 6.5% and 8.3%, respectively. The decrease in operating margin was primarily on account of a less favorable product mix and increased bad debt expense in the current quarter and six months of fiscal 2014 compared to the comparable prior year periods.

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Interest Expense

	Quarter ended September 29, 2013		Quarter ended September 30, 2012		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	%
Interest expense	$4.1	0.7 %	$5.0	0.9 %	$(0.9)	(16.7)%

	Six months ended September 29, 2013		Six months ended September 30, 2012		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	%
Interest expense	$8.4	0.7 %	$9.7	0.8 %	$(1.3)	(13.3)%

Interest expense of $4.1 million in the second quarter of fiscal 2014 (net of interest income of $0.1 million) was $0.9 million lower than the interest expense of $5.0 million in the second quarter of fiscal 2013 (net of interest income of $0.2 million). Interest expense of $8.4 million in the six months of fiscal 2014 (net of interest income of $0.4 million) was $1.3 million lower than the interest expense of $9.7 million in the six months of fiscal 2013 (net of interest income of $0.4 million).

The decrease in interest expense in the second quarter and six months of fiscal 2014 compared to the comparable prior year periods 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 $0.6 million, respectively, in the second quarter and six months of fiscal 2014 and $0.3 million and $0.6 million, respectively, in the second quarter and six months of fiscal 2013.

Included in interest expense is non-cash, accreted interest on the Convertible Notes of $1.9 million and $3.7 million, respectively, in the second quarter and six months of fiscal 2014 and $1.7 million and $3.4 million, respectively, in the second quarter and six months of fiscal 2013 (see Note 9 to the Consolidated Condensed Financial Statements).

Our average debt outstanding (reflecting the reduction of the Convertible Notes discount) was $179.0 million and $178.2 million in the second quarter and six months of fiscal 2014, respectively, compared to $262.3 million and $262.8 million in the second quarter and six months of fiscal 2013. This decrease 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 $14.5 million and $15.4 million in the second quarter and six months of fiscal 2014 and $21.7 million and $22.6 million, respectively, in the second quarter of fiscal 2013.

Other (Income) Expense, Net

	Quarter ended September 29, 2013		Quarter ended September 30, 2012		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	%
Other (income) expense, net	$0.5	0.1 %	$(1.8)	(0.3)%	$2.3	NM

Six months ended September 29, 2013		Six months ended September 30, 2012		Increase (Decrease)	
In Millions	Percentage of Total	In Millions	Percentage of Total	In Millions	%

		Net Sales		Net Sales		
Other (income) expense, net	$2.8	0.3 %	$(0.6)	— %	$3.4	NM

NM = not meaningful

Other (income) expense, net in the second quarter of fiscal 2014 was an expense of $0.5 million compared to an income of $1.8 million in the second quarter of fiscal 2013. Other (income) expense, net in the six months of fiscal 2014 was an expense of $2.8 million compared to an income of $0.6 million in the six months of fiscal 2013. The unfavorable impact in the second quarter and six months of fiscal 2014 is mainly attributable to higher foreign currency losses of $0.8 million and $2.6 million, respectively, in the current quarter and six months compared to $0.4 million and $1.2 million, respectively in the comparable prior year periods. The prior year second quarter and six months also had insurance recoveries of $1.8 million in each of the periods.

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Earnings Before Income Taxes

	Quarter ended September 29, 2013		Quarter ended September 30, 2012		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	%
Earnings before income taxes	$56.4	9.9 %	$59.7	10.8 %	$(3.3)	(5.6)%

	Six months ended September 29, 2013		Six months ended September 30, 2012		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	%
Earnings before income taxes	$112.4	9.6 %	$124.0	10.8 %	$(11.6)	(9.4)%

As a result of the above, earnings before income taxes in the second quarter of fiscal 2014 decreased $3.3 million or 5.6% compared to the second quarter of fiscal 2013 and earnings before income taxes in the six months of fiscal 2014 decreased $11.6 million or 9.4% compared to the six months of fiscal 2013. Earnings before income taxes as a percentage of net sales were 9.9% for the second quarter of fiscal 2014 compared to 10.8% in the second quarter of fiscal 2013 and 9.6% for the six months of fiscal 2014 compared to 10.8% for the six months of fiscal 2013.

Income Tax Expense

	Quarter ended September 29, 2013		Quarter ended September 30, 2012		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	%
Income tax expense	$15.2	2.7 %	$16.7	3.0 %	$(1.5)	(9.0)%
Effective tax rate	27.0%		28.0%		(1.0)%	

	Six months ended September 29, 2013		Six months ended September 30, 2012		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	%
Income tax expense	$30.8	2.6 %	$35.4	3.1 %	$(4.6)	(13.1)%
Effective tax rate	27.4%		28.6%		(1.2)%	

The Company's income tax provisions consist of federal, state and foreign income taxes. The tax provisions for the second 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 second quarters of fiscal 2014 and fiscal 2013 were 27.0% and 28.0%, respectively. The effective income tax rates for the six months of fiscal 2014 and fiscal 2013 were 27.4% and 28.6%, respectively. The rate decrease in the second quarter and six months of fiscal 2014 as compared to the comparable prior year periods are primarily due to changes in the mix of earnings among tax jurisdictions and a reduction in income taxes related to a legal entity reorganization of certain foreign subsidiaries.

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Critical Accounting Policies and Estimates

There have been no material changes to our critical accounting policies from those discussed under the caption "Critical Accounting Policies and Estimates" in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2013 Annual Report on Form 10-K.

Liquidity and Capital Resources

Operating activities provided cash of $91.2 million in the six months of fiscal 2014 compared to $78.8 million in the comparable period of fiscal 2013. In the six months of fiscal 2014, net earnings of $81.6 million and depreciation and amortization of $25.3 million were partially offset by cash used for the increase in primary working capital of $30.3 million, net of currency translation changes. In the first six months of fiscal 2013, net earnings of $88.6 million and depreciation and amortization of $25.1 million were offset by cash used for the increase in primary working capital of $41.1 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 $586.3 million (yielding a primary working capital percentage of 25.8%) at September 29, 2013, $552.7 million (yielding a primary working capital percentage of 24.2%) at March 31, 2013 and $607.2 million at September 30, 2012 (yielding a primary working capital percentage of 27.4%). The primary working capital percentage of 25.8% at September 29, 2013 is 160 basis points higher than that for March 31, 2013, and 160 basis points lower than that for the prior year period.

Primary working capital increased during the six months of fiscal 2014, largely due to an increase in receivables and a decrease in payables.

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

(In Millions)

Balance At	Trade Receivables	Inventory	Accounts Payable	Total	Quarter Revenue Annualized	Primary Working Capital %
September 29, 2013	$467.7	$352.1	$(233.5)	$586.3	$2,275.4	25.8%
March 31, 2013	448.1	353.9	(249.3)	552.7	2,288.5	24.2
September 30, 2012	472.8	366.5	(232.1)	607.2	2,216.8	27.4

Investing activities used cash of $24.3 million in the six months of fiscal 2014, primarily comprised of capital expenditures, compared to $26.6 million used in the comparable period in fiscal 2013.

Financing activities used cash of $49.4 million in the six months of fiscal 2014 primarily due to the repurchase of our common stock for $33.6 million and payment of a cash dividend to our stockholders of $11.9 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 $0.4 million. In the six months of fiscal 2013, financing activities provided cash of $2.9 million, primarily reflecting borrowings and repayments of $173.3 million and $182.8 million, respectively, on our revolver. Borrowings on long-term and short-term debt were $5.6 million and $5.4 million, respectively, which were partially offset by repayments of long-term debt of $10.6 million in Asia. Exercise of stock options and the related tax benefits contributed $13.9 million.

As a result of the above, total cash and cash equivalents increased by $23.3 million to $272.7 million in the six months of fiscal 2014 compared to an increase of $51.9 million to $212.3 million 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. Since we believe that we will continue to comply with these covenants and conditions, we believe that we have the financial resources and the capital available to fund the foreseeable organic growth in our business and to remain active in pursuing further acquisition opportunities. See Note 8 to the Consolidated Financial Statements included in our 2013 Annual Report on Form 10-K for a detailed description of debt.

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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 September 29, 2013 are $1.9 million (pre-tax), therefore, there is no risk of nonperformance by these counterparties. Those contracts that result in an asset position at September 29, 2013 are $2.4 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 September 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 $0.2 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 (in millions)	# Pounds Purchased (in millions)	Average Cost/Pound	Approximate % of Lead Requirements (1)
September 29, 2013	$88.5	94.2	$0.94	19 %
March 31, 2013	56.6	56.3	1.00	12
September 30, 2012	40.7	46.8	0.87	10

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

For the remaining two quarters of this fiscal year, we believe approximately 58% of the cost of our lead requirement is known. This takes into account the hedge contracts in place at September 29, 2013, lead purchased by September 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 $4 million and $15 million in the second quarter and six months of fiscal 2014.

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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 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 September 29, 2013 and March 31, 2013 were $99.7 million and $73.1 million, respectively. The details of contracts outstanding as of September 29, 2013 were as follows:

Transactions Hedged	$US Equivalent (in millions)	Average Rate Hedged		Approximate % of Annual Requirements (1)	
Sell Euros for U.S. dollars	$33.5	$/€	1.32	18	%
Sell Euros for Polish zloty	31.6	PLN/€	4.28	29	
Sell Euros for British pounds	22.0	£/€	0.84	28	
Sell Euros for Chinese Renminbi	5.1	RMB/€	8.13	50	
Sell Australian dollars for U.S. dollars	2.4	$/AUD	0.93	19	
Sell U.S. dollars for Mexican pesos	2.5	MXN/$	12.21	50	
Sell Australian dollars for Euros	1.5	€/AUD	1.46	8	
Other	1.1				
Total	$99.7				

(1) Based on the fiscal year currency requirements.

Foreign exchange translation adjustments are recorded in the consolidated condensed statements of comprehensive income.

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

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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.

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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.

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 Plan to satisfy the applicable aggregate exercise price (and any withholding tax) required to be paid upon such exercise.

Purchases of Equity Securities

Period	(a) Total number of shares (or units) purchased	(b) Average price paid per share (or unit)	(c) Total number of shares (or units) purchased as part of publicly announced plans or programs	(d) Maximum number (or approximate dollar value) of shares (or units) that may be purchased under the plans or programs (1) (2)
July 1 – July 28, 2013	65,279	$51.21	65,279	$ 58,362,211
July 29 – August 25, 2013	72,705	52.85	72,705	54,519,444
August 26 – September 29, 2013	81,720	54.01	81,720	50,105,433
Total	219,704	$52.80	219,704	

(1) 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.

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Item 4. Mine Safety Disclosures
Not applicable.

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

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SIGNATURES

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

ENERSYS (Registrant)

By /s/ Michael J. Schmidtlein
Michael J. Schmidtlein
Senior Vice President Finance & Chief Financial Officer
Date: November 6, 2013

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EnerSys
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