

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-Q**

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

For the quarterly period ended July 4, 2004

or

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

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

Commission File Number: 001-32253

**ENERSYS**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**23-3058564**

(I.R.S. Employer Identification No.)

**2366 Bernville Road Reading, Pennsylvania**

(Address of principal executive offices)

**19605**

(Zip Code)

**(610) 208-1991**

(Registrant's telephone number, including area code)

**Not Applicable**

(Former name, former address, and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).  YES  NO

The number of shares of Common Stock outstanding as of September 9, 2004: **45,945,559**

**ENERSYS**

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ENERSYS  
**Consolidated Balance Sheets**  
(In Thousands, Except Share Data)

	July 4, 2004 (Unaudited)	March 31, 2004
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 13,785	\$ 17,207
Accounts receivable, net	237,208	227,752
Inventories, net	138,413	131,712
Deferred taxes	24,969	24,616
Prepaid expenses	13,349	17,873
Other current assets	6,752	4,543
Total current assets	434,476	423,703
Property, plant, and equipment, net	278,180	284,850
Goodwill	307,315	306,825
Other intangible assets, net	75,484	75,495
Deferred taxes	26,028	26,025
Other	33,792	34,170
Total assets	<u>\$ 1,155,275</u>	<u>\$ 1,151,068</u>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Short-term debt	\$ 10,703	\$ 2,712
Current portion of long-term debt	6,974	7,014
Current portion of capital lease obligations	2,184	2,150
Accounts payable	100,844	113,043
Accrued expenses	164,294	163,717
Deferred taxes	338	340
Total current liabilities	285,337	288,976
Long-term debt	495,250	496,200
Capital lease obligations	2,703	3,227
Deferred taxes	61,578	60,952
Other liabilities	60,758	62,411
Total liabilities	905,626	911,766
Stockholders' equity:		
Series A Convertible Preferred Stock, \$0.01 par value, 2,500,000 shares authorized, 665,883 shares issued and outstanding	7	7
Class A Common Stock, \$0.01 par value, 135,000,000 shares authorized, 11,014,421 shares issued and outstanding	110	110
Class B Common Stock, \$0.01 par value, 1,000,000 shares authorized, no shares issued and outstanding	—	—

Additional paid-in capital	188,959	188,766
Retained earnings (deficit)	188	(8,839)
Accumulated other comprehensive income	60,385	59,258
<b>Total stockholders' equity</b>	<b>249,649</b>	<b>239,302</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,155,275</b>	<b>\$ 1,151,068</b>

See accompanying notes.

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ENERSYS  
**Consolidated Statements of Operations (Unaudited)**  
(In Thousands, Except Share and Per Share Data)

	Three months ended	
	July 4, 2004	June 29, 2003
Net sales	\$ 263,261	\$ 218,265
Cost of goods sold	196,543	165,709
Gross profit	66,718	52,556
Operating expenses	44,187	40,055
Amortization expense	16	12
Operating earnings	22,515	12,489
Interest expense	7,439	5,130
Other expense (income), net	717	(2,000)
Earnings before income taxes	14,359	9,359
Income tax expense	5,332	3,559
Net earnings	\$ 9,027	\$ 5,800
Series A convertible preferred stock dividends	(8,155)	(5,643)
Net earnings available to common shareholders	\$ 872	\$ 157
Net earnings per common share:		
Basic	\$ 0.08	\$ 0.01
Diluted	\$ 0.08	\$ 0.01
Weighted-average shares of common stock outstanding:		
Basic	11,014,421	11,014,421
Diluted	11,516,868	11,157,306

See accompanying notes.

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

	Three months ended	
	July 4, 2004	June 29, 2003
<b>Cash flows from operating activities</b>		
Net earnings	\$ 9,027	\$ 5,800
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	10,178	9,861
Provision for doubtful accounts	165	95
Provision for deferred taxes, less amounts related to restructuring	(289)	(227)
Accretion of discount on notes payable	—	1,105
Option liability gain	—	(26)
Stock-based compensation	193	—
Loss (gain) on disposal of fixed assets	365	(56)
Changes in assets and liabilities, net of effects of acquisition:		
Accounts receivable	(10,461)	6,144
Inventory	(7,152)	(3,143)
Prepaid expenses and other current assets	2,140	(1,196)

Other assets	165	339
Accounts payable	(10,939)	(10,484)
Accrued expenses	1,469	3,221
Other liabilities	(104)	(144)
Net cash (used in) provided by operating activities	(5,243)	11,289
<b>Cash flows from investing activities</b>		
Capital expenditures	(7,776)	(4,615)
Proceeds from disposal of property, plant, and equipment	3,506	146
Net cash used in investing activities	(4,270)	(4,469)
<b>Cash flows from financing activities</b>		
Net increase in short-term debt	7,653	566
Payments of long-term debt	(990)	(69)
Payments of capital lease obligations, net	(527)	(455)
Net cash provided by financing activities	6,136	42
Effect of exchange rate changes on cash	(45)	213
Net (decrease) increase in cash	(3,422)	7,075
Cash and cash equivalents at beginning of period	17,207	44,296
Cash and cash equivalents at end of period	\$ 13,785	\$ 51,371

See accompanying notes.

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

	Three months ended	
	July 4, 2004	June 29, 2003
Net income	\$ 9,027	\$ 5,800
Other comprehensive income (loss), net of tax:		
Net unrealized gain (loss) on derivative instruments	978	(141)
Foreign currency translation adjustments	149	6,112
Total comprehensive income	\$ 10,154	\$ 11,771

See accompanying notes.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**  
(In Thousands, Except Share and Per Share Data)

**NOTE 1: BASIS OF PRESENTATION**

The accompanying interim unaudited consolidated financial statements of EnerSys (the Company) have been prepared in accordance with the instructions to Form 10-Q and therefore do not include all the information and notes required for audited financial statements. In the opinion of management, the unaudited consolidated financial statements include all adjustments, consisting only of normal recurring accruals, considered necessary for the fair presentation of the financial position, results of operations, and cash flows for the interim periods presented. The financial statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in the Company's Prospectus dated July 29, 2004, which forms part of the Company's Registration Statement (SEC File No. 333-115553) on Form S-1, as amended (the Company's Prospectus). The results of operations for the first quarter of 2004 are not necessarily indicative of the results to be expected for the full year. The accompanying interim consolidated financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States.

The Company reports interim financial information for 13-week periods, except for the first quarter, which always begins on April 1, and the fourth quarter, which always ends on March 31. The four fiscal quarters in 2005 end on July 4, 2004, October 3, 2004, January 2, 2005 and March 31, 2005, respectively. The four fiscal quarters in 2004 ended on June 29, 2003, September 28, 2003, December 28, 2003 and March 31, 2004.

**NOTE 2: NEW ACCOUNTING PRONOUNCEMENTS**

In December 2003, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits*. The revisions to SFAS No. 132 are intended to improve financial statement disclosures for defined benefit plans and was initiated in 2003 in response to concerns raised by investors and other users of financial statements, about the need for greater transparency of pension information. In particular, the standard requires that companies provide more details about their plan assets, benefit obligations, cash flows, benefit costs, and other relevant quantitative and qualitative information. The guidance is effective for fiscal years ending after December 15, 2003. The Company has complied with these revised disclosure requirements. See Note 8.

In January 2003, the FASB issued Financial Interpretation (FIN) No. 46, *Consolidation of Variable Interest Entities, an Interpretation of ARB 51* and in December 2003 a revised interpretation (FIN 46R) was issued. The primary objectives of this interpretation are to provide guidance on the identification of entities for which control is achieved through means other than through voting rights (variable interest entities) and how to determine when and which business enterprise (the primary beneficiary) should consolidate the variable interest entity. This new

model for consolidation applies to an entity in which either (i) the equity investors (if any) do not have a controlling financial interest; or (ii) the equity investment at risk is insufficient to finance that entity's activities without receiving additional subordinated financial support from other parties. In addition, FIN 46 requires that the primary beneficiary, as well as all other enterprises with a significant variable interest entity, make additional disclosures. The adoption of FIN 46 and FIN 46R did not have an impact on the Company's financial position and results of operations.

**NOTE 3: INVENTORIES**

Inventories, net consist of:

	July 4, 2004	March 31, 2004
Raw Materials	\$ 36,308	\$ 32,003
Work-in-Process	45,441	36,670
Finished Goods	56,664	63,039
	<u>\$ 138,413</u>	<u>\$ 131,712</u>

**NOTE 4: DERIVATIVE FINANCIAL INSTRUMENTS**

The following table includes the Company's interest rate swaps as of July 4, 2004 and June 29, 2003. These interest rate swaps are designated as cash flow hedges and, therefore, changes in their fair value, net of tax, are recorded in accumulated other comprehensive income.

Notional Amount	Origination Date	Maturity Date	Fixed Interest Rate Paid	Variable Interest Rate Received	Fair Value at July 4, 2004	Fair Value at June 29, 2003
\$ 60,000	02/22/01	02/22/08	5.16%	3-month LIBOR	\$ (3,051)	\$ (6,007)
60,000	05/05/04	05/05/08	3.68% (1)	3-month LIBOR	288	NA
<u>\$ 120,000</u>					<u>\$ (2,763)</u>	<u>\$ (6,007)</u>

(1) Fixed interest rate paid is 2.85% in year one, 3.15% in year two, 3.95% in year three and 4.75% in year four, which averages 3.68% for the four-year period.

The Company does not enter into derivative securities for speculative purposes, but does enter into hedging arrangements in order to reduce its exposure to fluctuations in interest rates. The Company applies hedge accounting in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, whereby the Company designates each derivative as a hedge of (i) the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value" hedge); or (ii) the variability of anticipated cash flows of a forecasted transaction or the cash flows to be received or paid related to a recognized asset or liability ("cash flow" hedge).

**NOTE 5: INCOME TAXES**

The Company's income tax provisions for all periods consist of federal, state and foreign income taxes. The tax provisions for the three months ended July 4, 2004 and June 29, 2003 were based on the estimated effective tax rates applicable for the full years ending March 31, 2005 and 2004, after giving effect to items specifically related to the interim periods. The Company's effective tax rate was 37% and 38% for the three months ended July 4, 2004 and June 29, 2003, respectively.

**NOTE 6: WARRANTY**

The Company provides for estimated product warranty expenses when the related products are sold and are primarily included within accrued expenses. 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:

	Three months ended	
	July 4, 2004	June 29, 2003
Balance at beginning of period	\$ 23,249	\$ 24,198
Current period provisions	3,560	3,155
Costs incurred	(3,425)	(2,026)
Balance at end of period	<u>\$ 23,384</u>	<u>\$ 25,327</u>

**NOTE 7: RESTRUCTURING ACTIVITY**

On March 22, 2002, the Company acquired the assets, stock and business of substantially all subsidiaries and affiliates comprising the Energy Storage Group (ESG) of Invensys PLC. As of the acquisition date, the Company began to formulate an exit and restructuring plan for certain ESG facilities in North America and Europe. This restructuring activity is more fully disclosed in Note 3 to the Consolidated Financial Statements included in the Company's Prospectus dated July 29, 2004. A rollforward of this restructuring reserve is as follows:

	July 4, 2004	June 29, 2003
Balance at beginning of period	\$ 38,344	\$ 39,379
Costs incurred	(4,441)	(319)
Foreign currency impact and other	(726)	1,793
Balance at end of period	<u>\$ 33,177</u>	<u>\$ 40,853</u>

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The costs incurred in the three months ended July 4, 2004 related primarily to approximately \$2,400 of restructuring activity in our United Kingdom facility and approximately \$1,100 of restructuring activity in our German facility. Since inception of these aggregate restructuring reserves, \$21,763 of costs have been incurred.

During the fiscal year ended March 31, 2002, the Company also decided to close and downsize certain existing manufacturing locations in North and South America, reduce product offerings, reduce sales and distribution facilities, and implement other consolidation initiatives. This restructuring activity is more fully described in Note 23 to the Consolidated Financial Statements included in the Company's Prospectus dated July 29, 2004. A rollforward of this restructuring reserve is as follows:

	Three months ended	
	July 4, 2004	June 29, 2003
Balance at beginning of period	\$ 12,063	\$ 11,722
Costs incurred	(345)	(397)
Balance at end of period	<u>\$ 11,718</u>	<u>\$ 11,325</u>

Since the inception of these aggregate reserves, \$11,417 of costs have been incurred.

#### NOTE 8: PENSIONS

The Company has adopted the disclosure requirements of SFAS No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits* as is reflected in Note 14 of its Consolidated Financial Statements for the year ended March 31, 2004 included in the Company's Prospectus dated July 29, 2004. The following table presents the interim disclosure requirements of components of the Company's net periodic benefit cost related to its defined benefit pension plans for the three months ended July 4, 2004 and June 29, 2003:

	United States Plans		International Plans	
	Three months ended		Three months ended	
	July 4, 2004	June 29, 2003	July 4, 2004	June 29, 2003
Service cost	\$ 51	\$ 98	\$ 805	\$ 714
Interest cost	124	118	101	56
Actual return on plan assets	(143)	(333)	(141)	(69)
Amortization and deferral	37	275	—	(2)
Net periodic benefit cost	<u>\$ 69</u>	<u>\$ 158</u>	<u>\$ 765</u>	<u>\$ 699</u>

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

	United States Plans		International Plans	
	Three months ended		Three months ended	
	July 4, 2004	June 29, 2003	July 4, 2004	June 29, 2003
Discount rate	6.0%	6.0%	5.8 – 7.0%	5.8 – 7.0%
Expected return on plan assets	9.0%	9.0%	7.8%	7.8%
Rate of compensation increase	N/A	N/A	3.5 – 3.8%	3.5 – 3.8%

The Company expects to make cash contributions of approximately \$1,650 to its United States plans and \$2,900 to its United Kingdom plan in fiscal year 2005.

#### NOTE 9: STOCK PLANS

Under ABP No. 25, if the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, *Accounting for Stock-Based Compensation* as amended, to options granted under the stock option plan. For purposes of this pro forma disclosure, the estimated value of the options is amortized ratably to expense over the options' vesting periods. Because the estimated value is determined as of the date of grant, the actual value ultimately realized by the employee may be significantly different.

	Three months ended	
	July 4, 2004	June 29, 2003
Net income – as reported	\$ 872	\$ 157
Stock-based compensation expense included in net earnings, net of tax	122	—
Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(692)	(564)
Net income (loss) – pro forma	<u>\$ 302</u>	<u>\$ (407)</u>
Net income per common share – basic – as reported	\$ 0.08	\$ 0.01

Net income per common share – basic – pro forma	\$	0.03	\$	0.01
Net income per common share – diluted – as reported	\$	0.08	\$	0.01
Net income per common share – diluted – pro forma	\$	0.03	\$	0.01
Weighted average fair value of options granted during the period	\$	2.00	\$	2.73

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SFAS No. 123 requires the use of option-pricing models that were not developed for use in valuing employee stock options. The Black-Scholes option-pricing model was developed for use in estimating the fair value of short-lived exchange traded options that have no vesting restrictions and are fully transferable. In addition, option-pricing models require the input of highly subjective assumptions, including the option's expected life and the price volatility of the underlying stock. Because changes in the subjective input assumptions can materially affect the fair value estimate, in the opinion of management, the existing models do not necessarily provide a reliable single measure of the fair value of employee stock options.

#### NOTE 10: EARNINGS PER SHARE

Net earnings per share – basic is based on the weighted average number of shares of Common Stock outstanding. Net earnings per share – diluted reflects the potential dilution that could occur if stock options were exercised. Weighted average common shares and common shares – diluted were as follows:

	Three months ended	
	July 4, 2004	June 29, 2003
Weighted average shares of common stock outstanding	11,014,421	11,014,421
Assumed exercise of stock options, net of shares assumed reacquired	502,447	142,885
Weighted average common shares - diluted	11,516,868	11,157,306

At July 4, 2004 and June 29, 2003 there were 2,939,888 and 6,413,728 outstanding employee stock options, respectively, that are out-of-the money and therefore were excluded from the calculation of the dilutive effect of employee stock options.

#### NOTE 11: COMMITMENTS AND CONTINGENCIES

As more fully disclosed in Note 18 of Notes to the Consolidated Financial Statements for the year ended March 31, 2004, included in the Company's Prospectus dated July 29, 2004, the Company is involved in litigation incidental to conduct of its business, the results of which, in the opinion of management, are not likely to be material to the Company's financial condition, results of operations, or cash flows.

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#### NOTE 12: BUSINESS SEGMENTS

The Company has the following two reportable business segments:

The *Reserve Power* segment manufactures batteries used to provide backup power for the continuous operation of critical systems during power disruptions. They include telecommunications and computer systems, such as process control and database systems. This segment also includes aerospace and defense applications including battery power systems for combat vehicles, commercial and military aircraft and submarines.

The *Motive Power* segment manufactures batteries used to power mobile manufacturing, warehousing and other ground handling equipment, primarily electric industrial forklift trucks.

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

	Reserve Power	Motive Power	Other (1)	Consolidated
<b>Three months ended July 4, 2004:</b>				
Net Sales	\$ 124,800	\$ 138,461	\$ —	\$ 263,261
Operating earnings (loss)	\$ 11,285	\$ 11,319	\$ (88)	\$ 22,516
<b>Three months ended June 29, 2003:</b>				
Net Sales	\$ 107,360	\$ 110,905	\$ —	\$ 218,265
Operating earnings (loss)	\$ 4,087	\$ 8,694	\$ (292)	\$ 12,489

(1) Other includes certain corporate services.

#### NOTE 13: SUBSEQUENT EVENTS

On July 9, 2004, the Company effected a twenty-eight and one-half to one stock split of the Company's common stock. All outstanding shares of preferred stock of the Company automatically converted to common shares immediately prior to its initial public offering. All share and per share amounts for all periods presented in the accompanying financial statements have been retroactively adjusted to give effect to the stock split.

The Company's Registration Statement (SEC File No. 333-115553) for its initial public offering was declared effective by the Securities and Exchange Commission on July 26, 2004. The Company's common stock commenced trading on the New York Stock Exchange on July 30, 2004 under the trading

symbol "ENS". The Company sold 12,500,000 shares of common stock for aggregate gross proceeds of \$156,250. In connection with the offering, the Company paid underwriters' commissions of \$10,938 and incurred offering expenses of approximately \$5,600. After deducting the underwriters' commissions and offering expenses, the Company received net proceeds of approximately \$139,712 from the offering. The net proceeds and \$1,216 of other

corporate funds were used to prepay the entire principal and accrued interest and prepayment penalty on our senior second lien term loan (\$123,015) and to prepay a portion (\$17,913) of our \$380,000 senior secured term loan B. In connection with these prepayments, the Company incurred non-operating Special Charges of \$6,022 for the write-off of a portion of deferred finance costs and the prepayment penalty on the senior second lien term loan.

On August 20, 2004, the Company completed a refinancing of its outstanding term loan B of \$361,137 with the issuance of a new term loan B in the amount of \$365,000. This was effected through an amendment of our senior secured credit agreement which added the ability to enter into the new term loan B with a credit spread on variable interest rates of one-half of one percent lower than that on the existing term loan B. All other terms and conditions of the agreement remained unchanged.

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

### **FORWARD-LOOKING STATEMENTS**

The Private Securities 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 the Company's 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. EnerSys undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

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 Prospectus dated July 29, 2004, which forms part of the Company's Registration Statement (SEC File No. 333-115553) on Form S-1, as amended (the Company's Prospectus) 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, 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.

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 can control our fixed and variable costs;
- the raw material in our products may experience significant fluctuations in market price;
- certain raw materials constitute hazardous materials that may give rise to costly environmental and safety claims;
- risks involved in foreign operations such as disruption of markets, changes in import and export laws, currency restrictions and currency exchange rate fluctuations;
- our ability to raise our selling prices to our customers when our product costs increase;
- the extent to which we are able to efficiently utilize our global manufacturing facilities and optimize their capacity;
- general economic conditions in the markets in which we operate;
- competitiveness of the battery markets in the Americas, Europe and Asia;
- our timely development of competitive new products and product enhancements in a changing environment and the acceptance of such products and product enhancements by customers;
- our ability to adequately protect our proprietary intellectual property, technology and brand names;
- unanticipated litigation proceedings to which we might be subject, the results of which could have a material adverse effect on us and our business;
- changes in our market share in the business segments and regions where we operate;
- our ability to implement our cost reduction initiatives successfully and improve our profitability;
- unanticipated quality problems associated with our products;
- our ability to implement business strategies, including our acquisition strategy, and restructuring plans;
- our acquisition strategy may not be successful in locating advantageous targets;
- our ability to successfully integrate any assets, liabilities, customers, systems and management personnel we acquire into our operations and our ability to realize related revenue synergies and cost savings within expected time frames;
- implementation of a new enterprise resource planning system could adversely affect our operations;
- our debt and debt service requirements which may restrict our operational and financial flexibility, as well as imposing unfavorable interest and financing costs;
- adverse changes in our short- and long-term debt levels and adverse changes in the floating interest rates under our credit facilities;



- our exposure to fluctuations in interest rates on our variable debt;
- our inability to attract and retain qualified personnel;
- credit risk associated with our customers, including risk of insolvency and bankruptcy; and
- terrorist acts or acts of war, whether in the United States or abroad, could cause damage or disruption to our operations, our suppliers, channels to market or customers, or could cause costs to increase, or create political or economic instability, any of which could have a material adverse effect on our business.

## NON-GAAP MEASURES

This report contains financial information determined by methods other than in accordance with U.S. Generally Accepted Accounting Principles (“GAAP”). EnerSys’ management uses non-GAAP measures in their analysis of the Company’s performance. These measures, as used by EnerSys, adjust net earnings determined in accordance with GAAP to exclude effects of special items, including significant gains or losses that are unusual in nature or are associated with our IPO and certain non-cash charges. Management believes presentations of financial measures excluding the impact of these items provide useful supplemental information in evaluating the operating results of our business. These disclosures should not be viewed as a substitute for net earnings determined in accordance with GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies.

## OVERVIEW

In August 2004, EnerSys completed an initial public offering (IPO) and issued 12,500,000 shares of our common stock at a value of \$12.50 per share. The Company’s Registration Statement (SEC File No. 333-115553) for its IPO was declared effective by the Securities and Exchange Commission on July 26, 2004. The Company’s common stock commenced trading on the New York Stock Exchange on July 30, 2004 under the trading symbol “ENS.” At the completion of the offering, we had 45,945,559 shares of common stock outstanding, which included 11,014,421 shares that were outstanding prior to the IPO, 22,431,138 shares of common stock converted from preferred shares, and 12,500,000 new shares issued in the IPO. The net proceeds from the offering were approximately \$139.7 million. The net proceeds and \$1.2 million of other corporate funds were used to prepay the entire principal and accrued interest and prepayment penalty on our senior second lien term loan (\$123.0 million) and to prepay a portion (\$17.9 million) of our \$380.0 million senior secured term loan B.

We manufacture, market and distribute reserve power and motive power lead-acid industrial batteries and related products such as chargers, power equipment and battery accessories. We also provide related after-market and customer-support services for lead-acid industrial batteries. We market and sell our products globally in more than 100 countries to over 10,000 customers through a network of distributors, independent representatives and an internal sales force.

We have two business segments, reserve power and motive power:

- **Reserve power batteries** are used to provide backup power for the continuous operation of critical telecommunications and uninterruptible power systems during power disruptions. They include telecommunications and computer systems, such as process control and database systems. This segment also includes aerospace and defense applications including battery power systems for combat vehicles, commercial and military aircraft and submarines.
- **Motive power batteries** are used to power mobile manufacturing, warehousing and other ground handling equipment, primarily electric industrial forklift trucks.

We evaluate business segment performance based primarily upon operating earnings. We also evaluate each business segment’s cash flow and financial position performance based upon primary working capital. Although we monitor the three elements of primary working capital (receivables, inventory and accounts payable), our primary focus is on the total amount. Primary working capital ratio is a calculation of the sum of trade accounts receivable, plus inventories, minus trade accounts payable divided by the trailing three-month net sales (annualized). Primary working capital was \$274.8 million (yielding a primary working capital percentage ratio of 26.1%) at July 4, 2004, and \$246.4 million (yielding a primary working capital percentage ratio of 22.4%) at March 31, 2004. We closely manage our level of working capital due to the significant impact it has on cash flow and, as a result, our level of debt. The increase in the ratio during the quarter was primarily due to slower collections of receivables in Europe and higher levels of inventory to support shifts in the production locations of certain products. Both of these areas remain a focus for improvement.

On a consolidated basis, we monitor daily short-term and long-term debt levels, as well as the corresponding leverage ratios (primarily using debt to EBITDA). EBITDA is earnings before interest, income taxes, depreciation and amortization.

We operate and manage our business in three primary geographic regions of the world - the Americas, Europe and Asia. Our business is highly decentralized with 19 manufacturing locations throughout the world. Over half our net sales for the first quarters of fiscal 2005 and 2004 were generated outside of the Americas.

We place strong emphasis on reducing our costs in order to maintain and improve our operating earnings and corresponding margins.

## RESULTS OF OPERATIONS

### NET SALES

*By segment*

Three months ended July 4, 2004		Three months ended June 29, 2003		Increase	
In	Percentage	In	Percentage	In	Percentage

	Millions	of Total Net Sales	Millions	of Total Net Sales	Millions	
Reserve power	\$ 124.8	47.4%	\$ 107.4	49.2%	\$ 17.4	16.2%
Motive power	138.5	52.6	110.9	50.8	27.6	24.9
Total	\$ 263.3	100.0%	\$ 218.3	100.0%	\$ 45.0	20.6%

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*By region*

	Three months ended July 4, 2004		Three months ended June 29, 2003		Increase	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	Percentage
America	\$ 112.8	42.8%	\$ 96.7	44.3%	\$ 16.1	16.6%
Europe (1)	132.9	50.5	111.1	50.9	21.8	19.6
Asia	17.6	6.7	10.5	4.8	7.1	67.6
Total	\$ 263.3	100.0%	\$ 218.3	100.0%	\$ 45.0	20.6%

(1) Includes Europe, Middle East and Africa

Net sales, excluding the effect of foreign currency translation, increased 16.4% or \$35.8 million in the first quarter of fiscal 2005 over the comparable period of fiscal 2004. This increase is attributed to customer demand for our products in all regions, improved macroeconomic factors worldwide and the inclusion of three additional operating days in the first quarter of fiscal 2005, which accounted for approximately \$8.0 million of increased sales over the comparable period in fiscal 2004.

**GROSS PROFIT**

	Three months ended July 4, 2004		Three months ended June 29, 2003		Increase	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	Percentage
Gross profit	\$ 66.7	25.3%	\$ 52.6	24.1%	\$ 14.1	26.8%

Gross profit, excluding the effect of foreign currency translation, increased 22.4% or \$11.8 million in the first quarter of fiscal 2005 over the comparable period of fiscal 2004. The 120 basis point increase in gross profit as a percent of net sales was achieved primarily as a result of increased fixed cost absorption due to increased production volume and our cost savings programs, partially offset by increased raw material costs. Cost reduction programs remain a critical element of our business strategy to continue to improve efficiencies, optimize our manufacturing capacity and further increase our profitability.

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**OPERATING EXPENSES**

	Three months ended July 4, 2004		Three months ended June 29, 2003		Increase	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	Percentage
Operating expenses	\$ 44.2	16.8%	\$ 40.1	18.4%	\$ 4.1	10.2%

Operating expenses, excluding the effect of foreign currency translation, increased 6.7% or \$2.7 million in the first quarter of fiscal 2005 over the comparable period of fiscal 2004. The increase in operating expenses is directly related to the increase in net sales. Selling expenses, our main component of operating expenses, were 65.8% of total operating expenses in the first quarter of fiscal 2005 compared to 67.1% of total operating expenses in the first quarter of fiscal 2004.

**OPERATING EARNINGS**

	Three months ended July 4, 2004		Three months ended June 29, 2003		Increase	
	In Millions	Percentage of Net Sales	In Millions	Percentage of Net Sales	In Millions	Percentage
Reserve power	\$ 11.3	9.1%	\$ 4.1	3.8%	\$ 7.2	176.0%
Motive power	11.3	8.2	8.7	7.8	2.6	30.0
Other	(0.1)	—	(0.3)	—	0.2	—
Total	\$ 22.5	8.5%	\$ 12.5	5.7%	\$ 10.0	80.0%

Operating earnings, excluding the effect of foreign currency translation, increased 76.0% or \$9.5 million in the first quarter of fiscal 2005 over the comparable period of fiscal 2004. Operating margin increased 280 basis points in the first quarter of fiscal 2005 over the comparable period of fiscal 2004. The improvement in operating earnings is primarily attributable to the net sales increase and cost savings initiatives, partially offset by higher raw materials costs and increased operating expenses.

## INTEREST EXPENSE

Interest expense of \$7.4 million in the first quarter of fiscal 2005 (net of interest income of \$0.04 million) was \$2.3 million higher than the \$5.1 million in the first quarter of fiscal 2004. The increase in interest expense is primarily attributable to higher debt levels in the fiscal 2005 quarter. Our total debt was \$517.8 million at July 4, 2004 as compared to \$253.8 million at June 29, 2003.

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This increase in debt was primarily due to the additional debt of approximately \$281,000 incurred in connection with the recapitalization completed in March 2004. Our average interest rate on borrowings in the first quarter of fiscal 2005 was 4.88% compared to 4.81% in the comparable period in fiscal 2004. See Note 9 of Notes to Consolidated Financial Statements for the year ended March 31, 2004, included in the Company's Prospectus dated July 29, 2004, which forms part of the Company's Registration Statement (SEC File No. 333-15553) on Form S-1, as amended (the Company's Prospectus), for a detailed description of our debt.

## OTHER (INCOME) EXPENSE, NET

The first quarter of fiscal 2005 other expense of \$0.7 million consists primarily of non-operating foreign currency losses of \$0.3 million and a write-off of fixed assets of \$0.4 million. The first quarter of fiscal 2004 other income of \$2.0 million consists primarily of non-operating foreign currency transaction gains of \$1.7 million on certain debt transactions.

## EARNINGS BEFORE INCOME TAXES

First quarter of fiscal 2005 earnings before income taxes of \$14.4 million (5.5% of net sales) exceeded the comparable quarter in fiscal 2004 by \$5.0 million or 53.2%. Excluding the effect of foreign currency translation, earnings before income taxes increased \$4.6 million or 48.9% in the first quarter of 2005 compared with the comparable period in fiscal 2004. This increase is primarily attributed to a significant improvement in operating margin, partially offset by higher interest expense and higher non-operating foreign currency translation losses.

## INCOME TAX EXPENSE

The first quarter of fiscal 2005 effective income tax rate was 37% compared to 38% in the comparable period in fiscal 2004.

## NET EARNINGS

As a result of the above, first quarter of fiscal 2005 net earnings of \$9.0 million (3.4% of net sales) exceeded the first quarter of fiscal 2004 net earnings of \$5.8 million (2.7% of net sales) by \$3.2 million or 55.2%. Net earnings per common share basic and diluted increased from \$0.01 and \$0.01, respectively, for the three months ended June 29, 2003 to \$0.08 and \$0.08, respectively, for the three months ended July 4, 2004.

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Giving effect to the IPO as if it occurred on April 1, 2004, pro forma net earnings per common share and weighted-average share amounts for the three months ended July 4, 2004 were:

Pro forma net earnings per common share -

Basic	\$	0.23
Diluted	\$	0.23

Pro forma weighted-average shares of common stock outstanding -

Basic	45,532,715
Diluted	46,035,162

Pro forma net earnings per share excludes \$1.3 million of interest expense (net of tax), which results from the assumed prepayment of debt from the proceeds of the IPO as if it occurred on April 1, 2004. It also excludes the series A convertible preferred stock dividends of \$8.2 million.

Pro forma weighted-average shares of common stock outstanding for purposes of the pro forma basic net earnings per share calculation consists of approximately 11,014,421 shares of common stock outstanding prior to the IPO, 22,018,294 shares of common stock converted from preferred shares, and 12,500,000 shares of our common stock issued initially in the IPO.

## OUTLOOK

For the second quarter of our fiscal year 2005, we expect to generate pro forma net earnings per share (basic and diluted) of between \$0.20 to \$0.24 per share, which gives effect to our IPO as if it occurred at the beginning of our second quarter. This excludes the impact from net earnings of \$3.8 million in special charges, net of tax, (\$0.08 per share) attributable to costs from prepaying certain debt of approximately \$137 million in the second quarter with IPO proceeds. Increases in lead and other commodity costs could adversely affect the results of operations for the remainder of fiscal year 2005. Net earnings per share (basic and diluted) for our second quarter of fiscal 2005 are expected to be between \$0.16 to \$0.20 per share.

These earnings estimates are forward-looking statements which involve risks, uncertainties and assumptions. Our actual results may differ materially from the earnings estimates set forth above for a number of reasons. For a list of the factors which could affect our earnings estimates see "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" above, including "Forward-Looking Statements."

## LIQUIDITY AND CAPITAL RESOURCES

Operating activities used cash of \$5.2 million for the three months ended July 4, 2004, as compared to \$11.3 million of cash provided in the comparable period in fiscal 2004. This change was primarily due to the higher net income, offset by increases in accounts receivable and inventory. The increases in accounts receivable and inventory in the first quarter of fiscal 2005 were driven by increased net sales and increased levels as a percent of sales. See the "Overview" above for a discussion of a period on period comparison of primary working capital.

Investing activities used cash of \$4.3 million for the three months ended July 4, 2004, as compared to cash used of \$4.5 million in the comparable period in fiscal 2004. Capital expenditures were \$3.2 million higher in the first quarter of fiscal 2005, but this was offset by \$3.5 million of cash provided by the sale of an idle manufacturing facility. The higher level of capital spending was primarily related to cost savings programs in Europe and the U.S.

Financing activities provided cash of \$6.1 million in the three months ended July 4, 2004, as compared to cash used of \$0.04 million in the comparable period of fiscal 2004 primarily due to an increase in short-term debt of \$7.7 million, partially offset by a \$1.0 million reduction in long-term debt. The net increase in debt was used to fund normal operating activity.

All obligations under our credit agreements are secured by, among other things, substantially all of our U.S. assets. Our credit agreements contain various covenants which, absent prepayment in full of the indebtedness and other obligations, or the receipt of waivers, limit our ability to conduct certain specified business transactions, buy or sell assets out of the ordinary course of business, engage in sale and leaseback transactions, pay dividends and take certain other actions.

We currently are in compliance with all covenants and conditions under our credit agreements. Since we believe that we will continue to comply with these covenants and conditions, we believe that we have adequate availability of funds to meet our cash requirements. See Note 9 of Notes to Consolidated Financial Statements for the year ended March 31, 2004, included in the Company's Prospectus dated July 29, 2004, for a detailed description of debt.

See discussion of initial public offering in the "Overview" above.

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

EnerSys' 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. EnerSys' 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.

We are exposed to changes in variable interest rates on borrowings under our credit agreements. On a selective basis, from time to time, we enter into interest rate swap agreements to reduce the negative impact that increases in interest rates could have on our outstanding variable debt.

In February 2001, we entered into interest rate swap agreements to fix the interest rate on \$60.0 million of our floating rate debt through February 22, 2006, at 5.59% per year. In April and May 2004, we amended these agreements to extend the maturity to February 22, 2008, and reduce the fixed rate to 5.16% per year beginning May 24, 2004.

Also in April 2004, we entered into interest rate swap agreements to fix interest rates on an additional \$60.0 million of floating rate debt through May 5, 2008. The fixed rates per year began May 5, 2004, and are 2.85% during the first year, 3.15% the second year, 3.95% the third year and 4.75% in the fourth year, which averages 3.68% for the four-year period.

We are also exposed to foreign currency exchange risks. The geographic diversity of our sales and costs mitigates the risk of the volatility of currency in any particular region of the world. As of July 4, 2004 and June 29, 2003, we had not entered into any foreign currency forward contracts.

We have a significant risk in our exposure to certain raw materials, which we estimate were approximately half of total cost of goods sold in the first quarter of fiscal 2005 and 2004. Our largest single raw material cost is lead, for which the cost remains volatile. To ensure a steady supply of lead and to mitigate against large increases in cost, we enter into contracts with our suppliers for the purchase of lead. Each contract is for a period not extending beyond one year. Under these contracts, we were committed to the purchase of the following amounts of lead:

Date	\$'s Purchased (in millions)	# Pounds Purchased (in millions)	Average Cost/Pound
July 4, 2004	\$ 21.8	67.0	\$ 0.32
March 31, 2004	11.9	38.7	0.31

## ITEM 4. DISCLOSURE CONTROLS AND PROCEDURES

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures pursuant to SEC rule 13a-15 as of July 4, 2004. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of July 4, 2004. There has been no change in the Company's internal control over financial reporting that occurred during the quarter ended July 4, 2004 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings

The Company is involved in litigation incidental to the conduct of its business, the results of which, in the opinion of management, are not likely to be material to the Company's financial condition, results of operations, or cash flows.

When we acquired Yuasa's North and South American industrial battery business in 2000, we acquired the worldwide right to use the Exide trademark on industrial batteries. Yuasa had acquired exclusive perpetual, worldwide and transferable license to use the Exide name on industrial batteries in 1991 when it bought Exide Technologies' industrial battery business.

In 2002, Exide Technologies filed for protection under Chapter 11 of the U.S. Bankruptcy Code. During the course of its Chapter 11 proceedings, Exide Technologies sought to reject certain agreements related to the 1991 sale of Exide Technologies' industrial battery business to Yuasa, including the trademark license referred to above. We opposed Exide Technologies' attempt to reject these agreements. If the court were to find in favor of Exide Technologies, our license to use the Exide name could be terminated. If the license were so terminated, we believe that the court might delay the effective date of the termination for some reasonable period.

The Exide trade name is one of our better-known brands. Our Exide-branded batteries represented approximately 12% of our net sales for fiscal 2004. We introduced testimony in the court proceedings from an expert witness who estimated that we would suffer damages of approximately \$60 million over a seven-year period from price erosion, profit on lost sales and incremental re-branding expense in the event that the license were terminated. This expert's assessment of our damages assumed, contrary to our current belief, that the court would not delay the effective date of the termination.

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We believe that we should prevail but, as with any litigation, the outcome is uncertain. If we do not ultimately prevail, we believe that, if the court were to provide us with a reasonable time period to continue to use the name while we re-brand our products in order to mitigate potential price erosion and sales loss, the termination of the license should not have a material adverse effect on our financial condition or operating results.

### Item 2. Changes in Securities, Use of Proceeds and Issuers Purchases of Equity Securities

We registered 12,500,000 shares of our common stock with our initial public offering under the Securities Act. The Securities and Exchange Commission declared our Registration Statement on Form S-1, as amended (Reg. No. 333-115553), for such initial public offering effective on July 26, 2004. The offering commenced as of such date, and did not terminate before any securities were sold. The offering was completed on August 4, 2004 and all 12,500,000 shares of common stock offered in the IPO were sold at the price of \$12.50 per share. The underwriters of the offering were Morgan Stanley, Lehman Brothers, Banc of America Securities LLC, and William Blair & Company.

The aggregate proceeds of the offering were \$156.2 million. The net offering proceeds to us after deducting total expenses were approximately \$139.7 million. We incurred total expenses in connection with the offering of approximately \$16.5 million, which consisted of: \$10.9 million in underwriters' discounts, fees and commissions; \$5.1 million in legal, accounting and printing fees; and \$0.5 million in miscellaneous expenses.

The net offering proceeds of \$139.7 million and \$1.2 million of other corporate funds were used to prepay the entire principal and accrued interest and prepayment penalty on our senior second lien term loan (\$123.0 million) and to prepay a portion (\$17.9 million) of our \$380.0 million senior secured term loan B. In connection with these prepayments, the Company incurred non-operating Special Charges of \$6.0 million for the write-off of a portion of deferred finance costs and the prepayment penalty on the senior second lien term loan.

### Item 3. Defaults Upon Senior Securities

None

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

In July 2004, our stockholders authorized by unanimous written consent the following actions in connection with our initial public offering:

- the adoption of our Fifth Restated Certificate of Incorporation to become effective in full upon the completion of our initial public offering;

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- the approval of accelerated stock option vesting under the 2000 Management Equity Plan;
- the adoption of the 2004 Equity Incentive Plan;
- the adoption of the 2004 Employee Stock Purchase Plan.

All such actions were effected pursuant to written consent of our stockholders in compliance with Section 228 of the Delaware General Corporation Law.

In July 2004, our stockholders also authorized a twenty-eight and one-half to one stock split of the Company's common stock outstanding prior to the initial public offering. The action was effected pursuant to a unanimous written consent of our stockholders in compliance with Section 228 of the Delaware General Corporation Law.

**Item 5. Other Information**

None

**Item 6. Exhibits and Reports on Form 8-K**

(a) The following exhibits have been filed with this report:

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
3.1 *	Fifth Restated Certificate of Incorporation
3.2 *	Bylaws
4.1 *	Form of Common Stock Certificate
4.2 *	2004 Securityholder Agreement
10.28	First Amendment as of August 6, 2004 to the Credit Agreement dated as of March 17, 2004
31.1	Certification of the Chief Executive Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Chief Financial Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002
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

\* Incorporated by reference to exhibits (with same exhibit number) to EnerSys Registration Statement on Form S-1 (File No. 333-115553) declared effective by the Securities and Exchange Commission on July 26, 2004.

(b) Reports on Form 8-K

None

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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 T. Philion  
Michael T. Philion  
Executive Vice President-Finance and Chief Financial Officer  
(Authorized Officer and Principal Financial Officer)

Date: September 9, 2004

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**EXHIBIT INDEX**

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FIRST AMENDMENT TO CREDIT AGREEMENT

FIRST AMENDMENT (this "Amendment"), dated as of August 6, 2004, among ENERSYS, a Delaware corporation ("Holdings"), ENERSYS CAPITAL INC., a Delaware corporation (the "Borrower"), the lenders from time to time party to the Credit Agreement referred to below (the "Lenders") and Bank of America, N.A., as Administrative Agent (in such capacity, the "Administrative Agent"). All capitalized terms used herein and not otherwise defined herein shall have the respective meanings provided such terms in the Credit Agreement.

WITNESSETH:

WHEREAS, Holdings, the Borrower, the Lenders, the Administrative Agent, Morgan Stanley Senior Funding, Inc., as Syndication Agent, and Lehman Commercial Paper Inc., as Documentation Agent, are parties to a Credit Agreement, dated as of March 17, 2004 (the "Credit Agreement"); and

WHEREAS, subject to the terms and conditions of this Amendment, the parties hereto wish to amend or otherwise modify certain provisions of the Credit Agreement as herein provided;

NOW, THEREFORE, IT IS AGREED:

I. Amendments to Credit Agreement.

1. Section 1.01 of the Credit Agreement is hereby amended by inserting the following new clause (e) immediately following clause (d) of said section:

"(e) (A) Subject to and upon the terms and conditions set forth herein, (i) each Consenting Term Lender severally agrees to convert (the "Term Loan Conversion"), on the First Amendment Effective Date, Term Loans of such Consenting Term Lender outstanding on the First Amendment Effective Date (immediately prior to giving effect thereto) in an aggregate principal amount equal to the Converted Term Loan Amount of such Consenting Term Lender into new term loans hereunder owing by the Borrower (each such term loan, a "Converted Term Loan" and, collectively, the "Converted Term Loans") and (ii) each Lender with a New Term Loan Commitment severally agrees to make, on the First Amendment Effective Date, a term loan or term loans (each, an "Additional New Term Loan" and, collectively, the "Additional New Term Loans", and, together with the Converted Term Loans, the "New Term Loans") to the Borrower, which New Term Loans:

(i) shall be incurred by the Borrower pursuant to a single drawing on the First Amendment Effective Date for the purposes described in Section 7.05(e);

(ii) shall be denominated in U.S. Dollars;

(iii) except as hereafter provided, shall, at the option of the Borrower, be incurred and maintained as, and/or converted into, Base Rate Loans or Eurodollar Loans, provided that, (x) except as otherwise specifically provided in Section 1.10(b), all New Term Loans made as part of the same Borrowing shall at all times consist of New Term Loans of the same Type and (y) Borrowings of New Term Loans on the First Amendment Effective Date shall be subject to the rules set forth in clause (B) of this Section 1.01(e) below; and

(iv) shall not exceed for any Lender, in initial principal amount, that amount which equals the sum of (x) the Converted Term Loan Amount of such Lender plus (y) the New Term Loan Commitment of such Lender (if any) as in effect on the First Amendment Effective Date (before giving effect to the termination thereof on such date pursuant to Section 3.03(f)).

Once repaid, New Term Loans incurred hereunder may not be reborrowed.

(B)(i) The Interest Period applicable to each Borrowing of Term Loans existing on the First Amendment Effective Date immediately prior to the Term Loan Conversion and maintained as Eurodollar Loans shall, simultaneously with the occurrence of the Term Loan Conversion, be broken and (ii) the New Term Loans shall be initially incurred or continued, as the case may be, pursuant to four new Borrowings with (x) Interest Periods maintained in accordance with the following sentence and (y) the Lenders with outstanding New Term Loans (after giving effect to the Term Loan Conversion and the incurrence of Additional New Term Loans pursuant to Section 1.01(e)(A)) to participate in each such new Borrowing of New Term Loans on a pro rata basis (based upon their respective New Term Loan Borrowing Amounts as in effect on the First Amendment Effective Date). Notwithstanding anything to the contrary contained in Sections 1.06, 1.08(f) and 1.09 of the Credit Agreement and the definitions of "Eurodollar Rate" and "Interest Period" contained therein, (i) \$60.0 million of principal of New Term Loans shall be continued or incurred, as the case may be, pursuant to a Borrowing of Eurodollar Loans on the First Amendment Effective Date subject to an interest period commencing on the First Amendment Effective Date and ending on August 23, 2004 (with the Eurodollar Rate for such interest period to be determined by the Administrative Agent on the Interest Determination Date therefor in accordance with the definition of "Eurodollar Rate" as is if such interest period were a one-month period), (ii) an additional \$60.0 million of principal of New Term Loans shall be continued or incurred, as the case may be, pursuant to a Borrowing of Eurodollar Loans on the First Amendment Effective Date subject to an interest period commencing on the First Amendment Effective Date and ending on November 5, 2004 (with the Eurodollar Rate for such interest period to be determined by the Administrative Agent on the Interest Determination Date therefor in accordance with the definition of "Eurodollar Rate" as is if such interest period were a three-month period) and (iii) the remaining \$245.0 million of principal of New Term Loans shall be continued or incurred, as the case may be, pursuant to two separate Borrowings of Eurodollar Loans on the First Amendment Effective Date (in amounts determined by the Borrower) subject to an interest period commencing on the First Amendment Effective Date of such duration as may be elected by the Borrower in accordance with the requirements of Section 1.09. The interest periods described in

(C) In connection with the Term Loan Conversion and the incurrence of Additional New Term Loans pursuant to Section 1.01(e)(A), the Lenders and the Borrower hereby agree that, notwithstanding anything to the contrary contained in this Agreement, the Borrower shall be obligated to pay to the respective Lenders breakage or other costs of the type referred to in Section 1.11 (if any) incurred in connection with the Term Loan Conversion and/or the actions taken pursuant to preceding clause (B) of this Section 1.01(e).

(D) After the First Amendment Effective Date, each Consenting Term Lender which holds a Term Note and has not requested and received a New Term Note on the First Amendment Effective Date shall be entitled to surrender such Term Note to the Borrower against delivery of a New Term Note completed in conformity with Section 1.05; provided that if any such Term Note is not so surrendered, then from and after the First Amendment Effective Date such Term Note shall be deemed to evidence the Converted Term Loans into which the Term Loans theretofore evidenced by such Term Note have been converted.”.

2. Section 1.04(a) of the Credit Agreement is hereby amended by deleting the parenthetical “(or, in the case of Swingline Loans, the Swingline Lender shall make available the full amount thereof)” appearing in the first sentence of said Section and inserting the text “(or (I) in the case of Swingline Loans, the Swingline Lender shall make available the full amount thereof and (II) in the case of Additional New Term Loans, each Lender with a New Term Loan Commitment will make available an amount thereof equal to its New Term Loan Commitment on the First Amendment Effective Date)” in lieu thereof.

3. Section 1.03(a) of the Credit Agreement is hereby amended by inserting the text “New” immediately before the text “Term Loans” appearing in said Section.

4. Section 1.05(a) of the Credit Agreement is hereby amended by (i) deleting the word “and” appearing prior to the text “(iii)” appearing in said Section and inserting a comma in lieu thereof and (ii) inserting the following new text before the period at the end of said Section:

“and (iv) if New Term Loans, by a promissory note substantially in the form of Exhibit B-4 with blanks appropriately completed in conformity herewith (each, a “New Term Note” and, collectively, the “New Term Notes”).”.

5. Section 1.05 of the Credit Agreement is hereby further amended by inserting the following clause (g) at the end of said Section:

“(g) The New Term Note issued to each Lender with a New Term Loan Commitment shall (i) be executed by the Borrower, (ii) be payable to such Lender or its registered assigns and be dated the First Amendment Effective Date (or, in the case of any New Term Note issued after the First Amendment Effective Date, the date of issuance thereof), (iii) be in a stated principal amount equal to the sum of the New Term

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Loan Commitment of such Lender on the First Amendment Effective Date before giving effect to any reductions thereto on such date plus the aggregate principal amount of all Converted Term Loans of such Lender on the First Amendment Effective Date (or, in the case of any New Term Note issued after the First Amendment Effective Date, in a stated principal amount equal to the outstanding principal amount of the New Term Loans of such Lender on the date of issuance thereof) and be payable in the principal amount of New Term Loans evidenced thereby from time to time, (iv) mature on the New Term Loan Maturity Date, (v) bear interest as provided in the appropriate clause of Section 1.08 in respect of the Base Rate Loans and Eurodollar Loans, as the case may be, evidenced thereby, (vi) be subject to voluntary repayment as provided in Section 4.01 and mandatory repayment as provided in Section 4.02 and (vii) be entitled to the benefits of this Agreement and the other Credit Documents.”.

6. Section 1.07 of the Credit Agreement is hereby amended by (i) deleting the text “Term Loans” in said Section and inserting the text “New Term Loans” in lieu thereof and (ii) deleting the text “Term Loan Commitments” appearing in said Section and inserting the text “New Term Loan Borrowing Amounts” in lieu thereof.

7. Section 1.09 of the Credit Agreement is hereby amended by (i) deleting the text “and” appearing after the text “Section 1.01(a) (iii)” and inserting a comma in lieu thereof, (ii) inserting the text “and 1.01(e)(ii)” immediately following the text “1.01(b)(ii)” appearing in said Section, (iii) inserting the text “New” immediately before each appearance of the text “Term” appearing in said Section and (iv) inserting the text “New Term Loan” immediately before each appearance of the text “Scheduled Repayment” in said Section.

8. Sections 1.13 and 3.02(b) of the Credit Agreement are hereby amended by inserting the text “New” immediately before each appearance of the text “Term” appearing in said Sections.

9. Section 3.01 of the Credit Agreement is hereby amended by inserting the following new clause (g) at the end of said Section:

“(g) All prepayments of principal of New Term Loans (whether voluntary or mandatory) made in connection with a Repricing Transaction prior to the first anniversary of the First Amendment Effective Date will be subject to payment to the Administrative Agent, for the ratable account of each Lender with outstanding New Term Loans, of a fee in an amount equal to 1.0% of the aggregate principal amount of the New Term Loans so prepaid. Such prepayment fees shall be due and payable upon the date of any such prepayment of New Term Loans in connection with a Repricing Transaction.”

10. Section 3.03 of the Credit Agreement is hereby amended by (i) inserting the text “, the Total New Term Loan Commitment” immediately after the text “Total Term Loan Commitment” appearing in clause (e) of said Section, (ii) inserting the text “, the New Term Loan Commitment” immediately after the text “Term Loan Commitment” appearing in clause (e) of said Section and (iii) inserting the following new clause (f) immediately following clause (e) of said Section:

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“(f) The Total New Term Loan Commitment (and the New Term Loan Commitment of each Lender) shall terminate in its entirety on the First Amendment Effective Date (after giving effect to the making of Additional New Term Loans on such date).”



11. Section 4.01 of the Credit Agreement is hereby amended by (i) inserting the text “, New Term Loans” immediately after the first appearance of the text “Swingline Loans” appearing in said Section, (ii) inserting the text “New Term Loans,” immediately after the text “Term Loans” appearing in subclause (i) of said Section, (iii) inserting the text “, New Term Loans” immediately after the text “Revolving Loans” appearing in subclause (ii) of said Section, (iv) inserting the text “New” immediately before each appearance of the text “Term” appearing in subclause (v) of said Section, (v) inserting the text “New Term Loan” immediately before each appearance of the text “Scheduled Repayments” appearing in subclause (v) of said Section, (vi) deleting the word “and” appearing at the end of subclause (v) of said Section, (vii) deleting the period at the end of subclause (vi) of said Section and inserting the text “; and” in lieu thereof and (viii) inserting the following new clause (vii) at the end of said Section:

“(vii) each prepayment of New Term Loans pursuant to this Section 4.01 made prior to the first anniversary of the First Amendment Effective Date in connection with a Repricing Transaction shall be subject to the payment of the fee described in Section 3.01(g).”.

12. Section 4.02(b) of the Credit Agreement is hereby amended by (i) inserting the text “(i)” immediately following the text “(b)” appearing in said Section and (ii) inserting the following new text at the end of said Section:

“(ii) In addition to any other mandatory repayments or commitment reductions pursuant to this Section 4.02, on each date set forth below, the Borrower shall be required to repay that principal amount of New Term Loans, to the extent then outstanding, as is set forth opposite such date (each such repayment, as the same may be reduced as provided in Sections 4.01 and 4.02(i), a “New Term Loan Scheduled Repayment”):

<u>New Term Loan Scheduled Repayment Date</u>	<u>Amount</u>
September 30, 2004	\$ 912,500
December 31, 2004	\$ 912,500
March 31, 2005	\$ 912,500
June 30, 2005	\$ 912,500
September 30, 2005	\$ 912,500
December 31, 2005	\$ 912,500
March 31, 2006	\$ 912,500
June 30, 2006	\$ 912,500
September 30, 2006	\$ 912,500
December 31, 2006	\$ 912,500

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<u>New Term Loan Scheduled Repayment Date</u>	<u>Amount</u>
March 31, 2007	\$ 912,500
June 30, 2007	\$ 912,500
September 30, 2007	\$ 912,500
December 31, 2007	\$ 912,500
March 31, 2008	\$ 912,500
June 30, 2008	\$ 912,500
September 30, 2008	\$ 912,500
December 31, 2008	\$ 912,500
March 31, 2009	\$ 912,500
June 30, 2009	\$ 912,500
September 30, 2009	\$ 912,500
December 31, 2009	\$ 912,500
March 31, 2010	\$ 912,500
June 30, 2010	\$ 912,500
September 30, 2010	\$ 912,500
December 31, 2010	\$ 912,500
<b>New Term Loan Maturity Date</b>	<b>\$ 341,275,000</b>

13. Notwithstanding anything to the contrary contained in Section 4.02(d) of the Credit Agreement or elsewhere in the Credit Agreement, the proceeds of all Additional New Term Loans shall be applied on the First Amendment Effective Date (as defined below) exclusively for the purposes described in Section 7.05(e).

14. Section 4.02(h) of the Credit Agreement is hereby amended by (i) inserting the text “New” immediately before each appearance of the text “Term” appearing in said Section, (ii) inserting the text “New Term Loan” immediately before the first two appearances of the text “Scheduled Repayments” appearing in said Section and (iii) inserting the text “New” immediately before the text “Term Loan Scheduled Repayments” appearing in said Section.

15. Section 7.05 of the Credit Agreement is hereby amended by inserting the following new clause (e) at the end of said Section:

“(e) All proceeds of the Additional New Term Loans shall be used on the First Amendment Effective Date (i) first, to repay in full principal of all outstanding Term Loans of Non-Consenting Term Lenders (if any), pay all accrued and unpaid interest on all then outstanding Term Loans and pay all fees and expenses owing in connection with the First Amendment and (ii) second, after application of such proceeds for the purposes described in preceding clause (i), for general corporate purposes of the Borrower and its Subsidiaries.”.

16. Section 8.16 of the Credit Agreement is hereby amended by (i) inserting the text “(or, after the repayment thereof, New Term Loans)” immediately after the text “Term Loans” appearing in clause (a) of said Section and (ii) inserting the text “New” immediately before each appearance of the text “Term” appearing in clauses (b) and (c) of said Section.

17. Section 8 of the Credit Agreement is hereby further amended by inserting the following new text at the end of said Section:

“Section 8.20 First Amendment Mortgage Amendments. Within 60 days following the First Amendment Effective Date, the Borrower shall have delivered to the Collateral Agent, or caused to be delivered to the Collateral Agent, (i) fully executed counterparts of amendments (the “First Amendment Mortgage Amendments”), in form and substance reasonably satisfactory to the Collateral Agent, to each of the Mortgages covering the Mortgaged Properties, together with evidence that counterparts of each of the First Amendment Mortgage Amendments have been delivered to the title company insuring the Lien on the Mortgages for recording in all places to the extent necessary or desirable, in the judgment of the Collateral Agent, effectively to maintain a valid and enforceable perfected mortgage lien superior to and prior to the rights of all third parties and subject to no other Liens (other than Permitted Encumbrances) in favor of the Collateral Agent for the benefit of the Secured Creditors securing all of the Obligations (including the New Term Loans) and (ii) at the request of the Collateral Agent, endorsements of the authorized issuing agent for title insurers reasonably satisfactory to the Collateral Agent to each Mortgage Policy assuring the Collateral Agent that each Mortgage is a valid and enforceable first priority mortgage lien on the respective Mortgaged Properties, free and clear of all defects and encumbrances except Permitted Encumbrances.”.

18. Section 9.11 of the Credit Agreement are hereby amended by inserting the text “New” immediately before each appearance of the text “Term” appearing in said Section.

19. The definition of “Applicable Margin” appearing in Section 11 of the Credit Agreement is hereby amended by (i) inserting the text “(v) in the case of New Term Loans (A) maintained as Base Rate Loans, 1.00% and (B) maintained as Eurodollar Loans, 2.00%,” immediately before subclause (ii)(w) of the first sentence of said definition, (ii) inserting the text “and New Term Loans” after the text “Term Loans” appearing in the second sentence of said definition, (iii) deleting the word “and” appearing immediately prior to subclause (y) in the last sentence of said definition and inserting a comma in lieu thereof and (iv) inserting the following new clause (z) before the period at the end of said definition:

“and (z) at any time both (I) “Level V Pricing” (as set forth in the table above) is in effect for Revolving Loans at such time and (II) the ratings assigned to the Loans by both Moody’s and S&P at such time are Ba2 (with a stable outlook) or higher and BB (with a stable outlook) or higher, respectively, then, so long as no Specified Default and no Event of Default then exists, the “Applicable Margin” for New Term Loans at such time shall be (A) if maintained as Base Rate Loans, 0.75% and (B) if maintained as Eurodollar Loans, 1.75%”.

20. The definition of “Borrowing” appearing in Section 11 of the Credit Agreement is hereby amended by (i) inserting the text “(x)” immediately after the text “provided, that” appearing in said definition and (ii) inserting the text “and (y) the term “Borrowing” shall include each consolidated “borrowing” of New Term Loans pursuant to the simultaneous conversion of Term Loans and the incurrence of Additional New Term Loans on the First Amendment Effective Date on the terms provided in Section 1.01(e)” immediately prior to the period appearing at the end of said definition.

21. The definition of “Commitment” appearing in Section 11 of the Credit Agreement is hereby amended by inserting the text “, New Term Loan Commitment” immediately after the text “Term Loan Commitment” appearing in said definition.

22. The definition of “Consolidated EBITDA” appearing in Section 11 of the Credit Agreement is hereby amended by (i) deleting the word “and” appearing before the text “(iv) in the case” appearing in said definition and inserting a comma in lieu thereof and (ii) inserting the following text immediately prior to the text “and (y) subtracting” appearing in said definition:

“and (v) in the case of any period including the fiscal quarter of Holdings ended nearest to September 30, 2004, the amount of all prepayment premiums and/or penalties (whether cash or non-cash) paid by the Borrower in connection with the prepayment of the Term Loans under, and as defined in, the Second-Lien Credit Agreement”.

23. The definition of “Excess Cash Flow” appearing in Section 11 of the Credit Agreement is hereby amended by inserting the text “or a New Term Loan Scheduled Repayment” immediately before the text “Scheduled Repayment” appearing in said definition.

24. The definition of “Loan” appearing in Section 11 of the Credit Agreement is hereby amended by inserting the text “each New Term Loan,” immediately before the text “each Term Loan” appearing in said definition.

25. The definition of “Maturity Date” appearing in Section 11 of the Credit Agreement is hereby amended by inserting the text “the New Term Loan Maturity Date,” immediately before the text “the Term Loan Maturity Date” appearing in said definition.

26. The definition of “Minimum Borrowing Amount” appearing in Section 11 of the Credit Agreement is hereby amended by inserting the text “New” immediately before the appearance of the text “Term Loans” appearing in said definition.

27. The definition of “Net Cash Proceeds” appearing in Section 11 of the Credit Agreement is hereby amended by inserting the text “or New Term Loans” immediately after the text “Term Loans” appearing in said definition.

28. The definition of “Note” appearing in Section 11 of the Credit Agreement is hereby amended by inserting the text “each New Term Note,” immediately after the text “Term Note,” appearing in said Section.

29. The definition of “Required Lenders” appearing in Section 11 of the Credit Agreement is hereby amended by (i) inserting the text “New Term Loans,” immediately before the first appearance of the text “Term Loans” in said definition and (ii) inserting the text “New Term Loans and” immediately before the second appearance of the text “Term Loans” appearing in said definition.

30. The definition of “Total Commitment” appearing in Section 11 of the Credit Agreement is hereby amended by inserting the text “the Total New Term Loan Commitment,” immediately before the text “the Total Term Loan Commitment” appearing in said definition.

31. Section 11 of the Credit Agreement is hereby further amended by (i) deleting the definition of “Tranche” appearing in said Section and (ii) inserting in the appropriate alphabetical order the following new definitions:

“Additional New Term Loans” shall have the meaning provided in Section 1.01(e).

“Consenting Term Lender” shall mean each Lender holding outstanding Term Loans that has (x) theretofore executed and delivered a counterpart of the First Amendment to the Administrative Agent on or prior to 5:00 P.M. (New York time) on August 16, 2004 and (y) specifically notified the Administrative Agent of its desire to convert its Term Loans into Converted Term Loans pursuant to Section 1.01(e)(A).

“Converted Term Loan Amount” shall mean, with respect to each Lender, the amount set forth opposite such Lender’s name in Schedule I directly below the column entitled “Converted Term Loan Amount”.

“Converted Term Loans” shall have the meaning provided in Section 1.01(e).

“First Amendment Effective Date” shall have the meaning provided in the First Amendment to Credit Agreement, dated as of August 6, 2004, among Holdings, the Borrower, the Lenders and the Administrative Agent.

“First Amendment Mortgage Amendments” shall have the meaning provided in Section 8.20.

“New Term Loan Borrowing Amount” shall mean, with respect to each Lender, the amount set forth opposite such Lender’s name in Schedule I directly below the column entitled “New Term Loan Borrowing Amount”, as the same may be (x) reduced from time to time as a result of prepayments and repayments pursuant to Section 4.01, 4.02 and/or 10 or (y) adjusted from time to time as a result of assignments of New Term Loans to or from such Lender pursuant to Section 1.13 or 13.04(b).

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“New Term Loan Commitment” shall mean, with respect to each Lender, the amount set forth opposite such Lender’s name in Schedule I directly below the column entitled “New Term Loan Commitment,” as the same may be reduced or terminated pursuant to Section 3.03 and/or 10 or otherwise modified pursuant to Section 1.13 and/or 13.04(b).

“New Term Loans” shall have the meaning provided in Section 1.01(e).

“New Term Loan Maturity Date” shall mean March 17, 2011.

“New Term Loan Scheduled Repayment” shall have the meaning provided in Section 4.02(b)(ii).

“New Term Note” shall have the meaning provided in Section 1.05(a).

“Non-Consenting Term Lender” shall mean each Lender that is not a Consenting Term Lender.

“Repricing Transaction” shall mean the incurrence by the Borrower of a new tranche of replacement term loans under this Agreement (i) having an effective interest rate margin for the respective Type of such replacement term loan that is less than the Applicable Margin for New Term Loans of the respective Type (with the comparative determinations of such margins to be made by the Administrative Agent and to be made after taking account of all upfront or similar fees or original issue discount (amortized over the life of such tranche of replacement term loans or New Term Loans, as the case may be) payable to all Lenders providing such replacement term loans or New Term Loans, as the case may be, but exclusive of any arrangement, structuring or other fees payable in connection therewith that are not shared with all Lenders providing such tranche of replacement term loans or New Term Loans, as the case may be) and (ii) the proceeds of which are used to repay, in whole or in part, principal of outstanding New Term Loans. Any such determination by the Administrative Agent as contemplated by preceding clause (i) shall be conclusive and binding on all Lenders holding New Term Loans.

“Term Loan Conversion” shall have the meaning provided in Section 1.01(e).

“Total New Term Loan Commitment” shall mean, at any time, the sum of the New Term Loan Commitments of each of the Lenders at such time.

“Tranche” shall mean the respective facility and commitments utilized in making Loans hereunder, with there being four separate Tranches: (i) Term Loans, (ii) New Term Loans, (iii) Revolving Loans and (iv) Swingline Loans.

32. Section 13.01 of the Credit Agreement is hereby amended by (i) inserting the text “New” immediately before the text “Term Loans” appearing in clause (z) of the second proviso appearing in said Section and (ii) inserting the text “New Term Loan” immediately

before the text “Scheduled Repayment” appearing in clause (z) of the second proviso appearing in said Section.

33. Section 13.07(b) of the Credit Agreement is hereby amended by inserting the text “New” immediately before the text “Term Loans” appearing in said Section.

34. Schedule I to the Credit Agreement is hereby amended by deleting same in its entirety and inserting in lieu thereof a new Schedule I in the form of Schedule I attached hereto.

35. Exhibits A-1, A-2 and K to the Credit Agreement are hereby amended by inserting the text “New” immediately before each appearance of the text “Term” appearing in said Exhibits.

36. The Credit Agreement is hereby further amended by adding thereto new Exhibit B-4 in the form of Exhibit B-4 attached hereto.

## II. Miscellaneous Provisions.

1. In order to induce the Lenders to enter into this Amendment, each Credit Agreement Party hereby represents and warrants that:

(a) no Default or Event of Default exists as of the First Amendment Effective Date, both before and after giving effect to this Amendment;

(b) all of the representations and warranties contained in the Credit Agreement or the other Credit Documents are true and correct in all material respects on the First Amendment Effective Date both before and after giving effect to this Amendment, with the same effect as though such representations and warranties had been made on and as of the First Amendment Effective Date (it being understood that any representation or warranty made as of a specific date shall be true and correct in all material respects as of such specific date);

(c) concurrently with the effectiveness of this First Amendment, the proceeds of the Additional New Term Loans shall be applied by the Borrower as required by Section 7.05(e) of the Credit Agreement (as amended hereby).

2. This Amendment is limited as specified and shall not constitute a modification, acceptance, consent to deviation from or waiver of any other provision of the Credit Agreement or any other Credit Document.

3. This Amendment may be executed in any number of counterparts and by the different parties hereto on separate counterparts, each of which counterparts when executed and delivered shall be an original, but all of which shall together constitute one and the same instrument. A complete set of counterparts shall be lodged with the Borrower and the Administrative Agent.

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4. **THIS AMENDMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAW OF THE STATE OF NEW YORK.**

5. This Amendment shall become effective on the date (the “First Amendment Effective Date”) when each of the following conditions shall have been satisfied:

(i) Holdings, the Borrower, Lenders constituting the Required Lenders and each Lender with a New Term Loan Commitment and/or converting Term Loans into Converted Term Loans pursuant to the Term Loan Conversion shall have signed a counterpart hereof (whether the same or different counterparts) and shall have delivered (including by way of facsimile transmission) the same to White & Case LLP, 1155 Avenue of the Americas, New York, NY 10036 Attention: Aditi Chawla (facsimile number 212-354-8113);

(ii) there shall have been delivered to the Administrative Agent for the account of each Consenting Term Lender and each Lender with a New Term Loan Commitment which has requested same, an appropriate New Term Note executed by the Borrower in each case in the amount, maturity and otherwise as provided in the Credit Agreement;

(iii) (x) all accrued and unpaid interest on all Term Loans shall have been paid in full (regardless of whether or not the Credit Agreement otherwise requires a payment of such interest at such time), (y) all fees, costs and expenses with respect to the Term Loans shall have been paid in full and (z) the principal of all outstanding Term Loans of Non-Consenting Term Lenders shall have been repaid in full;

(iv) there shall have been delivered to Administrative Agent copies of resolutions of the board of directors of each Credit Party approving and authorizing the execution, delivery and performance of this First Amendment and the Credit Documents as amended by this First Amendment, certified as of the First Amendment Effective Date by the corporate secretary or an assistant secretary of such Credit Party as being in full force and effect without modification or amendment; and

(v) an opinion of counsel from Gibson, Dunn & Crutcher LLP in form and substance reasonably satisfactory to the Administrative Agent, covering such matters in connection with this Amendment and the transactions contemplated hereby as the Administrative Agent may reasonably request.

6. By executing and delivering a copy hereof, each Credit Party hereby agrees that all Loans (including, without limitation, the New Term Loans) shall be fully guaranteed pursuant to the Subsidiaries Guaranty in accordance with the terms and provisions thereof and shall be fully secured pursuant to the Security Documents.

7. From and after the First Amendment Effective Date, all references in the Credit Agreement and each of the other Credit Documents to the Credit Agreement shall be deemed to be references to the Credit Agreement as modified hereby.

\* \* \*

IN WITNESS WHEREOF, the parties hereto have caused their duly authorized officers to execute and deliver this Amendment as of the date first above written.

ENERSYS

By: /s/ Michael G. Hastings  
Title: Vice President, Treasurer and  
Assistant Secretary

ENERSYS CAPITAL INC.

By: /s/ Michael G. Hastings  
Title: Vice President, Treasurer and  
Assistant Secretary

BANK OF AMERICA, N.A, as Administrative Agent

By: /s/ Charles Graber  
Title: Vice President

MORGAN STANLEY SENIOR FUNDING, INC.,  
Individually and as Syndication Agent

By: /s/ Eugene F. Martin  
Title: Vice President

LEHMAN COMMERCIAL PAPER INC.,  
Individually and as Documentation Agent

By: /s/ Francis J. Chang  
Title: Authorized Signatory

BANK OF AMERICA, N.A., in its capacity as a  
Lender with a New Term Loan Commitment  
(and not as a Consenting Term Lender)

By: /s/ Ed Hamilton  
Title: Senior Vice President

SIGNATURES OF LENDER PARTIES NOT  
INCLUDE

Each of the undersigned, each being a Subsidiary Guarantor under, and as defined in, the Credit Agreement referenced in the foregoing First Amendment, hereby consents to the entering into of the First Amendment and agrees to the provisions thereof (including, without limitation, Part II, Section 6 thereof).

ENERSYS DELAWARE INC.

By: /s/ Michael G. Hastings  
Title: Vice President, Treasurer and Assistant

ESFINCO, INC.

By: /s/ John Phillips  
 Title: Vice President

ESRMCO, INC.

By: /s/ John Phillips  
 Title: Vice President

ENERSYS ENERGY PRODUCTS INC.

By: /s/ Michael T. Philion  
 Title: Vice President, Treasurer and Assistant  
 Secretary

HAWKER POWER SYSTEMS, INC.

By: /s/ Michael T. Philion  
 Title: Vice President, Treasurer and Assistant  
 Secretary

HAWKER POWERSOURCE, INC.

By: /s/ Michael T. Philion  
 Title: Vice President, Treasurer and Assistant  
 Secretary

NEW PACIFICO REALTY, INC.

By: /s/ Richard W. Zuidema  
 Title: Secretary

SCHEDULE ILIST OF LENDERS AND COMMITMENTS

<u>Lender</u>	<u>Revolving Loan Commitment</u>	<u>Converted Term Loan Amount</u>	<u>New Term Loan Commitment</u>	<u>New Term Loan Borrowing Amount</u>
Bank of America, N.A.	\$ 5,000,000.00	\$ 0.00	\$ 258,108,134.54	\$ 258,108,134.54
Morgan Stanley Senior Funding, Inc.	\$ 5,000,000.00	\$ 0.00	\$ 0.00	\$ 0.00
Lehman Commercial Paper Inc.	\$ 5,000,000.00	\$ 0.00	\$ 0.00	\$ 0.00
Sovereign Bank	\$ 14,000,000.00	\$ 0.00	\$ 0.00	\$ 0.00
National City Bank	\$ 14,000,000.00	\$ 5,702,163.16	\$ 297,863.84	\$ 6,000,000.00
National Penn Bank	\$ 10,000,000.00	\$ 0.00	\$ 0.00	\$ 0.00
RZB Finance LLC	\$ 4,000,000.00	\$ 0.00	\$ 0.00	\$ 0.00
Wachovia Bank, National Association	\$ 15,000,000.00	\$ 6,652,523.68	\$ 847,476.32	\$ 7,500,000.00
Bank of Tokyo-Mitsubishi Trust Company	\$ 14,000,000.00	\$ 2,851,081.58	\$ 0.00	\$ 2,851,081.58
Fleet National Bank	\$ 14,000,000.00	\$ 0.00	\$ 0.00	\$ 0.00
Babson CLO Ltd. 2003-I	\$ 0.00	\$ 417,231.45	\$ 0.00	\$ 417,231.45
Babson CLO Ltd. 2004-I	\$ 0.00	\$ 1,900,721.05	\$ 0.00	\$ 1,900,721.05
Suffield CLO, Limited	\$ 0.00	\$ 556,308.60	\$ 0.00	\$ 556,308.60
Seaboard CLO 2000Ltd.	\$ 0.00	\$ 556,308.60	\$ 0.00	\$ 556,308.60

<u>Lender</u>	<u>Revolving Loan Commitment</u>	<u>Converted Term Loan Amount</u>	<u>New Term Loan Commitment</u>	<u>New Term Loan Borrowing Amount</u>
Simsbury CLO, Limited	\$ 0.00	\$ 556,308.60	\$ 0.00	\$ 556,308.60
Maplewood (Cayman) Limited	\$ 0.00	\$ 556,308.60	\$ 0.00	\$ 556,308.60
APEX (IDM) CDO I, Ltd.	\$ 0.00	\$ 695,385.78	\$ 0.00	\$ 695,385.78
ELC (Cayman) Ltd. 1999-II	\$ 0.00	\$ 556,308.60	\$ 0.00	\$ 556,308.60
ELC (Cayman) Ltd. 1999-III	\$ 0.00	\$ 556,308.60	\$ 0.00	\$ 556,308.60

ELC (Cayman) Ltd. 2000-I	\$	0.00	\$	556,308.60	\$	0.00	\$	556,308.60
TRYON CLO Ltd. 2000-I	\$	0.00	\$	556,308.60	\$	0.00	\$	556,308.60
Massachusetts Mutual Life Insurance Company	\$	0.00	\$	139,077.15	\$	0.00	\$	139,077.15
Braymoor & Co.	\$	0.00	\$	2,851,081.58	\$	0.00	\$	2,851,081.58
Gallatin Funding I Ltd.	\$	0.00	\$	1,900,721.05	\$	0.00	\$	1,900,721.05
Grayston CLO 2001-01 Ltd.	\$	0.00	\$	1,900,721.05	\$	0.00	\$	1,900,721.05
Grayston CLO II 2004-1 Ltd.	\$	0.00	\$	2,851,081.58	\$	0.00	\$	2,851,081.58
Laguna Funding LLC	\$	0.00	\$	950,360.53	\$	0.00	\$	950,360.53

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Lender	Revolving Loan Commitment	Converted Term Loan Amount	New Term Loan Commitment	New Term Loan Borrowing Amount
Callidus Debt Partners CLO Fund III, LLC	\$ 0.00	\$ 3,807,396.74	\$ 0.00	\$ 3,807,396.74
Sierra CLO I	\$ 0.00	\$ 5,702,163.16	\$ 0.00	\$ 5,702,163.16
Gulf Stream-Compass CLO 2003-1Ltd.	\$ 0.00	\$ 1,425,540.79	\$ 0.00	\$ 1,425,540.79
Gulf Stream-Compass CLO 2004-1Ltd.	\$ 0.00	\$ 2,378,283.17	\$ 0.00	\$ 2,378,283.17
ING Prime Rate Trust	\$ 0.00	\$ 4,276,622.37	\$ 0.00	\$ 4,276,622.37
ING Senior Income Fund	\$ 0.00	\$ 3,326,261.85	\$ 0.00	\$ 3,326,261.85
Sequils-Pilgrim I, Ltd.	\$ 0.00	\$ 950,360.52	\$ 0.00	\$ 950,360.52
LCMI Limited Partnership	\$ 0.00	\$ 2,815,081.58	\$ 0.00	\$ 2,815,081.58
LCMII Limited Partnership	\$ 0.00	\$ 2,815,081.58	\$ 0.00	\$ 2,815,081.58
Octagon Investment Partners III, Ltd.	\$ 0.00	\$ 6,652,523.68	\$ 0.00	\$ 6,652,523.68
Foxe Basin CLO 2003, Ltd.	\$ 0.00	\$ 3,801,442.11	\$ 0.00	\$ 3,801,442.11
C-Squared CDO Ltd.	\$ 0.00	\$ 950,360.53	\$ 0.00	\$ 950,360.53
Celerity CLO Limited	\$ 0.00	\$ 1,425,540.79	\$ 0.00	\$ 1,425,540.79

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Lender	Revolving Loan Commitment	Converted Term Loan Amount	New Term Loan Commitment	New Term Loan Borrowing Amount
KZH Crescent-2 LLC	\$ 0.00	\$ 950,360.53	\$ 0.00	\$ 950,360.53
KZH Crescent-3 LLC	\$ 0.00	\$ 950,360.53	\$ 0.00	\$ 950,360.53
Loan Funding I LLC	\$ 0.00	\$ 950,360.53	\$ 0.00	\$ 950,360.53
TCW Select Loan Fund, Limited	\$ 0.00	\$ 2,375,901.32	\$ 0.00	\$ 2,375,901.32
NYLIM Flatiron CLO 2003-1 Ltd.	\$ 0.00	\$ 475,180.26	\$ 0.00	\$ 475,180.26
NYLIM Flatiron CLO 2004-1 Ltd.	\$ 0.00	\$ 475,180.26	\$ 0.00	\$ 475,180.26
ELF Funding Trust II	\$ 0.00	\$ 475,180.26	\$ 0.00	\$ 475,180.26
New York Life Insurance Company	\$ 0.00	\$ 2,815,081.58	\$ 0.00	\$ 2,815,081.58
New York Life Insurance and Annuity Corporation	\$ 0.00	\$ 475,180.26	\$ 0.00	\$ 475,180.26
Avalon Capital Ltd. 2	\$ 0.00	\$ 1,187,950.66	\$ 0.00	\$ 1,187,950.66
Champlain CLO, Ltd.	\$ 0.00	\$ 1,187,950.66	\$ 0.00	\$ 1,187,950.66
Diversified Credit Portfolio Ltd.	\$ 0.00	\$ 142,554.08	\$ 0.00	\$ 142,554.08
AIM Floating Rate Fund	\$ 0.00	\$ 475,180.26	\$ 0.00	\$ 475,180.26
Invesco European CDO I S.A.	\$ 0.00	\$ 475,180.26	\$ 0.00	\$ 475,180.26

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Lender	Revolving Loan Commitment	Converted Term Loan Amount	New Term Loan Commitment	New Term Loan Borrowing Amount
Sagamore CLO Ltd.	\$ 0.00	\$ 950,360.53	\$ 0.00	\$ 950,360.53
Saratoga CLO I, Limited	\$ 0.00	\$ 475,180.26	\$ 0.00	\$ 475,180.26
Charter View Portfolio	\$ 0.00	\$ 1,995,757.11	\$ 0.00	\$ 1,995,757.11
Sequils-Liberty, Ltd.	\$ 0.00	\$ 712,770.39	\$ 0.00	\$ 712,770.39
Merrill Lynch Capital, a division of Merrill Lynch Business Financial Services Inc.	\$ 0.00	\$ 3,801,442.11	\$ 1,198,557.89	\$ 5,000,000.00
Mountain Capital CLO II Ltd.	\$ 0.00	\$ 3,326,261.83	\$ 0.00	\$ 3,326,261.83
Mountain Capital CLO III Ltd.	\$ 0.00	\$ 1,425,540.79	\$ 0.00	\$ 1,425,540.79
The Sumitomo Trust and Banking Co., Ltd., New York Branch	\$ 0.00	\$ 4,751,802.63	\$ 0.00	\$ 4,751,802.63
<b>Total</b>	\$ 100,000,000.00	\$ 104,547,994.41	\$ 260,452,005.59	\$ 365,000,000.00

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FOR VALUE RECEIVED, ENERSYS CAPITAL INC., a Delaware corporation (the "Borrower"), hereby promises to pay to the order of [ ] (the "Lender"), in lawful money of the United States of America in immediately available funds, at the Payment Office (as defined in the Agreement referred to below) initially located at Mailcode NC1-001-15-04, 101 North Tryon Street, Charlotte, NC 28255 on the New Term Loan Maturity Date (as defined in the Agreement) the principal sum of \_\_\_\_\_ DOLLARS (\$) or, if less, the unpaid principal amount of all New Term Loans (as defined in the Agreement) made by the Lender pursuant to the Agreement, payable at such times and in such amounts as are specified in the Agreement.

The Borrower promises also to pay interest on the unpaid principal amount of each New Term Loan made by the Lender in like money at said office from the date hereof until paid at the rates and at the times provided in Section 1.08 of the Agreement.

This Note is one of the New Term Notes referred to in the Credit Agreement, dated as of March 17, 2004, among EnerSys, the Borrower, the lenders from time to time party thereto (including the Lender), Lehman Commercial Paper Inc., as Documentation Agent, Morgan Stanley Senior Funding, Inc., as Syndication Agent, and Bank of America, N.A., as Administrative Agent (as amended, restated, modified and/or supplemented from time to time, the "Agreement") and is entitled to the benefits thereof and of the other Credit Documents (as defined in the Agreement). This Note is secured by the Security Documents (as defined in the Agreement) and is entitled to the benefits of the Guaranties (as defined in the Agreement). As provided in the Agreement, this Note is subject to voluntary prepayment and mandatory repayment prior to the New Term Loan Maturity Date, in whole or in part, and New Term Loans may be converted from one Type (as defined in the Agreement) into another Type to the extent provided in the Agreement.

In case an Event of Default (as defined in the Agreement) shall occur and be continuing, the principal of and accrued interest on this Note may be declared to be due and payable in the manner and with the effect provided in the Agreement.

The Borrower hereby waives presentment, demand, protest or notice of any kind in connection with this Note.

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Schedule I

**THIS NOTE SHALL BE CONSTRUED IN ACCORDANCE WITH AND BE GOVERNED BY THE LAW OF THE STATE OF NEW YORK.**

ENERSYS CAPITAL INC.

By: \_\_\_\_\_  
 Name:  
 Title:



**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER  
PURSUANT TO SECTION 302 (a) OF THE SARBANES-OXLEY ACT OF 2002**

I, John D. Craig, Chief Executive Officer of EnerSys, certify that:

1. I have reviewed this quarterly report on Form 10-Q of EnerSys;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- 
- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

ENERSYS

By /s/ John D. Craig  
John D. Craig  
Chairman, President and Chief Executive Officer

Date: September 9, 2004

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**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER  
PURSUANT TO SECTION 302 (a) OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael T. Pillion, Chief Financial Officer of EnerSys, certify that:

1. I have reviewed this quarterly report on Form 10-Q of EnerSys;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- 
- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

ENERSYS

By           /s/ Michael T. Pillion            
Michael T. Pillion  
Executive Vice President-Finance and Chief Financial Officer

Date: September 9, 2004

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**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER  
AND CHIEF FINANCIAL OFFICER  
PURSUANT TO  
18. U.S.C. SECTION 1350,< /font>  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of EnerSys on Form 10-Q for the quarterly period ended July 4, 2004 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of EnerSys.

ENERSYS

By /s/ John D. Craig  
John D. Craig  
Chairman, President and Chief Executive Officer

By /s/ Michael T. Phillion  
Michael T. Phillion  
Executive Vice President-Finance and Chief Financial Officer

Date: September 9, 2004

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