



# FORM 10-Q

**EnerSys - ENS**

**Filed: November 15, 2005 (period: October 02, 2005)**

Quarterly report which provides a continuing view of a company's financial position

## PART I

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### FINANCIAL INFORMATION

**Item 1.** Financial Statements

## PART I

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### FINANCIAL INFORMATION

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**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 AND EXCHANGE ACT OF 1934**

For the quarterly period ended October 2, 2005

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

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

Commission File Number: 001-32253

**EnerSys**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State of Incorporation)

**23-3058564**  
(I.R.S. Employer Identification No.)

**2366 Bernville Road**  
**Reading, Pennsylvania 19605**  
(Address of principal executive offices)

**Telephone Number: 610-208-1991**

**Securities registered pursuant to Section 12(b) of the Act:**

**Common Stock, \$0.01 par value**

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 Securities Exchange Act of 1934).  YES  NO

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

**Common Stock outstanding at November 9, 2005: 46,235,332 shares**

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

ENERSYS  
Consolidated Condensed Balance Sheets  
(In Thousands, Except Share and Per Share Data)

	October 2, 2005 (Unaudited)	March 31, 2005
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 12,026	\$ 21,341
Accounts receivable, net	272,448	254,267
Inventories, net	164,040	146,047
Deferred taxes	22,167	21,175
Prepaid expenses	13,718	16,473
Other current assets	11,052	8,314
Total current assets	495,451	467,617
Property, plant, and equipment, net	280,586	279,868
Goodwill	311,709	310,679
Other intangible assets, net	81,006	75,462
Deferred taxes	24,593	25,998
Other	31,623	35,137
Total assets	\$ 1,224,968	\$ 1,194,761
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Short-term debt	\$ 5,313	\$ 5,711
Current portion of long-term debt	6,667	6,634
Current portion of capital lease obligations	1,600	1,755
Accounts payable	127,072	117,944
Accrued expenses	154,201	150,697
Deferred taxes	3,140	2,699
Total current liabilities	297,993	285,440
Long-term debt	387,003	358,613
Capital lease obligations	2,271	2,744
Deferred taxes	67,938	69,495
Other liabilities	42,162	40,819
Total liabilities	797,367	757,111
Stockholders' equity:		
Common Stock, \$0.01 par value, 135,000,000 shares authorized, and 46,235,332 shares issued and outstanding at October 2, 2005; 46,158,994 shares issued and outstanding at March 31, 2005	462	462
Preferred Stock, \$0.01 par value, 1,000,000 shares authorized, no shares issued and outstanding	—	—
Additional paid-in capital	331,104	330,229
Retained earnings	34,823	23,544
Accumulated other comprehensive income	61,212	83,415
Total stockholders' equity	427,601	437,650

Total liabilities and stockholders' equity	\$	1,224,968	\$	1,194,761
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See accompanying notes.

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

	Fiscal quarters ended	
	October 2, 2005	October 3, 2004
Net sales	\$ 304,432	\$ 261,313
Cost of goods sold	240,233	200,192
Gross profit	64,199	61,121
Operating expenses	48,344	41,289
Restructuring charge	5,979	—
Operating earnings	9,876	19,832
Interest expense	6,306	5,855
Special charge relating to the IPO	—	6,022
Other (income) expense, net	(122)	(1,455)
Earnings before income taxes	3,692	9,410
Income tax expense	1,172	3,026
Net earnings	\$ 2,520	\$ 6,384
Series A convertible preferred stock dividends	—	—
Net earnings available to common shareholders	\$ 2,520	\$ 6,384
Net earnings per common share:		
Basic	\$ 0.05	\$ 0.15
Diluted	\$ 0.05	\$ 0.15
Weighted-average shares of common stock outstanding:		
Basic	46,214,469	42,648,856
Diluted	46,900,296	43,211,763

See accompanying notes.

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

Six fiscal months ended

	October 2, 2005		October 3, 2004
Net sales	\$ 608,274	\$	524,574
Cost of goods sold	477,533		396,735
Gross profit	130,741		127,839
Operating expenses	97,239		85,893
Restructuring charge	5,979		—
Operating earnings	27,523		41,946
Interest expense	12,122		13,294
Special charge relating to the IPO	—		6,022
Other (income) expense, net	(1,611)		(1,139)
Earnings before income taxes	17,012		23,769
Income tax expense	5,733		8,358
Net earnings	\$ 11,279	\$	15,411
Series A convertible preferred stock dividends	—		(8,155)
Net earnings available to common shareholders	\$ 11,279	\$	7,256
Net earnings per common share:			
Basic	\$ 0.24	\$	0.27
Diluted	\$ 0.24	\$	0.27
Weighted-average shares of common stock outstanding:			
Basic	46,190,589		26,831,638
Diluted	46,632,505		27,364,315

See accompanying notes.



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

Six fiscal months ended

	October 2, 2005	October 3, 2004
<b>Cash flows from operating activities</b>		
Net earnings	\$ 11,279	\$ 15,411
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Non-cash		
restructuring and special charges	5,649	3,622
Depreciation and amortization	21,319	20,414
Provision for doubtful accounts	472	347
Provision for deferred taxes, less amounts related to restructuring	(312)	(317)
Stock-based compensation	—	210
Loss on disposal of fixed assets	210	477
Changes in assets and liabilities, net of effects of acquisition:		
Accounts receivable	(22,083)	(3,186)
Inventory	(12,374)	(8,522)
Prepaid expenses and other current assets	569	5,344
Other assets	1,670	1,106
Accounts payable	13,492	(14,137)
Accrued expenses	(6,901)	(16,469)
Other liabilities	(43)	(3,191)
Net cash provided by operating activities	12,947	1,109
<b>Cash flows from investing activities</b>		
Capital expenditures	(18,629)	(14,784)
Acquisitions	(32,973)	(1,046)
Proceeds from disposal of property, plant, and equipment	808	3,546
Net cash used in investing activities	(50,794)	(12,284)
<b>Cash flows from financing activities</b>		
Net increase in short-term debt	466	7,842
Proceeds from the issuance of long-term debt	29,876	3,863
Payments of long-term debt	(1,851)	(139,880)
Payments of capital lease obligations, net	(326)	(1,071)

Net proceeds from initial public offering	—	139,232
Exercise of stock options	826	—
Deferred financing costs	(320)	(528)
	<hr/>	<hr/>
Net cash provided by financing activities	28,671	9,458
Effect of exchange rate changes on cash	(139)	177
	<hr/>	<hr/>
Net decrease in cash	(9,315)	(1,540)
Cash and cash equivalents at beginning of period	21,341	17,207
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Cash and cash equivalents at end of period	\$ 12,026	\$ 15,667
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See accompanying notes.

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

	Fiscal quarters ended		Six fiscal months ended	
	October 2, 2005	October 3, 2004	October 2, 2005	October 3, 2004
Net income	\$ 2,520	\$ 6,384	\$ 11,279	\$ 15,411
Other comprehensive income (loss), net of tax:				
Net unrealized gain on derivative instruments	3,188	704	1,257	1,682
Foreign currency translation adjustments	5,645	2,103	(23,460)	2,252
Total comprehensive (loss) income	\$ 11,353	\$ 9,191	\$ (10,924)	\$ 19,345

See accompanying notes.

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ENERSYS

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

(In Thousands, Except Share and Per Share Data)

**NOTE 1: BASIS OF PRESENTATION**

The accompanying interim unaudited condensed consolidated financial statements of EnerSys (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and notes required for complete financial statements. In the opinion of management, the unaudited consolidated 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 2005 Annual Report on Form 10-K (SEC File No. 001-32253) dated June 20, 2005.

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 fiscal 2006 end on July 3, 2005, October 2, 2005, January 1, 2006, and March 31, 2006, respectively. The four fiscal quarters in fiscal 2005 ended on July 4, 2004, October 3, 2004, January 2, 2005, and March 31, 2005.

**NOTE 2: INITIAL PUBLIC OFFERING**

In August 2004, EnerSys completed an initial public offering (the "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 \$139,232. The net proceeds and \$1,696 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.

**NOTE 3: NEW ACCOUNTING PRONOUNCEMENTS**

In November 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 151, *Inventory Costs, an amendment of ARB No. 43, Chapter 4*. This Statement amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). This Statement requires that those items be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal" as defined in ARB No. 43. In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The Company is required to adopt SFAS No. 151 in the first quarter of fiscal year 2007. The Company is in the process of reviewing SFAS 151 and has not determined the effects on the consolidated financial statements.

In December 2004, the FASB issued a revision of SFAS No. 123, "Share-Based Payment" ("SFAS 123(R)"), which supersedes SFAS No. 123 and APB Opinion No. 25. This statement focuses primarily on transactions in which an entity obtains employee services in exchange for share-based payments. The pro forma disclosure previously permitted under SFAS No. 123 will no longer be an alternative to financial statement recognition. Under SFAS 123(R), a public entity generally is required to measure the cost of employee services received in exchange for the award of an equity instrument based on the grant-date fair value of the award, with such cost recognized over the applicable vesting period. In addition, SFAS 123(R) requires an entity to provide certain disclosures in order to assist in understanding the nature of share-based payment transactions and the effects of those transactions on the financial statements. The Company is required to adopt the provisions of SFAS 123(R) by April 1, 2006. Under SFAS No. 123(R), the Company must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at the date of adoption. The permitted transition methods include either retrospective or modified

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prospective adoption. Under the retrospective option, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. The modified prospective method requires that compensation expense be recorded for all unvested stock options at the beginning of the first quarter of adoption of SFAS No. 123(R), while the retrospective method would record compensation expense for all unvested stock options beginning with the first period presented.

The Company is currently evaluating the requirements of SFAS 123(R) and expects to use the Black-Scholes option-pricing model to value all of its unvested stock options and the modified-prospective method in applying the requirements of SFAS No. 123(R) beginning April 1, 2006. The Company expects that adoption of SFAS No. 123(R) may have a material impact on the Company's consolidated financial position and results of operations. The Company has not yet determined the effect of applying these methods.

### NOTE 4: ACQUISITION

On June 1, 2005, the Company acquired the motive power battery business of FIAMM, S.p.A. This strategic acquisition, which complements our existing European motive power business, has been accounted for as a purchase and has resulted in the recognition of \$10,017 of goodwill in the Company's financial statements.

The Company made an initial allocation of the purchase price at the date of acquisition based upon its understanding of the fair value of the acquired assets and liabilities. The Company obtained this information during due diligence and through other sources. In the months after the closing, as the Company obtains additional information about these assets and liabilities, the estimates of fair value will be refined and the allocation of purchase price will be adjusted. Examples of factors and information that the Company uses to refine the allocations include tangible and intangible asset appraisals and cost data related to business integration. The only items considered for subsequent adjustment are items identified as of the acquisition date.

The following table summarizes the aggregate current estimated fair values of assets acquired and liabilities assumed at the date of the acquisition:

Accounts receivable	\$	6,529
Inventory		12,052
Prepaid expenses and other assets		215
Property, plant and equipment		14,798
Goodwill		10,017
Other intangibles		5,366
Accrued expenses		(11,487)
Other liabilities		(4,956)
Net cash consideration	\$	32,534

In connection with the acquisition, the Company formulated a plan for the integration of the acquired business. This process began during the due diligence process and will conclude within twelve months of the acquisition. The Company accrues estimates for certain costs related primarily to the business integration, anticipated at the date of the acquisition, in accordance with Emerging Issues Task Force Issue No. 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination." Adjustments to these estimates are made up to 12 months from the acquisition date as additional information becomes available.

### NOTE 5: INVENTORIES

Inventories, net consist of:

	October 2, 2005	March 31, 2005
Raw Materials	\$ 38,113	\$ 34,710
Work-in-Process	44,250	39,628
Finished Goods	81,677	71,709
	\$ 164,040	\$ 146,047

Inventory reserves for obsolescence and other estimated losses were \$10,957 and \$9,898 at October 2, 2005, and March 31, 2005, respectively.

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### NOTE 6: ACCOUNTING FOR DERIVATIVES

The Company accounts for derivative instruments and hedging activities in accordance with SFAS 133 *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities* and SFAS 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities* (collectively, "SFAS 133"). SFAS 133 establishes accounting and reporting standards for derivative instruments and hedging activities. SFAS 133 requires that all derivatives be recognized as either assets or liabilities at fair value. The Company does not enter into derivative contracts for speculative trading purposes. Derivatives are used to hedge the volatility arising from movements in a portion of the cost of lead purchases as well as to hedge certain interest rates and foreign exchange rate risks. The changes in the fair value of these contracts are recorded in Accumulated Other Comprehensive Income until the related purchased lead, incurred interest rates or foreign currency exposures are charged to earnings. At that time, the portion recorded in Accumulated Other Comprehensive Income is recognized in the Statement of Operations. The amount of Accumulated Other Comprehensive Income related to interest rates, lead and foreign exchange contracts at October 2, 2005, and October 3, 2004, net of tax, was an unrecognized gain of approximately \$1,426 and unrecognized loss of approximately \$895, respectively.

### NOTE 7: INCOME TAXES

The Company's income tax provisions for all periods consist of federal, state and foreign income taxes. The tax provisions for the second quarter and for the six fiscal months ended October 2, 2005, and October 3, 2004, were based on the estimated effective tax rates applicable for the full years ending March 31, 2006, and March 31, 2005, respectively, after giving effect to items specifically related to the interim periods. The second quarter and year-to-date fiscal 2006 effective income tax rates were 31.7% and 33.7%, respectively. The second quarter and year-to-date fiscal 2005 effective tax rates were 32.2% and 35.2%, respectively.

### NOTE 8: WARRANTY

The Company provides for estimated product warranty expenses when the related products are sold, with related liabilities 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:

	Fiscal quarters ended		Six fiscal months ended	
	October 2, 2005	October 3, 2004	October 2, 2005	October 3, 2004
Balance at beginning of period	\$ 23,294	\$ 23,384	\$ 22,786	\$ 23,249
Current period provisions	3,424	4,318	7,706	7,878
Costs incurred	(2,259)	(3,593)	(6,033)	(7,018)
Balance at end of period	\$ 24,459	\$ 24,109	\$ 24,459	\$ 24,109

### NOTE 9: RESTRUCTURING ACTIVITY

Restructuring charges reflect the cost reduction programs currently being implemented by the Company. These include the closing of facilities and the termination of employees. Restructuring costs are expensed during the period in which the Company determines it will incur those costs and all requirements of accrual are met. Because these costs are recorded based upon estimates, actual expenditures for the restructuring activities may differ from the initially recorded costs. If the initial estimates are too low or too high, the Company could be required either to record additional expenses in future periods or to reverse part of the previously recorded charges. Asset write-downs are principally related to buildings, equipment, or inventory that will not be used subsequent to the completion of restructuring plans, and cannot be sold for amounts in excess of carrying value.

During the fiscal year ended March 31, 2002, the Company 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 Notes 3 and 22 to the Consolidated Financial Statements included in the Company's 2005 Annual Report on Form 10-K. Costs incurred for this activity were \$1,635 during the second quarter and \$2,185 for the first six months of fiscal 2006. These costs related to ongoing expenses of closing two manufacturing locations. As of October 2, 2005, the reserve balance is \$2,581, a small portion of which we expect to spend in the next year and the balance (primarily related to environmental costs) at an indeterminate time in the future.

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During the second quarter of fiscal 2006, a restructuring charge of \$5,979 (the majority of which relates to the Motive Power segment) was incurred to cover estimated costs in Europe of staff reductions, exiting of a product line, and closing several ancillary locations. The charge comprised \$4,569 as a restructuring accrual and \$1,410 for a non-cash write-off, primarily of machinery and equipment. Anticipated termination costs for 112 employees (primarily in selling and distribution) are \$3,198, of which \$330 was incurred in the second quarter for the reduction of 20 employees. Anticipated costs for closing certain locations (primarily lease costs) are \$1,371. As of October 2, 2005, this reserve balance is \$4,239, which we anticipate spending primarily during the second half of fiscal year 2006.

A rollforward of these restructuring reserves is as follows:

	Six fiscal months ended	
	October 2, 2005	October 3, 2004
Balance at beginning of period	\$ 4,766	\$ 12,063
Current accrual	4,569	—
Costs incurred	(2,515)	(8,581)
Balance at end of period	\$ 6,820	\$ 3,482

Since the inception of these aggregate reserves, \$22,953 of costs have been incurred.

In fiscal year 2002, the ESG acquisition was completed (see Note 3 to the Consolidated Financial Statements included in the Company's 2005 Annual Report on Form 10-K); and, in the first quarter of fiscal 2006, the FIAMM acquisition was completed (see Note 4 in this Form 10-Q). Estimates of restructuring actions are recorded at the time of the original acquisition accounting. Adjustments to these estimates are made up to 12 months from the acquisition date as plans are finalized. To the extent these accruals are not utilized for the intended purpose, the excess is recorded as a reduction of the purchase price, typically by reducing recorded goodwill. Costs incurred in excess of the recorded accruals are expensed as incurred.

During the first half of fiscal 2006, the Company incurred costs of \$2,467 (related to the reserves established in fiscal year 2002) primarily for employee termination payments in Germany. The balance of this reserve at October 2, 2005, is \$12,563, of which we anticipate spending approximately half during the next 18 months (primarily for employee termination payments and the cancellation of the Germany steam plant contract) and the balance (primarily related to environmental costs) at an indeterminate time in the future.

During the first half of fiscal 2006, the estimated reserve for restructuring activity related to the FIAMM acquisition was established at \$9,000 (in the first fiscal quarter) and reduced by \$3,445 in the second fiscal quarter. The current estimated total costs of \$5,555 include \$2,661 related to the termination of 102 manufacturing, selling and distribution employees, and the balance of \$2,894 for plant and warehouse closure costs, including lease terminations. During the second quarter of fiscal 2006, the Company incurred costs of \$1,070, of which \$233 was for the termination of 6 employees and the balance primarily for other closure costs in our Italian and U.K. facilities. The balance of this reserve at October 2, 2005, is \$4,485, which we anticipate spending primarily during the second half of fiscal year 2006.

A rollforward of these restructuring reserves is as follows:

	Six fiscal months ended	
	October 2, 2005	October 3, 2004
Balance at beginning of period	\$ 15,971	\$ 38,344
Current accrual	9,000	—
Current adjustment to accrual	(3,445)	—
Costs incurred	(3,537)	(8,584)
Foreign currency impact and other	(941)	(514)
Balance at end of period	\$ 17,048	\$ 29,246

Since inception of these aggregate restructuring reserves, \$38,601 of costs have been incurred.

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**NOTE 10: DEBT**

On June 15, 2005, the Company entered into a Euro 25,000 Credit Facility Agreement among EnerSys Holdings (Luxembourg), S.a.r.l., SanPaolo IMI S.p.A., as Facility Agent and lender, and Banca Intesa S.p.A., as lender (the "Euro Credit Agreement"). The proceeds from the Euro Credit Agreement were used to reduce the outstanding balance of the U.S. Credit Agreement that was utilized as bridge financing for the June 1, 2005, acquisition of the motive power battery business of FIAMM S.p.A. The Euro Credit Agreement matures on June 30, 2011, and is subject to quarterly principal amortization beginning March 31, 2007. Obligations under the Euro Credit Agreement are secured by a pledge of the shares of our Italian subsidiary and guaranty from EnerSys Capital Inc., a subsidiary of the Company. Borrowings under the Euro Credit Agreement bear interest at a floating rate based upon a EURIBOR rate plus an applicable percentage. Company debt is more fully described in Note 9 to the Consolidated Financial Statements included in the Company's 2005 Annual Report on Form 10-K.

**NOTE 11: PENSIONS**

The following table presents the components of the Company's net periodic benefit cost related to its defined benefit pension plans. Certain reclassifications have been made to the prior year disclosures to conform to the current year presentation.

	United States Plans		International Plans	
	Fiscal quarters ended		Fiscal quarters ended	
	October 2, 2005	October 3, 2004	October 2, 2005	October 3, 2004
Service cost	\$ 51	\$ 47	\$ 989	\$ 1,030
Interest cost	126	123	416	353
Expected return on plan assets	(144)	(133)	(242)	(164)
Amortization and deferral	41	32	—	—
Net periodic benefit cost	\$ 74	\$ 69	\$ 1,163	\$ 1,219

	United States Plans		International Plans	
	Six fiscal months ended		Six fiscal months ended	
	October 2, 2005	October 3, 2004	October 2, 2005	October 3, 2004
Service cost	\$ 103	\$ 98	\$ 1,709	\$ 1,965
Interest cost	253	247	806	691
Expected return on plan assets	(288)	(276)	(480)	(317)
Amortization and deferral	80	69	—	—
Net periodic benefit cost	\$ 148	\$ 138	\$ 2,035	\$ 2,339

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

	United States Plans		International Plans	
	Six fiscal months ended		Six fiscal months ended	
	October 2, 2005	October 3, 2004	October 2, 2005	October 3, 2004
Discount rate	6.0%	6.0%	2.5-5.75%	5.8-7.0%
Expected return on plan assets	9.0%	9.0%	6.0-7.75%	7.8%
Rate of compensation increase	N/A	N/A	1.0-4.0%	2.5-3.8%



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**NOTE 12: STOCK PLANS**

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.

	Fiscal quarters ended		Six fiscal months ended	
	October 2, 2005	October 3, 2004	October 2, 2005	October 3, 2004
Net earnings available to common shareholders – as reported	\$ 2,520	\$ 6,384	\$ 11,279	\$ 7,256
Stock-based compensation expense included in net earnings, net of tax	—	11	—	136
Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	(105)	(647)	(210)	(1,285)
Net earnings available to common shareholders – pro forma	\$ 2,415	\$ 5,748	\$ 11,069	\$ 6,107
Net earnings per common share – basic – as reported	\$ 0.05	\$ 0.15	\$ 0.24	\$ 0.27
Net earnings per common share – basic – pro forma	\$ 0.05	\$ 0.13	\$ 0.24	\$ 0.23
Net earnings per common share – diluted – as reported	\$ 0.05	\$ 0.15	\$ 0.24	\$ 0.27
Net earnings per common share – diluted – pro forma	\$ 0.05	\$ 0.13	\$ 0.24	\$ 0.22
Weighted average fair value of options granted during the period	\$ 6.20	N/A	\$ 6.07	\$ 2.00

**NOTE 13: 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. See Note 2 for description of the effect of IPO on shares outstanding. Weighted average common shares and common shares – diluted were as follows:

	Fiscal quarters ended		Six fiscal months ended	
	October 2, 2005	October 3, 2004	October 2, 2005	October 3, 2004
Weighted average shares of common	46,214,469	42,648,856	46,190,589	26,831,638

stock outstanding				
Assumed exercise of stock options, net of shares assumed reacquired	685,827	562,907	441,916	532,677
Weighted average common shares - diluted	46,900,296	43,211,763	46,632,505	27,364,315

At October 2, 2005, and October 3, 2004, there were 2,768,551 and 3,077,538, respectively, outstanding employee stock options that are out-of-the money and therefore were excluded from the calculation of the dilutive effect of employee stock options.

**NOTE 14: COMMITMENTS AND CONTINGENCIES**

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 (see Note 18 to the Consolidated Financial Statements included in the Company's 2005 Annual Report on Form 10-K).

**NOTE 15: 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.

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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 <sup>(1)</sup>	Consolidated
<b>Fiscal quarter ended</b>				
<b>October 2, 2005:</b>				
Net Sales	\$ 139,976	\$ 164,456	\$ —	\$ 304,432
Operating earnings (loss)	\$ 7,687	\$ 2,265	\$ (76)	\$ 9,876
<b>Fiscal quarter ended</b>				
<b>October 3, 2004:</b>				
Net Sales	\$ 129,251	\$ 132,062	\$ —	\$ 261,313
Operating earnings (loss)	\$ 9,812	\$ 10,093	\$ (73)	\$ 19,832
	Reserve Power	Motive Power	Other <sup>(1)</sup>	Consolidated
<b>Six fiscal months ended</b>				
<b>October 2, 2005:</b>				
Net Sales	\$ 276,249	\$ 332,025	\$ —	\$ 608,274
Operating earnings (loss)	\$ 16,136	\$ 11,477	\$ (90)	\$ 27,523
<b>Six fiscal months ended</b>				
<b>October 3, 2004:</b>				
Net Sales	\$ 254,051	\$ 270,523	\$ —	\$ 524,574
Operating earnings (loss)	\$ 20,940	\$ 21,127	\$ (121)	\$ 41,946

<sup>(1)</sup> Other includes certain corporate services.

### NOTE 16: SUBSEQUENT EVENTS

On October 11, 2005, the Company completed the acquisition of Geräte- und Akkumulatorwerk Zwickau GmbH (GAZ). The total purchase price for this transaction was approximately €3,000 (including assumed debt) and was financed using existing EnerSys credit facilities. GAZ is a producer of specialty nickel-based batteries utilized primarily in the energy, rail, telecommunications and uninterruptible power supply (UPS) industries worldwide. GAZ, based in Zwickau, Germany, had sales of approximately €8,000 (approximately \$9,000) for its year ending December 31, 2004.

In October 2005, we entered into interest rate swap agreements to fix interest rates on an additional \$75,000 of floating rate debt through December 22, 2010. The fixed rates per year begin December 22, 2005, and are 4.25% during the first year, 4.525% the second year, 4.80% the third year, 5.075% the fourth year, and 5.47% in the fifth year, which averages 4.82% for the five-year period.

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

The Private Securities Litigation Reform Act of 1995 (the "Reform Act") provides a safe harbor for forward-looking statements made by or on behalf of EnerSys. EnerSys and its representatives may, from time to time, make written or verbal forward-looking statements, including statements contained in 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.

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 2005 Annual Report on Form 10-K and other unforeseen risks. You should not put undue reliance on any forward-looking statements. These statements speak only as of the date of this Quarterly Report on Form 10-Q, and we undertake no obligation to update or revise these statements to reflect events or circumstances occurring after the date of this Quarterly Report on Form 10-Q.

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

- general cyclical patterns of the industries in which our customers operate;
- the extent to which we 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;

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- 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;
- our ability to successfully implement a new enterprise resource planning system;
- 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-rate debt;
- our inability to attract and retain qualified personnel;
- credit risk associated with our customers, including risk of insolvency and bankruptcy;
- our ability to successfully recover in the event of a disaster affecting our infrastructure; and
- terrorist acts or acts of war, whether in the United States or abroad, could cause damage or disruption to our operations, our suppliers, channels to market or customers, or could cause costs to increase, or create political or economic instability, any of which could have a material adverse effect on our business.

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

### **OVERVIEW**

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

We have two business segments: reserve power and motive power. Net sales classifications by segment are as follows:

- **Reserve power batteries** are 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.
- **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. All corporate and centrally incurred regional costs are allocated to the business segments based principally on net sales. We evaluate business segment cash flow and financial position performance based primarily upon capital expenditures and primary working capital levels. Primary working capital for this purpose is trade accounts receivable, plus inventories, minus trade accounts payable and the resulting net amount is divided by the trailing three month net sales (annualized) for the respective business segment or reporting location, to derive a primary working capital percentage ratio. Although we monitor the three elements of primary working capital (receivables, inventory and payables), our primary focus is on the total amount. Primary working capital was \$309.4

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million (yielding a primary working capital percentage of 25.4%) at October 2, 2005 and \$282.4 million (yielding a primary working capital percentage ratio of 24.7%) at March 31, 2005. The increase in the percentage as of October 2, 2005 versus that of March 31, 2005 was due primarily to an increase in accounts receivable, relative to sales, in all geographic regions. 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. Lastly, on a consolidated basis, we review short- and long-term debt levels, on a daily basis, with corresponding leverage ratios monitored, primarily using debt to EBITDA ratios. EBITDA is a non-GAAP measure and is defined as 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 21 manufacturing and assembly locations throughout the world. Over half of our net sales for the second quarter of fiscal 2006 and 2005 were generated outside of North America. Our management structure and financial reporting systems, and associated internal controls and procedures, are all consistent with our two business segments and three geographic regions in which we operate. We report on a March 31 fiscal year.

Our financial results are largely driven by the following factors:

- general cyclical patterns of the industries in which our customers operate;
- changes in our market share in the business segments and regions where we operate;
- changes in our selling prices and, in periods when our product costs increase, our ability to raise our selling prices to pass such cost increases through to our customers;
- the extent to which we are able to efficiently utilize our global manufacturing facilities and optimize their capacity;
- the extent to which we can control our fixed and variable costs, including those for our raw materials, manufacturing and distribution, operating activities and interest; and
- changes in our short- and long-term debt levels and changes in the floating interest rates under our credit facilities.

Several of our competitors have experienced financial difficulties. As a result, we have been subjected to continual and significant pricing pressures over the past several years. We anticipate heightened competitive pricing pressure as Chinese and other foreign producers, able to employ labor at significantly lower costs than producers in the U.S. and Western Europe, expand their export capacity and increase their marketing presence in our major U.S. and European markets. Our ability to maintain and improve our operating margins has depended, and continues to depend, on our ability to control our costs and maintain our pricing. We estimate that selling price increases have resulted in the recovery of approximately 40%, on a cumulative basis for the last six fiscal quarters since the end of fiscal 2004, of the higher costs of commodities. Our business strategy has been highly focused on increasing our market share, tightly controlling capital expenditures and cash, and reducing our costs.

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**RESULTS OF OPERATIONS**

**NET SALES**

*By segment*

	Fiscal quarter ended October 2, 2005		Fiscal quarter ended October 3, 2004		Increase	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	Percentage
Reserve power	\$ 140.0	46.0%	\$ 129.3	49.5%	\$ 10.7	8.3%
Motive power	164.4	54.0	132.0	50.5	32.4	24.5
<b>Total</b>	<b>\$ 304.4</b>	<b>100.0%</b>	<b>\$ 261.3</b>	<b>100.0%</b>	<b>\$ 43.1</b>	<b>16.5%</b>

	Six fiscal months ended October 2, 2005		Six fiscal months ended October 3, 2004		Increase	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	Percentage
Reserve power	\$ 276.3	45.4%	\$ 254.1	48.4%	\$ 22.2	8.7%
Motive power	332.0	54.6	270.5	51.6	61.5	22.7
<b>Total</b>	<b>\$ 608.3</b>	<b>100.0%</b>	<b>\$ 524.6</b>	<b>100.0%</b>	<b>\$ 83.7</b>	<b>16.0%</b>

*By region*

	Fiscal quarter ended October 2, 2005		Fiscal quarter ended October 3, 2004		Increase	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	Percentage
Americas	\$ 128.6	42.2%	\$ 109.7	42.0%	\$ 18.9	17.2%
Europe	157.6	51.8	135.0	51.6	22.6	16.7
Asia	18.2	6.0	16.6	6.4	1.6	9.6
<b>Total</b>	<b>\$ 304.4</b>	<b>100.0%</b>	<b>\$ 261.3</b>	<b>100.0%</b>	<b>\$ 43.1</b>	<b>16.5%</b>

	Six fiscal months ended October 2, 2005		Six fiscal months ended October 3, 2004		Increase/(Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	Percentage
Americas	\$ 252.8	41.6%	\$ 222.4	42.4%	\$ 30.4	13.7%
Europe	322.3	53.0	267.9	51.1	54.4	20.3
Asia	33.2	5.4	34.3	6.5	(1.1)	(3.2)
<b>Total</b>	<b>\$ 608.3</b>	<b>100.0%</b>	<b>\$ 524.6</b>	<b>100.0%</b>	<b>\$ 83.7</b>	<b>16.0%</b>

(1) Includes Europe, Middle East and Africa

Net sales increased 16.5% in the second quarter and 16.0% in the first half of fiscal 2006 over the comparable periods of fiscal 2005. Excluding the effect of foreign currency translation, net sales increased 16.2% or \$42.4 million in the second quarter and 15.1% or \$79.3 million year-to-date of fiscal 2006 over the comparable periods of 2005. The strong growth experienced in our Motive Power segment in the prior year continued into the first six months of fiscal 2006. In addition, the impact of the increased sales from the FIAMM acquisition of approximately \$17 million is reflected in the Motive Power segment in the second quarter of fiscal 2006 and \$24 million for the first six months of fiscal 2006. Our Reserve Power segment achieved a solid second quarter and first six months of

growth in fiscal 2006 primarily due to strong sales of military batteries and improving sales trends for both telecom and UPS battery markets.

Both the Americas and Europe regions results showed solid growth in the second quarter and first six months of fiscal 2006 compared to the comparable periods of 2005. Our Asia sales in the second quarter of fiscal 2006 increased 9.6% in



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comparison to the second quarter of fiscal 2005. However, our Asia sales in the first six months of fiscal 2006 decreased 3.2% in comparison to the first six months of fiscal 2005 as a result of unusually weak telecom battery sales in the first quarter of fiscal 2006 coupled with a greater focus for growth in Asia by improving the mix of our sales to higher margin end markets.

### GROSS PROFIT

	Fiscal quarter ended October 2, 2005		Fiscal quarter ended October 3, 2004		Increase	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	Percentage
Gross profit	\$ 64.2	21.1%	\$ 61.1	23.4%	\$ 3.1	5.1%

	Six fiscal months ended October 2, 2005		Six fiscal months ended October 3, 2004		Increase	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	Percentage
Gross profit	\$ 130.7	21.5%	\$ 127.8	24.4%	\$ 2.9	2.3%

Gross profit increased 5.1% in the second quarter and 2.3% in the first half of fiscal 2006 compared to fiscal 2005. Gross profit, excluding the effect of foreign currency translation, increased 4.9% or \$3.0 million in the second quarter and 1.8% or \$2.3 million year-to-date in fiscal 2006 over the comparable periods of fiscal 2005. Gross profit percentage of net sales declined 230 basis points in the second quarter and 290 basis points year-to-date of fiscal 2006 in comparison to the comparable periods of fiscal 2005. The primary cause of the decline in gross profit margin is attributed to higher raw material costs. Pricing recovery in certain areas continues to be challenging, particularly in the Reserve Power segment. We estimate that the cost of lead, our most significant raw material, decreased our gross profit by approximately \$10 million in the second quarter and \$15 million year-to-date in fiscal 2006 over the comparable periods of fiscal 2005. We continue to focus on cost savings initiatives and our lead hedging policy to help mitigate the rising cost of raw materials. Our sales initiatives will continue to focus on improving product mix to higher margin products and implementing sales price increases to offset raw material cost increases.

### OPERATING EXPENSES

	Fiscal quarter ended October 2, 2005		Fiscal quarter ended October 3, 2004		Increase	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	Percentage
Operating expenses	\$ 48.3	15.9%	\$ 41.3	15.8%	\$ 7.0	16.9%

	Six fiscal months ended October 2, 2005		Six fiscal months ended October 3, 2004		Increase	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	Percentage
Operating expenses	\$ 97.2	16.0%	\$ 85.9	16.4%	\$ 11.3	13.2%

Operating expenses increased 16.9% in the second quarter and 13.2% in the second half of fiscal 2006 over the comparable fiscal 2005 periods. Operating expenses, excluding the effect of foreign currency translation, increased 17.0% or \$7.0 million in the second quarter and 12.5% or \$10.7 million year-to-date in fiscal 2006 over the comparable periods of fiscal 2005. Operating expenses as a percentage of net sales increased 10 basis points in the second quarter of fiscal 2006 in comparison to the comparable period in fiscal 2005, even as we continued to experience significant new public company costs relative to the prior year. We continue to focus on expense saving initiatives and on further leveraging the fixed components of our operating expenses. Included in the second quarter and year-to-date of fiscal 2006 operating expenses were public company expenses, primarily those related to compliance with Sarbanes-Oxley legislation, of approximately \$1.6 million and \$3.6 million, respectively.

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Selling expenses, our main component of operating expenses, were 64.8% and 64.4% of total operating expenses in the second quarter and year-to-date of fiscal 2006 compared to 68.2% and 66.6% of total operating expenses in the second quarter and year-to-date of fiscal 2005.

## RESTRUCTURING CHARGE

During the second quarter of fiscal 2006, the Company incurred a restructuring charge of \$6.0 million, primarily for severance costs related to staff reductions and other restructuring activities in Europe as discussed in Note 9 to the Consolidated Financial Statements in this report.

## OPERATING EARNINGS

	Fiscal quarter ended October 2, 2005		Fiscal quarter ended October 3, 2004		Increase/(Decrease)	
	In Millions	Percentage of Net Sales	In Millions	Percentage of Net Sales	In Millions	Percentage
Reserve power	\$ 7.7	5.5%	\$ 9.8	7.6%	\$ (2.1)	(21.4)%
Motive power	2.3	1.4	10.1	7.7	(7.8)	(77.2)
Other	(0.1)	—	(0.1)	—	—	—
Total	\$ 9.9	3.3%	\$ 19.8	7.6%	\$ (9.9)	(50.0)%

	Six fiscal months ended October 2, 2005		Six fiscal months ended October 3, 2004		Increase/(Decrease)	
	In Millions	Percentage of Net Sales	In Millions	Percentage of Net Sales	In Millions	Percentage
Reserve power	\$ 16.1	5.8%	\$ 20.9	8.2%	\$ (4.8)	(23.0)%
Motive power	11.5	3.5	21.1	7.8	(9.6)	(45.5)
Other	(0.1)	—	(0.1)	—	—	—
Total	\$ 27.5	4.5%	\$ 41.9	8.0%	\$ (14.4)	(34.4)%

Operating earnings decreased 50.0% in the second quarter and 34.4% in the first half of fiscal 2006 compared to fiscal 2005. Excluding the effect of foreign currency translation, operating earnings decreased 50.3% or \$10.0 million in the second quarter and 33.8% or \$14.2 million year-to-date in fiscal 2006 over the comparable periods of fiscal 2005. Excluding the second quarter of fiscal 2006 restructuring charge, operating earnings were \$15.9 million in the second quarter, a decrease of 19.7%, and were 5.2% of net sales. For the year-to-date period, operating earnings (excluding the restructuring charge) were \$33.5 million, a decrease of 20.0%, and were 5.5% of net sales. As discussed above, our operating earnings were significantly affected by higher raw material costs and the restructuring charge, partially offset by selling price increases and our continuing cost savings programs.

## INTEREST EXPENSE

Interest expense of \$6.3 million in the second quarter of fiscal 2006 was \$0.4 million higher than in the second quarter of fiscal 2005. Our average debt outstanding was \$421.9 million for the second quarter of fiscal 2006 as compared to \$442.8 million for the second quarter of fiscal 2005. Our average interest rate incurred in the second quarter of fiscal 2006 was 5.52% compared to 4.78% in the second quarter of fiscal 2005. Included in the second quarter of fiscal 2006 and 2005 interest expense are non-cash charges of \$0.4 and \$0.3 million, respectively, for deferred financing fees. The increase in interest expense in the second quarter of fiscal 2006 is attributed primarily to higher interest rates on variable rate borrowings in the second quarter of fiscal 2006 compared to the comparable period in fiscal 2005 and the increased indebtedness from the June 2005 FIAMM acquisition, partially offset by the impact of the reduction in debt related to the Company's IPO issuance in August 2004.

Interest expense of \$12.1 million year-to-date of fiscal 2006 (net of interest income of \$0.2 million) was \$1.2 million lower than year-to-date of fiscal 2005. Our average debt outstanding was \$409.6 million for year-to-date of fiscal 2006 as compared to \$479.5 million for year-to-date of fiscal 2005. Our average interest rate incurred in year-to-date of fiscal 2006 was 5.47% compared to 4.89% in year-to-date of fiscal 2005. Included in the year-to-date of fiscal 2006 and 2005 interest

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expense are non-cash charges of \$0.7 million for deferred financing fees. The decrease in interest expense year-to-date of fiscal 2006 is attributed primarily to the reduction in debt related to the Company's IPO issuance in August 2004 and a reduction of interest expense associated with customary employee benefit plans in Europe, partially offset by higher interest rates on variable rate borrowings in year-to-date of fiscal 2006 compared to the comparable period in fiscal 2005 and the increased indebtedness from the June 2005 FIAMM acquisition.

### **OTHER (INCOME) EXPENSE, NET**

Other income of \$0.1 million was recorded in the second quarter of fiscal 2006 compared to other income of \$1.5 million in the comparable period of fiscal 2005. This \$1.4 million reduction in the second quarter of fiscal 2005 is primarily attributed to reduced foreign currency net transaction gains on certain debt instruments.

Other income of \$1.6 million was recorded year-to-date in fiscal 2006 compared to other income of \$1.1 million in the comparable period of fiscal 2005. This \$0.5 million increase in year-to-date fiscal 2006 is primarily attributed to an increase in foreign currency net transaction gains on certain debt instruments in the first quarter of fiscal 2006.

### **EARNINGS BEFORE INCOME TAXES**

As a result of the items discussed above, earnings before income taxes decreased \$5.7 million in the second quarter and \$6.8 million year-to-date of fiscal 2006 compared to the comparable periods in fiscal 2005. These reductions were primarily due to the effects of higher raw material costs, partially offset by selling price increases and cost savings programs.

### **INCOME TAX EXPENSE**

The second quarter and year-to-date fiscal 2006 effective tax rates were 31.7% and 33.7%, respectively, compared to 32.2% and 35.2%, respectively, in the comparable periods in fiscal 2005. These rate reductions are primarily due to a change in the mix of earnings among our various legal entities in multiple foreign jurisdictions, which resulted in a higher proportion of our consolidated earnings being in tax jurisdictions with tax rates lower than our previous global averages.

### **NET EARNINGS AVAILABLE TO COMMON SHAREHOLDERS**

As a result of the items discussed above, second quarter fiscal 2006 net earnings of \$2.5 million (0.8% of net sales) were below the second quarter fiscal 2005 net earnings of \$6.4 million (2.4% of net sales) by \$3.9 million or 60.9%. Year-to-date fiscal 2006 net earnings of \$11.3 million (1.9% of net sales) were below year-to-date fiscal 2005 net earnings of \$15.4 million (2.9% of net sales) by \$4.1 million or 26.6%. These reductions were primarily due to continued higher raw material costs incurred during fiscal 2006 versus the comparable periods in fiscal 2005, partially offset by selling price increases and cost savings.

Net earnings per common share in the second quarter of fiscal 2006 (both for basic and diluted) decreased to \$0.05 from \$0.15 in the second fiscal quarter of 2005. Net earnings per common share (both for basic and diluted) for year-to-date fiscal 2006 decreased to \$0.24 from \$0.27 year-to-date fiscal 2005.

### **RECONCILIATION OF NON-GAAP FINANCIAL 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 reflect changes in financial results associated with our IPO and our restructuring initiatives. Management believes presentations of financial measures reflecting these adjustments provide important supplemental measurement information in evaluating the operating results of our business as distinct from results that include items that are not indicative of ongoing operating results; in particular, the charges that the Company incurs as a result of restructuring activities associated with our acquisitions. Because these charges are incurred as a result of an acquisition, they are not a valid measure of the performance of our underlying business and accordingly they are non-recurring in nature. These disclosures have limitations as an analytical tool, should not be viewed as a substitute for net earnings determined in accordance with GAAP, should not be considered in isolation or as a substitute for analysis of the Company's results as reported under GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies. Management believes that this pro forma supplemental information will be helpful in understanding the Company's ongoing operating results. This supplemental presentation should not be construed as an inference that the Company's future results will be unaffected by similar adjustments to net earnings determined in accordance with GAAP.

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Pro forma net earnings are calculated giving effect to the IPO as if it occurred as of the beginning of the pro forma periods presented, and excluding restructuring and special charges. Pro forma basic and diluted weighted-average share amounts are calculated as of the IPO date for the fiscal 2005 periods. The following tables provide additional information regarding certain non-GAAP measures.

	Fiscal quarters ended	
	October 2, 2005	October 3, 2004
<i>(in millions, except share and per share amounts)</i>		
<b>Net earnings reconciliation</b>		
<i>As reported</i> net earnings available to common shareholders		
	\$ 2.5	\$ 6.4
Pro forma adjustments (net of tax):		
Interest expense	—	0.5 <sup>(1)</sup>
Restructuring and special charges	4.1	3.9
Total pro forma adjustments	4.1	4.4
<b>Pro forma net earnings available to common shareholders</b>	<b>\$ 6.6</b>	<b>\$ 10.8</b>
<b>Basic shares reconciliation</b>		
<i>As reported</i> basic weighted average shares		
	46,214,469	42,648,856
Pro forma adjustments:		
Assumed beginning of fiscal 2005 year weighting	—	3,296,703
<b>Pro forma basic weighted average shares</b>	<b>46,214,469</b>	<b>45,945,559</b>
<b>Diluted shares reconciliation</b>		
<i>As reported</i> diluted weighted average shares		
	46,900,296	43,211,763
Pro forma adjustments:		
Adjust dilutive options to IPO effective date	—	(60,460)
Assumed beginning of fiscal 2005 year weighting	—	3,296,703
Total pro forma adjustments	—	3,236,243
<b>Pro forma diluted weighted average shares</b>	<b>46,900,296</b>	<b>46,448,006</b>
<b>Pro forma earnings per share:</b>		

Basic	\$	0.14	\$	0.23
Diluted	\$	0.14	\$	0.23
<b>Reported earnings per share:</b>				
Basic	\$	0.05	\$	0.15
Diluted	\$	0.05	\$	0.15

(1) Resulting from the net additional debt (adjusted for the assumed prepayment of debt associated with the March 2004 recapitalization) as if it occurred as of April 1, 2004.

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Six fiscal months ended

	October 2, 2005		October 3, 2004	
<i>(in millions, except share and per share amounts)</i>				
<b>Net earnings reconciliation</b>				
<i>As reported</i> net earnings available to common shareholders	\$	11.3	\$	7.3
Pro forma adjustments (net of tax):				
Interest expense		—		1.9 <sup>(1)</sup>
Restructuring and special charges		4.1		3.9
Series A convertible stock dividends		—		8.2
Total pro forma adjustments		4.1		14.0
<b>Pro forma net earnings available to common shareholders</b>	<b>\$</b>	<b>15.4</b>	<b>\$</b>	<b>21.3</b>
<b>Basic shares reconciliation</b>				
<i>As reported</i> basic weighted average shares		46,190,589		26,831,638
Pro forma adjustments:				
Assumed beginning of fiscal 2005 year weighting		—		19,113,921
<b>Pro forma basic weighted average shares</b>		<b>46,190,589</b>		<b>45,945,559</b>
<b>Diluted shares reconciliation</b>				
<i>As reported</i> diluted weighted average shares		46,632,505		27,364,315
Pro forma adjustments:				
Adjust dilutive options to IPO effective date		—		(30,230)
Assumed beginning of fiscal 2005 year weighting		—		19,113,921
Total pro forma adjustments		—		19,083,691
<b>Pro forma diluted weighted average shares</b>		<b>46,632,505</b>		<b>46,448,006</b>
<b>Pro forma earnings per share:</b>				
Basic	\$	0.33	\$	0.46

Diluted	\$	0.33	\$	0.46
<b>Reported earnings per share:</b>				
Basic	\$	0.24	\$	0.27
Diluted	\$	0.24	\$	0.27

(1) Resulting from the net additional debt (adjusted for the assumed prepayment of debt associated with the March 2004 recapitalization) as if it occurred as of April 1, 2004.

**LIQUIDITY AND CAPITAL RESOURCES**

Operating activities provided cash of \$12.9 million for the six fiscal months ended October 2, 2005, and \$1.1 million in the comparable period in fiscal 2005. This increase was due primarily to a \$4.9 million reduction of cash used for primary working capital and reduced spending for restructuring of \$11.1 million in the first six fiscal months of 2006 compared to fiscal 2005.

Investing activities used cash of \$50.8 million for the six fiscal months ended October 2, 2005, compared to cash used of \$12.3 million in the comparable period in fiscal 2005. This change was primarily due to cash paid of \$33.0 million for the FIAMM acquisition. Capital expenditures were \$3.8 million higher in the year-to-date fiscal 2006 period compared to fiscal 2005. The higher level of capital spending was primarily related to selected capacity expansion and new products.

Financing activities provided cash of \$28.7 million year-to-date fiscal 2006, as compared to cash provided of \$9.5 million in the comparable period of fiscal 2005. This change is primarily attributed to the new debt financing of €25.0 million (approximately \$29.9 million) related to the FIAMM acquisition.

All obligations under our U.S. Credit Agreement are secured by, among other things, substantially all of our U.S. assets. All obligations under our Euro Credit Agreement are secured by a pledge of the shares of our Italian subsidiary and a guaranty of our subsidiary, EnerSys Capital Inc. Our U.S. and Euro Credit Agreements contain various covenants which, absent prepayment in full of the indebtedness and other obligations, or the receipt of waivers, limit our ability to conduct certain specified business transactions, buy or sell assets out of the ordinary course of business, engage in sale and leaseback transactions, pay dividends and take certain other actions.

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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 to the Consolidated Financial Statements included in the Company's 2005 Annual Report on Form 10-K for the year ended March 31, 2005, for a detailed description of debt.

### 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 permit 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.

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.

In October 2005, subsequent to the end of the second quarter of fiscal 2006, we entered into interest rate swap agreements to fix interest rates on an additional \$75.0 million of floating rate debt through December 22, 2010. The fixed rates per year begin December 22, 2005, and are 4.25% during the first year, 4.525% the second year, 4.80% the third year, 5.075% the fourth year, and 5.47% in the fifth year, which averages 4.82% for the five-year period.

A 1% increase in U.S. LIBOR interest rates would increase interest expense by approximately \$1.6 million.

We have a significant risk in our exposure to certain raw materials, which we estimate were approximately half of total cost of goods sold for the first six months of fiscal 2006 and 2005.

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 and forward purchase contracts with financial institutions to hedge the price of lead. Each contract is for a period not extending beyond one year. Under these contracts, we were committed to the purchase or the purchase price of the following amounts of lead:

Date	\$'s (in millions)	# Pounds (in millions)	Average Cost/Pound	Approximate % of Lead Purchases <sup>(1)</sup>
October 2, 2005	\$ 27.5	69.2	\$ 0.40	18%
March 31, 2005	8.0	21.1	0.38	6%
October 3, 2004	34.2	97.6	0.35	28%

<sup>(1)</sup> Based on estimated annual purchases for the period then ended.

As of October 2, 2005, through a combination of lead hedges and our ongoing tolling programs, coupled with the effect of our FIFO accounting method, we have approximately 70% of our remaining lead purchase requirements that will impact our income statement for the 2<sup>nd</sup> half of fiscal 2006, covered at approximately \$0.40/lb.

We estimate that a 10% increase in lead over our estimated cost in fiscal 2006 would increase our annual total cost of goods sold by approximately \$17.0 million.



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We are also exposed to foreign currency exchange rates. Our largest exposure is from the purchase and conversion of U.S. dollar based lead costs into local currencies in Europe, China and Mexico. Additionally, we have currency exposures from intercompany trade transactions. To hedge these exposures we have entered into forward contracts with financial institutions. Each contract is for a period not extending beyond one year. As of October 2, 2005, March 31, 2005 and October 3, 2004, we had entered into a total of \$49.8 million, \$0 and \$0 forward contracts, respectively.

Based primarily on statistical currency correlations on the Company's exposures in fiscal 2005, we are highly confident that the pretax effect on our annual earnings of changes in the principal currencies in which we conduct our business would not be in excess of approximately \$4 million in more than one year out of twenty years.

### ITEM 4. CONTROLS AND PROCEDURES

(a) 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 (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective.

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

## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings

See Part 1, Item 1, Note 14, "Commitments and Contingencies," for discussion of our legal proceedings.

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

(a) The Annual Meeting of Shareholders of the Registrant was held on July 21, 2005.

(b) The following directors were elected at the meeting: Eric T. Fry, Dennis S. Marlo, and John F. Lehman. Directors whose term of office continued after the meeting include: John D. Craig, Chad L. Elliott, Howard I. Hoffen, and Michael C. Hoffman.

(c) The following matters were voted on at the Annual Meeting:

#### 1. Election of Directors

Name of Director	Number of Votes Cast			
	For	Against or Withheld	Abstentions	Broker Non-Votes
Eric T. Fry	31,939,123	6,973,454	—	—
Dennis S. Marlo	37,699,557	1,213,020	—	—
John F. Lehman	37,699,557	1,213,020	—	—

#### 2. Ratification of the appointment of Ernst & Young LLP as independent auditor for the Registrant for the fiscal year ending March 31, 2006.

	Number of Votes Cast			
	For	Against or Withheld	Abstentions	Broker Non-Votes
	38,864,662	45,205	2,710	—

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**Item 6. Exhibits**

- 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.



**EXHIBIT INDEX**

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
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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.





