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EnerSys

Form 10-Q

February 08, 2017

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

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended January 1, 2017**

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number: 001-32253

**EnerSys**

(Exact name of registrant as specified in its charter)

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

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2366 Bernville Road

Reading, Pennsylvania 19605

(Address of principal executive offices) (Zip Code)

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

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

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

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

Large accelerated filer  Accelerated filer

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

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

Common Stock outstanding at February 3, 2017: 43,430,129 shares

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

|  | <b>January 1,<br/>2017</b> | <b>March 31,<br/>2016</b> |
|--|----------------------------|---------------------------|
| <b>Assets</b>  |                            |                           |
| Current assets:  |                            |                           |
| Cash and cash equivalents  | \$467,149                  | \$397,307                 |
| Accounts receivable, net of allowance for doubtful accounts: January 1, 2017 - \$12,594; March 31, 2016 - \$11,393   | 444,265                    | 490,799                   |
| Inventories, net   | 370,196                    | 331,081                   |
| Prepaid and other current assets   | 84,262                     | 77,052                    |
| Total current assets   | 1,365,872                  | 1,296,239                 |
| Property, plant, and equipment, net  | 341,715                    | 357,409                   |
| Goodwill   | 336,816                    | 353,547                   |
| Other intangible assets, net   | 156,771                    | 159,658                   |
| Deferred taxes   | 32,418                     | 33,530                    |
| Other assets   | 12,421                     | 14,105                    |
| Total assets   | \$2,246,013                | \$2,214,488               |
| <b>Liabilities and Equity</b>  |                            |                           |
| Current liabilities:   |                            |                           |
| Short-term debt  | \$35,879                   | \$22,144                  |
| Accounts payable   | 202,885                    | 228,442                   |
| Accrued expenses   | 224,009                    | 200,585                   |
| Total current liabilities  | 462,773                    | 451,171                   |
| Long-term debt, net of unamortized debt issuance costs   | 600,562                    | 606,221                   |
| Deferred taxes   | 45,243                     | 46,008                    |
| Other liabilities  | 77,952                     | 86,656                    |
| Total liabilities  | 1,186,530                  | 1,190,056                 |
| Commitments and contingencies  |                            |                           |
| Redeemable noncontrolling interests  | —                          | 5,997                     |
| Equity:  |                            |                           |
| Preferred Stock, \$0.01 par value, 1,000,000 shares authorized, no shares issued or outstanding at January 1, 2017 and at March 31, 2016   | —                          | —                         |
| Common Stock, \$0.01 par value per share, 135,000,000 shares authorized; 54,353,403 shares issued and 43,430,129 shares outstanding at January 1, 2017; 54,112,776 shares issued and 43,189,502 shares outstanding at March 31, 2016 | 544                        | 541                       |
| Additional paid-in capital   | 459,065                    | 452,097                   |
| Treasury stock, at cost, 10,923,274 shares held as of January 1, 2017 and as of March 31, 2016   | (439,800 )                 | (439,800 )                |
| Retained earnings  | 1,205,458                  | 1,097,642                 |
| Accumulated other comprehensive loss   | (170,707 )                 | (97,349 )                 |
| Total EnerSys stockholders' equity   | 1,054,560                  | 1,013,131                 |
| Nonredeemable noncontrolling interests   | 4,923                      | 5,304                     |
| Total equity   | 1,059,483                  | 1,018,435                 |
| Total liabilities and equity   | \$2,246,013                | \$2,214,488               |
| See accompanying notes.  |                            |                           |

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

|   | <b>Quarter ended</b> |                 |
|---|----------------------|-----------------|
|   | <b>January 1,</b>    | <b>December</b> |
|   | <b>2017</b>          | <b>27, 2015</b> |
| Net sales   | \$563,697            | \$573,573       |
| Cost of goods sold  | 408,315              | 427,691         |
| Inventory adjustment relating to exit activities - See Note 8       | (502                 | ) —             |
| Gross profit  | 155,884              | 145,882         |
| Operating expenses  | 85,014               | 87,217          |
| Restructuring and other exit (credits) charges - See Note 8         | (1,153               | ) 3,204         |
| Legal proceedings charge - See Note 7                               | 17,000               | —               |
| Operating earnings  | 55,023               | 55,461          |
| Interest expense  | 5,646                | 5,329           |
| Other (income) expense, net   | (1,247               | ) 1,142         |
| Earnings before income taxes  | 50,624               | 48,990          |
| Income tax expense  | 13,529               | 10,776          |
| Net earnings  | 37,095               | 38,214          |
| Net earnings (losses) attributable to noncontrolling interests      | 860                  | (264            |
| Net earnings attributable to EnerSys stockholders                   | \$36,235             | \$38,478        |
| Net earnings per common share attributable to EnerSys stockholders: |                      |                 |
| Basic   | \$0.83               | \$0.87          |
| Diluted   | \$0.82               | \$0.86          |
| Dividends per common share  | \$0.175              | \$0.175         |
| Weighted-average number of common shares outstanding:               |                      |                 |
| Basic   | 43,429,525           | 44,394,925      |
| Diluted   | 44,049,674           | 44,976,204      |
| See accompanying notes.   |                      |                 |

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

|   | <b>Nine months ended</b>   |                              |
|---|----------------------------|------------------------------|
|   | <b>January 1,<br/>2017</b> | <b>December<br/>27, 2015</b> |
| Net sales   | \$1,740,348                | \$1,704,775                  |
| Cost of goods sold  | 1,254,678                  | 1,253,539                    |
| Inventory adjustment relating to exit activities - See Note 8       | 2,157                      | —                            |
| Gross profit  | 483,513                    | 451,236                      |
| Operating expenses  | 277,512                    | 261,286                      |
| Restructuring and other exit charges - See Note 8                   | 5,037                      | 7,051                        |
| Legal proceedings charge - See Note 7                               | 17,000                     | 3,201                        |
| Gain on sale of facility  | —                          | (4,348 )                     |
| Operating earnings  | 183,964                    | 184,046                      |
| Interest expense  | 16,820                     | 16,696                       |
| Other (income) expense, net   | (496 )                     | 2,573                        |
| Earnings before income taxes  | 167,640                    | 164,777                      |
| Income tax expense  | 43,133                     | 38,861                       |
| Net earnings  | 124,507                    | 125,916                      |
| Net losses attributable to noncontrolling interests                 | (1,937 )                   | (974 )                       |
| Net earnings attributable to EnerSys stockholders                   | \$126,444                  | \$126,890                    |
| Net earnings per common share attributable to EnerSys stockholders: |                            |                              |
| Basic   | \$2.92                     | \$2.85                       |
| Diluted   | \$2.88                     | \$2.76                       |
| Dividends per common share  | \$0.525                    | \$0.525                      |
| Weighted-average number of common shares outstanding:               |                            |                              |
| Basic   | 43,375,474                 | 44,524,289                   |
| Diluted   | 43,943,010                 | 45,912,659                   |
| See accompanying notes.   |                            |                              |

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

|  | <b>Quarter ended</b>       |                              | <b>Nine months ended</b>   |                              |
|--|----------------------------|------------------------------|----------------------------|------------------------------|
|  | <b>January 1,<br/>2017</b> | <b>December<br/>27, 2015</b> | <b>January 1,<br/>2017</b> | <b>December<br/>27, 2015</b> |
| Net earnings   | \$37,095                   | \$38,214                     | \$124,507                  | \$125,916                    |
| Other comprehensive (loss) income:                                   |                            |                              |                            |                              |
| Net unrealized (loss) gain on derivative instruments, net of tax     | (2,017 )                   | 4,021                        | 411                        | (1,416 )                     |
| Pension funded status adjustment, net of tax                         | 198                        | 292                          | 747                        | 930                          |
| Foreign currency translation adjustment                              | (52,754 )                  | (13,099 )                    | (74,922 )                  | (20,754 )                    |
| Total other comprehensive loss, net of tax                           | (54,573 )                  | (8,786 )                     | (73,764 )                  | (21,240 )                    |
| Total comprehensive (loss) income                                    | (17,478 )                  | 29,428                       | 50,743                     | 104,676                      |
| Comprehensive income (loss) attributable to noncontrolling interests | 648                        | (823 )                       | (2,343 )                   | (2,399 )                     |
| Comprehensive (loss) income attributable to EnerSys stockholders     | \$(18,126 )                | \$30,251                     | \$53,086                   | \$107,075                    |
| See accompanying notes.  |                            |                              |                            |                              |

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

|   | <b>Nine months ended</b> |                 |
|---|--------------------------|-----------------|
|   | <b>January 1,</b>        | <b>December</b> |
|   | <b>2017</b>              | <b>27, 2015</b> |
| <b>Cash flows from operating activities</b>   |                          |                 |
| Net earnings  | \$ 124,507               | \$ 125,916      |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                          |                 |
| Depreciation and amortization   | 40,468                   | 41,915          |
| Write-off of assets relating to restructuring and other exit charges                | 1,435                    | 398             |
| Non-cash write-off of property, plant and equipment                                 | 6,300                    | —               |
| Derivatives not designated in hedging relationships:                                |                          |                 |
| Net losses  | 202                      | 119             |
| Cash (settlements) proceeds   | (646 )                   | 386             |
| Provision for doubtful accounts   | 1,952                    | 3,169           |
| Deferred income taxes   | (683 )                   | (3,248 )        |
| Non-cash interest expense   | 1,041                    | 2,447           |
| Stock-based compensation  | 14,556                   | 14,883          |
| Gain on sale of facility  | —                        | (4,348 )        |
| Gain on disposal of property, plant, and equipment                                  | (10 )                    | (8 )            |
| Legal proceedings accrual (reversal of legal accrual, net of fees )                 | 17,000                   | (799 )          |
| Changes in assets and liabilities:  |                          |                 |
| Accounts receivable   | 22,843                   | 53,969          |
| Inventories   | (55,888 )                | (5,705 )        |
| Prepaid and other current assets  | (11,545 )                | 1,646           |
| Other assets  | 857                      | (1,201 )        |
| Accounts payable  | (14,701 )                | (1,244 )        |
| Accrued expenses  | 13,856                   | 2,498           |
| Other liabilities   | 5,163                    | 1,922           |
| Net cash provided by operating activities   | 166,707                  | 232,715         |
| <b>Cash flows from investing activities</b>   |                          |                 |
| Capital expenditures  | (36,008 )                | (45,695 )       |
| Purchase of businesses  | (12,392 )                | (39,079 )       |
| Proceeds from sale of facility  | —                        | 9,179           |
| Proceeds from disposal of property, plant, and equipment                            | 568                      | 866             |
| Net cash used in investing activities   | (47,832 )                | (74,729 )       |
| <b>Cash flows from financing activities</b>   |                          |                 |
| Net increase in short-term debt   | 13,639                   | 5,535           |
| Proceeds from revolving credit borrowings   | 191,300                  | 300,000         |
| Repayments of revolving credit borrowings   | (186,750 )               | (288,000 )      |
| Proceeds from long-term debt  | —                        | 300,000         |
| Repayments of Convertible Notes   | —                        | (172,266 )      |
| Repayments of long-term debt  | (11,250 )                | (3,750 )        |
| Debt issuance costs   | —                        | (4,986 )        |
| Option proceeds   | 5                        | 139             |
| Payment of taxes related to net share settlement of equity awards                   | (7,668 )                 | (15,348 )       |
| Excess tax benefits from exercise of stock options and vesting of equity awards     | —                        | 4,175           |

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|  |           |            |
|--|-----------|------------|
| Purchase of treasury stock                                   | —         | (120,637 ) |
| Prepayment of accelerated stock repurchase                   | —         | (60,000 )  |
| Dividends paid to stockholders                               | (22,800 ) | (23,322 )  |
| Other  | (77 )     | (106 )     |
| Net cash used in financing activities                        | (23,601 ) | (78,566 )  |
| Effect of exchange rate changes on cash and cash equivalents | (25,432 ) | (2,224 )   |
| Net increase in cash and cash equivalents                    | 69,842    | 77,196     |
| Cash and cash equivalents at beginning of period             | 397,307   | 268,921    |
| Cash and cash equivalents at end of period                   | \$467,149 | \$346,117  |
| See accompanying notes.                                      |           |            |

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**ENERSYS**

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

**(In Thousands, Except Share and Per Share Data)**

**1. Basis of Presentation**

The accompanying interim unaudited consolidated condensed financial statements of EnerSys (the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and notes required for complete financial statements. In the opinion of management, the unaudited consolidated condensed financial statements include all normal recurring adjustments considered necessary for the fair presentation of the financial position, results of operations, and cash flows for the interim periods presented. The financial statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in the Company’s 2016 Annual Report on Form 10-K (SEC File No. 001-32253), which was filed on May 31, 2016 (the “2016 Annual Report”).

The Company reports interim financial information for 13-week periods, except for the first quarter, which always begins on April 1, and the fourth quarter, which always ends on March 31. The four quarters in fiscal 2017 end on July 3, 2016, October 2, 2016, January 1, 2017, and March 31, 2017, respectively. The four quarters in fiscal 2016 ended on June 28, 2015, September 27, 2015, December 27, 2015, and March 31, 2016, respectively.

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

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

*Recently Issued Accounting Pronouncements*

In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” providing guidance on revenue from contracts with customers that will supersede most current revenue recognition guidance, including industry-specific guidance. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. In July 2015, the FASB voted to delay the effective date for interim and annual reporting periods beginning after December 15, 2017, with early adoption permissible one year earlier. The standard permits the use of either modified retrospective or full retrospective transition methods. The Company has not yet selected a transition method and is currently evaluating the impact, if any, of the adoption of this guidance on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842)”, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). This update requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase of the leased asset by the lessee. This classification will determine whether the lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. This update is effective for reporting periods beginning after December 15, 2018, using a modified retrospective approach, with early adoption permitted. The Company is currently assessing the potential impact that the adoption will have on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, “Improvements to Employee Share-Based Payment Accounting (Topic 718)”. This update simplifies several aspects related to how share-based payments are accounted for and presented in the financial statements, including the accounting for forfeitures and tax-effects related to share-based payments at settlement, and the classification of excess tax benefits and shares surrendered for tax withholdings in the statement of cash flows. This update is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption permitted. The Company early adopted this standard for the quarter ended July 3, 2016. The impact of the adoption of this standard was as follows:

- approximately \$780 of excess tax benefits was recorded through income tax expense for the nine months of fiscal 2017 as a discrete item, adopted on a prospective basis;
- excess tax benefits were included within operating cash flows adopted on a prospective basis;

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• cash paid by the Company when directly withholding shares to satisfy an employee's statutory tax obligations continued to be classified as a financing activity; and

• no impact on prior periods due to adopting the guidance on a prospective basis.

The Company has elected to continue its current policy of estimating forfeitures rather than recognizing forfeitures when they occur.

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**Table of Contents****2. Inventories**

Inventories, net consist of:

|                 | January 1,<br>2017 | March 31,<br>2016 |
|-----------------|--------------------|-------------------|
| Raw materials   | \$93,354           | \$84,198          |
| Work-in-process | 113,220            | 104,085           |
| Finished goods  | 163,622            | 142,798           |
| Total           | \$370,196          | \$331,081         |

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

The following tables represent the financial assets and (liabilities) measured at fair value on a recurring basis as of January 1, 2017 and March 31, 2016 and the basis for that measurement:

|                                    | Total Fair Value<br>Measurement<br>January 1, 2017 | Quoted Price in<br>Active Markets<br>for Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|------------------------------------|--|---|---|--|
| Lead forward contracts             | \$ (3,015 )  | \$ —  | \$ (3,015 )   | \$ —   |
| Foreign currency forward contracts | 5  | —   | 5   | —  |
| Total derivatives                  | \$ (3,010 )  | \$ —  | \$ (3,010 )   | \$ —   |

|                                    | Total Fair<br>Value<br>Measurement<br>March 31,<br>2016 | Quoted Price in<br>Active Markets<br>for Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|------------------------------------|---|---|---|--|
| Lead forward contracts             | \$ (499 )   | \$ —  | \$ (499 )   | \$ —   |
| Foreign currency forward contracts | (988 )  | —   | (988 )  | —  |
| Total derivatives                  | \$ (1,487 )   | \$ —  | \$ (1,487 )   | \$ —   |

The fair values of lead forward contracts are calculated using observable prices for lead as quoted on the London Metal Exchange (“LME”) and, therefore, were classified as Level 2 within the fair value hierarchy, as described in Note 1, Summary of Significant Accounting Policies to the Company’s consolidated financial statements included in its 2016 Annual Report.

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

**Financial Instruments**

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

The fair value of the Company’s short-term debt and borrowings under the 2011 Credit Facility (as defined in Note 9), approximate their respective carrying value, as they are variable rate debt and the terms are comparable to market terms as of the balance sheet dates and are classified as Level 2.

The Company’s 5.00% Senior Notes due 2023 (the “Notes”), with an original face value of \$300,000, were issued in April 2015. The fair value of these Notes represent the trading values based upon quoted market prices and are classified as Level 2. The Notes were trading at approximately 101% and 96% of face value on January 1, 2017 and March 31, 2016, respectively.



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The carrying amounts and estimated fair values of the Company's derivatives and Notes at January 1, 2017 and March 31, 2016 were as follows:

|                               | January 1, 2017 |            | March 31, 2016  |            |
|-------------------------------|-----------------|------------|-----------------|------------|
|                               | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| <b>Financial assets:</b>      |                 |            |                 |            |
| Derivatives <sup>(1)</sup>    | \$5             | \$5        | \$—             | \$—        |
| <b>Financial liabilities:</b> |                 |            |                 |            |
| Notes <sup>(2)</sup>          | \$300,000       | \$303,000  | \$300,000       | \$288,000  |
| Derivatives <sup>(1)</sup>    | 3,015           | 3,015      | 1,487           | 1,487      |

<sup>(1)</sup> Represents lead and foreign currency forward contracts (see Note 4 for asset and liability positions of the lead and foreign currency forward contracts at January 1, 2017 and March 31, 2016).

<sup>(2)</sup> The fair value amount of the Notes at January 1, 2017 and March 31, 2016 represent the trading value of the Notes.

**4. Derivative Financial Instruments**

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

**Derivatives in Cash Flow Hedging Relationships***Lead Forward Contracts*

The Company enters into lead forward contracts to fix the price for a portion of its lead purchases. Management considers the lead forward contracts to be effective against changes in the cash flows of the underlying lead purchases. The vast majority of such contracts are for a period not extending beyond one year and the notional amounts at January 1, 2017 and March 31, 2016 were 34.5 million pounds and 27.4 million pounds, respectively.

*Foreign Currency Forward Contracts*

The Company uses foreign currency forward contracts and options to hedge a portion of the Company's foreign currency exposures for lead as well as other foreign currency exposures so that gains and losses on these contracts offset changes in the underlying foreign currency denominated exposures. The vast majority of such contracts are for a period not extending beyond one year. As of January 1, 2017 and March 31, 2016, the Company had entered into a total of \$24,868 and \$18,206, respectively, of such contracts.

In the coming twelve months, the Company anticipates that \$1,217 of pretax gain relating to lead and foreign currency forward contracts will be reclassified from accumulated other comprehensive income ("AOCI") as part of cost of goods sold. This amount represents the current net unrealized impact of hedging lead and foreign exchange rates, which will change as market rates change in the future, and will ultimately be realized in the Consolidated Condensed Statement of Income as an offset to the corresponding actual changes in lead costs to be realized in connection with the variable lead cost and foreign exchange rates being hedged.

**Derivatives not Designated in Hedging Relationships***Foreign Currency Forward Contracts*

The Company also enters into foreign currency forward contracts to economically hedge foreign currency fluctuations on intercompany loans and foreign currency denominated receivables and payables. These are not designated as hedging instruments and changes in fair value of these instruments are recorded directly in the Consolidated Condensed Statements of Income. As of January 1, 2017 and March 31, 2016, the notional amount of these contracts was \$15,948 and \$11,156, respectively.

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Presented below in tabular form is information on the location and amounts of derivative fair values in the Consolidated Condensed Balance Sheets and derivative gains and losses in the Consolidated Condensed Statements of Income:

**Fair Value of Derivative Instruments**

**January 1, 2017 and March 31, 2016**

|                                    | Derivatives and Hedging Activities Designated as Cash Flow Hedges |                | Derivatives and Hedging Activities Not Designated as Hedging Instruments |                |
|------------------------------------|---|----------------|--|----------------|
|                                    | January 1, 2017   | March 31, 2016 | January 1, 2017  | March 31, 2016 |
| Prepaid and other current assets   |   |                |  |                |
| Foreign currency forward contracts | \$ 200  | \$ —           | \$ —   | \$ —           |
| Total assets                       | \$ 200  | \$ —           | \$ —   | \$ —           |
| Accrued expenses                   |   |                |  |                |
| Lead forward contracts             | \$ 3,015  | \$ 499         | \$ —   | \$ —           |
| Foreign currency forward contracts | —   | 350            | 195  | 638            |
| Total liabilities                  | \$ 3,015  | \$ 849         | \$ 195   | \$ 638         |

**The Effect of Derivative Instruments on the Consolidated Condensed Statements of Income**

**For the quarter ended January 1, 2017**

| Derivatives Designated as Cash Flow Hedges        | Pretax Gain (Loss) Recognized in AOCI on Derivative (Effective Portion) | Location of Gain (Loss) Portion) | Reclassified from AOCI into Income (Effective Portion) | Pretax Gain (Loss) Recognized in Income on Derivative | Pretax Gain (Loss) Reclassified from AOCI into Income (Effective Portion) |
|---|---|----------------------------------|--|---|---|
|   |   |                                  |  |   |   |
| Foreign currency forward contracts                | 595   | Cost of goods sold               |  |   | (93 )   |
| Total   | \$ (1,767 )   |                                  |  |   | \$ 1,431  |
| Derivatives Not Designated as Hedging Instruments |   | Location of Gain (Loss) Portion) |  | Pretax Gain (Loss)                                    |   |
| Foreign currency forward contracts                |   | Other (income) expense, net      |  | \$ (25 )  |   |
| Total   |   |                                  |  | \$ (25 )  |   |

**The Effect of Derivative Instruments on the Consolidated Condensed Statements of Income**

**For the quarter ended December 27, 2015**

| Derivatives Designated as Cash Flow Hedges        | Pretax Gain (Loss) Recognized in AOCI on Derivative (Effective Portion) | Location of Gain (Loss) Portion) | Reclassified from AOCI into Income (Effective Portion) | Pretax Gain (Loss) Recognized in Income on Derivative | Pretax Gain (Loss) Reclassified from AOCI into Income (Effective Portion) |
|---|---|----------------------------------|--|---|---|
|   |   |                                  |  |   |   |
| Foreign currency forward contracts                | 525   | Cost of goods sold               |  |   | (296 )  |
| Total   | \$ 1,634  |                                  |  |   | \$ (4,744 )   |
| Derivatives Not Designated as Hedging Instruments |   | Location of Gain (Loss) Portion) |  | Pretax Gain (Loss)                                    |   |
| Foreign currency forward contracts                |   | Other (income) expense, net      |  | \$ 175  |   |
| Total   |   |                                  |  | \$ 175  |   |

Table of Contents**The Effect of Derivative Instruments on the Consolidated Condensed Statements of Income  
For the nine months ended January 1, 2017**

| <b>Derivatives Designated as Cash Flow Hedges</b>        | <b>Pretax Gain (Loss) Recognized in AOCI on Derivative (Effective Portion)</b> | <b>Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)</b> | <b>Pretax Gain (Loss) Recognized in Income on Derivative</b> | <b>Pretax Gain (Loss) Reclassified from AOCI into Income (Effective Portion)</b> |
|--|--|---|--|--|
| Lead forward contracts                                   | \$ 2,258   | Cost of goods sold  |  | \$ 2,800   |
| Foreign currency forward contracts                       | 873  | Cost of goods sold  |  | (319 )   |
| Total  | \$ 3,131   |   |  | \$ 2,481   |
| <b>Derivatives Not Designated as Hedging Instruments</b> |  | <b>Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)</b> | <b>Pretax Gain (Loss)</b>                                    |  |
| Foreign currency forward contracts                       |  | Other (income) expense, net   | \$ (202 )  |  |
| Total  |  |   | \$ (202 )  |  |

**The Effect of Derivative Instruments on the Consolidated Condensed Statements of Income  
For the nine months ended December 27, 2015**

| <b>Derivatives Designated as Cash Flow Hedges</b>        | <b>Pretax Gain (Loss) Recognized in AOCI on Derivative (Effective Portion)</b> | <b>Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)</b> | <b>Pretax Gain (Loss) Recognized in Income on Derivative</b> | <b>Pretax Gain (Loss) Reclassified from AOCI into Income (Effective Portion)</b> |
|--|--|---|--|--|
| Lead forward contracts                                   | \$ (4,006 )  | Cost of goods sold  |  | \$ (7,461 )  |
| Foreign currency forward contracts                       | (2,048 )   | Cost of goods sold  |  | 3,655  |
| Total  | \$ (6,054 )  |   |  | \$ (3,806 )  |
| <b>Derivatives Not Designated as Hedging Instruments</b> |  | <b>Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)</b> | <b>Pretax Gain (Loss)</b>                                    |  |
| Foreign currency forward contracts                       |  | Other (income) expense, net   | \$ (119 )  |  |
| Total  |  |   | \$ (119 )  |  |

**5. Income Taxes**

The Company's income tax provision consists of federal, state and foreign income taxes. The tax provision for the third quarters of fiscal 2017 and 2016 was based on the estimated effective tax rates applicable for the full years ending March 31, 2017 and March 31, 2016, respectively, after giving effect to items specifically related to the interim periods. The Company's effective income tax rate with respect to any period may be volatile based on the mix of income in the tax jurisdictions in which the Company operates and the amount of the Company's consolidated income before taxes.

The consolidated effective income tax rates were 26.7% and 22.0%, respectively, for the third quarters of fiscal 2017 and 2016 and 25.7% and 23.6%, respectively, for the nine months of fiscal 2017 and 2016. The rate increase in the third quarter of fiscal 2017 compared to the third quarter of fiscal 2016 is primarily due to the German regulatory proceedings charge of \$17,000 (with no associated tax benefit) recorded in the third quarter of fiscal 2017 and the recognition of a tax benefit in fiscal 2016 related to international restructuring, partially offset by a decrease related to changes in the mix of earnings among tax jurisdictions. The rate increase in the nine months of fiscal 2017 compared to the nine months of fiscal 2016 is primarily due to the aforementioned German regulatory proceedings charge (with no associated tax benefit) recorded in the third quarter of fiscal 2017 and the recognition of a tax benefit in fiscal 2016 related to international restructuring, the subsequent recognition of a domestic deferred tax asset related to executive compensation and the subsequent recognition of a previously unrecognized tax position related to one of the Company's foreign subsidiaries, partially offset by a decrease related to changes in the mix of earnings among tax jurisdictions.

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Foreign income as a percentage of worldwide income is estimated to be 60% for the nine months of fiscal 2017 compared to 51% for the nine months of fiscal 2016. The foreign effective income tax rates for the nine months of fiscal 2017 and 2016 were 15.9% and 10.1%, respectively. The rate increase compared to the prior year period is primarily due to the aforementioned German regulatory proceedings charge (with no associated tax benefit) recorded in the third quarter of fiscal 2017 and the recognition of a tax benefit in fiscal 2016 related to international restructuring and the subsequent recognition of a previously unrecognized tax position related to one of the Company's foreign subsidiaries, partially offset by a decrease related to changes in the mix of earnings among tax jurisdictions. Income from the Company's

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Swiss subsidiary comprised a substantial portion of the Company's overall foreign mix of income and is taxed at an effective income tax rate of approximately 6%.

**6. Warranty**

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

|   | Quarter ended      |                      | Nine months ended  |                      |
|---|--------------------|----------------------|--------------------|----------------------|
|   | January<br>1, 2017 | December<br>27, 2015 | January<br>1, 2017 | December<br>27, 2015 |
| Balance at beginning of period          | \$48,112           | \$40,140             | \$48,422           | \$39,810             |
| Current period provisions               | 4,085              | 5,756                | 14,932             | 14,339               |
| Costs incurred                          | (4,250 )           | (4,422 )             | (12,492 )          | (12,930 )            |
| Foreign currency translation adjustment | (1,720 )           | (427 )               | (4,635 )           | (172 )               |
| Balance at end of period                | \$46,227           | \$41,047             | \$46,227           | \$41,047             |

**7. Commitments, Contingencies and Litigation***Litigation and Other Legal Matters*

In the ordinary course of business, the Company and its subsidiaries are routinely defendants in or parties to many pending and threatened legal actions and proceedings, including actions brought on behalf of various classes of claimants. These actions and proceedings are generally based on alleged violations of environmental, anticompetition, employment, contract and other laws. In some of these actions and proceedings, claims for substantial monetary damages are asserted against the Company and its subsidiaries. In the ordinary course of business, the Company and its subsidiaries are also subject to regulatory and governmental examinations, information gathering requests, inquiries, investigations, and threatened legal actions and proceedings. In connection with formal and informal inquiries by federal, state, local and foreign agencies, such subsidiaries receive numerous requests, subpoenas and orders for documents, testimony and information in connection with various aspects of their activities.

*European Competition Investigations*

Certain of the Company's European subsidiaries have received subpoenas and requests for documents and, in some cases, interviews from, and have had on-site inspections conducted by the competition authorities of Belgium, Germany and the Netherlands relating to conduct and anticompetitive practices of certain industrial battery participants. The Company is responding to inquiries related to these matters. The Company settled the Belgian regulatory proceeding in February 2016 by acknowledging certain anticompetitive practices and conduct and agreeing to pay a fine of \$1,962, which was paid in March 2016. As of January 1, 2017 and March 31, 2016, the Company had a reserve balance of \$1,804 and \$2,038, respectively, relating to the Belgian regulatory proceeding. The change in the reserve balance between January 1, 2017 and March 31, 2016 was solely due to foreign currency translation impact. The Company currently estimates that the aggregate range of possible loss with respect to the German regulatory proceeding is \$17,000 to \$26,000 and has reserved \$17,000 in connection with this matter. For the Dutch regulatory proceeding, the Company does not believe that an estimate can be made at this time given the current stage of this proceeding. As of January 1, 2017 and March 31, 2016, the Company had a total reserve balance of \$18,804 and \$2,038, respectively, in connection with these remaining investigations and other related legal matters. The foregoing estimate of losses is based upon currently available information for these proceedings. However, the precise scope, timing and time period at issue, as well as the final outcome of the investigations, remain uncertain. Accordingly, the Company's estimate may change from time to time, and actual losses could vary.

*Environmental Issues*

As a result of its operations, the Company is subject to various federal, state, and local, as well as international environmental laws and regulations and is exposed to the costs and risks of registering, handling, processing, storing, transporting, and disposing of hazardous substances, especially lead and acid. The Company's operations are also subject to federal, state, local and international occupational safety and health regulations, including laws and regulations relating to exposure to lead in the workplace.

The Company is responsible for certain cleanup obligations at the former Yuasa battery facility in Sumter, South Carolina, that predates its ownership of this facility. This manufacturing facility was closed in 2001 and the Company established a reserve for this facility, which was \$1,123 as of January 1, 2017 and March 31, 2016. Based on current information, the Company's management believes this reserve is adequate to

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satisfy the Company's environmental liabilities at this facility. This facility is separate from the Company's current metal fabrication facility in Sumter.

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*Lead Contracts*

To stabilize its costs, the Company has entered into contracts with financial institutions to fix the price of lead. The vast majority of such contracts are for a period not extending beyond one year. Under these contracts, at January 1, 2017 and March 31, 2016, the Company has hedged the price to purchase approximately 34.5 million pounds and 27.4 million pounds of lead, respectively, for a total purchase price of \$34,420 and \$21,628, respectively.

*Foreign Currency Forward Contracts*

The Company quantifies and monitors its global foreign currency exposures. On a selective basis, the Company will enter into foreign currency forward and option contracts to reduce the volatility from currency movements that affect the Company. The vast majority of such contracts are for a period not extending beyond one year. The Company's largest exposure is from the purchase and conversion of U.S. dollar based lead costs into local currencies in EMEA. Additionally, the Company has currency exposures from intercompany financing and intercompany and third party trade transactions. To hedge these exposures, the Company has entered into a total of \$40,816 and \$29,362, respectively, of foreign currency forward contracts with financial institutions as of January 1, 2017 and March 31, 2016.

**8. Restructuring and Other Exit Charges**

During the second quarter of fiscal 2016, the Company announced a restructuring to improve efficiencies primarily related to its motive power assembly and distribution center in Italy and its sales and administration organizations in EMEA. In addition, during the third quarter of fiscal 2016, the Company announced a further restructuring related to its manufacturing operations in Europe. The Company estimates that the total charges for these actions will amount to approximately \$6,500, primarily from cash charges for employee severance-related payments and other charges. The Company estimates that these actions will result in the reduction of approximately 130 employees upon completion. In fiscal 2016, the Company recorded restructuring charges of \$5,232 and recorded an additional \$942 during the nine months of fiscal 2017. The Company incurred \$2,993 in costs against the accrual in fiscal 2016 and incurred an additional \$2,671 against the accrual during the nine months of fiscal 2017. As of January 1, 2017, the reserve balance associated with these actions is \$435. The Company expects to be committed to an additional \$300 of restructuring charges related to these actions during fiscal 2017, and expects to complete the program during fiscal 2017.

During the second quarter of fiscal 2016, the Company announced a restructuring related to improving the efficiency of its manufacturing operations in the Americas. The program, which was completed during the first quarter of fiscal 2017, consisted of closing its Cleveland, Ohio charger manufacturing facility and the transfer of charger production to other Americas manufacturing facilities. The total charges for all actions associated with this program amounted to \$2,379, primarily from cash charges for employee severance-related payments and other charges of \$1,043, along with a pension curtailment charge of \$313 and non-cash charges related to the accelerated depreciation of fixed assets of \$1,023. The program resulted in the reduction of approximately 100 employees at its Cleveland facility. In fiscal 2016, the Company recorded restructuring charges of \$1,488 including a pension curtailment charge of \$313 and non-cash charges of \$305 and recorded an additional \$174 in cash charges and \$718 in non-cash charges during the first quarter of fiscal 2017. The Company incurred \$119 in costs against the accrual in fiscal 2016 and incurred an additional \$924 against the accrual during the first quarter of fiscal 2017.

During the first and second quarters of fiscal 2017, the Company announced restructuring programs to improve efficiencies primarily related to its motive power production in EMEA. The Company estimates that the total charges for these actions will amount to approximately \$4,500, primarily from cash charges for employee severance-related payments and other charges. The Company estimates that these actions will result in the reduction of approximately 45 employees upon completion. During the nine months of fiscal 2017, the Company recorded restructuring charges of \$1,586 and incurred \$217 in costs against the accrual. As of January 1, 2017, the reserve balance associated with these actions is \$1,298. The Company expects to be committed to an additional \$2,900 in restructuring charges related to this action through fiscal 2018, when it expects to complete this program.

During the first quarter of fiscal 2017, the Company announced a restructuring primarily to complete the transfer of equipment and clean-up of its manufacturing facility located in Jiangdu, the People's Republic of China, which stopped production during the first quarter of fiscal 2016. The Company estimates that the total cash charges for these actions will amount to approximately \$600. During the nine months of fiscal 2017, the Company recorded charges of \$483 and incurred \$483 in costs against the accrual. As of January 1, 2017, the reserve balance associated with these actions is \$0. The Company expects to be committed to an additional \$100 in charges related to this action through fiscal 2017, when it expects to complete this program.

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

|                                   | <b>Employee<br/>Severance</b> | <b>Other</b> | <b>Total</b> |
|-----------------------------------|-------------------------------|--------------|--------------|
| Balance as of March 31, 2016      | \$ 2,964                      | \$ 25        | \$ 2,989     |
| Accrued                           | 2,417                         | 768          | 3,185        |
| Costs incurred                    | (3,749 )                      | (546 )       | (4,295 )     |
| Foreign currency impact and other | (133 )                        | (13 )        | (146 )       |
| Balance as of January 1, 2017     | \$ 1,499                      | \$ 234       | \$ 1,733     |

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**Table of Contents***Other Exit Charges*

During the nine months of fiscal 2017, the Company recorded exit charges of \$3,303 related to the South Africa joint venture, consisting of cash charges of \$2,586 primarily relating to severance and non-cash charges of \$717. Included in the non-cash charges are \$2,157 relating to the inventory adjustment which is reported in cost of goods sold, partially offset by a credit of \$1,099 relating to a change in estimate of contract losses and a \$341 gain on deconsolidation of the joint venture. Weakening of the general economic environment in South Africa, exacerbated by limited growth in the mining industry and competitive products flooding the market, affected the joint venture's ability to compete effectively in the marketplace and consequently, the Company initiated an exit plan in consultation with its joint venture partner in the second quarter of fiscal 2017. The joint venture is currently under liquidation resulting in a loss of control and deconsolidation of the joint venture. The impact of the deconsolidation has been reflected in the Consolidated Condensed Statements of Income.

**9. Debt**

The following summarizes the Company's long-term debt as of January 1, 2017 and March 31, 2016:

|   | January 1, 2017 |                            | March 31, 2016 |                            |
|---|-----------------|----------------------------|----------------|----------------------------|
|   | Principal       | Unamortized Issuance Costs | Principal      | Unamortized Issuance Costs |
| 5.00% Senior Notes due 2023                       | \$300,000       | \$ 3,902                   | \$300,000      | \$ 4,370                   |
| 2011 Credit Facility, due 2018                    | 305,800         | 1,336                      | 312,500        | 1,909                      |
|   | \$605,800       | \$ 5,238                   | \$612,500      | \$ 6,279                   |
| Less: Unamortized issuance costs                  | 5,238           |                            | 6,279          |                            |
| Long-term debt, net of unamortized issuance costs | \$600,562       |                            | \$606,221      |                            |

*5.00% Senior Notes*

The Company's \$300,000 5.00% Senior Notes due 2023 bear interest at a rate of 5.00% per annum. Interest is payable semiannually in arrears on April 30 and October 30 of each year, commencing on October 30, 2015. The Notes will mature on April 30, 2023, unless earlier redeemed or repurchased in full. The Notes are unsecured and unsubordinated obligations of the Company. The Notes are fully and unconditionally guaranteed (the "Guarantees"), jointly and severally, by each of its subsidiaries that are guarantors under the 2011 Credit Facility (the "Guarantors"). The Guarantees are unsecured and unsubordinated obligations of the Guarantors.

*2011 Credit Facility*

The Company is party to a \$500,000 senior secured revolving credit facility and a \$150,000 senior secured incremental term loan (the "Term Loan") that matures on September 30, 2018, comprising the "2011 Credit Facility". The quarterly installments payable on the Term Loan were \$1,875 beginning June 30, 2015 and \$3,750 beginning June 30, 2016 with a final payment of \$108,750 on September 30, 2018. The 2011 Credit Facility may be increased by an aggregate amount of \$300,000 in revolving commitments and/or one or more new tranches of term loans, under certain conditions. Both revolving loans and the Term Loan under the 2011 Credit Facility bear interest, at the Company's option, at a rate per annum equal to either (i) the London Interbank Offered Rate ("LIBOR") plus between 1.25% and 1.75% (currently 1.25% and based on the Company's consolidated net leverage ratio) or (ii) the Base Rate (which is the highest of (a) the Bank of America prime rate, and (b) the Federal Funds Effective Rate) plus between 0.25% and 0.75% (based on the Company's consolidated net leverage ratio). Obligations under the 2011 Credit Facility are secured by substantially all of the Company's existing and future acquired assets, including substantially all of the capital stock of the Company's United States subsidiaries that are guarantors under the credit facility and 65% of the capital stock of certain of the Company's foreign subsidiaries that are owned by the Company's United States subsidiaries.

The current portion of the Term Loan of \$15,000 is classified as long-term debt as the Company expects to refinance the future quarterly payments with revolver borrowings under its 2011 Credit Facility.

As of January 1, 2017, the Company had \$174,550 outstanding in revolver borrowings and \$131,250 under its Term Loan borrowings.

*Short-Term Debt*

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As of January 1, 2017 and March 31, 2016, the Company had \$35,879 and \$22,144, respectively, of short-term borrowings. The weighted-average interest rate on these borrowings was approximately 7% and 8% at January 1, 2017 and March 31, 2016, respectively.

### *Letters of Credit*

As of January 1, 2017 and March 31, 2016, the Company had \$4,001 and \$2,693, respectively, of standby letters of credit.

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Amortization expense, relating to debt issuance costs, included in interest expense was \$347 and \$343, respectively, during the quarters ended January 1, 2017 and December 27, 2015 and \$1,041 and \$1,117 for the nine months ended January 1, 2017 and December 27, 2015, respectively. Debt issuance costs, net of accumulated amortization, totaled \$5,238 and \$6,279, respectively, at January 1, 2017 and March 31, 2016.

**Available Lines of Credit**

As of January 1, 2017 and March 31, 2016, the Company had available and undrawn, under all its lines of credit, \$451,267 and \$472,187, respectively, including \$127,742 and \$144,112, respectively, of uncommitted lines of credit as of January 1, 2017 and March 31, 2016.

**10. Retirement Plans**

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

|                                | United States Plans |                   | International Plans |                   |
|--------------------------------|---------------------|-------------------|---------------------|-------------------|
|                                | Quarter ended       |                   | Quarter ended       |                   |
|                                | January 1, 2017     | December 27, 2015 | January 1, 2017     | December 27, 2015 |
| Service cost                   | \$ 96               | \$ 118            | \$ 212              | \$ 201            |
| Interest cost                  | 158                 | 172               | 441                 | 476               |
| Expected return on plan assets | (204 )              | (213 )            | (442 )              | (563 )            |
| Amortization and deferral      | 76                  | 111               | 238                 | 310               |
| Curtailement loss              | —                   | 313               | —                   | —                 |
| Net periodic benefit cost      | \$ 126              | \$ 501            | \$ 449              | \$ 424            |

|                                | United States Plans |                   | International Plans |                   |
|--------------------------------|---------------------|-------------------|---------------------|-------------------|
|                                | Nine months ended   |                   | Nine months ended   |                   |
|                                | January 1, 2017     | December 27, 2015 | January 1, 2017     | December 27, 2015 |
| Service cost                   | \$ 278              | \$ 364            | \$ 658              | \$ 617            |
| Interest cost                  | 498                 | 510               | 1,402               | 1,447             |
| Expected return on plan assets | (612 )              | (643 )            | (1,424 )            | (1,715 )          |
| Amortization and deferral      | 340                 | 370               | 756                 | 946               |
| Curtailement loss              | —                   | 313               | —                   | —                 |
| Net periodic benefit cost      | \$ 504              | \$ 914            | \$ 1,392            | \$ 1,295          |

**11. Stock-Based Compensation**

As of January 1, 2017, the Company maintains the Second Amended and Restated EnerSys 2010 Equity Incentive Plan, ("2010 EIP"). The 2010 EIP reserved 3,177,477 shares of common stock for the grant of various classes of nonqualified stock options, restricted stock units, market condition-based share units and other forms of equity-based compensation.

The Company recognized stock-based compensation expense associated with its equity incentive plans of \$4,699 for the third quarter of fiscal 2017 and \$4,545 for the third quarter of fiscal 2016. Stock-based compensation expense was \$14,556 for the nine months of fiscal 2017 and \$14,883 for the nine months of fiscal 2016. The Company recognizes compensation expense using the straight-line method over the vesting period of the awards, except for awards issued to certain retirement-eligible participants, which are expensed on an accelerated basis.

During the nine months ended January 1, 2017, the Company granted to non-employee directors 25,230 restricted stock units, pursuant to the 2010 EIP.

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During the nine months ended January 1, 2017, the Company granted to management and other key employees 242,068 non-qualified stock options and 83,720 market condition-based share units that vest three years from the date of grant, and 235,358 restricted stock units that vest 25% each year over four years from the date of grant.

Common stock activity during the nine months ended January 1, 2017 included the vesting of 143,043 restricted stock units and 232,817 market condition-based share units and the exercise of 263 stock options.

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As of January 1, 2017, there were 451,668 non-qualified stock options, 612,626 restricted stock units and 448,567 market condition-based share units outstanding.

**12. Stockholders' Equity and Noncontrolling Interests***Common Stock*

The following demonstrates the change in the number of shares of common stock outstanding during the nine months ended January 1, 2017:

|  |            |
|--|------------|
| Shares outstanding as of March 31, 2016  | 43,189,502 |
| Shares issued towards equity-based compensation plans, net of equity awards surrendered for option price and taxes | 240,627    |
| Shares outstanding as of January 1, 2017   | 43,430,129 |

*Treasury Stock*

There were no repurchases of treasury stock during the nine months ended January 1, 2017, and the Company held 10,923,274 shares as treasury stock at January 1, 2017 and March 31, 2016.

*Accumulated Other Comprehensive Income ("AOCI")*

The components of AOCI, net of tax, as of January 1, 2017 and March 31, 2016, are as follows:

|  | <b>March 31,<br/>2016</b> | <b>Before<br/>Reclassifications</b> | <b>Amounts<br/>Reclassified<br/>from AOCI</b> | <b>January 1,<br/>2017</b> |
|--|---------------------------|-------------------------------------|---|----------------------------|
| Pension funded status adjustment                     | \$(21,861 )               | \$ —                                | \$ 747  | \$(21,114 )                |
| Net unrealized gain (loss) on derivative instruments | 388                       | 1,977                               | (1,566 )                                      | 799                        |
| Foreign currency translation adjustment              | (75,876 )                 | (74,516 )                           | —   | (150,392 )                 |
| Accumulated other comprehensive income (loss)        | \$(97,349 )               | \$ (72,539 )                        | \$ (819 )                                     | \$(170,707 )               |

The following table presents reclassifications from AOCI during the third quarter ended January 1, 2017:

| <b>Components of AOCI</b>                                 | <b>Amounts<br/>Reclassified<br/>from AOCI</b> | <b>Location of (Gain) Loss Recognized on Income Statement</b>                                     |
|---|---|---|
| <b>Derivatives in Cash Flow Hedging Relationships:</b>    |   |   |
| Net unrealized gain on derivative instruments             | \$ (1,431 )                                   | Cost of goods sold  |
| Tax expense   | 528   |   |
| Net unrealized gain on derivative instruments, net of tax | \$ (903 )                                     |   |
| <b>Defined benefit pension costs:</b>                     |   |   |
| Prior service costs and deferrals                         | \$ 314  | Net periodic benefit cost, included in cost of goods sold and operating expenses<br>- See Note 10 |
| Tax benefit   | (116 )  |   |
| Net periodic benefit cost, net of tax                     | \$ 198  |   |

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The following table presents reclassifications from AOCI during the third quarter ended December 27, 2015:

| Components of AOCI  | Amounts<br>Reclassified<br>from AOCI | Location of (Gain) Loss Recognized on Income Statement   |
|---|--------------------------------------|--|
| <b>Derivatives in Cash Flow Hedging Relationships:</b>    |                                      |  |
| Net unrealized loss on derivative instruments             | \$ 4,744                             | Cost of goods sold   |
| Tax benefit   | (1,753 )                             |  |
| Net unrealized loss on derivative instruments, net of tax | \$ 2,991                             |  |
| <b>Defined benefit pension costs:</b>                     |                                      |  |
| Prior service costs and deferrals                         | \$ 421                               | Net periodic benefit cost, included in cost of goods sold and operating expenses - See Note 10 |
| Tax benefit   | (129 )                               |  |
| Net periodic benefit cost, net of tax                     | \$ 292                               |  |

The following table presents reclassifications from AOCI during the nine months ended January 1, 2017:

| Components of AOCI  | Amounts<br>Reclassified<br>from AOCI | Location of (Gain) Loss Recognized on Income Statement   |
|---|--------------------------------------|--|
| <b>Derivatives in Cash Flow Hedging Relationships:</b>    |                                      |  |
| Net unrealized gain on derivative instruments             | \$ (2,481 )                          | Cost of goods sold   |
| Tax expense   | 915                                  |  |
| Net unrealized gain on derivative instruments, net of tax | \$ (1,566 )                          |  |
| <b>Defined benefit pension costs:</b>                     |                                      |  |
| Prior service costs and deferrals                         | \$ 1,096                             | Net periodic benefit cost, included in cost of goods sold and operating expenses - See Note 10 |
| Tax benefit   | (349 )                               |  |
| Net periodic benefit cost, net of tax                     | \$ 747                               |  |

The following table presents reclassifications from AOCI during the nine months ended December 27, 2015:

| Components of AOCI  | Amounts<br>Reclassified<br>from AOCI | Location of (Gain) Loss Recognized on Income Statement   |
|---|--------------------------------------|--|
| <b>Derivatives in Cash Flow Hedging Relationships:</b>    |                                      |  |
| Net unrealized loss on derivative instruments             | \$ 3,806                             | Cost of goods sold   |
| Tax benefit   | (1,404 )                             |  |
| Net unrealized loss on derivative instruments, net of tax | \$ 2,402                             |  |
| <b>Defined benefit pension costs:</b>                     |                                      |  |
| Prior service costs and deferrals                         | \$ 1,316                             | Net periodic benefit cost, included in cost of goods sold and operating expenses - See Note 10 |
| Tax benefit   | (386 )                               |  |
| Net periodic benefit cost, net of tax                     | \$ 930                               |  |





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The following demonstrates the change in equity attributable to EnerSys stockholders and nonredeemable noncontrolling interests during the nine months ended January 1, 2017:

|   | <b>Equity<br/>Attributable<br/>to EnerSys<br/>Stockholders</b> | <b>Nonredeemable<br/>Noncontrolling<br/>Interests</b> | <b>Total Equity</b> |
|---|--|---|---------------------|
| Balance as of March 31, 2016                              | \$ 1,013,131   | \$ 5,304  | \$ 1,018,435        |
| Total comprehensive income (loss):                        |  |   |                     |
| Net earnings  | 126,444  | 84  | 126,528             |
| Net unrealized gain on derivative instruments, net of tax | 411  | —   | 411                 |
| Pension funded status adjustment, net of tax              | 747  | —   | 747                 |
| Foreign currency translation adjustment                   | (74,516 )  | (465 )  | (74,981 )           |
| Total other comprehensive loss, net of tax                | (73,358 )  | (465 )  | (73,823 )           |
| Total comprehensive income (loss)                         | 53,086   | (381 )  | 52,705              |
| Other changes in equity:                                  |  |   |                     |
| Cash dividends - common stock (\$0.525 per share)         | (22,800 )  | —   | (22,800 )           |
| Other, including activity related to equity awards        | 11,143   | —   | 11,143              |
| Balance as of January 1, 2017                             | \$ 1,054,560   | \$ 4,923  | \$ 1,059,483        |

The following demonstrates the change in redeemable noncontrolling interests during the nine months ended January 1, 2017:

|   | <b>Redeemable<br/>Noncontrolling<br/>Interests</b> |
|---|--|
| Balance as of March 31, 2016            | \$ 5,997   |
| Net loss                                | (2,021 )   |
| Deconsolidation of joint venture        | (4,035 )   |
| Foreign currency translation adjustment | 59   |
| Balance as of January 1, 2017           | \$ —   |

### 13. Earnings Per Share

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

|  | <b>Quarter ended</b>       |                              | <b>Nine months ended</b>   |                              |
|--|----------------------------|------------------------------|----------------------------|------------------------------|
|  | <b>January<br/>1, 2017</b> | <b>December<br/>27, 2015</b> | <b>January<br/>1, 2017</b> | <b>December<br/>27, 2015</b> |
| Net earnings attributable to EnerSys stockholders  | \$ 36,235                  | \$ 38,478                    | \$ 126,444                 | \$ 126,890                   |
| Weighted-average number of common shares outstanding:                                    |                            |                              |                            |                              |
| Basic  | 43,429,525                 | 44,394,925                   | 43,375,474                 | 44,524,289                   |
| Dilutive effect of:  |                            |                              |                            |                              |
| Common shares from exercise and lapse of equity awards, net of shares assumed reacquired | 620,149                    | 581,279                      | 567,536                    | 650,529                      |
| 3.375% Convertible Notes due 2038 <sup>(1)</sup>   | —                          | —                            | —                          | 737,841                      |
| Diluted weighted-average number of common shares outstanding                             | 44,049,674                 | 44,976,204                   | 43,943,010                 | 45,912,659                   |
| Basic earnings per common share attributable to EnerSys stockholders                     | \$ 0.83                    | \$ 0.87                      | \$ 2.92                    | \$ 2.85                      |
| Diluted earnings per common share attributable to EnerSys stockholders                   | \$ 0.82                    | \$ 0.86                      | \$ 2.88                    | \$ 2.76                      |
| Anti-dilutive equity awards not included in diluted weighted-average common shares       | 62,470                     | —                            | 232,542                    | —                            |

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(1) On July 17, 2015, the Company paid \$172,388, in aggregate, towards the principal balance of the 3.375% Convertible Notes due 2038, including accreted interest, cash equivalent of fractional shares issued towards conversion premium and settled the conversion premium by

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issuing, in the aggregate, 1,889,431 shares of its common stock, which were included in the diluted weighted average shares outstanding for the period prior to the extinguishment.

### 14. Business Segments

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

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

Summarized financial information related to the Company's reportable segments for the third quarter and nine months ended January 1, 2017 and December 27, 2015 is shown below:

|   | Quarter ended      |                      | Nine months ended  |                      |
|---|--------------------|----------------------|--------------------|----------------------|
|   | January 1,<br>2017 | December 27,<br>2015 | January 1,<br>2017 | December 27,<br>2015 |
| <b>Net sales by segment to unaffiliated customers</b>   |                    |                      |                    |                      |
| Americas  | \$ 313,972         | \$ 306,331           | \$ 968,516         | \$ 945,839           |
| EMEA  | 186,069            | 196,829              | 563,765            | 582,896              |
| Asia  | 63,656             | 70,413               | 208,067            | 176,040              |
| Total net sales   | \$ 563,697         | \$ 573,573           | \$ 1,740,348       | \$ 1,704,775         |
| <b>Net sales by product line</b>                        |                    |                      |                    |                      |
| Reserve power   | \$ 271,291         | \$ 271,948           | \$ 844,781         | \$ 810,448           |
| Motive power  | 292,406            | 301,625              | 895,567            | 894,327              |
| Total net sales   | \$ 563,697         | \$ 573,573           | \$ 1,740,348       | \$ 1,704,775         |
| <b>Intersegment sales</b>                               |                    |                      |                    |                      |
| Americas  | \$ 6,319           | \$ 6,334             | \$ 19,304          | \$ 23,041            |
| EMEA  | 22,086             | 17,537               | 66,186             | 59,999               |
| Asia  | 6,285              | 8,205                | 18,070             | 20,937               |
| Total intersegment sales <sup>(1)</sup>                 | \$ 34,690          | \$ 32,076            | \$ 103,560         | \$ 103,977           |
| <b>Operating earnings by segment</b>                    |                    |                      |                    |                      |
| Americas  | \$ 45,949          | \$ 40,572            | \$ 139,149         | \$ 134,344           |
| EMEA  | 20,435             | 16,525               | 57,268             | 54,218               |
| Asia  | 3,984              | 1,568                | 11,741             | 1,388                |
| Restructuring charges - Americas                        | —                  | (865                 | ) (892             | ) (1,435             |
| Inventory adjustment relating to exit activities - EMEA | 502                | —                    | (2,157             | ) —                  |
| Restructuring and other exit credits (charges) - EMEA   | 1,153              | (2,153               | ) (3,663           | ) (4,706             |
| Restructuring charges - Asia                            | —                  | (186                 | ) (482             | ) (910               |
| Reversal of legal accrual, net of fees - Americas       | —                  | —                    | —                  | 799                  |
| Legal proceedings charge - EMEA                         | (17,000            | ) —                  | (17,000            | ) (4,000             |
| Gain on sale of facility - Asia                         | —                  | —                    | —                  | 4,348                |
| Total operating earnings <sup>(2)</sup>                 | \$ 55,023          | \$ 55,461            | \$ 183,964         | \$ 184,046           |

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

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

### 15. Subsequent Events

On February 8, 2017, the Board of Directors approved a quarterly cash dividend of \$0.175 per share of common stock to be paid on March 31, 2017, to stockholders of record as of March 17, 2017.



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

**CAUTIONARY NOTE REGARDING 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 EnerSys’ filings with the Securities and Exchange Commission and its reports to stockholders. Generally, the inclusion of the words “anticipate,” “believe,” “expect,” “future,” “intend,” “estimate,” “will,” “plans,” or the negative of such terms 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 beliefs and assumptions regarding future events and operating performance and on information currently available to management, 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 2016 Annual Report on Form 10-K (the “2016 Annual Report”) and other unforeseen risks. You should not put undue reliance on any forward-looking statements. These statements speak only as of the date of this Quarterly Report on Form 10-Q, even if subsequently made available by us on our website or otherwise, and we undertake no obligation to update or revise these statements to reflect events or circumstances occurring after the date of this Quarterly Report on Form 10-Q.

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

- general cyclical patterns of the industries in which our customers operate;
- the extent to which we cannot control our fixed and variable costs;
- the raw materials in our products may experience significant fluctuations in market price and availability;
- certain raw materials constitute hazardous materials that may give rise to costly environmental and safety claims;
- legislation regarding the restriction of the use of certain hazardous substances in our products;
- risks involved in our operations such as disruption of markets, changes in import and export laws, environmental regulations, currency restrictions and local currency exchange rate fluctuations;
- our ability to raise our selling prices to our customers when our product costs increase;
- the extent to which we are able to efficiently utilize our global manufacturing facilities and optimize our capacity;
- general economic conditions in the markets in which we operate;
- competitiveness of the battery markets and other energy solutions for industrial applications throughout the world;
- our timely development of competitive new products and product enhancements in a changing environment and the acceptance of such products and product enhancements by customers;
- our ability to adequately protect our proprietary intellectual property, technology and brand names;
- litigation and regulatory proceedings to which we might be subject;
  - our expectations concerning indemnification obligations;
- changes in our market share in the geographic business segments where we operate;
- our ability to implement our cost reduction initiatives successfully and improve our profitability;
- quality problems associated with our products;
- our ability to implement business strategies, including our acquisition strategy, manufacturing expansion and restructuring plans;
- our acquisition strategy may not be successful in locating advantageous targets;
- our ability to successfully integrate any assets, liabilities, customers, systems and management personnel we acquire into our operations and our ability to realize related revenue synergies and cost savings within expected time frames;
- potential goodwill impairment charges, future impairment charges and fluctuations in the fair values of reporting units or of assets in the event projected financial results are not achieved within expected time frames;
- our debt and debt service requirements which may restrict our operational and financial flexibility, as well as imposing unfavorable interest and financing costs;
- our ability to maintain our existing credit facilities or obtain satisfactory new credit facilities;
- adverse changes in our short and long-term debt levels under our credit facilities;
- our exposure to fluctuations in interest rates on our variable-rate debt;
- our ability to attract and retain qualified management and personnel;

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

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

In the following discussion and analysis of results of operations and financial condition, certain financial measures may be considered “non-GAAP financial measures” under Securities and Exchange Commission rules. These rules require supplemental explanation and reconciliation, which is provided in this Quarterly Report on Form 10-Q. EnerSys’ management uses the non-GAAP measures “primary working capital”, “primary working capital percentage” and capital expenditures in its evaluation of business segment cash flow and financial position performance. These disclosures have limitations as an analytical tool, should not be viewed as a substitute for cash flow determined in accordance with GAAP, and should not be considered in isolation or as a substitute for analysis of the Company’s results as reported under GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies. Management believes that this non-GAAP supplemental information is helpful in understanding the Company’s ongoing operating results.

## **Overview**

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

We operate and manage our business in three geographic regions of the world—Americas, EMEA and Asia, as described below. Our business is highly decentralized with manufacturing locations throughout the world. More than half of our manufacturing capacity is located outside the United States, and approximately 50% of our net sales were generated outside the United States. The Company has three reportable business segments based on geographic regions, defined as follows:

• **Americas**, which includes North and South America, with our segment headquarters in Reading, Pennsylvania, USA;

• **EMEA**, which includes Europe, the Middle East and Africa, with our segment headquarters in Zug, Switzerland; and

• **Asia**, which includes Asia, Australia and Oceania, with our segment headquarters in Singapore.

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

**Reserve power products** are used for backup power for the continuous operation of critical applications in telecommunications systems, uninterruptible power systems, or “UPS” applications for computer and computer-controlled systems, and other specialty power applications, including medical and security systems, premium starting, lighting and ignition applications, in switchgear, electrical control systems used in electric utilities, large-scale energy storage, energy pipelines, in commercial aircraft, satellites, military aircraft, submarines, ships and tactical vehicles. Reserve power products also include thermally managed cabinets and enclosures for electronic equipment and batteries.

**Motive power products** are used to provide power for electric industrial forklifts used in manufacturing, warehousing and other material handling applications as well as mining equipment, diesel locomotive starting and other rail equipment.

## ***Economic Climate***

Recent indicators continue to suggest a mixed trend in economic activity among the different geographical regions. North America and EMEA are experiencing limited economic growth. Our Asia region continues to grow faster than any other region in which we do business, but at a slower pace than a few years ago.

## ***Volatility of Commodities and Foreign Currencies***

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

## ***Customer Pricing***

Our selling prices fluctuated during the last several years to offset the volatile cost of commodities. Approximately 30% of our revenue is currently subject to agreements that adjust pricing to a market-based index for lead. During the third quarter of fiscal 2017, our selling prices remained relatively flat, compared to the comparable prior year period.

## ***Liquidity and Capital Resources***



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We believe that our financial position is strong, and we have substantial liquidity with \$467 million of available cash and cash equivalents and available and undrawn credit lines of approximately \$451 million at January 1, 2017 to cover short-term liquidity requirements and anticipated growth in the foreseeable future.

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A substantial majority of the Company's cash and investments are held by foreign subsidiaries and are considered to be indefinitely reinvested and expected to be utilized to fund local operating activities, capital expenditure requirements and acquisitions. The Company believes that it has sufficient sources of domestic and foreign liquidity.

We believe that our strong capital structure and liquidity affords us access to capital for future acquisition and stock repurchase opportunities and continued dividend payments.

**Results of Operations****Net Sales***Segment sales*

|                 | Quarter ended<br>January 1, 2017 |                                     |   | Quarter ended<br>December 27, 2015 |                                     |   | Increase (Decrease) |         |
|-----------------|----------------------------------|-------------------------------------|---|------------------------------------|-------------------------------------|---|---------------------|---------|
|                 | In<br>Millions                   | Percentage<br>of Total<br>Net Sales | % | In<br>Millions                     | Percentage<br>of Total<br>Net Sales | % | In<br>Millions      | %       |
| Americas        | \$ 314.0                         | 55.7                                | % | \$ 306.3                           | 53.4                                | % | \$ 7.7              | 2.5 %   |
| EMEA            | 186.1                            | 33.0                                |   | 196.8                              | 34.3                                |   | (10.7 )             | (5.5 )  |
| Asia            | 63.6                             | 11.3                                |   | 70.5                               | 12.3                                |   | (6.9 )              | (9.6 )  |
| Total net sales | \$ 563.7                         | 100.0                               | % | \$ 573.6                           | 100.0                               | % | \$ (9.9 )           | (1.7 )% |

|                 | Nine months ended<br>January 1, 2017 |                                     |   | Nine months ended<br>December 27, 2015 |                                     |   | Increase (Decrease) |        |
|-----------------|--------------------------------------|-------------------------------------|---|--|-------------------------------------|---|---------------------|--------|
|                 | In<br>Millions                       | Percentage<br>of Total<br>Net Sales | % | In<br>Millions                         | Percentage<br>of Total<br>Net Sales | % | In<br>Millions      | %      |
| Americas        | \$ 968.5                             | 55.6                                | % | \$ 945.8                               | 55.5                                | % | \$ 22.7             | 2.4 %  |
| EMEA            | 563.8                                | 32.4                                |   | 582.9                                  | 34.2                                |   | (19.1 )             | (3.3 ) |
| Asia            | 208.0                                | 12.0                                |   | 176.1                                  | 10.3                                |   | 31.9                | 18.2   |
| Total net sales | \$ 1,740.3                           | 100.0                               | % | \$ 1,704.8                             | 100.0                               | % | \$ 35.5             | 2.1 %  |

Net sales decreased \$9.9 million or 1.7% in the third quarter of fiscal 2017 from the comparable period in fiscal 2016. This decrease for the third quarter was the result of a 3% decrease due to foreign currency translation impact and a 1% decrease in organic volume, partially offset by a 1% increase each from pricing and acquisitions.

Net sales increased \$35.5 million or 2.1% in the nine months of fiscal 2017 from the comparable period in fiscal 2016. This increase was the result of a 2% increase each in organic volume and acquisitions, partially offset by a 2% decrease due to foreign currency translation impact.

The Americas segment's net sales increased \$7.7 million or 2.5% in the third quarter of fiscal 2017 as compared to the third quarter of fiscal 2016, primarily due to a 1% increase in organic volume and a 2% increase in acquisitions, partially offset by a 1% decrease due to foreign currency translation impact. Net sales increased \$22.7 million or 2.4% in the nine months of fiscal 2017, as compared to the nine months of fiscal 2016, primarily due to an increase of approximately 2% in organic volume and a 1% increase in acquisitions, partially offset by a 1% decrease due to foreign currency translation impact.

The EMEA segment's net sales decreased \$10.7 million or 5.5% in the third quarter of fiscal 2017 as compared to the third quarter of fiscal 2016, primarily due to a 5% decrease due to foreign currency translation impact and a 1% decrease in organic volume. Net sales decreased \$19.1 million or 3.3% in the nine months of fiscal 2017, as compared to the nine months of fiscal 2016, primarily due to a decrease of 3% due to foreign currency translation impact.

The Asia segment's net sales decreased \$6.9 million or 9.6% in the third quarter of fiscal 2017 as compared to the third quarter of fiscal 2016, primarily due to a 9% decrease in organic volume and a 2% decrease in foreign currency translation impact, partially offset by a 1% increase in pricing. Net sales increased \$31.9 million or 18.2% in the nine months of fiscal 2017, as compared to the nine months of fiscal 2016, primarily due to an increase in organic volume, acquisitions and pricing of 11%, 8 and 1%, respectively, partially offset by a 2% decrease due to foreign currency translation impact.



**Table of Contents***Product line sales*

|                 | Quarter ended<br>January 1, 2017 |                                     |   | Quarter ended<br>December 27, 2015 |                                     |   | Increase (Decrease) |         |
|-----------------|----------------------------------|-------------------------------------|---|------------------------------------|-------------------------------------|---|---------------------|---------|
|                 | In<br>Millions                   | Percentage<br>of Total<br>Net Sales | % | In<br>Millions                     | Percentage<br>of Total<br>Net Sales | % | In<br>Millions      | %       |
| Reserve power   | \$271.3                          | 48.1                                | % | \$272.0                            | 47.4                                | % | \$ (0.7 )           | (0.2 )% |
| Motive power    | 292.4                            | 51.9                                |   | 301.6                              | 52.6                                |   | (9.2 )              | (3.1 )  |
| Total net sales | \$563.7                          | 100.0                               | % | \$573.6                            | 100.0                               | % | \$ (9.9 )           | (1.7 )% |

  

|                 | Nine months ended<br>January 1, 2017 |                                     |   | Nine months ended<br>December 27, 2015 |                                     |   | Increase (Decrease) |       |
|-----------------|--------------------------------------|-------------------------------------|---|--|-------------------------------------|---|---------------------|-------|
|                 | In<br>Millions                       | Percentage<br>of Total<br>Net Sales | % | In<br>Millions                         | Percentage<br>of Total<br>Net Sales | % | In<br>Millions      | %     |
| Reserve power   | \$844.7                              | 48.5                                | % | \$810.5                                | 47.5                                | % | \$ 34.2             | 4.2 % |
| Motive power    | 895.6                                | 51.5                                |   | 894.3                                  | 52.5                                |   | 1.3                 | 0.1   |
| Total net sales | \$1,740.3                            | 100.0                               | % | \$1,704.8                              | 100.0                               | % | \$ 35.5             | 2.1 % |

Net sales of our reserve power products in the third quarter of fiscal 2017 decreased \$0.7 million or 0.2% compared to the third quarter of fiscal 2016. The decrease was primarily due to a 3% decrease in foreign currency translation impact, partially offset by a 2% increase in acquisitions. Net sales increased \$34.2 million or 4.2% in the nine months of fiscal 2017, as compared to the nine months of fiscal 2016, primarily due to an increase of approximately 4% and 3% due to organic volume and acquisitions, respectively, partially offset by a 3% decrease due to foreign currency translation impact.

Net sales of our motive power products in the third quarter of fiscal 2017 decreased by \$9.2 million or 3.1% compared to the third quarter of fiscal 2016. The decrease was primarily due to a 2% decrease each in organic volume and foreign currency translation impact, partially offset by a 1% increase in pricing. Net sales increased \$1.3 million or 0.1% in the nine months of fiscal 2017, as compared to the nine months of fiscal 2016, primarily due to a 1% increase each in organic volume and pricing, offset by a decrease of approximately 2% due to foreign currency translation impact.

**Gross Profit**

|              | Quarter ended<br>January 1, 2017 |                                     |   | Quarter ended<br>December 27, 2015 |                                     |   | Increase (Decrease) |       |
|--------------|----------------------------------|-------------------------------------|---|------------------------------------|-------------------------------------|---|---------------------|-------|
|              | In<br>Millions                   | Percentage<br>of Total<br>Net Sales | % | In<br>Millions                     | Percentage<br>of Total<br>Net Sales | % | In<br>Millions      | %     |
| Gross Profit | \$155.9                          | 27.7                                | % | \$145.8                            | 25.4                                | % | \$ 10.1             | 6.9 % |

  

|              | Nine months ended<br>January 1, 2017 |                                     |   | Nine months ended<br>December 27, 2015 |                                     |   | Increase (Decrease) |       |
|--------------|--------------------------------------|-------------------------------------|---|--|-------------------------------------|---|---------------------|-------|
|              | In<br>Millions                       | Percentage<br>of Total<br>Net Sales | % | In<br>Millions                         | Percentage<br>of Total<br>Net Sales | % | In<br>Millions      | %     |
| Gross Profit | \$483.5                              | 27.8                                | % | \$451.2                                | 26.5                                | % | \$ 32.3             | 7.2 % |

Gross profit increased \$10.1 million or 6.9% in the third quarter of fiscal 2017 and increased \$32.3 million or 7.2% in the nine months of fiscal 2017 compared to comparable prior year periods. Gross profit, as a percentage of net sales, increased 230 basis points and 130 basis points, in the third quarter and nine months of fiscal 2017, respectively, when compared to the comparable prior year periods. The increase in the gross profit margin in the current quarter is primarily due to improved manufacturing costs with a slight improvement in pricing due to an increase in lead pricing, partially offset by a drop in organic volume. The increase in the gross profit margin in the nine months is primarily due to lower commodity costs and benefits from cost reduction programs, partially offset by a \$2.1 million inventory adjustment relating to the South Africa joint venture exit activities.



**Table of Contents****Operating Items**

|  | Quarter ended<br>January 1, 2017 |                                     |   | Quarter ended<br>December 27,<br>2015 |                                     |   | Increase (Decrease) |         |
|--|----------------------------------|-------------------------------------|---|---------------------------------------|-------------------------------------|---|---------------------|---------|
|  | In<br>Millions                   | Percentage<br>of Total<br>Net Sales | % | In<br>Millions                        | Percentage<br>of Total<br>Net Sales | % | In<br>Millions      | %       |
| Operating expenses                             | \$85.0                           | 15.1                                | % | \$87.1                                | 15.2                                | % | \$ (2.1 )           | (2.5 )% |
| Restructuring and other exit (credits) charges | \$ (1.2 )                        | (0.2 )                              | % | \$3.2                                 | 0.5                                 | % | \$ (4.4 )           | NM      |
| Legal proceedings charge                       | \$17.0                           | 3.0                                 | % | \$—                                   | —                                   | % | \$17.0              | NM      |

|                                      | Nine months ended<br>January 1, 2017 |                                     |   | Nine months ended<br>December 27, 2015 |                                     |   | Increase (Decrease) |          |
|--------------------------------------|--------------------------------------|-------------------------------------|---|--|-------------------------------------|---|---------------------|----------|
|                                      | In<br>Millions                       | Percentage<br>of Total<br>Net Sales | % | In<br>Millions                         | Percentage<br>of Total<br>Net Sales | % | In<br>Millions      | %        |
| Operating expenses                   | \$277.5                              | 15.9                                | % | \$261.2                                | 15.3                                | % | \$16.3              | 6.2 %    |
| Restructuring and other exit charges | \$5.0                                | 0.3                                 | % | \$7.0                                  | 0.4                                 | % | \$ (2.0 )           | (28.6 )% |
| Legal proceedings charge             | \$17.0                               | 1.0                                 | % | \$3.2                                  | 0.2                                 | % | \$13.8              | NM       |
| Gain on sale of facility             | \$—                                  | —                                   | % | \$ (4.3 )                              | (0.2 )                              | % | \$4.3               | NM       |

NM = not meaningful

Operating expenses as a percentage of net sales decreased 10 basis points in the third quarter of fiscal 2017 and increased 60 basis points in the nine months of fiscal 2017, compared to the comparable prior year periods of fiscal 2016. Operating expenses, excluding the effect of foreign currency translation, was flat in the third quarter of fiscal 2017, as compared to the third quarter of fiscal 2016 and increased \$21 million or 8.0% in the nine months of fiscal 2017, as compared to the nine months of fiscal 2016. The operating expenses in the third quarter of fiscal 2017 included a receipt of \$1.9 million of deferred purchase consideration relating to an acquisition made in fiscal 2014. The increase in operating expenses as a percentage of sales in the nine months of fiscal 2017 is primarily due to payroll related expenses, acquisitions and professional fees, partially offset by the aforementioned receipt of deferred purchase consideration. In the nine months of fiscal 2017, we also recorded a charge of \$8.3 million in operating expenses, related to the ERP system implementation in our Americas region, including a \$6.3 million write-off of previously capitalized costs during the first quarter of fiscal 2017. We determined that previously capitalized costs associated with the implementation should be written off, after reassessing our software design subsequent to encountering difficulty in the roll out at our pilot location. These costs were previously included in the construction in progress balance within property, plant and equipment, net, in the Consolidated Condensed Balance Sheet. Selling expenses, our main component of operating expenses, were 56.9% and 54.5% of total operating expenses in the third quarter and nine months of fiscal 2017, respectively, compared to 57.2% and 56.3% of total operating expenses in the third quarter and nine months of fiscal 2016, respectively.

**Restructuring and other exit charges**

Included in our third quarter of fiscal 2017 operating results is a credit of \$1.2 million relating to restructuring and other exit charges in EMEA consisting of cash charges of \$0.5 million primarily relating to severance and a credit of \$1.7 million relating to South Africa joint venture exit activities. In addition, cost of goods sold also includes a \$0.5 million credit of inventory adjustment relating to the South Africa joint venture. Included in our nine months of fiscal 2017 operating results is a \$5.0 million charge consisting of restructuring and other exit charges in EMEA of \$3.7 million, restructuring charges of \$0.9 million in Americas and \$0.4 million in Asia. Of the restructuring and exit charges in EMEA of \$3.7 million, \$2.5 million of restructuring charges related to European manufacturing operations and \$1.2 million of exit charges related to our joint venture in South Africa. In addition, cost of goods sold also includes a \$2.1 million inventory adjustment charge relating to the South Africa joint venture.

**South Africa exit activities**

During the nine months of fiscal 2017, the Company recorded exit charges of \$3.3 million related to the South Africa joint venture, consisting of cash charges of \$2.6 million primarily relating to severance and non-cash charges of \$0.7 million. Included in the non-cash charges is a \$2.1 million charge relating to the inventory adjustment which is reported in cost of goods sold, partially offset by a credit of \$1.1 million relating to a change in estimate of contract losses and a \$0.3 million gain on deconsolidation of the joint venture. Weakening of the general economic environment in South Africa, exacerbated by limited growth in the mining industry and competitive products flooding the market, affected the joint venture's ability to compete effectively in the marketplace and consequently, the Company initiated an exit plan in consultation with its joint

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venture partner in the second quarter of fiscal 2017. The joint venture is currently under liquidation resulting in a loss of control and deconsolidation of the joint venture. The impact of the deconsolidation has been reflected in the Consolidated Condensed Statements of Income included in this Quarterly Report on Form 10-Q.

Included in our third quarter of fiscal 2016 operating results are restructuring charges in Americas, EMEA and Asia of \$0.9 million, \$2.1 million and \$0.2 million, respectively, primarily for staff reductions in our Cleveland, Ohio charger manufacturing facility in the U.S., motive

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power assembly and distribution center in Italy as well as our European manufacturing operations, along with reductions at our Jiangdu factory in the People's Republic of China ("PRC").

**Legal proceedings charge**

Included in our third quarter and nine months of fiscal 2017 operating results are \$17.0 million of charges in EMEA relating to ongoing investigations conducted by the competition authorities of Belgium, Germany and the Netherlands, relating to conduct and anticompetitive practices of certain industrial battery participants, compared to \$4.0 million related to the same in the nine months of fiscal 2016. We are responding to inquiries related to these matters. We settled the Belgian regulatory proceeding in February 2016 by acknowledging certain anticompetitive practices and conduct and agreeing to pay a fine of \$2.0 million, which was paid in March 2016. As of January 1, 2017 and March 31, 2016, we had a reserve balance of \$1.8 million and \$2.0 million, respectively, relating to the Belgian regulatory proceeding. The change in the reserve balance between January 1, 2017 and March 31, 2016 was solely due to foreign currency translation impact. We currently estimate that the aggregate range of possible loss with respect to the German regulatory proceeding is \$17.0 million to \$26.0 million and have reserved \$17.0 million in connection with this matter. For the Dutch regulatory proceeding, we do not believe that an estimate can be made at this time given the current stage of this proceeding. As of January 1, 2017 and March 31, 2016, we had a total reserve balance of \$18.8 million and \$2.0 million, respectively, in connection with these remaining investigations and other related legal matters. The foregoing estimate of losses is based upon currently available information for these proceedings. However, the precise scope, timing and time period at issue, as well as the final outcome of the investigations, remains uncertain. Accordingly, our estimate may change from time to time, and actual losses could vary.

Included in our nine months of fiscal 2016 operating results is a reversal of \$0.8 million of legal accrual in Americas, relating to legal fees, subsequent to the final settlement of the Alteryx matter.

**Gain on sale of facility**

During the first quarter of fiscal 2016, we sold our plant in Chaozhou, the PRC for \$9.2 million and recorded a gain of \$4.3 million.

**Operating Earnings**

|   | Quarter ended<br>January 1, 2017 |  |   | Quarter ended<br>December 27, 2015 |  |   | Increase (Decrease) |         |
|---|----------------------------------|--|---|------------------------------------|--|---|---------------------|---------|
|   | In<br>Millions                   | Percentage<br>of Total<br>Net Sales <sup>(1)</sup> | % | In<br>Millions                     | Percentage<br>of Total<br>Net Sales <sup>(1)</sup> | % | In<br>Millions      | %       |
| Americas  | \$46.0                           | 14.6   | % | \$40.6                             | 13.2   | % | \$ 5.4              | 13.3 %  |
| EMEA  | 20.4                             | 11.0   |   | 16.5                               | 8.4  |   | 3.9                 | 23.7    |
| Asia  | 4.0                              | 6.3  |   | 1.6                                | 2.2  |   | 2.4                 | NM      |
| Subtotal  | 70.4                             | 12.5   |   | 58.7                               | 10.2   |   | 11.7                | 20.0    |
| Restructuring charges - Americas                        | —                                | —  |   | (0.9 )                             | (0.3 )   |   | 0.9                 | NM      |
| Inventory adjustment relating to exit activities - EMEA | 0.5                              | 0.3  |   | —                                  | —  |   | 0.5                 | NM      |
| Restructuring and other exit credits (charges) - EMEA   | 1.2                              | 0.6  |   | (2.1 )                             | (1.1 )   |   | 3.3                 | NM      |
| Restructuring charges - Asia                            | —                                | —  |   | (0.2 )                             | (0.3 )   |   | 0.2                 | NM      |
| Legal proceedings charge - EMEA                         | (17.0 )                          | (9.1 )   |   | —                                  | —  |   | (17.0 )             | NM      |
| Total operating earnings                                | \$55.1                           | 9.8  | % | \$55.5                             | 9.7  | % | \$ (0.4 )           | (0.8 )% |



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|   | Nine months ended<br>January 1, 2017 |   |   | Nine months ended<br>December 27, 2015 |   |   | Increase (Decrease) |         |   |
|---|--------------------------------------|---|---|--|---|---|---------------------|---------|---|
|   | In<br>Millions                       | Percentage<br>of Total<br>Net Sales (1) | % | In<br>Millions                         | Percentage<br>of Total<br>Net Sales (1) | % | In<br>Millions      | %       | % |
| Americas  | \$ 139.2                             | 14.4                                    | % | \$ 134.3                               | 14.2                                    | % | \$ 4.9              | 3.6     | % |
| EMEA  | 57.1                                 | 10.2                                    |   | 54.2                                   | 9.3                                     |   | 2.9                 | 5.6     |   |
| Asia  | 11.8                                 | 5.6                                     |   | 1.5                                    | 0.8                                     |   | 10.3                | NM      |   |
| Subtotal  | 208.1                                | 12.0                                    |   | 190.0                                  | 11.1                                    |   | 18.1                | 9.6     |   |
| Restructuring charges - Americas                        | (0.9 )                               | (0.1 )                                  |   | (1.5 )                                 | (0.2 )                                  |   | 0.6                 | (37.8 ) |   |
| Inventory adjustment relating to exit activities - EMEA | (2.1 )                               | (0.4 )                                  |   | —                                      | —                                       |   | (2.1 )              | NM      |   |
| Restructuring and other exit charges - EMEA             | (3.7 )                               | (0.6 )                                  |   | (4.6 )                                 | (0.8 )                                  |   | 0.9                 | (22.2 ) |   |
| Restructuring charges - Asia                            | (0.4 )                               | (0.2 )                                  |   | (0.9 )                                 | (0.5 )                                  |   | 0.5                 | (47.0 ) |   |
| Reversal of legal accrual, net of fees - Americas       | —                                    | —                                       |   | 0.8                                    | 0.1                                     |   | (0.8 )              | NM      |   |
| Legal proceedings charge - EMEA                         | (17.0 )                              | (3.0 )                                  |   | (4.0 )                                 | (0.7 )                                  |   | (13.0 )             | NM      |   |
| Gain on sale of facility - Asia                         | —                                    | —                                       |   | 4.3                                    | 2.5                                     |   | (4.3 )              | NM      |   |
| Total operating earnings                                | \$ 184.0                             | 10.6                                    | % | \$ 184.1                               | 10.8                                    | % | \$ (0.1 )           | —       | % |

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

NM = not meaningful

Operating earnings decreased \$0.4 million or 0.8% in the third quarter and remained flat in the nine months of fiscal 2017 compared to the third quarter and nine months of fiscal 2016. Operating earnings, as a percentage of net sales, increased 10 basis points and decreased 20 basis points in the third quarter and nine months of fiscal 2017, respectively, when compared to the third quarter and nine months of fiscal 2016. The relatively flat performance in the operating earnings, as a percentage of net sales, in the third quarter of fiscal 2017 compared to the prior year quarter is attributable to improved mix combined with lower manufacturing costs and restructuring and exit charges largely offset by the legal proceedings charge in EMEA. The decrease in the operating earnings, as a percentage of net sales, in the nine months of fiscal 2017 compared to the prior year period, is due to the aforementioned factors in the third quarter of fiscal 2017, as well as the \$6.3 million write-off of previously capitalized costs related to the new ERP system in the Americas in the first quarter of fiscal 2017, partially offset by higher organic volume and lower commodity costs. Also contributing to the negative impact in the comparison of the nine months to the comparable prior year period, was the \$4.3 million gain on sale of our plant in Chaozhou, the PRC recorded in the first quarter of fiscal 2016.

The Americas segment's operating earnings, excluding restructuring charges, increased 140 basis points and 20 basis points in the third quarter and nine months of fiscal 2017, respectively, when compared to the third quarter and nine months of fiscal 2016. The increase in the current quarter is attributable to higher organic volume, improved product mix in both product lines, combined with lower manufacturing costs, while the modest increase in the current nine months is attributable to the aforementioned factors and lower commodity costs negatively offset by the write-off during the first quarter fiscal 2017 of previously capitalized costs of \$6.3 million related to the new ERP system.

The EMEA segment's operating earnings, excluding restructuring and other exit charges and legal proceedings charge discussed above, increased 260 basis points and 90 basis points in the third quarter and nine months of fiscal 2017, respectively, compared to the third quarter and nine months of fiscal 2016. The increase in the third quarter and nine months of fiscal 2017 is primarily on account of improved product mix, manufacturing efficiencies combined with benefits from cost reduction programs, partially offset by currency headwinds and weak reserve power telecom market demand.

Operating earnings increased 410 basis points and 480 basis points in the Asia segment in the third quarter and nine months of fiscal 2017 compared to the third quarter and nine months of fiscal 2016. The increase in the current quarter is primarily due to improved product mix and results from our India and ICS (fiscal 2016 acquisition) operations in the current quarter while the increase in the nine months of fiscal 2017 is due to the aforementioned factors in the third quarter of fiscal 2017 as well as an increase in organic volume from increased sales to the telecom sector in the PRC.



Table of Contents**Interest Expense**

|                  | Quarter ended<br>January 1, 2017 |                                     |   | Quarter ended<br>December 27,<br>2015 |                                     |   | Increase (Decrease) |       |
|------------------|----------------------------------|-------------------------------------|---|---------------------------------------|-------------------------------------|---|---------------------|-------|
|                  | In<br>Millions                   | Percentage<br>of Total<br>Net Sales | % | In<br>Millions                        | Percentage<br>of Total<br>Net Sales | % | In<br>Millions      | %     |
| Interest expense | \$5.6                            | 1.0                                 | % | \$5.3                                 | 0.9                                 | % | \$ 0.3              | 6.0 % |

  

|                  | Nine months<br>ended<br>January 1, 2017 |                                     |   | Nine months<br>ended<br>December 27,<br>2015 |                                     |   | Increase (Decrease) |       |
|------------------|---|-------------------------------------|---|--|-------------------------------------|---|---------------------|-------|
|                  | In<br>Millions                          | Percentage<br>of Total<br>Net Sales | % | In<br>Millions                               | Percentage<br>of Total<br>Net Sales | % | In<br>Millions      | %     |
| Interest expense | \$ 16.8                                 | 1.0                                 | % | \$ 16.7                                      | 1.0                                 | % | \$ 0.1              | 0.7 % |

Interest expense of \$5.6 million in the third quarter of fiscal 2017 (net of interest income of \$0.5 million) was \$0.3 million higher than the interest expense of \$5.3 million in the third quarter of fiscal 2016 (net of interest income of \$0.6 million). Interest expense of \$16.8 million in the nine months of fiscal 2017 (net of interest income of \$1.3 million) was \$0.1 million higher than the interest expense of \$16.7 million in the nine months of fiscal 2016 (net of interest income of \$1.6 million).

The increase in interest expense in the third quarter of fiscal 2017 compared to the comparable prior year period of fiscal 2016 was primarily due to higher interest rates. The increase in interest expense in the nine months of fiscal 2017 compared to the nine months of fiscal 2016 was due to higher interest rates partially offset by the redemption of the Convertible Notes in fiscal 2016, which resulted in no interest on the Convertible Notes in fiscal 2017 compared to \$2.5 million in the prior year nine months. Our average debt outstanding was \$626.4 million and \$629.2 million in the third quarter and nine months of fiscal 2017, respectively, compared to \$662.1 million and \$624.4 million in the third quarter and nine months of fiscal 2016, respectively. The increase in our average debt was mainly due to the issuance of \$300 million of the Notes in fiscal 2016, the net proceeds of which were used to redeem the Convertible Notes and fund an accelerated share repurchase program (“ASR”) during fiscal 2016.

Accreted interest on the Convertible Notes was \$1.3 million in the nine months of fiscal 2016. Also included in interest expense are non-cash charges for deferred financing fees of \$0.3 million and \$1.0 million, respectively, in the third quarter and nine months of fiscal 2017 and \$0.3 million and \$1.1 million, respectively, in the third quarter and nine months of fiscal 2016.

**Other (Income) Expense, Net**

|                             | Quarter ended<br>January 1, 2017 |                                     |   | Quarter ended<br>December 27,<br>2015 |                                     |   | Increase (Decrease) |    |
|-----------------------------|----------------------------------|-------------------------------------|---|---------------------------------------|-------------------------------------|---|---------------------|----|
|                             | In<br>Millions                   | Percentage<br>of Total<br>Net Sales | % | In<br>Millions                        | Percentage<br>of Total<br>Net Sales | % | In<br>Millions      | %  |
| Other (income) expense, net | \$(1.1)                          | (0.2)                               | % | \$ 1.2                                | 0.2                                 | % | \$ (2.3 )           | NM |

  

|                             | Nine months<br>ended<br>January 1, 2017 |                                     |   | Nine months<br>ended<br>December 27,<br>2015 |                                     |   | Increase (Decrease) |    |
|-----------------------------|---|-------------------------------------|---|--|-------------------------------------|---|---------------------|----|
|                             | In<br>Millions                          | Percentage<br>of Total<br>Net Sales | % | In<br>Millions                               | Percentage<br>of Total<br>Net Sales | % | In<br>Millions      | %  |
| Other (income) expense, net | \$(0.4)                                 | —                                   | % | \$ 2.6                                       | 0.1                                 | % | \$ (3.0 )           | NM |

NM = not meaningful

Other (income) expense, net in the third quarter of fiscal 2017 was income of \$1.1 million compared to expense of \$1.2 million in the third quarter of fiscal 2016. Other (income) expense, net in the nine months of fiscal 2017 was income of \$0.4 million compared to expense of \$2.6

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million in the nine months of fiscal 2016. Foreign currency impact resulted in a gain of \$1.6 million and \$1.2 million, respectively, in the third quarter and nine months of fiscal 2017, compared to the foreign currency losses of \$1.1 million and \$3.1 million, respectively, in the comparable prior year periods. Also reducing the positive impact in the comparison of the current nine months to the comparable prior year period, was miscellaneous income of \$1.2 million in the first quarter of fiscal 2016.

### Earnings Before Income Taxes

|                              | Quarter ended<br>January 1, 2017 |                                     |   | Quarter ended<br>December 27,<br>2015 |                                     |   | Increase (Decrease) |       |
|------------------------------|----------------------------------|-------------------------------------|---|---------------------------------------|-------------------------------------|---|---------------------|-------|
|                              | In<br>Millions                   | Percentage<br>of Total<br>Net Sales | % | In<br>Millions                        | Percentage<br>of Total<br>Net Sales | % | In<br>Millions      | %     |
| Earnings before income taxes | \$50.6                           | 9.0                                 | % | \$49.0                                | 8.6                                 | % | \$ 1.6              | 3.3 % |

  

|                              | Nine months ended<br>January 1, 2017 |                                     |   | Nine months ended<br>December 27, 2015 |                                     |   | Increase (Decrease) |       |
|------------------------------|--------------------------------------|-------------------------------------|---|--|-------------------------------------|---|---------------------|-------|
|                              | In<br>Millions                       | Percentage<br>of Total<br>Net Sales | % | In<br>Millions                         | Percentage<br>of Total<br>Net Sales | % | In<br>Millions      | %     |
| Earnings before income taxes | \$167.6                              | 9.6                                 | % | \$164.8                                | 9.7                                 | % | \$ 2.8              | 1.7 % |

As a result of the above, earnings before income taxes in the third quarter of fiscal 2017 increased \$1.6 million, or 3.3%, compared to the third quarter of fiscal 2016 and increased \$2.8 million, or 1.7%, in the nine months of fiscal 2017 compared to the nine months of fiscal 2016.

### Income Tax Expense

|                    | Quarter ended<br>January 1, 2017 |                                     |   | Quarter ended<br>December 27,<br>2015 |                                     |   | Increase (Decrease) |        |
|--------------------|----------------------------------|-------------------------------------|---|---------------------------------------|-------------------------------------|---|---------------------|--------|
|                    | In<br>Millions                   | Percentage<br>of Total<br>Net Sales | % | In<br>Millions                        | Percentage<br>of Total<br>Net Sales | % | In<br>Millions      | %      |
| Income tax expense | \$13.5                           | 2.4                                 | % | \$10.8                                | 1.9                                 | % | \$ 2.7              | 25.6 % |
| Effective tax rate | 26.7%                            |                                     |   | 22.0%                                 |                                     |   | 4.7%                |        |

  

|                    | Nine months<br>ended<br>January 1, 2017 |                                     |   | Nine months<br>ended<br>December 27,<br>2015 |                                     |   | Increase (Decrease) |        |
|--------------------|---|-------------------------------------|---|--|-------------------------------------|---|---------------------|--------|
|                    | In<br>Millions                          | Percentage<br>of Total<br>Net Sales | % | In<br>Millions                               | Percentage<br>of Total<br>Net Sales | % | In<br>Millions      | %      |
| Income tax expense | \$43.1                                  | 2.4                                 | % | \$38.9                                       | 2.3                                 | % | \$ 4.2              | 11.0 % |
| Effective tax rate | 25.7%                                   |                                     |   | 23.6%  |                                     |   | 2.1%                |        |

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The Company's income tax provision consists of federal, state and foreign income taxes. The tax provision for the third quarters of fiscal 2017 and 2016 was based on the estimated effective tax rates applicable for the full years ending March 31, 2017 and March 31, 2016, respectively, after giving effect to items specifically related to the interim periods. Our effective income tax rate with respect to any period may be volatile based on the mix of income in the tax jurisdictions in which we operate and the amount of our consolidated income before taxes.

The consolidated effective income tax rates were 26.7% and 22.0%, respectively, for the third quarters of fiscal 2017 and 2016 and 25.7% and 23.6%, respectively, for the nine months of fiscal 2017 and 2016. The rate increase in the third quarter of fiscal 2017 compared to the third quarter of fiscal 2016 is primarily due to the German regulatory proceedings charge of \$17,000 (with no associated tax benefit) recorded in the third quarter of fiscal 2017 and the recognition of a tax benefit in fiscal 2016 related to international restructuring, partially offset by a decrease related to changes in the mix of earnings among tax jurisdictions. The rate increase in the nine months of fiscal 2017 compared to the nine months of fiscal 2016 is primarily due to the aforementioned German regulatory proceedings charge (with no associated tax benefit) recorded in the third quarter of fiscal 2017 and the recognition of a tax benefit in fiscal 2016 related to international restructuring, the subsequent recognition of a domestic deferred tax asset related to executive compensation and the subsequent recognition of a previously unrecognized tax position related to one of the Company's foreign subsidiaries, partially offset by a decrease related to changes in the mix of earnings among tax jurisdictions.

Foreign income as a percentage of worldwide income is estimated to be 60% for the nine months of fiscal 2017 compared to 51% for the nine months of fiscal 2016. The foreign effective income tax rates for the nine months of fiscal 2017 and 2016 were 15.9% and 10.1%, respectively. The rate increase compared to the prior year period is primarily due to the aforementioned German regulatory proceedings charge (with no associated tax benefit) recorded in the third quarter of fiscal 2017 and the recognition of a tax benefit in fiscal 2016 related to international restructuring and the subsequent recognition of a previously unrecognized tax position related to one of the Company's foreign subsidiaries, partially offset by a decrease related to changes in the mix of earnings among tax jurisdictions. Income from our Swiss subsidiary comprised a substantial portion of the our overall foreign mix of income and is taxed at an effective income tax rate of approximately 6%.

**Critical Accounting Policies and Estimates**

Except as discussed in the following paragraph, there have been no material changes to our critical accounting policies from those discussed under the caption "Critical Accounting Policies and Estimates" in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2016 Annual Report.

During the third quarter of fiscal 2017, we performed an interim review of goodwill impairment for our Purcell EMEA reporting unit. As a result of this testing, the fair value of this reporting unit exceeded its carrying value, including goodwill by approximately 3%. Our goodwill impairment testing is, however, highly sensitive to certain assumptions and estimates used. As our testing results continue to indicate that there is only a marginal excess of fair value over book value for our Purcell EMEA reporting unit, we will continue to monitor this reporting unit and perform impairment testing in future periods as very small changes in projections could result in goodwill impairment of this reporting unit.

**Liquidity and Capital Resources**

Operating activities provided cash of \$166.7 million in the nine months of fiscal 2017 compared to \$232.7 million in the comparable period of fiscal 2016. In the nine months of fiscal 2017, cash provided by operating activities was primarily from net earnings of \$124.5 million, depreciation and amortization of \$40.5 million, non-cash charges consisting of write-offs relating to restructuring and other exit charges and ERP implementation of \$7.7 million, stock-based compensation of \$14.6 million, provision of doubtful accounts of \$2.0 million and non-cash interest of \$1.0 million. Cash provided by operating activities were partially offset by the increase in primary working capital of \$47.7 million, net of currency translation changes. Cash provided by operating activities were positively impacted by legal proceedings accrual of \$17.0 million and accrued expenses of \$13.9 million, comprising primarily of income and other taxes, while prepaid and other current assets, comprising primarily of prepaid taxes, resulted in an outflow of \$11.5 million.

In the nine months of fiscal 2016, cash provided by operating activities was primarily from net earnings of \$125.9 million, depreciation and amortization of \$41.9 million, non-cash charges relating to stock-based compensation of \$14.9 million, provision of doubtful accounts of \$3.2 million and non-cash interest of \$2.4 million were offset by a gain of \$4.3 million on sale of our facility in the PRC and deferred taxes of \$3.2 million. Also contributing to our cash provided from operating activities was the decrease in primary working capital of \$47.0 million, net of currency translation changes.

Primary working capital for this purpose is trade accounts receivable, plus inventories, minus trade accounts payable. The resulting net amount is divided by the trailing three month net sales (annualized) to derive a primary working capital percentage. Primary working capital was \$611.6 million (yielding a primary working capital percentage of 27.1%) at January 1, 2017, \$593.4 million (yielding a primary working capital

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percentage of 24.3%) at March 31, 2016 and \$590.1 million at December 27, 2015 (yielding a primary working capital percentage of 25.7%). The primary working capital percentage of 27.1% at January 1, 2017 is 280 basis points higher than that for March 31, 2016, and is 140 basis points higher than that for the prior year period. Primary working capital percentage increased during the nine months of fiscal 2017 largely due to higher inventory levels. The reason for the increase in inventory is partially due to rising lead costs and is broad-based across the regions. We expect inventory turns to return to normal levels in our fourth quarter, which is usually our highest quarter for sales.

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The increase in primary working capital percentage in the nine months of fiscal 2017 compared to the prior year nine months is due in part to lower accounts payable and higher inventory levels being partially offset by lower accounts receivable.

Primary working capital and primary working capital percentages at January 1, 2017, March 31, 2016 and December 27, 2015 are computed as follows:

(\$ in Millions)

| Balance At        | Trade Receivables | Inventory | Accounts Payable | Total   | Quarter Revenue Annualized | Primary Working Capital % |
|-------------------|-------------------|-----------|------------------|---------|----------------------------|---------------------------|
| January 1, 2017   | \$ 444.3          | \$ 370.2  | \$(202.9)        | \$611.6 | \$ 2,254.8                 | 27.1 %                    |
| March 31, 2016    | 490.8             | 331.0     | (228.4 )         | 593.4   | 2,445.9                    | 24.3                      |
| December 27, 2015 | 463.2             | 341.2     | (214.3 )         | 590.1   | 2,294.3                    | 25.7                      |

Investing activities used cash of \$47.8 million in the nine months of fiscal 2017 and primarily consisted of capital expenditures of \$36.0 million, and acquisitions of \$12.4 million.

Investing activities used cash of \$74.7 million in the nine months of fiscal 2016 and were primarily comprised of capital expenditures of \$45.7 million, acquisitions of \$39.1 million, partially offset by proceeds from the sale of our manufacturing facility in Chaozhou, in the PRC for \$9.2 million.

Financing activities used cash of \$23.6 million in the nine months of fiscal 2017 primarily due to revolver borrowings of \$191.3 million and repayments of \$186.8 million, repayment of our Term Loan of \$11.3 million, payment of cash dividends to our stockholders of \$22.8 million, and payment of taxes related to net share settlement of equity awards of \$7.7 million. Net borrowings on short-term debt were \$13.6 million.

Financing activities used cash of \$78.6 million in the nine months of fiscal 2016 primarily due to the issuance of \$300.0 million of the Notes, principal payment of \$172.3 million to the Convertible Notes holders, revolver borrowings and repayments of \$300.0 million and \$288.0 million, respectively, repayment on Term Loan of \$3.8 million, debt issuance costs of \$5.0 million relating to the Notes, payment of \$180.0 million under the ASR, and payment of cash dividends to our stockholders of \$23.3 million. Taxes paid related to net share settlement of equity awards, net of option proceeds and related tax benefits resulted in a net outflow of \$11.0 million. Net borrowings on short-term debt were \$5.5 million.

As a result of the above, total cash and cash equivalents increased by \$69.8 million to \$467.1 million, in the nine months of fiscal 2017 compared to an increase by \$77.2 million to \$346.1 million, in the comparable period of fiscal 2016.

All obligations under our 2011 Credit Facility are secured by, among other things, substantially all of our U.S. assets. The 2011 Credit Facility contains various covenants which, absent prepayment in full of the indebtedness and other obligations, or the receipt of waivers, limit our ability to conduct certain specified business transactions, buy or sell assets out of the ordinary course of business, engage in sale and leaseback transactions, pay dividends and take certain other actions. There are no prepayment penalties on loans under this credit facility.

We are in compliance with all covenants and conditions under our credit agreement. We believe that we will continue to comply with these covenants and conditions, and that we have the financial resources and the capital available to fund the foreseeable organic growth in our business and to remain active in pursuing further acquisition opportunities. See Note 8 to the Consolidated Financial Statements included in our 2016 Annual Report and Note 9 to the Consolidated Condensed Financial Statements included in this Quarterly Report on Form 10-Q for a detailed description of our debt.

**Contractual Obligations and Commercial Commitments**

A table of our obligations is contained in Part II, Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations — Contractual Obligations of our 2016 Annual Report for the year ended March 31, 2016. As of January 1, 2017, we had no significant changes to our contractual obligations table contained in our 2016 Form 10-K.

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

**Market Risks**

Our cash flows and earnings are subject to fluctuations resulting from changes in interest rates, foreign currency exchange rates and raw material costs. We manage our exposure to these market risks through internally established policies and procedures and, when deemed appropriate,

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through the use of derivative financial instruments. Our policy does not allow speculation in derivative instruments for profit or execution of derivative instrument contracts for which there are no underlying exposures. We do not use financial instruments for trading purposes and are not a party to any leveraged derivatives. We monitor our underlying market risk exposures on an ongoing basis and believe that we can modify or adapt our hedging strategies as needed.



**Table of Contents*****Counterparty Risks***

We have entered into lead forward purchase contracts and foreign exchange forward and purchased option contracts to manage the risk associated with our exposures to fluctuations resulting from changes in raw material costs and foreign currency exchange rates. The Company's agreements are with creditworthy financial institutions. Those contracts that result in a liability position at January 1, 2017 are \$3.6 million (pre-tax). Those contracts that result in an asset position at January 1, 2017 are \$0.6 million (pre-tax) and the vast majority of these will settle within one year. The impact on the Company due to nonperformance by the counterparties has been evaluated and not deemed material.

***Interest Rate Risks***

We are exposed to changes in variable U.S. interest rates on borrowings under our credit agreements as well as short term borrowings in our foreign subsidiaries.

A 100 basis point increase in interest rates would have increased interest expense, on an annualized basis, by approximately \$3.4 million on the variable rate portions of our debt.

***Commodity Cost Risks – Lead Contracts***

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

| <b>Date</b>       | <b>\$'s Under Contract (in millions)</b> | <b># Pounds Purchased (in millions)</b> | <b>Average Cost/Pound</b> | <b>Approximate % of Lead Requirements (1)</b> |
|-------------------|--|---|---------------------------|---|
| January 1, 2017   | \$ 34.4                                  | 34.5                                    | \$ 1.00                   | 8 %   |
| March 31, 2016    | 21.6                                     | 27.4                                    | 0.79                      | 6   |
| December 27, 2015 | 34.1                                     | 44.2                                    | 0.77                      | 10  |

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

For the remaining quarter of this fiscal year, we believe approximately 100% of the cost of our lead requirements is known. This takes into account the hedge contracts in place at January 1, 2017, lead purchased by January 1, 2017 that will be reflected in future costs under our FIFO accounting treatment, and the benefit from our lead tolling program.

We estimate that a 10% increase in our cost of lead would have increased our cost of goods sold by approximately \$14 million and \$42 million in the third quarter and nine months of fiscal 2017.

***Foreign Currency Exchange Rate Risks***

We manufacture and assemble our products globally in the Americas, EMEA and Asia. Approximately 50% of our sales and expenses are transacted in foreign currencies. Our sales revenue, production costs, profit margins and competitive position are affected by the strength of the currencies in countries where we manufacture or purchase goods relative to the strength of the currencies in countries where our products are sold. Additionally, as we report our financial statements in U.S. dollars, our financial results are affected by the strength of the currencies in countries where we have operations relative to the strength of the U.S. dollar. The principal foreign currencies in which we conduct business are the Euro, Swiss franc, British pound, Polish zloty, Chinese renminbi and Mexican peso.

We quantify and monitor our global foreign currency exposures. Our largest foreign currency exposure is from the purchase and conversion of U.S. dollar based lead costs into local currencies in Europe. Additionally, we have currency exposures from intercompany financing and intercompany and third party trade transactions. On a selective basis, we enter into foreign currency forward contracts and purchase option contracts to reduce the impact from the volatility of currency movements; however, we cannot be certain that foreign currency fluctuations will not impact our operations in the future.

To hedge these exposures, we have entered into forward contracts and options with financial institutions to fix the value at which we will buy or sell certain currencies. The vast majority of such contracts are for a period not extending beyond one year. Forward contracts outstanding as of January 1, 2017 and March 31, 2016 were \$40.8 million and \$29.4 million, respectively. The details of contracts outstanding as of January 1, 2017 were as follows:



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| <b>Transactions Hedged</b>                 | <b>\$US<br/>Equivalent<br/>(in millions)</b> | <b>Average<br/>Rate<br/>Hedged</b> | <b>Approximate<br/>% of Annual<br/>Requirements (1)</b> |
|--|--|------------------------------------|---|
| Sell Euros for U.S. dollars                | \$ 14.2                                      | \$/€ 1.06                          | 7 %   |
| Sell Euros for Polish zloty                | 6.1  | PLN/€ 4.41                         | 8   |
| Sell Euros for British pounds              | 12.6   | £/€ 0.81                           | 64  |
| Sell Malaysian Ringgit for Euros           | 2.5  | MYR/€ 4.71                         | 78  |
| Sell Australian dollars for U.S. dollars   | 1.5  | \$/AUD 0.75                        | 11  |
| Sell U.S. dollars for Mexican pesos        | 1.3  | MXN/\$ 20.49                       | 50  |
| Sell British pounds for U.S. dollars       | 1.3  | \$/£ 1.25                          | 5   |
| Sell Euros for Swedish Krona               | 0.6  | SEK/€ 9.86                         | 7   |
| Sell Australian dollars for British pounds | 0.7  | AUD/£ 1.66                         | 8   |
| Total                                      | \$ 40.8                                      |                                    |   |

(1) Based on the fiscal year currency requirements.

Foreign exchange translation adjustments are recorded as a separate component of accumulated other comprehensive income in EnerSys' stockholders' equity and noncontrolling interests.

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

**ITEM 4. CONTROLS AND PROCEDURES**

(a) Disclosure Controls and Procedures. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures are effective.

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

Table of Contents**PART II OTHER INFORMATION****Item 1. Legal Proceedings**

From time to time, we are involved in litigation incidental to the conduct of our business. See Litigation and Other Legal Matters in Note 7 - Commitments, Contingencies and Litigation to the Consolidated Condensed Financial Statements, which is incorporated herein by reference.

**Item 1A. Risk Factors**

In addition to the other information set forth in this Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our 2016 Annual Report for the year ended March 31, 2016, and Part II, Item 1A. Risk Factors in our Quarterly Report on Form 10-Q for the quarter ended July 3, 2016, which could materially affect our business, financial condition or future results.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds****Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

The following table summarizes the number of shares of common stock we purchased from participants in our equity incentive plans as well as repurchases of common stock authorized by the Board of Directors. As provided by the Company's equity incentive plans, (a) vested options outstanding may be exercised through surrender to the Company of option shares or vested options outstanding under the Company's equity incentive plans to satisfy the applicable aggregate exercise price (and any withholding tax) required to be paid upon such exercise and (b) the withholding tax requirements related to the vesting and settlement of restricted stock units and market condition-based share units may be satisfied by the surrender of shares of the Company's common stock.

**Purchases of Equity Securities**

| Period                         | (a)<br>Total number<br>of shares (or<br>units)<br>purchased | (b)<br>Average price<br>paid<br>per share (or<br>unit) | (c)<br>Total number of<br>shares (or units)<br>purchased as part of<br>publicly announced<br>plans or programs | (d)<br>Maximum number (or<br>approximate dollar<br>value) of shares (or units)<br>that may be purchased<br>under the plans or<br>programs <sup>(1)</sup> |
|--------------------------------|---|--|--|--|
| October 3 – October 30, 2016   | 284   | \$ 67.55   | 284  | \$ 25,000,000  |
| October 31 – November 27, 2016 | —   | —  | —  | 25,000,000   |
| November 28 – January 1, 2017  | —   | —  | —  | 25,000,000   |
| Total                          | 284   | \$ 67.55   | 284  |  |

The Company's Board of Directors has authorized the Company to repurchase up to such number of shares as shall equal the dilutive effects <sup>(1)</sup> of any equity-based award granted during such fiscal year under the 2010 Equity Incentive Plan and the number of shares exercised through stock option awards during such fiscal year.

**Item 4. Mine Safety Disclosures**

Not applicable.

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#### ITEM 6. EXHIBITS

| <b>Exhibit Number</b> | <b>Description of Exhibit</b>   |
|-----------------------|---|
| 31.1                  | Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) Under the Securities Exchange Act of 1934 (filed herewith).   |
| 31.2                  | Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) Under the Securities Exchange Act of 1934 (filed herewith).   |
| 32.1                  | Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith). |
| 101.INS               | XBRL Instance Document - The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.   |
| 101.SCH               | XBRL Taxonomy Extension Schema Document   |
| 101.CAL               | XBRL Taxonomy Extension Calculation Linkbase Document   |
| 101.DEF               | XBRL Taxonomy Extension Definition Linkbase Document  |
| 101.LAB               | XBRL Taxonomy Extension Label Linkbase Document   |
| 101.PRE               | XBRL Taxonomy Extension Presentation Linkbase Document  |

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**SIGNATURES**

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

ENERSYS (Registrant)

By/s/ Michael J. Schmidlein

Michael J. Schmidlein

Chief Financial Officer

Date: February 8, 2017

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EXHIBIT INDEX**

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