KVH INDUSTRIES INC \DE\
Form 10-Q
May 06, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: March 31, 2009

OR

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

For the transition period from to

Commission File Number 0-28082

KVH Industries, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**05-0420589**
(State or Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification Number)*

50 Enterprise Center, Middletown, RI 02842

(Address of Principal Executive Offices) (Zip Code)

(401) 847-3327

(Registrant s Telephone Number, Including Area Code)

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** x **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 Exchange Act. (Check one):

Large accelerated filer	¨	Accelerated filer	x
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 Exchange Act). **Yes** ¨ **No** x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Date	Class	Outstanding shares
May 6, 2009	Common Stock, par value $0.01 per share	13,971,092

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

KVH INDUSTRIES, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts, unaudited)

	March 31, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,900	$ 4,979
Marketable securities	33,236	37,681
Accounts receivable, net of allowance for doubtful accounts of approximately $562 as of March 31, 2009 and $333 as of December 31, 2008	11,882	13,960
Inventories	14,408	15,484
Prepaid expenses and other assets	1,178	731
Costs and estimated earnings in excess of billings on uncompleted contracts	62	44
Deferred income taxes	32	32
Total current assets	64,698	72,911
Property and equipment, less accumulated depreciation of $19,642 as of March 31, 2009 and $19,050 as of December 31, 2008	12,955	13,286
Other non-current assets	4,900	4,226
Deferred income taxes	3,334	3,334
Total assets	**$ 85,887**	**$ 93,757**
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 2,755	$ 5,488
Accrued compensation and employee-related expenses	2,915	3,013
Accrued other	2,678	2,766
Accrued product warranty costs	1,063	1,139
Accrued professional services	299	256
Current portion of long-term debt		2,026
Total current liabilities	**9,710**	**14,688**
Commitments and contingencies (notes 3 and 11)		
Stockholders equity:		
Preferred stock, $0.01 par value. Authorized 1,000,000 shares; none issued		
Common stock, $0.01 par value. Authorized 20,000,000 shares, 15,140,463 and 15,127,327 shares issued at March 31, 2009 and December 31, 2008; 13,939,139 and 14,049,047 shares outstanding at March 31, 2009 and December 31, 2008, respectively	151	151
Additional paid-in capital	93,253	92,932
Accumulated deficit	(7,830)	(5,273)
Accumulated other comprehensive income	74	129

Less: treasury stock at cost, common stock, 1,201,324 shares as of March 31, 2009 and 1,078,280 shares as of December 31, 2008	(9,471)	(8,870)
Total stockholders equity	**76,177**	**79,069**
Total liabilities and stockholders equity	**$ 85,887**	**$ 93,757**

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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KVH INDUSTRIES, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts, unaudited)

	Three months ended March 31,	
	2009	**2008**
Sales:		
Product	$ 15,565	$ 21,247
Service	2,710	1,886
Net sales	18,275	23,133
Costs and expenses:		
Costs of product sales	11,090	12,447
Costs of service sales	1,687	945
Sales, marketing and support	4,159	4,084
Research and development	2,115	2,335
General and administrative	1,927	1,746
Total costs and expenses	20,978	21,557
(Loss) income from operations	(2,703)	1,576
Interest income	112	449
Interest expense	12	45
Other expense	2	206
(Loss) income before income taxes	(2,605)	1,774
Income tax (benefit) expense	(48)	193
Net (loss) income	**$ (2,557)**	**$ 1,581**
Per share information:		
Net (loss) income per share, basic and diluted	**$ (0.18)**	**$ 0.11**
Number of shares used in per share calculation:		
Basic	**14,011**	**14,670**
Diluted	**14,011**	**14,672**

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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KVH INDUSTRIES, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands, unaudited)

	Three months ended March 31,	
	2009	**2008**
Cash flows from operating activities:		
Net (loss) income	$ (2,557)	$ 1,581
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation	591	571
Compensation expense related to awards and employee stock purchase plan	389	338
Provision for doubtful accounts, net	311	16
Loss on foreign currency forward exchange contracts		478
Changes in operating assets and liabilities:		
Accounts receivable	1,767	(2,027)
Costs and estimated earnings in excess of billings on uncompleted contracts	(18)	
Inventories	1,076	(801)
Prepaid expenses and other current assets	(447)	(50)
Other non-current assets	(674)	(337)
Accounts payable	(2,733)	1,500
Accrued expenses	(290)	(102)
Deferred sales		(9)
Net cash (used in) provided by operating activities	**(2,585)**	**1,158**
Cash flows from investing activities:		
Purchase of marketable securities	(4,815)	(362)
Maturities and sales of marketable securities	9,205	
Capital expenditures	(260)	(563)
Net cash provided by (used in) investing activities	**4,130**	**(925)**
Cash flows from financing activities:		
Repayments of mortgage loan	(2,026)	(32)
Proceeds from stock options and employee stock purchase plan	50	62
Payment of employee restricted stock withholdings	(47)	
Repurchase of common stock	(601)	(2,558)
Net cash used in financing activities	**(2,624)**	**(2,528)**
Net decrease in cash and cash equivalents	**(1,079)**	**(2,295)**
Cash and cash equivalents at beginning of period	**4,979**	**12,284**
Cash and cash equivalents at end of period	**$ 3,900**	**$ 9,989**
Supplemental disclosure of noncash financing activity:		
Employee stock purchase plan activity	$ 21	$

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

KVH INDUSTRIES, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements

(Unaudited, all amounts in thousands except share and per share amounts)

(1) Description of Business

KVH Industries, Inc. (the Company or KVH) develops, manufactures and markets mobile communications products for the marine, land mobile and in-flight markets, and navigation, guidance and stabilization products for both defense and commercial markets.

KVH s mobile communications products enable customers to receive live digital television, telephone and Internet services in their automobiles, recreational vehicles and marine vessels while in motion via satellite and wireless services. KVH sells its mobile communications products through an extensive international network of retailers, distributors and dealers. KVH also leases the TracPhone V7 product directly to end users.

KVH s mobile communications service sales includes sales earned from product repairs, sales from satellite telephone and Internet usage services, and certain DIRECTV and DISH Network account subsidies and referral fees earned in conjunction with the sale of its products. KVH provides, for monthly usage fees, third-party satellite connectivity for voice, data and Internet services to its Inmarsat TracPhone customers who choose to activate their subscriptions with KVH. KVH also earns monthly fixed and usage fees for satellite connectivity sales from Broadband Internet, data and Voice over Internet Protocol (VOIP) service to its TracPhone V7 customers. Under current DIRECTV and DISH Network programs, KVH is eligible to receive a one-time subsidy for each receiver activated for service and a new mobile account activation fee from DIRECTV and DISH Network for each customer who activates their DIRECTV or DISH Network service directly through KVH. In addition, KVH sells extended warranty programs primarily for its mobile communications products.

KVH offers precision fiber optic gyro-based systems that enable platform stabilization and munitions guidance. KVH s guidance and stabilization products also include tactical navigation systems that provide uninterrupted access to navigation and pointing information in a spectrum of military vehicles, including tactical trucks and light armored vehicles. KVH s guidance and stabilization products are sold directly to U.S. and allied governments and government contractors, as well as through an international network of authorized independent sales representatives. In addition, KVH s guidance and stabilization products have numerous commercial applications such as train location control and track geometry measurement systems, industrial robotics and optical stabilization.

KVH s guidance and stabilization service sales include product repairs and engineering services provided under development contracts.

(2) Basis of Presentation

The accompanying condensed consolidated financial statements of KVH Industries, Inc. and its wholly owned subsidiary, KVH Europe A/S (collectively, KVH or the Company), have been prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission regarding interim financial reporting. Given that KVH Europe A/S operates as the Company s European and international distributor, all of its operating expenses are reflected within sales, marketing and support within the accompanying condensed consolidated statements of operations. All significant intercompany accounts and transactions have been eliminated in consolidation. The condensed consolidated financial statements have not been audited by our independent registered public accounting firm, but include all adjustments (consisting of only normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial condition, results of operations, and cash flows for the periods presented. These condensed consolidated financial statements do not include all disclosures associated with annual financial statements and accordingly should be read in conjunction with the Company s consolidated financial statements and related notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008 filed on March 13, 2009 with the Securities and Exchange Commission. The results for the three months ended March 31, 2009 are not necessarily indicative of operating results for the remainder of the year.

(3) Significant Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of sales and expenses during the reporting periods. Significant estimates and assumptions by management affect the Company s revenue recognition, valuation of accounts receivable, valuation of inventory, valuation of deferred tax assets, certain accrued expenses and accounting for contingencies.

Although the Company regularly assesses these estimates, actual results could differ materially from these estimates. Changes in estimates are recorded in the period in which they become known. The Company bases its estimates on historical experience and various other assumptions that it believes to be reasonable under the circumstances.

(4) Stock-Based Compensation

The Company recognizes stock-based compensation in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment. Stock-based compensation expense was $389 and $338 for the three months ended March 31, 2009 and March 31, 2008, respectively. As of March 31, 2009, there was $1,094 of total unrecognized compensation expense related to stock options, which is expected to be recognized over a weighted-average period of 1.97 years. As of March 31, 2009, there was $2,854 of total unrecognized compensation expense related to restricted stock awards, which is expected to be recognized over a weighted-average period of 3.23 years.

The Company granted 478,100 restricted stock awards to employees under the terms of the Amended and Restated 2006 Stock Incentive Plan during the three months ended March 31, 2009. The restricted stock awards vest ratably over four years from the date of grant subject to the recipient remaining employed through the applicable vesting dates. Compensation expense for restricted stock awards is measured at fair value on the date of grant based on the number of shares granted and the quoted market closing price of the Company s common stock. Such value is recognized as expense over the vesting period of the award, net of estimated forfeitures.

A total of 210,000 of the restricted stock awards granted during the three months ended March 31, 2009 were performance-based awards granted to executives. Of these restricted stock awards, 105,000 will vest ratably over four years from date of grant provided that the Company achieves two specific mini-VSAT sales objectives in 2009 and the remaining 105,000 will vest ratably over four years from date of grant provided that the Company achieves certain fiber optic gyro production output targets in 2009. As of March 31, 2009, the Company believes it is probable it will achieve its performance targets for the year ending December 31, 2009. As a result, the Company recorded expense in the quarter ended March 31, 2009 related to the performance-based restricted stock awards, the amount of which was not material.

The Company also granted 2,500 stock options to an employee under the terms of the Amended and Restated 2003 Incentive and Nonqualified Stock Option Plan during the three months ended March 31, 2009.

The fair value of stock options granted for the three months ended March 31, 2009 was estimated as of the date of grant using the Black-Scholes option-pricing model. The weighted-average fair value per share for all options granted during the three months ended March 31, 2009 and 2008 was $1.80 and $2.84, respectively. The weighted-average assumptions used to value options as of their grant date were as follows:

	Three months ended March 31,	
	2009	2008
Risk-free interest rate	1.63%	2.79%
Expected volatility	43.6%	43.3%
Expected life (in years)	4.06	4.23
Dividend yield	0%	0%

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(5) Net (Loss) Income per Common Share

Basic net (loss) income per share is calculated based on the weighted average number of common shares outstanding during the period. Diluted net income per share incorporates the dilutive effect of common stock equivalent options, warrants and other convertible securities, if any, as determined with the treasury stock accounting method. Common stock equivalents related to options and restricted stock awards for 1,607,761 shares of common stock for the three months ended March 31, 2008 have been excluded from the fully diluted calculation of net income per share, as inclusion would be anti-dilutive.

A reconciliation of the basic and diluted weighted average common shares outstanding is as follows:

	Three months ended March 31,	
	2009	2008
Weighted average common shares outstanding basic	14,011,448	14,669,543
Dilutive common shares issuable in connection with stock plans		2,594
Weighted average common shares outstanding diluted	14,011,448	14,672,137

(6) Inventories

Inventories are stated at the lower of cost or market using the first-in first-out costing method. Inventories as of March 31, 2009 and December 31, 2008 include the costs of material, labor, and factory overhead. Components of inventories consist of the following:

	March 31, 2009	December 31, 2008
Raw materials	$ 10,255	$ 10,680
Work in process	1,242	1,385
Finished goods	2,911	3,419
	$ 14,408	$ 15,484

(7) Comprehensive (Loss) Income

Comprehensive (loss) income includes net (loss) income and other comprehensive (loss) income. Other comprehensive (loss) income includes the effects of unrealized gains or losses on available-for-sale marketable securities that are separately included in accumulated other comprehensive income within stockholders equity. The Company s comprehensive (loss) income for the periods presented is as follows:

	Three months ended March 31,	
	2009	2008
Net (loss) income	$ (2,557)	$ 1,581
Unrealized loss on available-for-sale securities	(55)	
Total comprehensive (loss) income	$ (2,612)	$ 1,581

(8) Product Warranty

The Company s products carry limited warranties that range from one to three years and vary by product. The warranty period begins on the date of retail purchase by the original purchaser. The Company accrues estimated product warranty costs at the time of sale and any additional amounts are recorded when such costs are probable and can be reasonably estimated. Factors that affect the Company s warranty liability include the number of units sold, historical and anticipated rates of warranty repairs and the estimated cost per repair. Warranty and related costs are reflected within sales, marketing and support in the accompanying statements

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of operations. As of March 31, 2009 and December 31, 2008, the Company had accrued product warranty costs of $1,063 and $1,139, respectively. The following table summarizes product warranty activity for the periods presented:

	Three months ended March 31,	
	2009	2008
Beginning balance	$ 1,139	$ 778
Charges to expense	242	273
Costs incurred	(318)	(300)
Ending balance	$ 1,063	$ 751

(9) Income Taxes

The Company recorded net deferred tax assets in the amount of $3,366 as of March 31, 2009 and December 31, 2008. The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities for the periods presented are as follows:

	March 31, 2009	December 31, 2008
Deferred tax assets:		
Accounts receivable, due to allowance for doubtful accounts	$ 271	$ 224
Inventories	703	571
Operating loss carry-forwards	3,365	2,613
Stock-based compensation expense	1,193	1,131
Intangibles due to differences in amortization	77	102
Federal research and development, alternative minimum tax credit carry-forwards	2,617	860
Foreign tax credit carry-forwards	943	873
State tax credit carry-forwards	1,388	789
Accrued expenses	845	905
Gross deferred tax assets	11,402	8,068
Deferred tax liability:		
Property and equipment, due to differences in depreciation	(533)	(578)
Less valuation allowance	(7,503)	(4,124)
Net deferred tax assets	$ 3,366	$ 3,366

As of March 31, 2009 and December 31, 2008, $32 of the Company s net deferred tax assets is attributable to future deductible amounts within the Danish tax jurisdiction for the Company s wholly owned subsidiary located in Denmark.

As of March 31, 2009, the Company had federal net operating loss carry-forwards available to offset future taxable income of $9,239. The Company also had state net operating loss carry-forwards available to offset future state taxable income of $4,653. The federal net operating loss carry-forwards expire in years 2023 through 2029. State net operating loss carry-forwards expire in years 2009 through 2014. The tax benefit related to $5,171 of federal and $2,727 of state net operating loss carry-forwards would occur upon utilization of these deferred tax assets to reduce taxes payable and would result in a credit to additional paid-in capital within stockholders equity rather than the provision for income taxes.

As of March 31, 2009, the Company had federal research and development tax credit carry-forwards in the amount of $2,473 that expire in years 2020 through 2028, and foreign tax credit carry-forwards in the amount of $943 that expire in years 2015 through 2019. The Company also had alternative minimum tax credits of $144 that have no expiration date. As of March 31, 2009, the Company had state research and development

tax credit carry-forwards in the amount of $2,043 that expire in years 2009 through 2015. The Company also had other state tax credit carry-forwards of $358 available to reduce future state tax expense that expire in years 2009 through 2014.

The Company s ability to utilize these net operating loss carry-forwards and credits may be limited in the future if the Company experiences an ownership change pursuant to Internal Revenue Code Section 382. An ownership change occurs when the ownership percentages of 5% or greater stockholders changes by more than 50% over a three-year period.

The Company periodically evaluates its deferred tax assets for recoverability using a consistent approach that considers the relative impact of negative and positive evidence, including our historical profitability and projections of future taxable income. The ultimate realization of deferred tax assets depends upon the generation of future taxable income during the periods in which those temporary differences become deductible. The Company establishes a valuation allowance for deferred tax assets and records a charge to income or stockholders equity if it determines, based on available evidence at the time the determination is made, that it is not more likely than not that some or all of the deferred tax assets will be realized. In evaluating the need for a valuation allowance, the Company estimates future taxable income based on management-approved business plans and ongoing tax planning strategies.

At December 31, 2008, the Company had recorded a valuation allowance of $4,124 against gross deferred tax assets of $8,068. During the first quarter of 2009, the Company completed a federal and state research and development tax credit review covering the years 2000 through 2006. As a result of this review, as of March 31, 2009 the Company recorded an additional gross deferred tax asset with an offsetting valuation allowance in the amount of $1,758 related to federal research and development credits and an additional $599 gross deferred tax asset with an offsetting valuation allowance related to state research and development credits.

The valuation allowance that the Company has recorded reflects management s judgment that, after considering all of the available objective evidence, including available tax planning strategies, historical and prospective results of operations, with greater weight given to historical evidence, it is more likely than not that that portion of the asset will not be realized.

Net deferred tax assets of $3,366 at March 31, 2009 consist primarily of federal net operating loss carry-forwards that are available to offset future taxable income. Management s conclusion that it is more likely than not that these net deferred tax assets are realizable is based in part upon its tax planning strategy. The Company s strategy to utilize these assets is premised upon its ability to sell its property located in Middletown, Rhode Island in order to generate taxable income to utilize these loss carry-forwards before they expire. This is not an action that the Company would ordinarily take, but one that it would take, if necessary, to realize the tax benefits prior to their expiration. Management s conclusion that $3,366 of the Company s deferred tax assets are realizable as of March 31, 2009 is based upon its belief that, should the Company decide to execute on this strategy, the property sale would generate net taxable gains sufficient to utilize that amount of the deferred tax assets. The Company s estimate as to the value of its net deferred tax assets therefore depends substantially upon an assessment of the fair market value of the Middletown property. Future changes in property values in and around the Middletown, Rhode Island area or in the assumptions used in the valuation process could result in a different estimate of the fair value of the property, which in turn could require the Company to revise its estimate of the amount of its deferred tax assets that is realizable. Any such change in the amount of the Company s net deferred tax assets could have a material effect on its results of operations.

Should the Company generate net income in 2009 and project net income for 2010 and beyond, the Company may determine, after considering all available objective evidence, that it is more likely than not that some or all of its net deferred tax assets would be realized. Should that determination be made, the Company would reverse all or a portion of its deferred tax assets valuation allowance at such time and recognize a reduction of income tax expense (as of March 31, 2009 the maximum amount of any reduction which would impact income tax expense was $5,614). In addition, as a portion of the Company s deferred tax assets was generated from excess tax deductions from share-based payment awards, pursuant to SFAS No. 123(R), a portion of such valuation allowance reversal would be recorded to additional paid-in capital when the deduction reduces taxes payable (as of March 31, 2009 such amount would have been $1,889).

The Company s policy is that undistributed earnings of its foreign subsidiary are indefinitely reinvested and accordingly, certain U.S. federal and state income taxes have not been provided. Upon distribution of those earnings in the form of dividends or otherwise, the Company will be subject to additional U.S. and state income taxes (less foreign tax credits), as well as withholding taxes in Denmark. The amount of undistributed earnings is approximately $2,600 for which the amount of taxes attributable is not practicably determinable.

The Company adopted the provisions of FASB Interpretation (FIN) No. 48 effective January 1, 2007. The Company did not have any material unrecognized tax benefits at December 31, 2008 and March 31, 2009. The Company s policy is to recognize interest and penalties related to unrecognized tax benefits as a component of income tax expense. The Company files United States Federal, state and Danish income tax returns. In general, the statute of limitations with respect to the Company s United States Federal income taxes has expired for years prior to 2005. Expiration dates of the statutes of limitation under the relevant state statutes vary by jurisdiction. However, preceding years remain open to examination by United States Federal and state taxing authorities to the extent of future utilization of net operating losses and research and development tax credits generated in each preceding year. The Company generally is no longer subject to income tax examinations by the Danish tax authorities for years before 2005.

(10) Segment Reporting

Under common operational management, the Company designs, develops, manufactures and markets its navigation, guidance and stabilization and mobile communication products for use in a wide variety of applications. Products are generally sold directly to third-party consumer electronic dealers and retailers, consumer manufacturers, government contractors or directly to U.S. and other foreign government agencies. Primarily, sales originating in North America consist of sales within the United States and Canada and, to a lesser extent, Mexico, Asia/Pacific and some Latin and South American countries. North American sales also include all guidance and stabilization product sales throughout the world. Sales originating from the Company s Denmark subsidiary principally consist of sales into all European countries, both inside and outside the European Union, as well as Africa, the Middle East, India and all countries in Asia.

The Company operates in two geographic segments, exclusively in the mobile communications, navigation and guidance equipment industry, which it considers to be a single business activity. The Company has two primary industry categories: mobile communication and guidance and stabilization. Mobile communication sales include marine, automotive and land mobile communication equipment, product repairs, satellite-based telephone and Internet usage services, television account subsidies and referral fees earned in conjunction with the sale of the Company s products, and Broadband Internet connectivity and VOIP services sold with the Company s mini-VSAT product. Guidance and stabilization product sales include sales of commercial marine and defense-related navigation, guidance and stabilization equipment based upon digital compass and fiber optic sensor technology. Guidance and stabilization sales also include product repairs and engineering services provided under development contracts.

The following table summarizes information regarding the Company s operations by geographic segment:

	Sales Originating From		
	North America	Europe	Total
Three months ended March 31, 2009			
Mobile communication sales to the United States	$ 6,690	$	$ 6,690
Mobile communication sales to Canada	213		213
Mobile communication sales to Europe	619	2,612	3,231
Mobile communication sales to other geographic areas	162	751	913
Guidance and stabilization sales to the United States	2,959		2,959
Guidance and stabilization sales to Canada	368		368
Guidance and stabilization sales to Europe	2,846		2,846
Guidance and stabilization sales to other geographic areas	1,055		1,055
Intercompany sales	1,520		1,520
Subtotal	16,432	3,363	19,795
Eliminations	(1,520)		(1,520)
Net sales	$ 14,912	$ 3,363	$ 18,275
Segment net (loss) income	$ (2,710)	$ 153	$ (2,557)
Depreciation	$ 584	$ 7	$ 591
Total assets	$ 81,143	$ 4,744	$ 85,887
Three months ended March 31, 2008			
Mobile communication sales to the United States	$ 11,329	$	$ 11,329
Mobile communication sales to Canada	367		367
Mobile communication sales to Europe	160	4,719	4,879
Mobile communication sales to other geographic areas	257	1,234	1,491
Guidance and stabilization sales to the United States	4,163		4,163
Guidance and stabilization sales to Canada	52		52
Guidance and stabilization sales to Europe	775		775
Guidance and stabilization sales to other geographic areas	77		77
Intercompany sales	3,705		3,705
Subtotal	20,885	5,953	26,838
Eliminations	(3,705)		(3,705)
Net sales	$ 17,180	$ 5,953	$ 23,133
Segment net income	$ 1,279	$ 302	$ 1,581
Depreciation	$ 561	$ 10	$ 571
Total assets	$ 87,135	$ 5,692	$ 92,827

(11) Legal Matters

From time to time, the Company is involved in litigation incidental to the conduct of its business. In the ordinary course of business, the Company is a party to inquiries, legal proceedings and claims including, from time to time, disagreements with vendors and customers. The Company is not a party to any lawsuit or proceeding that, in management s opinion, is likely to materially harm the Company s business, results of operations, financial condition or cash flows.

(12) Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS No. 157). This Statement defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements and accordingly, does not require any new fair value

measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, which we adopted on January 1, 2008. In February 2008, the FASB issued FASB Staff Position (FSP) SFAS No. 157-2. This FSP permits the delayed application of No. SFAS 157 for all non-recurring fair value measurements of non-financial assets and non-financial liabilities until fiscal years beginning after November 15, 2008. The application of SFAS No. 157 for all non-recurring fair value measurements of non-financial assets and liabilities became effective during the first quarter of 2009 and did not have a material impact on the Company s condensed consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 (SFAS No. 161). This statement is intended to improve transparency in financial reporting by requiring enhanced disclosures of an entity s derivative instruments and hedging activities and their effects on the entity s financial position, financial performance, and cash flows. SFAS No. 161 applies to all derivative instruments within the scope of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as well as related hedged items, bifurcated derivatives, and nonderivative instruments that are designated and qualify as hedging instruments. Entities with instruments subject to SFAS No. 161 must provide more robust qualitative disclosures and expanded quantitative disclosures. SFAS No. 161 is effective prospectively for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application permitted. SFAS No. 161 became effective during the first quarter of 2009 and did not have a material impact on the Company s condensed consolidated financial statements, as the Company had no derivative instruments outstanding as of March 31, 2009.

(13) Share Buyback Program

On November 26, 2008, the Company s Board of Directors authorized a program to repurchase up to one million shares of the Company s common stock. As of March 31, 2009, 798,676 shares of the Company s common stock remain available for repurchase under the authorized program. The repurchase program is funded using the Company s existing cash, cash equivalents, marketable securities and future cash flows. Under the repurchase program, the Company, at management s discretion, may repurchase shares on the open market from time to time, in privately negotiated transactions or block transactions, or through an accelerated repurchase agreement. The timing of such repurchases depends on availability of shares, price, market conditions, alternative uses of capital, and applicable regulatory requirements. The program may be modified, suspended or terminated at any time without prior notice. The repurchase program has no expiration date. There were no other repurchase programs outstanding during the three months ended March 31, 2009, and no repurchase programs expired during the period.

The Company repurchased 123,044 shares of its common stock in the three months ended March 31, 2009 at a cost of $601.

(14) Long-Term Aviation Antenna Development and Production Agreement

On February 18, 2008, the Company entered into a $20,055 long-term antenna development and production agreement (the Agreement). Under the terms of the Agreement, the Company will design, develop, and manufacture DIRECTV-compatible satellite television antennas to be used on narrowbody commercial aircraft operating in the United States. In accordance with Emerging Issues Task Force Issue No. 99-5, Accounting for Pre-Production Costs Related to Long-Term Supply Arrangements, and the Agreement, the Company has capitalized $3,835 in related development costs, which the Company has a contractual right to recover, and which are reflected in other non-current assets as of March 31, 2009. These costs will be expensed into cost of sales as antennas are sold in proportion to the number of antennas delivered versus the total contractual antenna production requirement. The Company expects to begin production of the antennas in the second quarter of 2009.

(15) Fair Value Measurements

Effective January 1, 2008, the Company adopted the required provisions of SFAS No. 157, Fair Value Measurements. SFAS No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in

the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS No. 157 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. SFAS No. 157 describes three levels of inputs that may be used to measure fair value:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. The Company s Level 1 assets are investments in money market mutual funds, government agency bonds, United States treasuries and certificates of deposit.

Level 2: Quoted prices for similar assets or liabilities in active markets; or observable prices that are based on observable market data, based on directly or indirectly market-corroborated inputs. The Company has no Level 2 inputs.

Level 3: Unobservable inputs that are supported by little or no market activity, and are developed based on the best information available given the circumstances. The Company has no Level 3 inputs.

The following table presents financial assets at March 31, 2009 for which the Company measures fair value on a recurring basis, by level, within the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
Assets				
Money market mutual funds	$ 16,212			$ 16,212
Government agency bonds	10,071			10,071
United States treasuries	4,064			4,064
Certificates of deposit	2,889			2,889

Certain financial instruments are carried at cost on the condensed consolidated balance sheets, which approximates fair value due to their short-term, highly liquid nature. These instruments include cash and cash equivalents, accounts receivable, accounts payable and accrued expenses.

(16) Business and Credit Concentrations

Significant portions of KVH s net sales are as follows:

	Three months ended March 31,	
	2009	2008
Net sales to Customer A	13.3%	*

* Represents less than 10% of net sales in the respective year.

(17) Subsequent Event

On April 6, 2009, the Company entered into a mortgage loan in the amount of $4,000. The note term is 10 years and during the term, the interest rate will be a rate per year adjusted periodically based on a defined interest period equal to the British Bankers Association London Interbank Offered Rate (BBA Libor) plus 2.25 percentage points. Land, building and improvements with an approximate carrying value of $5,273 as of March 31, 2009 secure the mortgage loan. The monthly mortgage payment is approximately $9 plus interest beginning on May 1, 2009 and increasing in increments of approximately $1 each year throughout the life of the mortgage. Due to the difference in the term of the note and amortization of the principal, a balloon payment of approximately $2,551 plus interest is due on April 1, 2019. The loan contains one financial covenant, a Fixed Charge Coverage Ratio, which applies in the event that the Company s consolidated cash, cash equivalents and marketable securities balance falls below $25,000 at any time. The Company was compliant with this financial covenant as of March 31, 2009.

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

The statements included in this quarterly report on Form 10-Q, other than statements of historical fact, are forward-looking statements. Examples of forward-looking statements include statements regarding our future financial results, operating results, business strategies, projected costs, products, competitive positions and plans, customer preferences, consumer trends, anticipated product development, and objectives of management for future operations. In some cases, forward-looking statements can be identified by terminology such as may, will, should, would, expects, plans, anticipates, believes, estimates, predicts, potential, continue, or the negative of these terms or c terminology. Any expectations based on these forward-looking statements are subject to risks and uncertainties and other important factors, including those discussed in the section entitled Risk Factors in Item 1A of Part II of this quarterly report. These and many other factors could affect our future financial and operating results, and could cause actual results to differ materially from expectations based on forward-looking statements made in this document or elsewhere by us or on our behalf. The following discussion and analysis should be read in conjunction with our condensed consolidated financial statements and related notes appearing elsewhere in this report.

Overview

We are a leading manufacturer of solutions that provide global high-speed internet, television, and voice services via satellite to mobile users at sea, on land, and in the air. We are also a premier manufacturer of high-performance navigational sensors and integrated inertial systems for defense and commercial guidance and stabilization applications.

Our mobile satellite business includes receive-only TracVision satellite TV systems, 2-way TracPhone satellite communications systems, and the mini-VSAT Broadband airtime service. Our TracVision mobile satellite TV systems enable mobile reception in vehicles or vessels of most leading satellite TV services, such as DIRECTV, DISH Network, and ExpressVu in North America, and Astra and Eutelsat in Europe. In February 2008, we entered the aviation market with a development and production contract for a satellite TV antenna that will be sold on an OEM basis by LiveTV. Our TracPhone satellite communications systems enable reception of Inmarsat L-Band MSS services or our own mini-VSAT Broadband Ku-band FSS service, and are sold primarily to mariners. We sell our mobile satellite products and airtime services through our direct sales force and an extensive international network of independent sales representatives, distributors and retailers to leisure, commercial, and government customers.

Our guidance and stabilization products use our precision FOG and digital compass technologies to help stabilize platforms such as antennas, gun turrets, optical systems, material handling equipment, and radar units and to provide guidance for torpedoes and other munitions. These products are either integrated within our own navigation and antenna systems or sold as modules to other manufacturers. We also use our FOG and digital compass technology to produce some variants of our TACNAV line of navigation systems for military vehicles. We sell our guidance and stabilization products to commercial and military customers either directly to U.S. and allied governments and government contractors or through an international network of authorized independent sales representatives.

We generate sales primarily from the sale of our mobile satellite systems and services and our guidance and stabilization products and services. The following table provides, for the periods indicated, our sales by industry category:

	Three months ended March 31, (in thousands)	
	2009	**2008**
Mobile communications	$ 11,047	$ 18,066
Guidance and stabilization	7,228	5,067
Net sales	$ 18,275	$ 23,133

In addition to revenue from product sales, our mobile satellite revenue includes revenue earned from product repairs, revenue from satellite phone and Internet usage services, and certain DIRECTV account referral fees earned in conjunction with the sale of our products. We provide, for a fee, third-party satellite phone and Internet airtime to our TracPhone and Internet customers who choose to activate their subscriptions with us. We also earn revenue from service sold with our mini-VSAT products. Under current DIRECTV programs, we are eligible to receive a one-time, new mobile account activation fee from DIRECTV for each customer who activates their DIRECTV service directly through us. Our guidance and stabilization revenue primarily includes product sales to both military and commercial markets and, to a lesser extent, revenue from product repairs and engineering services provided under development contracts.

Our guidance and stabilization business is characterized by a small number of customers who place a small number of relatively large dollar value orders. Orders for our guidance and stabilization products typically vary in size and are sometimes in the range of several hundred thousand dollars to over one million dollars. Each order can have a significant impact on our sales, and because our guidance and stabilization products generally have higher gross margins than our mobile communications products, each order can have an impact on our net income that is disproportionately large relative to the sales generated by the order.

We have historically derived a substantial portion of our sales from sales to customers located outside the United States. Note 10 of the notes to the condensed consolidated financial statements provides information regarding our sales to specific geographic regions.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, sales and expenses, and related disclosure at the date of our financial statements. Our significant accounting policies are summarized in note 1 of the notes to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2008.

As described in our Form 10-K for the year ended December 31, 2008, our most critical accounting policies and estimates upon which our consolidated financial statements were prepared were those relating to revenue recognition, allowances for accounts receivable, inventories, income taxes and deferred income tax assets and liabilities and warranty. We have reviewed our policies and determined that these remain our most critical accounting policies for the quarter ended March 31, 2009, except as set forth below. Readers should refer to our 2008 Form 10-K under Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies for the detailed descriptions of these policies.

Income Taxes and Deferred Income Tax Assets and Liabilities

Our deferred tax assets and liabilities reflect the future tax consequences of temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and of tax credits. Deferred tax assets arise when a company s financial statements recognize charges or expenses that, for income tax purposes, will not be allowed as deductions until future periods. For example, when a corporation accrues an expense in its financial statements that it is not allowed to deduct on its federal tax return until paid in the future, the future tax benefit of that expense is generally recorded in the income statement as a reduction of income tax expense and in the balance sheet as a deferred tax asset. The same general treatment applies to the carry forward of unused net operating losses and unused tax credits. Deferred tax assets are often netted with deferred tax liabilities when presented in the balance sheet and are referred to as net deferred tax assets. We measure our deferred tax assets and liabilities using the tax rates and laws we expect to be in effect at the time of their reversal or utilization.

Under SFAS No. 109, Accounting for Income Taxes, a net deferred tax asset may be carried on the balance sheet at its full value only if it is more likely than not that the deductions, losses, or credits giving rise to such deferred tax asset will be used in the future. We periodically evaluate our deferred tax assets for recoverability using a consistent approach that considers the relative impact of negative and positive evidence, including our historical profitability and projections of future taxable income. The ultimate realization

of deferred tax assets depends upon the generation of future taxable income during the periods in which those temporary differences become deductible. Under U.S. generally accepted accounting principles (GAAP), we are required to establish a valuation allowance for deferred tax assets and record a charge to income or stockholders equity if we determine, based on available evidence at the time the determination is made, that it is not more likely than not that some or all of the deferred tax assets will be realized. In evaluating the need for a valuation allowance, we estimate future taxable income based on management-approved business plans and ongoing tax planning strategies. This process involves significant management judgment based upon assumptions that are subject to change from period to period as a result of changes in circumstances, changes in tax laws, variances between our projected operating performance and our actual results and other factors.

At December 31, 2008, we had recorded a valuation allowance of $4,124 against gross deferred tax assets of $8,068. During the first quarter of 2009, we completed a federal and state research and development tax credit review covering the years from 2000 through 2006. As a result of this review, as of March 31, 2009 we recorded an additional gross deferred tax asset with an offsetting valuation allowance in the amount of $1,758 related to federal research and development credits and an additional $599 gross deferred tax asset with an offsetting valuation allowance related to state research and development credits.

The valuation allowance that we have recorded against a portion of our gross deferred tax assets is due to our management s judgment that, after considering all of the available objective evidence, including available tax planning strategies, historical and prospective results of operations, with greater weight given to historical evidence, it is more likely than not that that portion of the asset will not be realized.

Our net deferred tax assets of $3,366 at March 31, 2009 consist primarily of federal net operating loss carry-forwards that are available to offset future taxable income. Our conclusion that it is more likely than not that these net deferred tax assets are realizable is based in part upon our tax planning strategy. Our strategy to utilize these assets is premised upon our ability to sell our property located in Middletown, Rhode Island in order to generate taxable income to utilize these loss carry-forwards before they expire. This is not an action that we would ordinarily take, but one that we would take, if necessary, to realize the tax benefits prior to their expiration. Our judgment that $3,366 of our deferred tax assets are realizable as of March 31, 2009 is based upon our belief that, should we decide to execute on this strategy, the property sale would generate net taxable gains sufficient to utilize that amount of the deferred tax assets. Our estimate as to the amount of our net deferred tax assets therefore depends substantially upon an assessment of the fair market value of the Middletown property. Future changes in property values in and around the Middletown, Rhode Island area or in the assumptions used in the valuation process could result in a different estimate of the fair value of the property, which in turn could require us to revise our estimate of the amount of our deferred tax assets that is realizable. Any such change in the amount of our net deferred tax assets could have a material effect on our results of operations.

Results of Operations

The following table provides, for the periods indicated, certain financial data expressed as a percentage of sales:

	Three months ended March 31,	
	2009	**2008**
Sales:		
Product	85.2%	91.9%
Service	14.8	8.1
Net sales	100.0	100.0
Costs and expenses:		
Costs of product sales	60.7	53.8
Costs of service sales	9.2	4.1
Sales, marketing and support	22.8	17.7
Research and development	11.6	10.1
General and administrative	10.5	7.5

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	Three months ended March 31, 2009	Three months ended March 31, 2008
Total costs and expenses	114.8	93.2
(Loss) income from operations	(14.8)	6.8

Interest Rate Swap Agreements

The Company is exposed to changes in variable U.S. interest rates on borrowings under its credit agreements. On a selective basis, from time to time, the Company enters into interest rate swap agreements to reduce the negative impact that increases in interest rates could have on its outstanding variable rate debt. At July 1, 2012 and March 31, 2012, such agreements which expire between February 2013 and May 2013, converted $85,000 of variable-rate debt to a fixed-rate basis, utilizing the three-month LIBOR, as a floating rate reference. Fluctuations in LIBOR and fixed rates affect both the Company s net financial investment position and the amount of cash to be paid or received under these agreements.

8. Restructuring Plans

During fiscal 2011, the Company announced a restructuring of its European operations, which will result in the reduction of approximately 60 employees upon completion across its operations. The Company estimates that the total charges for these actions will amount to approximately $5,200, primarily from cash expenses for employee severance-related payments and site closure costs. Based on commitments incurred to date, the Company recorded restructuring charges of $5,178 in fiscal 2011 through 2012, with no additional charges in the first quarter of fiscal 2013. The Company incurred $4,579 of costs against the accrual during fiscal 2011 through 2012, with an additional $121 of costs incurred during the first quarter of fiscal 2013. As of July 1, 2012, the reserve balance associated with these actions is $408. The Company does not expect to be committed to significant additional restructuring charges in fiscal 2013 related to these actions.

During fiscal 2012, the Company announced restructuring plans related to its operations in Europe, primarily consisting of the transfer of manufacturing of select products between certain of its manufacturing operations and restructuring of its selling, general and administrative operations, which is expected to result in the reduction of approximately 80 employees upon completion. The Company estimates that the total charges for these actions will amount to approximately $4,200, primarily from cash expenses for employee severance-related payments. The Company recorded restructuring charges of $3,070 in fiscal 2012 with an additional $370 of costs incurred during the first quarter of fiscal 2013. The Company incurred $2,433 of costs against the accrual during fiscal 2012, with an additional $389 of costs incurred during the first quarter of fiscal 2013. As of July 1, 2012, the reserve balance associated with these actions is $603. The Company expects to be committed to an additional $760 of restructuring charges in fiscal 2013 related to these actions.

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

	Employee Severance
Balance at March 31, 2012	$ 1,186
Accrued	370
Costs incurred	(510)
Foreign currency impact and other	(35)
Balance at July 1, 2012	$ 1,011

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9. Debt

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

	July 1, 2012	March 31, 2012
3.375% Convertible Notes, net of discount, due 2038	$ 149,968	$ 148,272
2011 Credit Facility due 2016	94,900	79,400
China Term Loan due 2017	11,172	6,034
India Term Loan due 2017	4,642	5,383
Capital lease obligations and other	744	970
	261,426	240,059
Less current portion	2,789	2,949
Total long-term debt and capital lease obligations	$ 258,637	$ 237,110

The Convertible Notes are represented by a liability component which is reported herein as long-term debt, net of discount and an equity component representing the convertible feature, which is included in additional paid-in-capital in EnerSys stockholders equity.

The following represents the principal amount of the liability component, the unamortized discount, and the net carrying amount of our Convertible Notes as of July 1, 2012 and March 31, 2012, respectively:

	July 1, 2012	March 31, 2012
Principal	$ 172,500	$ 172,500
Unamortized discount	(22,532)	(24,228)
Net carrying amount	$ 149,968	$ 148,272
Carrying amount of equity component	$ 29,850	$ 29,850

As of July 1, 2012, the remaining discount will be amortized over a period of 35 months. The conversion price of the $172,500 in aggregate principal amount of the Convertible Notes is $40.60 per share and the number of shares on which the aggregate consideration to be delivered upon conversion is 4,248,761.

The effective interest rate on the liability component of the Convertible Notes was 8.50%. The amount of interest cost recognized for the amortization of the discount on the liability component of the Convertible Notes was $1,696 and $1,558, respectively, during the quarters ended July 1, 2012 and July 3, 2011.

Available Lines of Credit

As of July 1, 2012 and March 31, 2012, the Company had available and undrawn, under all its lines of credit, $357,554 and $377,230, respectively. Included in the July 1, 2012 and March 31, 2012 amounts are $97,375 and $95,340, respectively, of uncommitted lines of credit.

As of July 1, 2012 and March 31, 2012, the Company had $9,100 and $9,108, respectively, of standby letters of credit. As of July 1, 2012 and March 31, 2012, the Company had no bank guarantees.

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10. Retirement Plans

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

	United States Plans Quarter Ended		International Plans Quarter Ended	
	July 1, 2012	July 3, 2011	July 1, 2012	July 3, 2011
Service cost	$ 81	$ 70	$ 177	$ 181
Interest cost	164	166	594	653
Expected return on plan assets	(189)	(176)	(464)	(458)
Amortization and deferral	100	58	52	7
Net periodic benefit cost	$ 156	$ 118	$ 359	$ 383

11. Stock-Based Compensation

As of July 1, 2012, the Company maintains the EnerSys 2010 Equity Incentive Plan (2010 EIP). The 2010 EIP reserved 3,177,477 shares of common stock for the grant of various types of equity awards including nonqualified stock options, restricted stock, restricted stock units, market share units and other forms of equity-based compensation.

The Company recognized equity-based compensation expense associated with its equity incentive plans of $3,373, with a related tax benefit of $978, for the first quarter of fiscal 2013, and $2,718 with a related tax benefit of $653, for the first quarter of fiscal 2012.

In the first quarter of fiscal 2013, the Company granted to management and other key employees 202,452 restricted stock units which vest 25% each year over four years from the date of grant, and 292,125 market share units which vest three years from the date of grant. In the first quarter of fiscal 2012, the Company granted to management and other key employees 96,840 restricted stock units and 224,397 market share units with similar vesting as in fiscal 2013 grants.

Common stock activity for the first quarter of fiscal 2013 included the exercise of 49,980 options and the vesting of 226,593 restricted stock units and for the comparable period in fiscal 2012 included the exercise of 79,800 options and the vesting of 243,676 restricted stock units. Net cash paid, reflecting the cost of equity awards surrendered for option price and withholding taxes were $870 and $763, respectively, for the first quarter of fiscal 2013 and 2012.

As of July 1, 2012 there were 581,183 non-qualified stock options, 592,349 restricted stock units and 638,688 market share units outstanding. At March 31, 2012, there were 633,663 non-qualified stock options, 617,240 restricted stock units and 346,563 market share units outstanding.

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12. Stockholders Equity

Common Stock

The following demonstrates the change in the number of shares of Common Stock outstanding during the first quarter ended July 1, 2012:

Shares outstanding as of March 31, 2012	47,800,129
Shares issued as part of equity-based compensation plans, net of equity awards surrendered for option price and taxes	217,392
Shares outstanding as of July 1, 2012	48,017,521

Treasury Stock

There were no stock repurchases during the first quarter of fiscal 2013. During the first quarter of fiscal 2012, the Company purchased 294,200 shares of its common stock for $9,753 from institutional shareholders. At July 1, 2012 and March 31, 2012, the Company held 4,446,885 shares as treasury stock.

Accumulated Other Comprehensive Income

The components of accumulated other comprehensive income are as follows:

	March 31, 2012	Before-Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount	July 1, 2012
Pension funded status adjustment	$ (8,982)	$ 215	$	$ 215	$ (8,767)
Unrealized gain (loss) on derivative instruments	1,175	(8,482)	3,136	(5,346)	(4,171)
Foreign currency translation adjustment	81,900	(31,451)		(31,451)	50,449
Accumulated other comprehensive income	$ 74,093	$ (39,718)	$ 3,136	$ (36,582)	$ 37,511

13. Earnings Per Share

The following table sets forth the reconciliation from basic to diluted average common shares and the calculations of net earnings per common share:

	Quarter ended	
	July 1, 2012	July 3, 2011
Net earnings attributable to EnerSys stockholders	$ 45,804	$ 33,496
Average common shares:		
Basic (weighted average outstanding shares)	47,901,203	50,052,627
Dilutive potential common shares from exercise and lapse of equity awards, net of shares assumed reacquired	525,788	615,649
Diluted (weighted average outstanding shares)	48,426,991	50,668,276
Basic earnings per common share attributable to EnerSys stockholders	$ 0.96	$ 0.67
Diluted earnings per common share attributable to EnerSys stockholders	$ 0.95	$ 0.66
Anti-dilutive equity awards not included in weighted average common shares diluted	107,217	317,435

The aggregate number of common shares that the Company could be obligated to issue upon conversion of its Convertible Notes that the Company sold in May 2008 is 4,248,761. It is the Company s current intent to settle the principal amount of any conversions in cash, and any additional conversion consideration in cash, shares of the Company s common stock or a combination of cash and shares. No contingent shares were included in diluted shares outstanding during the first quarters of fiscal 2013 and 2012, as the specified conversion price exceeded the average market price of the Company s common stock, and the inclusion of contingent shares would have been anti-dilutive.

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14. Business Segments

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

Americas, which includes North and South America, with segment headquarters in Reading, Pennsylvania, USA,

Europe, which includes Europe, the Middle East and Africa, with segment headquarters in Zurich, Switzerland, and

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

The following table provides selected financial data for the Company s reportable business segments and product lines:

	Quarter ended	
	July 1, 2012	July 3, 2011
Net sales by segment to unaffiliated customers		
Europe	$ 237,051	$ 252,992
Americas	288,924	259,228
Asia	67,935	57,009
Total net sales	$ 593,910	$ 569,229
Net sales by product line		
Reserve power	$ 289,294	$ 265,936
Motive power	304,616	303,293
Total net sales	$ 593,910	$ 569,229
Intersegment sales		
Europe	$ 22,162	$ 16,132
Americas	10,554	10,146
Asia	6,359	3,054
Total intersegment sales [1]	$ 39,075	$ 29,332
Operating earnings by segment		
Europe	$ 17,220	$ 14,137
Americas	44,514	31,618
Asia	8,891	3,370
Restructuring charges (Europe)	(370)	(410)
Total operating earnings [2]	$ 70,255	$ 48,715

(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

The Company evaluated all subsequent events through the date that the Consolidated Condensed Financial Statements were issued. No material subsequent events have occurred since July 1, 2012 that required recognition or disclosure in the Consolidated Condensed Financial Statements.

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

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

Forward-looking statements involve risks, uncertainties and assumptions. Although we do not make forward-looking statements unless we believe we have a reasonable basis for doing so, we cannot guarantee their accuracy. Actual results may differ materially from those expressed in these forward-looking statements due to a number of uncertainties and risks, including the risks described in the Company s 2012 Annual Report on Form 10-K and other unforeseen risks. You should not put undue reliance on any forward-looking statements. These statements speak only as of the date of this Quarterly Report on Form 10-Q, even if subsequently made available on our website or otherwise, and we undertake no obligation to update or revise these statements to reflect events or circumstances occurring after the date of this Quarterly Report on Form 10-Q.

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

- general cyclical patterns of the industries in which our customers operate;
- the extent to which we cannot control our fixed and variable costs;
- the raw materials in our products may experience significant fluctuations in market price and availability;
- certain raw materials constitute hazardous materials that may give rise to costly environmental and safety claims;
- legislation regarding the restriction of the use of certain hazardous substances in our products;
- risks involved in our operations such as disruption of markets, changes in import and export laws, environmental regulations, currency restrictions and currency exchange rate fluctuations;
- our ability to raise our selling prices to our customers when our product costs increase;
- the extent to which we are able to efficiently utilize our global manufacturing facilities and optimize our capacity;
- general economic conditions in the markets in which we operate;

competitiveness of the battery markets throughout the world;

our timely development of competitive new products and product enhancements in a changing environment and the acceptance of such products and product enhancements by customers;

our ability to adequately protect our proprietary intellectual property, technology and brand names;

litigation and regulatory proceedings to which we might be subject;

changes in our market share in the geographic business segments where we operate;

our ability to implement our cost reduction initiatives successfully and improve our profitability;

- quality problems associated with our products;
- our ability to implement business strategies, including our acquisition strategy, manufacturing expansion and restructuring plans;
- our acquisition strategy may not be successful in locating advantageous targets;
- our ability to successfully integrate any assets, liabilities, customers, systems and management personnel we acquire into our operations and our ability to realize related revenue synergies and cost savings within expected time frames;
- our debt and debt service requirements which may restrict our operational and financial flexibility, as well as imposing unfavorable interest and financing costs;
- our ability to maintain our existing credit facilities or obtain satisfactory new credit facilities;
- adverse changes in our short and long-term debt levels under our credit facilities;
- our exposure to fluctuations in interest rates on our variable-rate debt;
- our ability to attract and retain qualified personnel;
- 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; and
- terrorist acts or acts of war, could cause damage or disruption to our operations, our suppliers, channels to market or customers, or could cause costs to increase, or create political or economic instability; and
- the operation, capacity and security of our information systems and infrastructure.

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

In the following discussion and analysis of results of operations and financial condition, certain financial measures may be considered non-GAAP financial measures under Securities and Exchange Commission rules. These rules require supplemental explanation and reconciliation, which is provided in this Quarterly Report on Form 10-Q. EnerSys management uses the non-GAAP measures primary working capital , primary working capital percentage (see definitions in Liquidity and Capital Resources below) and capital expenditures in its evaluation of business segment cash flow and financial position performance. These disclosures have limitations as an analytical tool, should not be viewed as a substitute for cash flow determined in accordance with GAAP, and should not be considered in isolation or as a substitute for analysis of the

Company s results as reported under GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies. Management believes that this non-GAAP supplemental information is helpful in understanding the Company s ongoing operating results.

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Overview

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

We operate and manage our business in three geographic regions of the world Americas, Europe 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 of the United States, and approximately 60% of our net sales were generated outside of 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,

Europe, which includes Europe, the Middle East and Africa, with our segment headquarters in Zurich, Switzerland, and

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

We evaluate business segment performance based primarily upon operating earnings exclusive of highlighted items. Highlighted items are those that the Company deems are not indicative of ongoing operating results, including those charges that the Company incurs as a result of restructuring activities and those charges and credits that are not directly related to ongoing business segment performance. All corporate and centrally incurred costs are allocated to the business segments based principally on net sales. We evaluate business segment cash flow and financial position performance based primarily upon capital expenditures and primary working capital levels (see definition of primary working capital in Liquidity and Capital Resources below). Although we monitor the three elements of primary working capital (receivables, inventory and payables), our primary focus is on the total amount due to the significant impact it has on our cash flow.

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Our management structure, financial reporting systems, and associated internal controls and procedures, are all consistent with our three geographic business segments. We report on a March 31 fiscal year-end. Our financial results are largely driven by the following factors:

- global economic conditions and general cyclical patterns of the industries in which our customers operate;
- changes in our selling prices and, in periods when our product costs increase, our ability to raise our selling prices to pass such cost increases through to our customers;
- the extent to which we are able to efficiently utilize our global manufacturing facilities and optimize our capacity;
- the extent to which we can control our fixed and variable costs, including those for our raw materials, manufacturing, distribution and operating activities;
- changes in our level of debt and changes in the variable interest rates under our credit facilities; and
- the size and number of acquisitions and our ability to achieve their intended benefits.

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

- Reserve power products are used for backup power for the continuous operation of critical applications in telecommunications systems, uninterruptible power systems, or UPS applications for computer and computer-controlled systems, and other specialty power applications, including security systems, premium starting, lighting and ignition applications, in switchgear, electrical control systems used in electric utilities and energy pipelines, in commercial aircraft, satellites, military aircraft, submarines, ships, tactical vehicles and portable energy packs.
- Motive power products are used to provide power for manufacturing, warehousing and other material handling equipment, primarily electric industrial forklift trucks, mining equipment, and for diesel locomotive starting and other rail equipment.

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Economic Climate

Recent indicators continue to suggest a mixed trend in economic activity among our different geographical regions. The Americas region continued its economic recovery which has been in place since fiscal 2010. Asia s economic expansion continues but at a slower rate. The ongoing financial crisis in Europe is a factor in slowing overall economic growth in this region and leading to declining economic growth in many of the Western European countries. Overall, on a consolidated basis, we have experienced neutral trends in our sequential quarterly revenue and order rate.

Volatility of Commodities and Foreign Currencies

Our most significant commodity and foreign currency exposures are related to lead and the euro. Historically, volatility of commodity costs and foreign currency exchange rates have caused large swings in our production costs. As the global economic climate changes, we anticipate that our commodity costs may continue to fluctuate significantly as they have in the past several years. The decrease in our cost of lead due to a decrease in average lead prices was approximately $21 million in the current quarter of fiscal 2013, compared to the first quarter of fiscal 2012.

Customer Pricing

Our selling prices fluctuated during the last several years to offset the volatile cost of commodities. Beginning in the third quarter of fiscal 2009, as a result of reductions in the cost of lead, our average selling prices began to decline on a sequential quarterly basis. As the cycle of lead costs turned upward in early fiscal 2010, we began to increase average selling prices to help offset the higher costs. During the current quarter of fiscal 2013, our selling prices declined slightly to reflect declining lead costs, which reduced cost of sales by approximately $21 million compared to the prior year quarter. Approximately 35% of our revenue is currently subject to agreements that adjust pricing to a market-based index for lead.

Liquidity and Capital Resources

Our capital structure and liquidity remain strong. As of July 1, 2012, we had approximately $181 million of cash and cash equivalents, approximately $261 million of undrawn, committed credit lines, and approximately $97 million of available and uncommitted credit lines. A substantial majority of the Company s cash and investments are held by foreign subsidiaries and are considered to be indefinitely reinvested and expected to be utilized to fund local operating activities, capital expenditure requirements and acquisitions. The company believes that it has sufficient sources of domestic liquidity.

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Results of Operations

Net Sales

	Quarter ended July 1, 2012		Quarter ended July 3, 2011		Increase (Decrease)	
Current quarter by segment	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	%
Europe	$ 237.1	39.9%	$ 253.0	44.4%	$ (15.9)	(6.3)%
Americas	288.9	48.7	259.2	45.6	29.7	11.5
Asia	67.9	11.4	57.0	10.0	10.9	19.2
Total net sales	$ 593.9	100.0%	$ 569.2	100.0%	$ 24.7	4.3%

Net sales increased $24.7 million or 4.3% in the first quarter of fiscal 2013 from the comparable period in fiscal 2012. This increase for the quarter was the result of a 7% increase in organic volume, a 3% increase from acquisitions, and a 6% decrease due to foreign currency translation impact.

Segment sales

The Americas segment experienced improved year over year economic and market conditions which led to organic volume improvements in the first quarter of fiscal 2013 compared to the prior year quarter. Our Europe segment experienced sales growth from organic volume and acquisitions, offset by pricing and foreign currency translation impact in the first quarter of fiscal 2013, compared to the comparable period of fiscal 2012, while our Asia segment improved with double digit growth primarily from organic volume.

Our Europe segment s net sales decreased $15.9 million or 6.3% in the first quarter of fiscal 2013, as compared to the first quarter of fiscal 2012, primarily due to a 12% decrease related to weaker foreign currencies and 2% decrease due to pricing. Higher organic volume and acquisitions contributed an increase of approximately 4% each.

Our Americas segment s revenue increased $29.7 million or 11.5% in the first quarter of fiscal 2013, as compared to the first quarter of fiscal 2012, primarily due to higher organic volume, which contributed approximately 8% of the increased revenue. Acquisitions and pricing contributed approximately 3% and 1%, respectively, to the improvement offset by negative currency translation impact of approximately 1%.

Our Asia segment s revenue increased $10.9 million or 19.2% in the first quarter of fiscal 2013, as compared to the first quarter of fiscal 2012, primarily due to higher organic volume and acquisitions, which contributed approximately 16% and 6%, respectively. Currency translation impact and pricing partially offset this increase by approximately 2% and 1%, respectively.

Product line sales

	Quarter ended July 1, 2012		Quarter ended July 3, 2011		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	%
Reserve power	$ 289.3	48.7%	$ 265.9	46.7%	$ 23.4	8.8%
Motive power	304.6	51.3	303.3	53.3	1.3	0.4
Total net sales	$ 593.9	100.0%	$ 569.2	100.0%	$ 24.7	4.3%

Sales of our reserve power products in the first quarter of fiscal 2013 increased $23.4 million or 8.8% compared to the first quarter of fiscal 2012. In the first quarter of fiscal 2013, organic volume and acquisitions contributed approximately 11% and 4%, respectively, partially offset by negative currency translation impact of approximately 6%.

Sales of our motive power products in the first quarter of fiscal 2013 increased $1.3 million or 0.4% compared to the first quarter of fiscal 2012. The first quarter increase was primarily due to higher organic volume of approximately 4% and acquisitions of approximately 3% offset by negative currency translation impact of approximately 6%.

Gross Profit

	Quarter ended July 1, 2012		Quarter ended July 3, 2011		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	%
Gross Profit	$ 148.3	25.0%	$ 122.0	21.4%	$ 26.3	21.6%

Gross profit increased $26.3 million or 21.6% in the first quarter of fiscal 2013 when compared to the first quarter of fiscal 2012.

Gross profit, as a percentage of net sales increased 360 basis points in the first quarter of fiscal 2013, when compared to the first quarter of fiscal 2012. This increase is primarily attributed to increased volume, lower commodity costs and on-going cost reduction programs.

We estimate that the cost of lead alone, our most significant raw material, decreased our cost of sales by approximately $21 million in the first quarter of fiscal 2013 compared to the first quarter of fiscal 2012 while selling prices reduced sales by $1.0 million.

Our gross profit initiatives will continue to emphasize cost reduction activities to improve gross profit and continue to focus on improving product mix to higher margin products.

Operating Items

	Quarter ended July 1, 2012		Quarter ended July 3, 2011		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	%
Operating expenses	$ 77.7	13.1%	$ 72.9	12.8%	$ 4.8	6.6%
Restructuring charges	$ 0.4	0.1%	$ 0.4	0.1%	$	%

Operating expenses as a percentage of net sales increased 30 basis points in the first quarter of fiscal 2013 compared to the first quarter of fiscal 2012. Operating expenses, excluding the effect of foreign currency translation, increased 12.9% or $9.3 million in the first quarter of fiscal 2013 compared to the first quarter of fiscal 2012, due primarily to higher sales volume and the higher operating costs of recent acquisitions. Selling expenses, our main component of operating expenses, were 60.7% of total operating expenses in the first quarter of fiscal 2013 compared to 59.9% of total operating expenses in the first quarter of fiscal 2012.

Restructuring charges

Included in each of our first quarters of fiscal 2013 and fiscal 2012 operating results are $0.4 million of restructuring charges, primarily for staff reductions in Europe.

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Operating Earnings

Current quarter by segment	Quarter ended July 1, 2012		Quarter ended July 3, 2011		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales (1)	In Millions	Percentage of Total Net Sales (1)	In Millions	%
Europe	$ 17.2	7.3%	$ 14.1	5.6%	$ 3.1	21.8%
Americas	44.5	15.4	31.6	12.2	12.9	40.8
Asia	8.9	13.1	3.4	5.9	5.5	163.8
Subtotal	70.6	11.9	49.1	8.6	21.5	43.8
Restructuring charges-Europe	(0.4)	(0.2)	(0.4)	(0.2)		
Total operating earnings	$ 70.2	11.8%	$ 48.7	8.6%	$ 21.5	44.2%

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

Operating earnings increased $21.5 million or 44.2% in the first quarter of fiscal 2013 in comparison to the first quarter of fiscal 2012. Operating earnings as a percentage of net sales, as shown in the table above, increased 320 basis points in the first quarter of fiscal 2013 when compared to the first quarter of fiscal 2012.

We experienced an increase in operating earnings in our Europe segment in the first quarter of fiscal 2013 in comparison to the comparable quarter in the prior year, with the operating margin increasing 170 basis points to 7.3%. This increase in operating margin is attributable to an increase in organic volume and lower commodity costs, along with the benefits of the restructuring programs on both production and operating expenses.

Our Americas segment had an increase in operating earnings in the first quarter of fiscal 2013 in comparison to the first quarter of fiscal 2012, with the operating margin increasing 320 basis points to 15.4%. The operating margin increase is primarily attributable to higher organic volume and lower commodity costs.

Operating earnings increased 163.8% in our Asia segment in the first quarter of fiscal 2013 in comparison to the first quarter of fiscal 2012, with the operating margin increasing 720 basis points to 13.1%. The improvement in the first quarter of fiscal 2013 in comparison to the prior year quarter is primarily due to improved volume and a better mix of higher margin products in the region.

Interest Expense

	Quarter ended July 1, 2012		Quarter ended July 3, 2011		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	%
Interest expense	$ 4.7	0.8%	$ 3.4	0.6%	$ 1.3	38.6%

Interest expense of $4.7 million in the first quarter of fiscal 2013 (net of interest income of $0.2 million) was $1.3 million higher than the interest expense of $3.4 million in the first quarter of fiscal 2012 (net of interest income of $0.3 million).

The increase in interest expense in the first quarter of fiscal 2013 compared to the first quarter of fiscal 2012 is attributable to higher interest expense in Asia and South America.

Included in interest expense are non-cash charges for deferred financing fees of $0.3 million in both the first quarters of fiscal 2013 and 2012.

Included in interest expense for the first quarter of fiscal 2013 and 2012 is non-cash, accreted interest on the Convertible Notes of $1.7 million and $1.6 million, respectively. (See Note 9 to the Consolidated Condensed Financial Statements).

Our average debt outstanding (reflecting the reduction of the Convertible Notes discount) was $266.0 million in the first quarter of fiscal 2013, compared to $258.5 million in the first quarter of fiscal 2012. The average Convertible Notes discount excluded from our average debt outstanding was $23.4 million in the first quarter of fiscal 2013 and $29.9 million in the first quarter of fiscal 2012.

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Other (Income) Expense, Net

	Quarter ended July 1, 2012		Quarter ended July 3, 2011		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	%
Other (income) expense, net	$ 1.2	0.2%	$ 1.2	0.2%	$	%

Other (income) expense, net for the first quarter of fiscal 2013 was $1.2 million compared to $1.2 million in the first quarter of fiscal 2012. Foreign currency losses in the first quarter of fiscal 2013 were $0.7 million compared to $0.1 million foreign currency gains in the prior year quarter. Unrealized losses on interest rate swaps in the first quarter of fiscal 2012 were $0.7 million and were negligible in the first quarter of fiscal 2013.

Earnings Before Income Taxes

	Quarter ended July 1, 2012		Quarter ended July 3, 2011		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	%
Earnings before income taxes	$ 64.3	10.8%	$ 44.1	7.8%	$ 20.2	45.8%

As a result of the above, earnings before income taxes in the first quarter of fiscal 2013 increased $20.2 million or 45.8% compared to the first quarter of fiscal 2012. Earnings before income taxes as a percentage of net sales were 10.8% in the first quarter of fiscal 2013 compared to 7.8% in the first quarter of fiscal 2012.

Income Tax Expense

	Quarter ended July 1, 2012		Quarter ended July 3, 2011		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	%
Income tax expense	$ 18.7	3.1%	$ 10.6	1.9%	$ 8.1	76.9%
Effective tax rate	29.1%		24.0%		5.1%	

The Company s income tax provisions for both periods consist of federal, state and foreign income taxes. The tax provisions for the first quarters of fiscal 2013 and fiscal 2012 were based on the estimated effective tax rates applicable for the full years ending March 31, 2013 and March 31, 2012, respectively, after giving effect to items specifically related to the interim periods.

The effective income tax rates for the first quarters of fiscal 2013 and fiscal 2012 were 29.1% and 24.0%, respectively. The rate increase in the first quarter of fiscal 2013 as compared to the prior year quarter is primarily due to changes in the mix of earnings among tax jurisdictions, the expiration of certain U.S. corporate tax exemptions and the decrease in favorable discrete items compared to prior year quarter.

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Net Earnings Attributable to EnerSys Stockholders

	Quarter ended July 1, 2012		Quarter ended July 3, 2011		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	%
Net earnings attributable to EnerSys stockholders	$ 45.8	7.7%	$ 33.5	5.9%	$ 12.3	36.7%

As a result of the above, net earnings in the first quarter of fiscal 2013 were $45.8 million or 7.7% of net sales, compared to net earnings in the first quarter of fiscal 2012 of $33.5 million or 5.9% of net sales.

Net earnings per common share in the first quarter of fiscal 2013 were $0.96 per basic share and $0.95 per diluted share, compared to $0.67 per basic share and $0.66 per diluted share in the first quarter of fiscal 2012 which reflects a $0.04 benefit from lower average shares outstanding from the $9.8 million stock repurchases net of shares issued under equity awards during fiscal 2012.

Critical Accounting Policies and Estimates

There have been no material changes to our critical accounting policies from those discussed under the caption Critical Accounting Policies and Estimates in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations in our 2012 Annual Report on Form 10-K.

Liquidity and Capital Resources

Operating activities provided cash of $24.2 million in the first quarter of fiscal 2013 compared to $17.0 million in the first quarter of fiscal 2012. In the first quarter of fiscal 2013, net earnings of $45.6 million and depreciation and amortization of $12.5 million were offset by cash used for the increase in primary working capital of $35.5 million, net of currency translation changes. In the first quarter of fiscal 2012, net earnings of $33.5 million and depreciation and amortization of $12.1 million were offset by cash used for the increase in primary working capital of $25.8 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 $597.5 million (yielding a primary working capital percentage of 25.2%) at July 1, 2012, $578.6 million (yielding a primary working capital percentage of 24.4%) at March 31, 2012 and $585.2 million at July 3, 2011 (yielding a primary working capital percentage of 25.7%). The primary working capital percentage of 25.2% at July 1, 2012 is 0.8 percentage points higher than that for March 31, 2012, and 0.5 percentage points lower than that for the prior year quarter.

Primary working capital increased during the first quarter of fiscal 2013, largely due to an increase in accounts receivable and decrease in accounts payable.

Primary working capital and primary working capital percentages at July 1, 2012, March 31, 2012 and July 3, 2011 are computed as follows:

	(In Millions)					
Balance At	Trade Receivables	Inventory	Accounts Payable	Total	Quarter Revenue Annualized	Primary Working Capital %
July 1, 2012	$ 478.5	$ 350.0	$ (231.0)	$ 597.5	$ 2,375.6	25.2%
March 31, 2012	466.8	361.8	(250.0)	578.6	2,371.0	24.4
July 3, 2011	468.5	359.2	(242.5)	585.2	2,276.9	25.7

Investing activities used cash of $16.0 million in the first quarter of fiscal 2013, compared to cash used of $11.6 million in the comparable period in fiscal 2012, comprised of capital expenditures.

Financing activities provided cash of $18.5 million in the first quarter of fiscal 2013, primarily reflecting borrowings and repayments of $122.7 million and $107.2 million, respectively, on our revolver. Borrowings on long term debt of $6.0 million were offset by repayments on short term debt of $4.1 million in Asia. Exercise of stock options and the related tax benefits contributed $1.3 million. In the first quarter of fiscal 2012, financing activities provided cash of $0.7 million, primarily reflecting borrowings on short-term debt of $9.4 million and the exercise of stock options and the related tax benefits that contributed $2.2 million, offset by the repurchase of common stock of $9.8 million and capital lease payments of $1.1 million.

As a result of the above, total cash and cash equivalents increased by $20.2 million to $180.7 million in the first quarter of fiscal 2013 compared to an increase of $7.7 million to $116.6 million in the comparable period of fiscal 2012.

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

We are in compliance with all covenants and conditions under our credit agreements. Since we believe that we will continue to comply with these covenants and conditions, we believe that we have the financial resources and the capital available to fund the foreseeable organic growth in our business and to remain active in pursuing further acquisition opportunities. See Note 8 to the Consolidated Financial Statements included in our 2012 Annual Report on Form 10-K for a detailed description of debt.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risks

Our cash flows and earnings are subject to fluctuations resulting from changes in interest rates, foreign currency exchange rates and raw material costs. We manage our exposure to these market risks through internally established policies and procedures and, when deemed appropriate, through the use of derivative financial instruments. Our policy does not allow speculation in derivative instruments for profit or execution of derivative instrument contracts for which there are no underlying exposures. We do not use financial instruments for trading purposes and are not a party to any leveraged derivatives. We monitor our underlying market risk exposures on an ongoing basis and believe that we can modify or adapt our hedging strategies as needed.

Counterparty Risks

We have entered into interest rate swap agreements to manage risk on a portion of our long-term floating-rate debt. We have entered into lead forward purchase contracts to manage risk on the cost of lead. We have entered into foreign exchange forward contracts and purchased option contracts to manage risk on foreign currency exposures. The Company s agreements are with creditworthy financial institutions. Those contracts that result in a liability position at July 1, 2012 are $7.8 million (pre-tax), therefore there is no risk of nonperformance by the counterparties. Those contracts that result in an asset position at July 1, 2012 are $0.6 million (pre-tax) and the impact on the Company due to nonperformance by the counterparties is not material.

Interest Rate Risks

We are exposed to changes in variable U.S. interest rates on borrowings under our credit agreements. On a selective basis, from time to time, we enter into interest rate swap agreements to reduce the negative impact that increases in interest rates could have on our outstanding variable rate debt. Changes in the fair value of these contracts for the quarters ended July 1, 2012 and July 3, 2011 have been recorded in the income statement in other (income) expense, net.

At July 1, 2012 and March 31, 2012, the aggregate notional amount of interest rate swap agreements is $85.0 million. These agreements expire between February May 2013.

Under the interest rate swaps, the Company receives three-month LIBOR and pays a fixed interest rate which averaged 4.28% and 4.46% on July 1, 2012 and July 3, 2011, respectively.

A 100 basis point increase in interest rates would increase annual interest expense by approximately $0.9 million on the variable rate portions of our debt.

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Commodity Cost Risks Lead Contracts

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

Date	$ s Under Contract (in millions)	# Pounds Purchased (in millions)	Average Cost/Pound	Approximate % of Lead Requirements (1)
July 1, 2012	$ 55.4	60.5	$ 0.92	12%
March 31, 2012	56.6	60.0	0.94	12
July 3, 2011	32.8	31.0	1.06	7

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

For the remaining three quarters of this fiscal year, we believe approximately 31% of the cost of our lead requirement is known. This takes into account the hedge contracts in place at July 1, 2012, lead purchased by July 1, 2012 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 increase our cost of goods sold by approximately $14 million in the first quarter of fiscal 2013.

Foreign Currency Exchange Rate Risks

We manufacture and assemble our products globally in the Americas, Europe and Asia. Approximately 60% of our sales and expenses are transacted in foreign currencies. Our sales revenue, production costs, profit margins and competitive position are affected by the strength of the currencies in countries where we manufacture or purchase goods relative to the strength of the currencies in countries where our products are sold. Additionally, as we report our financial statements in U.S. dollars, our financial results are affected by the strength of the currencies in countries where we have operations relative to the strength of the U.S. dollar. The principal foreign currencies in which we conduct business are the Euro, Swiss franc, British pound, Polish zloty, Chinese renminbi and Mexican peso.

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

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To hedge these exposures, we have entered into forward contracts with financial institutions to fix the value at which we will buy or sell certain currencies. The vast majority of such contracts is for a period not extending beyond one year. Forward contracts outstanding as of July 1, 2012 and March 31, 2012 were $83.9 million and $53.5 million, respectively. The details of contracts outstanding as of July 1, 2012 were as follows:

	July 1, 2012		
Transactions Hedged	**$US Equivalent (in millions)**	**Average Rate Hedged**	**Approximate % of Annual Requirements [1]**
Sell Euros for U.S. dollars	$ 20.0	$/ 1. 27	10%
Sell Euros for Polish zloty	17.6	PLN/ 4.28	22
Sell Euros for British pounds	22.4	£/ 0.82	35
Sell Japanese yen for U.S. dollars	17.0	¥/$ 80.71	54
Sell Australian dollars for U.S. dollars	2.2	$/AUD 1.01	23
Sell U.S. dollars for Mexican pesos	2.5	MXN/$ 13.38	50
Other	2.2		
Total	$ 83.9		

[1] Based on the fiscal year currency requirements.

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

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

ITEM 4. CONTROLS AND PROCEDURES

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

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

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PART II OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are involved in litigation incidental to the conduct of our business. We do not expect that any of this litigation, individually or in the aggregate, will have a material adverse effect on our financial condition, results of operations or cash flow.

Item 1A. Risk Factors

In addition to the other information set forth in this Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended March 31, 2012, which could materially affect our business, financial condition or future results.

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

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table summarizes the number of shares of common stock we purchased from participants in our equity incentive plans as well as repurchases of common stock authorized by the Board of Directors. As provided by our equity incentive plans, vested options outstanding may be exercised through surrender to the Company of option shares or vested options outstanding under the Plan to satisfy the applicable aggregate exercise price (and any withholding tax) required to be paid upon such exercise.

Purchases of Equity Securities

Period	(a) Total number of shares (or units) purchased	(b) Average price paid per share (or unit)	(c) Total number of shares (or units) purchased as part of publicly announced plans or programs	(d) Maximum number (or approximate dollar value) of shares (or units) that may be purchased under the plans or programs [1]
April 1 April 29, 2012		$		$ 254,895
April 30 May 27, 2012	66,535	30.81		56,328,047[2]
May 28 July 1, 2012				57,156,645
Total	66,535	$ 30.81		

[1] On May 26, 2011, the Company s Board of Directors authorized the Company to repurchase up to the number of shares exercised through previous stock option awards and common stock issued under the 2010 Equity Incentive Plan. As of April 29, 2012, May 27, 2012 and July 1, 2012, this repurchase limit amounted to a total 7,757 shares, 192,576 shares, and 217,792 shares, respectively, that may be repurchased under this program. For purposes of presenting the approximate dollar value of shares that may be purchased under this program, we multiplied the remaining balance under this program by $32.86 per share, which is the average closing price of the Company s common stock during the period.

[2] On May 24, 2012, the Company s Board of Directors authorized the Company to repurchase up to $50 million of its common stock.

Item 4. Mine Safety Disclosures

Not applicable.

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ITEM 6. EXHIBITS

Exhibit Number	Description of Exhibit
3.1	Fifth Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to Amendment No. 3 to EnerSys Registration Statement on Form S-1 (File No. 333-115553) filed on July 13, 2004).
3.2	Bylaws (filed herewith).
10.1	Form of Restricted Stock Unit Agreement Employees 2010 Equity Incentive Plan (filed herewith).
10.2	Form of Market Share Restricted Stock Unit Agreement Employees 2010 Equity Incentive Plan (filed herewith).
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) Under the Securities Exchange Act of 1934 (filed herewith).
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) Under the Securities Exchange Act of 1934 (filed herewith).
32.1	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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SIGNATURES

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

ENERSYS (Registrant)

By /s/ Michael J. Schmidtlein
Michael J. Schmidtlein
Senior Vice President Finance & Chief Financial Officer

Date: August 8, 2012

EnerSys

EXHIBIT INDEX

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