EnerSys
Form 10-K
June 13, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

x **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended March 31, 2007 or**

¨ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from to**

Commission file number: 001-32253

ENERSYS

(Exact name of registrant as specified in its charter)

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

2366 Bernville Road

Reading, Pennsylvania 19605

(Address of principal executive offices)

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

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

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 per value	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ¨ YES x NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ¨ YES x NO

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. x YES ¨ NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

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

Aggregate market value of the voting and non-voting common stock held by nonaffiliates at October 1, 2006: $212,691,058 (based upon its closing transaction price on the New York Stock Exchange on September 29, 2006).

Common stock outstanding at June 8, 2007: **Common Stock 47,122,996 shares**

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive Proxy Statement for its Annual Meeting of Stockholders to be held on July 19, 2007 are incorporated by reference in Part III of this Annual Report.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

Forward-looking statements involve risks, uncertainties and assumptions. Although we do not make forward-looking statements unless we believe we have a reasonable basis for doing so, we cannot guarantee their accuracy. Actual results may differ materially from those expressed in these forward-looking statements due to a number of uncertainties and risks, including the risks described in this 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 Annual Report on Form 10-K, and we undertake no obligation to update or revise these statements to reflect events or circumstances occurring after the date of this Annual Report on Form 10-K.

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 material 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 electrical and electronic equipment;
- risks involved in foreign operations such as disruption of markets, changes in import and export laws, currency restrictions and currency exchange rate fluctuations;
- our ability to raise our selling prices to our customers when our product costs increase;
- the extent to which we are able to efficiently utilize our global manufacturing facilities and optimize their capacity;
- general economic conditions in the markets in which we operate;

competitiveness of the battery markets 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;

unanticipated litigation and regulatory proceedings to which we might be subject;

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- changes in our market share in the business segments and regions where we operate;
- our ability to implement our cost reduction initiatives successfully and improve our profitability;
- unanticipated quality problems associated with our products;
- our ability to implement business strategies, including our acquisition strategy, and restructuring plans;
- our acquisition strategy may not be successful in locating advantageous targets;
- our ability to successfully integrate any assets, liabilities, customers, systems and management personnel we acquire into our operations and our ability to realize related revenue synergies and cost savings within expected time frames;
- our debt and debt service requirements which may restrict our operational and financial flexibility, as well as imposing unfavorable interest and financing costs;
- adverse changes in our short- and long-term debt levels 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, whether in the United States or abroad, could cause damage or disruption to our operations, our suppliers, channels to market or customers, or could cause costs to increase, or create political or economic instability, any of which could have a material adverse effect on our business.

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

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EnerSys

Annual Report on Form 10-K

For the Fiscal Year Ended March 31, 2007

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PART I

ITEM 1. *BUSINESS*

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. Industrial batteries generally are characterized as reserve power batteries or motive power batteries.

Reserve power products also are known as network, standby or stationary power batteries and are used primarily for backup power applications to ensure continuous power supply in case of main (primary) power failure or outage. Reserve power batteries are used primarily to supply standby direct current (DC) operating power for:

- telecommunications systems, such as wireless, wireline and internet access systems, central and local switching systems, satellite stations and radio transmission stations;
- uninterruptible power systems (UPS) applications for computer and computer-controlled systems, including process control systems;
- specialty power applications, including security systems, and for premium starting, lighting and ignition applications;
- switchgear and electrical control systems used in electric utilities and energy pipelines; and
- commercial and military aircraft, submarines and tactical military vehicles.

Motive power products are used to provide power for electric material handling and material handling equipment, primarily electric industrial forklift trucks. They compete primarily with propane- and diesel-powered internal combustion engines used principally in the following applications:

- electric industrial forklift trucks in distribution and manufacturing facilities;
- mining equipment, including scoops, coal haulers, shield haulers, underground forklifts, shuttle cars and locomotives, and
- railroad equipment, including diesel locomotive starting, rail car lighting and rail signaling equipment.

History

EnerSys and its predecessor companies have been manufacturers of industrial batteries for over 100 years. Morgan Stanley Capital Partners teamed with the management of Yuasa, Inc. in late 2000 to acquire from Yuasa Corporation (Japan) its reserve power and motive power battery businesses in North and South America. We were incorporated in October 2000 for the purpose of completing the Yuasa, Inc. acquisition from Yuasa Corporation (Japan). On January 1, 2001, we changed our name from Yuasa, Inc. to EnerSys to reflect our focus on the energy systems nature of our businesses. In early 2002, we acquired the reserve power and motive power business of the Energy Storage Group, or ESG, of Invensys plc.

Today, our reserve power batteries are marketed and sold principally under the *PowerSafe*, *DataSafe, Hawker, Genesis, Odyssey, Varta* and *Cyclon* brands. Our motive power batteries are marketed and sold principally under the *Hawker, EnerSys- Ironclad, General Battery, Fiamm Motive Power, Uranio, Oldham* and *Express* brands. We also manufacture and sell related direct current DC power products including chargers, electronic power equipment and a wide variety of battery accessories. Our battery products span a broad range of sizes, configurations and electrical capacities, enabling us to meet a wide variety of customer applications.

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

We have expanded our product offerings and services globally through internal growth and acquisitions. During fiscal 2007 we made the following acquisitions:

In May 2006, the Company purchased the assets of Alliant Techsystems (NYSE:ATK) lithium primary battery business, located at its Power Sources Center in Horsham, PA, now known as EnerSys Advanced Systems Inc. (EAS). EAS produces lithium power sources, primarily for aerospace and defense applications. As part of the transaction, ATK has signed a 5-year supply agreement for all of its requirements for products produced at EAS.

In August 2006, the Company acquired the assets, including manufacturing facilities, of Chaozhou Xuntong Power Source Company Limited (CFT), located in Chaoan, China, which manufactures valve-regulated, lead-acid batteries. This acquisition provides the Company with additional capacity needed to meet the growing customer demand for reserve power batteries.

In January 2007, the Company acquired the lead-acid battery business of Leclanché SA based in Yverdon-les-Bains, Switzerland. The Company assumed the customers and existing contracts of the Leclanché lead-acid battery business along with certain sales and service employees in order to maintain relationships with current customers. The acquisition provides the Company greater access to the Swiss market.

Recent Developments

On May 18, 2007, the Company completed the previously announced acquisition of a 97% interest in Energia AD, a producer of industrial batteries, located in Targovishte, Bulgaria. The total purchase price for this transaction was approximately euro 13 million (approximately $17 million) including all transactions costs and adjustments. The acquisition was financed using cash and existing EnerSys credit facilities. The acquisition provides the Company with an additional low cost manufacturing platform with substantial expansion potential and increases the Company s market presence in the rapidly growing Eastern European and Russian markets.

On May 23, 2007, the Company announced its commitment to the principal features of a plan to restructure certain of its European production and commercial operations. In part, the restructuring will facilitate the integration of Energia AD into the Company s worldwide operations. The restructuring is designed to improve operational efficiencies and eliminate redundant costs primarily attributable to the Energia transaction. Restructuring actions will commence upon the completion of the requisite consultations, and the Company expects to substantially complete these actions by the end of the fiscal 2008. As a result of the restructuring, the Company expects to incur cash expenses of approximately $12 million, primarily for employee severance-related payments, and non-cash expenses of approximately $5 million, primarily for fixed asset write-offs.

Fiscal Year Reporting

In this Report, when we refer to our fiscal years, we say fiscal and the year number, as in fiscal 2007 , which refers to our fiscal year ended March 31, 2007. The Company reports interim financial information for 13-week periods, except for the first quarter, which always begins on April 1, and the fourth quarter, which always ends on March 31. The four fiscal quarters in fiscal 2007 ended on July 2, 2006, October 1, 2006, December 31, 2006, and March 31, 2007, respectively. The four fiscal quarters in fiscal 2006 ended on July 3, 2005, October 2, 2005, January 1, 2006, and March 31, 2006, respectively. Financial information about segments and geographic areas is incorporated by reference from Note 24 of the notes to the Consolidated Financial Statements in this Form 10-K.

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Our Customers

We serve over 10,000 customers in over 100 countries, on a direct basis or through our distributors. We are not overly dependent on any particular end market or geographic region. No single customer accounts for more than 6% of our revenues.

Reserve Power

Our reserve power customers consist of regional customers as well as global customers. These customers are in diverse markets ranging from telecom to UPS, electric utilities, security systems, emergency lighting and premium starting, lighting and ignition applications. In addition, we sell our aerospace and defense products to numerous countries, including the governments of the U.S., Germany and the U.K. and to major defense and aviation original equipment manufacturers (OEMs).

Motive Power

Our motive power customers include a large, diversified customer base. These customers include materials handling equipment dealers, OEMs and end users of such equipment. End users include manufacturers, distributors, warehouse operators, retailers, airports, mine operators and railroads.

Distribution and Services

Reserve Power

We distribute, sell and service reserve power products globally through a combination of company-owned offices, independent manufacturers representatives and distributors managed by our regional sales managers. With our global manufacturing locations and regional warehouses, we believe we are well positioned to meet our customers delivery and servicing requirements. We have targeted our approach to meet local market conditions, which we believe provides the best possible service for our regional customers and our global accounts.

Motive Power

We distribute, sell and service our motive power products throughout the world, principally through company-owned sales and service facilities, as well as through independent manufacturers representatives. We believe we are one of the only battery manufacturers in the motive power battery industry that operates a primarily company-owned service network. This company-owned network allows us to offer high-quality service, including preventative maintenance programs and customer support. Our warehouses and service locations enable us to respond quickly to customers in the markets we serve. The extensive industry experience of our sales organization results in strong long-term customer relationships.

Manufacturing and Raw Materials

We manufacture and assemble reserve power and motive power batteries and related products at manufacturing facilities located in the Americas, Europe and Asia. We believe that our global approach to manufacturing has significantly helped us increase our market share during the past several years. With a view toward projected demand, we strive to optimize and balance capacity at our battery manufacturing facilities located throughout the world, while simultaneously minimizing our product cost. By taking a global view of our manufacturing requirements and capacity, we are better able to anticipate potential capacity bottlenecks and equipment and capital funding needs.

The primary raw materials used to manufacture our products include lead, plastics, steel and copper. We purchase lead from a number of leading suppliers throughout the world. Because lead is traded on the world s commodity markets and its price fluctuates daily, we enter into hedging arrangements from time to time for a portion of our projected requirements to reduce the volatility of these fluctuations.

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Competition

The industrial battery market is highly competitive and has experienced substantial consolidation both among competitors who manufacture and sell industrial batteries and among customers who purchase industrial batteries. Our competitors range from development stage companies to major domestic and international corporations. We also compete with other energy storage technologies. We compete primarily on the basis of reputation, product quality, reliability of service, delivery and price. We believe that our products and services are competitively priced.

Reserve Power

We believe we have one of the largest market shares for reserve power products on a worldwide basis. We compete principally with Exide Technologies, GS Yuasa, C&D Technologies, FIAMM and East Penn Manufacturing.

Motive Power

We believe we have the largest market share for motive power products on a worldwide basis. Our principal competitor, on a global basis, is Exide Technologies. On a regional basis, East Penn Manufacturing and C&D Technologies compete with us in North America, Hoppecke competes with us in Europe, and JSB, Shinkobe, GS Yuasa and Hitachi compete with us in Asia.

Warranties

Warranties for our products vary by geography and product and are competitive with other suppliers of these types of products. Generally, our reserve power products warranties range from one- to twenty-years and our motive power products warranties range from one- to seven-years. The length of our warranties is sometimes extended to reflect varied regional characteristics and competitive influences. In some cases, we may extend the warranty period to include a pro rata period, which is typically based around the design life of the product and the application served. Our warranties generally cover defects in workmanship and materials and are limited to specific usage parameters.

Intellectual Property

We have numerous patents and patent licenses in the United States and other jurisdictions but do not consider any patent to be material to our business. From time to time, however we apply for patents on new inventions and designs, but we believe that the growth of our business will depend primarily upon the quality of our products and our relationships with our customers, rather than the extent of our patent protection.

Although other manufacturers may possess certain thin-plate pure-lead technology (TPPL), we believe we are the only manufacturer of products using TPPL technology in the markets we serve. Some aspects of this technology may be patented in the future. In any event, we believe that a significant capital investment would be required by any party desiring to produce products using TPPL technology for these markets.

We own or possess exclusive and non-exclusive licenses and other rights to use a number of trademarks in various jurisdictions. We have obtained registrations for many of these trademarks in the United States and other jurisdictions. Our various trademark registrations currently have a duration of approximately one to 10 years, varying by mark and jurisdiction of registration and may be renewable. We endeavor to keep all of our material registrations current. We believe that many such rights and licenses are important to our business by helping to develop strong brand-name recognition in the marketplace. Some of the significant (registered and unregistered) trademarks that we use include: *Armasafe+, Chloride, Cobra, Cyclon, DataSafe, Deserthog, Energy Plus, Envirolink, ESB, Espace, EnerSys Ironclad, Express, FIAMM Motive Power, GBC, Genesis, Genesis NP,*

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Genesis Pure Lead, Hawker, HUP, Hybernator, LifeGuard, LifePlus, Life Speed, Loadhog, Oasis, Odyssey, Uranio, Oldham, Perfect, PowerGuard, PowerLease, Powerline, PowerPlus, PowerSafe, Smarthog, Superhog, Supersafe, Titan PowerTech, Varta, Waterless and Workhog.

Seasonality

Our business generally does not experience significant monthly or quarterly fluctuations in net sales as a result of weather or other trends that can be directly linked to seasonality patterns. However, our second fiscal quarter normally experiences moderate reductions in net sales as compared to our first fiscal quarter for that year, due to summer manufacturing shutdowns of our customers and holidays primarily in the United States and Western Europe. In fiscal 2006, our second quarter was slightly higher than the first quarter. Our fourth fiscal quarter normally experiences the highest sales of any fiscal quarter within a given year, as was the case in fiscal years 2005, 2006 and 2007. Many reserve power telecommunications customers tend to perform extensive service and engage in higher battery replacement and maintenance activities in the first calendar quarter of a year, which is our fourth fiscal quarter. In addition, many of our largest industrial customers are on a calendar fiscal year basis and many tend to purchase their durable goods more heavily in that quarter than any other within the calendar year.

Product and Process Development

Our product and process development efforts are focused on the creation and optimization of new battery products using existing technologies, which, in certain cases, differentiate our stored energy solutions from our competition s. We allocate our resources to the following key areas:

- the design and development of new products;
- optimizing and expanding our existing product offering;
- waste reduction;
- production efficiency and utilization;
- capacity expansion, without additional facilities; and
- quality attribute maximization.

Employees

At March 31, 2007, we had approximately 7,800 employees. Of these employees, approximately 3,200, almost all of whom work in our European facilities, were covered by collective bargaining agreements. The average term of these agreements is one to two years, with the longest term being three and one-half years. These agreements expire over the period from calendar years 2007 to 2009.

We consider our employee relations to be good. We have not experienced any significant labor unrest or disruption of production.

Environmental Matters

In the manufacture of our products throughout the world, we process, store, dispose of and otherwise use large amounts of hazardous materials, especially lead and acid. As a result, we are subject to extensive and changing environmental, health and safety laws and regulations governing, among other things: the generation, handling, storage, use, transportation and disposal of hazardous materials; remediation of polluted ground or water; emissions or discharges of hazardous materials into the ground, air or water; and the health and safety of our employees. Compliance with these laws and regulations results in ongoing costs. Failure to comply with these laws and regulations, or to obtain or comply with required environmental permits, could result in fines,

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criminal charges or other sanctions by regulators. From time to time we have had instances of alleged or actual noncompliance that have resulted in the imposition of fines, penalties and required corrective actions. Our ongoing compliance with environmental, health and safety laws, regulations and permits could require us to incur significant expenses, limit our ability to modify or expand our facilities or continue production and require us to install additional pollution control equipment and make other capital improvements. In addition, private parties, including current or former employees, could bring personal injury or other claims against us due to the presence of, or their exposure to, hazardous substances used, stored, transported or disposed of by us or contained in our products.

Certain environmental laws assess liability on owners or operators of real property for the cost of investigation, removal or remediation of hazardous substances at their current or former properties or at properties at which they have disposed of hazardous substances. These laws may also assess costs to repair damage to natural resources. We may be responsible for remediating damage to our properties that was caused by former owners. Soil and groundwater contamination has occurred at some of our current and former properties and may occur or be discovered at other properties in the future. We currently are investigating and monitoring soil and groundwater contamination at certain of our properties, and we may be required to conduct these operations at other properties in the future. In addition, we have been and in the future may be liable to contribute to the cleanup of locations owned or operated by other persons to which we or our predecessor companies have sent wastes for disposal, pursuant to federal and other environmental laws. Under these laws, the owner or operator of contaminated properties and companies that generated, disposed of or arranged for the disposal of wastes sent to a contaminated disposal facility can be held jointly and severally liable for the investigation and cleanup of such properties, regardless of fault.

Manchester, England

We currently have identified three potentially significant environmental issues resulting from historical operations at our Manchester, England battery facility: lead slag piles that may pose a health risk are located in the vicinity of a public footpath on the property; the potential restoration of the Manchester, Bolton and Bury Canal by British Waterways may lead to sampling and/or remediation obligations with respect to the canal and surrounding areas located on our property; and there may be multiple and as yet unidentified areas of soil and groundwater contamination at the facility. We believe we have a right to be indemnified by the previous owner for these potential environmental liabilities in excess of amounts accrued and submitted a notice of claim to the previous owner in May 2003 regarding these issues. No government or third-party lawsuits, regulatory actions or orders have been filed with respect to this site to date, and all our actions at this site to date are voluntary. We originally established a reserve for this facility at £3.5 million, and as of March 31, 2007 it amounted to approximately $6.6 million. This reserve was set up under purchase accounting. Based on the information available at this time, we believe this reserve is sufficient to satisfy these environmental liabilities.

Sumter, South Carolina

We currently are responsible for certain environmental obligations at the former Yuasa battery facility in Sumter, South Carolina. This battery facility was closed in 2001 and is separate from our current metal fabrication facility in Sumter. Remediation issues related to lead contamination in the soil were addressed pursuant to a 1998 Consent Order with the State of South Carolina, and we believe this matter to be closed. We are subject to ongoing storm water inspection requirements under a 2000 Consent Order based on suspected lead contamination. We also are in periodic discussions with the State of South Carolina regarding alleged trichloroethylene (TCE) and other volatile organic compound (VOC) contamination in the groundwater that predates our ownership of this facility. There may be other unidentified contaminants in the soil or groundwater that also predate our ownership of this facility. We believe we are insured against losses arising out of the alleged VOC contamination pursuant to our environmental insurance policy for U.S. facilities and filed a notice of claim with our insurance carrier in October 2002 regarding this contamination. We also believe we will be indemnified by the former owner of the facility for environmental liabilities at this facility in excess of amounts accrued and submitted a notice of claim to them in 2002 regarding these issues. We have established a reserve for this facility and, as of March 31, 2007, it amounted to approximately $2.2 million. Based on current information, we believe this reserve is adequate to satisfy our environmental liabilities at this facility.

Environmental and safety certifications

Seven of our facilities in the United States, Europe and Asia are certified to ISO 14001 standards. ISO 14001 is a globally recognized, voluntary program that focuses on the implementation, maintenance and continual improvement of an environmental management system and the improvement of environmental performance. One of our facilities in the United States is certified by the United States Occupational Safety and Health Administration for the Voluntary Protection Program STAR and one facility in Europe is certified to ISO 18000 standards.

Quality Systems

We utilize a global strategy for quality management systems, policies and procedures, the basis of which is the ISO 9001:2000 standard, which is a worldwide recognized quality standard. We believe in the principles of this standard and reinforce this by requiring mandatory compliance for all manufacturing, sales and service locations that are registered to the ISO 9001 standard. This strategy enables us to provide effective products and services to meet our customers needs.

Available Information

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the SEC). These filings are available to the public on the Internet at the SEC s website at *http://www.sec.gov*. You may also read and copy any document we file with the SEC at the SEC s public reference room, located at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room.

Our Internet address is *http://www.enersys.com*. We make available free of charge on *http://www.enersys.com* our annual, quarterly and current reports, and amendments to those reports, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

ITEM 1A. *RISK FACTORS*

The following risks and uncertainties, as well as others described in this Annual Report on Form 10-K, could materially adversely affect our business, results of operations and financial conditions. Security holders are cautioned that these and other factors may affect future performance and cause actual results to differ from those which may, from time to time, be anticipated. See Cautionary Note Regarding Forward-Looking Statements.

We operate in an extremely competitive industry and are subject to continual pricing pressure.

We compete with a number of major international manufacturers and distributors, as well as a large number of smaller, regional competitors. Due to excess capacity in some sectors of our industry, consolidation among industrial battery purchasers and the financial difficulties being experienced by several of our competitors, we have been subjected to continual and significant pricing pressures. These pricing pressures have prevented us from fully passing through to customers increased costs. We anticipate heightened competitive pricing pressure as Chinese and other foreign producers, able to employ labor at significantly lower costs than producers in the U.S. and Western Europe, expand their export capacity and increase their marketing presence in our major U.S. and European markets. Several of our competitors have strong technical, marketing, sales, manufacturing, distribution and other resources, as well as significant name recognition, established positions in the market and long-standing relationships with original equipment manufacturers and other customers. In addition, certain of our competitors own lead smelting facilities which, during periods of lead cost increases or price volatility, may provide a competitive pricing advantage and reduce their exposure to volatile raw material costs. Our ability to maintain and improve our operating margins has depended, and continues to depend, on our ability to control and reduce our costs. We cannot assure you that we will be able to continue to reduce our operating expenses, to raise or maintain our prices or increase our unit volume, in order to maintain or improve our operating results.

Cyclical industry conditions of our customers have adversely affected and may continue to adversely affect our results of operations.

Our operating results are affected by the general cyclical pattern of the industries in which our major customer groups operate and the overall economic conditions in which we and our customers operate. For example, the significant capital expenditures made by the telecommunications industry during the period from fiscal 1999 through fiscal 2001, as numerous companies expanded their systems and installed standby backup battery power systems, drove demand for our reserve power products. As the telecommunications industry dramatically reduced the building of new systems in response to massive overcapacity, the demand for our reserve power products for this important application declined significantly. Both our reserve power and motive power segments are heavily dependent on the end-user markets they serve, such as telecommunications, UPS and electric industrial forklift trucks. A weak capital expenditure environment in these markets has had, and can be expected to have, a material adverse effect on our results of operations.

Our raw materials costs are volatile and expose us to significant movements in our product costs.

We employ significant amounts of lead, plastics, steel, copper and other materials in our manufacturing processes. We estimate that raw material costs account for approximately half of our cost of goods sold. Lead is our most significant raw material. The costs of these raw materials, particularly lead, are volatile and beyond our control.

Volatile raw material costs can significantly affect our operating results and make period-to-period comparisons extremely difficult. We cannot assure you that we will be able to hedge the costs of our raw material requirements at a reasonable level or pass on to our customers the increased costs of our raw materials.

Our operations expose us to the risk of material environmental, health and safety liabilities, costs, and litigation.

In the manufacture of our products throughout the world, we process, store, dispose of and otherwise use large amounts of hazardous materials, especially lead and acid. As a result, we are subject to extensive and changing environmental, health and safety laws and regulations governing, among other things: the generation, handling, storage, use, transportation and disposal of hazardous materials; remediation of polluted ground or water; emissions or discharges of hazardous materials into the ground, air or water; and the health and safety of our employees. Compliance with these laws and regulations results in ongoing costs. Failure to comply with these laws or regulations, or to obtain or comply with required environmental permits, could result in fines, criminal charges or other sanctions by regulators. From time to time we have had instances of alleged or actual noncompliance that have resulted in the imposition of fines, penalties and required corrective actions. Our ongoing compliance with environmental, health and safety laws, regulations and permits could require us to incur significant expenses, limit our ability to modify or expand our facilities or continue production and require us to install additional pollution control equipment and make other capital improvements. In addition, private parties, including current or former employees, could bring personal injury or other claims against us due to the presence of, or exposure to, hazardous substances used, stored or disposed of by us or contained in our products.

Certain environmental laws assess liability on owners or operators of real property for the cost of investigation, removal or remediation of hazardous substances at their current or former properties or at properties at which they have disposed of hazardous substances. These laws may also assess costs to repair damage to natural resources. We may be responsible for remediating damage to our properties that was caused by former owners. Soil and groundwater contamination has occurred at some of our current and former properties and may occur or be discovered at other properties in the future. We are currently investigating and monitoring soil and groundwater contamination at certain of our properties, and we may be required to conduct these operations at other properties in the future. In addition, we have been and in the future may be liable to contribute to the cleanup of locations owned or operated by other persons to which we or our predecessor companies have sent wastes for disposal, pursuant to federal and other environmental laws. Under these laws, the owner or operator of contaminated properties and companies that generated, disposed of or arranged for the disposal of wastes sent to a contaminated disposal facility can be held jointly and severally liable for the investigation and cleanup of such properties, regardless of fault.

We cannot assure you that we have been or at all times will be in compliance with environmental laws and regulations or that we will not be required to expend significant funds to comply with, or discharge liabilities arising under, environmental laws, regulations and permits, or that we will not be exposed to material environmental, health or safety litigation.

Legislation regarding the restriction of the use of certain hazardous substances in electrical and electronic equipment.

The European Union has directed that new electrical and electronic equipment not contain certain hazardous substances, including lead and cadmium. Because battery accessories and chargers are subject to this directive (commonly known as RoHS), our compliance with the directive directly impacts our manufacturing of these products and could cause certain of our existing inventory to be obsolete. In addition, certain other jurisdictions outside the European Union have implemented, or plan to implement, similar restrictions with various compliance dates. We cannot assure you that we will meet all restrictions by the required dates. Inventory obsolescence and our failure to comply could each have an adverse effect on our financial results.

We are exposed to exchange rate risks, and our net income and financial condition may suffer due to currency translations.

We invoice foreign sales and service transactions in local currencies and translate net sales using actual exchange rates during the period. We translate our non-U.S. assets and liabilities into U.S. dollars using current rates as of the balance sheet date. Because a significant portion of our revenues and expenses are denominated in foreign currencies, changes in exchange rates between the U.S. dollar and foreign currencies, primarily the euro and British pound, may adversely affect our revenue, cost of revenue and operating margins. For example, foreign currency depreciation against the U.S. dollar will reduce the value of our foreign revenues and operating earnings as well as reduce our net investment in foreign subsidiaries.

Most of the risk of fluctuating foreign currencies is in our European operations, which comprised over half of our net sales during the last two fiscal years. The euro is the dominant currency in our European operations.

The translation impact from currency fluctuations on net sales and operating earnings in the Americas and Asia is minimal, as a substantial majority of these net sales and operating earnings are in dollars or are closely correlated to the dollar.

Foreign currency depreciation will make it more expensive for our non-U.S. subsidiaries to purchase certain of our raw material commodities that are priced globally in U.S. dollars, while the related revenue will decrease when translated to U.S. dollars. Significant movements in foreign exchange rates can have a material impact on our results of operations and financial condition. We periodically engage in hedging of our foreign currency exposure, but cannot assure you that we can successfully hedge all of our foreign currency exposure or do so at a reasonable cost.

Our international operations may be adversely affected by actions taken by foreign governments or other forces or events over which we may have no control.

We currently have significant manufacturing and distribution facilities outside of the U.S., including in the United Kingdom, France, Germany, China, Mexico, Poland, Czech Republic, Spain, Italy and Bulgaria. We may face political instability and economic uncertainty, cultural and religious differences and difficult labor relations in our foreign operations. We also may face barriers in the form of long-standing relationships between potential customers and their existing suppliers, national policies favoring domestic manufacturers and protective regulations including exchange controls, restrictions on foreign investment or the repatriation of profits or invested capital, changes in export or import restrictions and changes in the tax system or rate of taxation in countries where we do business. We cannot assure you that we will be able to successfully develop and expand our international operations and sales or that we will be able to overcome the significant obstacles and risks of our international operations.

Our failure to introduce new products and product enhancements and broad market acceptance of new technologies introduced by our competitors could adversely affect our business.

Many new energy storage technologies have been introduced over the past several years. In addition, recent advances in fuel cell and flywheel technology have been introduced for use in selected applications that compete with the end uses for industrial batteries. For certain important and growing markets, such as aerospace and defense, lithium-based battery technologies have large and growing market share. Our ability to achieve significant and sustained penetration of key developing markets, including aerospace and defense, will depend upon our success in developing or acquiring these and other technologies, either independently, through joint ventures or through acquisitions. If we fail to develop or acquire, and manufacture and sell, products that satisfy our customers demands, or we fail to respond effectively to new product announcements by our competitors by quickly introducing competitive products, then market acceptance of our products could be reduced and our business could be adversely affected. We cannot assure you that our lead-acid products will remain competitive with products based on new technologies.

We may not be able to adequately protect our proprietary intellectual property and technology.

We rely on a combination of copyright, trademark, patent and trade secret laws, non-disclosure agreements and other confidentiality procedures and contractual provisions to establish, protect and maintain our proprietary intellectual property and technology and other confidential information. Certain of these technologies, especially in thin-plate pure-lead TPPL technology, are important to our business and are not protected by patents. Despite our efforts to protect our proprietary intellectual property and technology and other confidential information, unauthorized parties may attempt to copy or otherwise obtain and use our intellectual property and proprietary technologies.

Relocation of our customers operations could adversely affect our business.

The trend by a number of our North American and Western European customers to move manufacturing operations and expand their businesses into Asia and other low labor-cost markets may have an adverse impact on our business. As our customers in traditional manufacturing-based industries seek to move their manufacturing operations to lower-cost territories, there is a risk that these customers will source their energy storage products from competitors located in those territories and will cease or reduce the purchase of products from our manufacturing plants. We cannot assure you that we will be able to compete effectively with manufacturing operations of energy storage products in those territories, whether by establishing or expanding our manufacturing operations in those lower-cost territories or acquiring existing manufacturers.

We may fail to implement our cost reduction initiatives successfully and improve our profitability.

We must continue to implement cost reduction initiatives to achieve additional cost savings in future periods. We cannot assure you that we will be able to achieve all of the cost savings that we expect to realize from current or future initiatives. In particular, we may be unable to implement one or more of our initiatives successfully or we may experience unexpected cost increases that offset the savings that we achieve. Given the continued competitive pricing pressures experienced in our industry, our failure to realize cost savings would adversely affect our results of operations.

Quality problems with our products could harm our reputation and erode our competitive position.

The success of our business will depend upon the quality of our products and our relationships with customers. In the event that our products fail to meet our customers standards, our reputation could be harmed, which would adversely affect our marketing and sales efforts. We cannot assure you that our customers will not experience quality problems with our products.

We offer our products under a variety of brand names, the protection of which is important to our reputation for quality in the consumer marketplace.

We rely upon a combination of trademark, licensing and contractual covenants to establish and protect the brand names of our products. We have registered many of our trademarks in the U.S. Patent and Trademark Office and in other countries. In many market segments, our reputation is closely related to our brand names. Monitoring unauthorized use of our brand names is difficult, and we cannot be certain that the steps we have taken will prevent their unauthorized use, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the U.S. We cannot assure you that our brand names will not be misappropriated or utilized without our consent or that such actions will not have a material adverse effect on our reputation and on our results of operations.

We may fail to implement our plans to make acquisitions or successfully integrate them into our operations.

As part of our business strategy, we have grown, and plan to continue growing, by acquiring other product lines, technologies or facilities that complement or expand our existing business. We may be unable to implement this part of our business strategy and may not be able to make acquisitions to continue our growth. There is significant competition for acquisition targets in the industrial battery industry. We may not be able to identify suitable acquisition candidates or negotiate attractive terms. In addition, we may have difficulty obtaining the financing necessary to complete transactions we pursue. In that regard, our credit facilities restrict the amount of additional indebtedness that we may incur to finance acquisitions and place other restrictions on our ability to make acquisitions. Our failure to execute our acquisition strategy could have a material adverse effect on our business. The amounts we may pay for acquisitions are subject to limits on individual transactions and aggregate limits over the term of the credit facilities until 2011 under the senior secured credit facility. Our individual transaction limits are $25.0 million cash and $75.0 million total (cash and company stock), and our aggregate limits are $100.0 million cash and $200.0 million total. Our ability to incur additional indebtedness also is restricted such that any significant acquisitions that could not be financed through cash generated from operations would need to be financed through issuance of additional company common stock. Exceeding any of these limitations would require the consent of our lenders. We cannot assure you that our acquisition strategy will be successful.

Any acquisitions that we complete may dilute your ownership interest in EnerSys, may have adverse effects on our financial condition and results of operations and may cause unanticipated liabilities.

Future acquisitions may involve the issuance of our equity securities as payment, in part or in full, for the businesses or assets acquired. Any future issuances of equity securities would dilute your ownership interests. In addition, future acquisitions might not increase, and may even decrease, our earnings or earnings per share and the benefits derived by us from an acquisition might not outweigh or might not exceed the dilutive effect of the acquisition. We also may incur additional debt or suffer adverse tax and accounting consequences in connection with any future acquisitions.

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The failure of critical computer systems could seriously affect our sales and operations.

We operate a number of critical computer systems throughout our business that can fail for a variety of reasons. If such a failure were to occur, then we may not be able to sufficiently recover from the failure in time to avoid the loss of data or adversely impact certain of our operations that are dependent on such system. This could result in lost sales and the inefficient operation of our facilities for the duration of such a failure.

Our significant indebtedness could adversely affect our financial condition.

As of March 31, 2007, we had $402.3 million of total consolidated debt. This level of debt could:

- increase our vulnerability to adverse general economic and industry conditions, including interest rate fluctuations, because a significant portion of our borrowings bear, and will continue to bear, interest at floating rates;
- require us to dedicate a substantial portion of our cash flow from operations to debt service payments, which would reduce the availability of our cash to fund working capital, capital expenditures or other general corporate purposes, including acquisitions;
- limit our flexibility in planning for, or reacting to, changes in our business and industry;
- restrict our ability to introduce new products or new technologies or exploit business opportunities;
- place us at a disadvantage compared with competitors that have proportionately less debt;
- limit our ability to borrow additional funds in the future, if we need them, due to financial and restrictive covenants in our debt agreements; and
- have a material adverse effect on us if we fail to comply with the financial and restrictive covenants in our debt agreements.

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.

ITEM 1B. ***UNRESOLVED STAFF COMMENTS***

Not applicable

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ITEM 2. ***PROPERTIES***

Set forth below is certain information, as of June 1, 2007, with respect to our principal properties. The primary function of the listed facilities is manufacturing of industrial batteries, unless otherwise noted.

Location	Function/Products Produced	Size (sq. feet utilized)	Owned/Leased
North America:			
Reading, PA	Corporate Offices	109,000	Owned
Warrensburg, MO	Reserve Power Batteries	376,000	Owned
Hays, KS	Reserve Power Batteries	351,000	Owned
Richmond, KY	Motive and Reserve Power Batteries	277,000	Owned
Monterrey, Mexico	Motive and Reserve Power Batteries	181,000	Owned
Tijuana, Mexico	Reserve Power Batteries	156,000	Owned
Ooltewah, TN	Motive Power Batteries	100,750	Owned
Richmond, KY	Distribution Center	95,500	Owned
Cleveland, OH	Motive Power Chargers	66,000	Owned
Sumter, SC	Distribution Center	60,000	Owned
Saddlebrook, NJ	Distribution Center	58,500	Leased
Sumter, SC	Metal fabrication	52,000	Owned
Chino, CA	Distribution Center	46,400	Leased
Santa Fe Springs, CA	Distribution Center	35,000	Leased
Brampton, Canada	Distribution Center	30,400	Leased
Burr Ridge, IL	Distribution Center	25,000	Leased
Norcross, GA	Distribution Center	23,600	Leased
Kansas City, MO	Distribution Center	19,700	Leased
Dallas, TX	Distribution Center	19,500	Leased
Horsham, PA	Lithium Products	15,000	Leased
Warrington, PA	Distribution Center	15,000	Leased
Warwick, RI	Lithium Products	4,000	Leased
Europe:			
Arras, France	Motive and Reserve Power Batteries	486,000	Owned
Targovishte, Bulgaria	Motive and Reserve Power Batteries	483,000	Owned
Manchester, England	Reserve Power Batteries	284,000	Owned
Newport, Wales	Reserve Power Batteries	233,000	Owned
Bielsko-Biala, Poland	Motive Power Batteries	220,000	Leased
Montecchio, Italy	Motive Power Batteries	207,000	Leased
Hagen, Germany	Motive and Reserve Power Batteries	185,000	Owned
Herstal, Belgium	Distribution Center	58,700	Leased
Zwickau, Germany	Specialty Batteries	57,000	Leased
Zamudio, Spain	Assembly and Distribution	55,000	Owned
Brussels, Belgium	Distribution Center	45,000	Leased
Brebieres, France	Motive Power Chargers	41,000	Leased
Yverdon-les Bains, Switzerland	Distribution Center	40,000	Leased
Hostomice, Czech Republic	Metal Fabrication	29,000	Owned/Leased
Asia			
Shenzhen, China	Reserve Power Batteries	176,000	Leased
Jiangsu, China	Motive and Reserve Power Batteries	160,000	Owned
Chaoan, China	Reserve Power Batteries	59,000	Owned
Sydney, Australia	Assembly and Distribution	13,000	Leased

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ITEM 3. ***LEGAL PROCEEDINGS***

In fiscal 2007, we settled two litigation matters. As a result of these settlements, we recorded litigation settlement income, net of related legal fees and expenses, of $3.8 million.

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 4. ***SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS***

No matters were submitted to the vote of stockholders through the solicitation of proxies or otherwise during the fiscal quarter ended March 31, 2007.

PART II

ITEM 5. ***MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER REPURCHASES OF EQUITY SECURITIES***

Market Information

The Company s common stock has been listed on the New York Stock Exchange under the symbol ENS since it began trading on July 30, 2004. Prior to that time, there had been no public market for our common stock. The following table sets forth, on a per share basis for the periods presented, the range of high, low and closing prices of the Company s common stock.

Quarter Ended	High Price	Low Price	Closing Price
July 2, 2006	$ 21.46	$ 12.06	$ 20.90
October 1, 2006	$ 20.77	$ 16.04	$ 16.04
December 31, 2006	$ 18.57	$ 15.20	$ 16.00
March 31, 2007	$ 17.50	$ 15.97	$ 17.18
July 3, 2005	$ 14.00	$ 9.00	$ 13.66
October 2, 2005	$ 15.36	$ 12.46	$ 15.17
January 1, 2006	$ 15.54	$ 12.98	$ 13.04
March 31, 2006	$ 15.70	$ 12.11	$ 13.80

Holders of Record

As of June 1, 2007, there were approximately 241 record holders of common stock of the Company. Because many of such shares are held by brokers and other institutions on behalf of stockholders, the Company is unable to estimate the total number of stockholders represented by these record holders.

Dividends

We never have paid or declared any cash dividends on our common stock and we have certain restrictions from doing so by our senior secured credit agreement. We currently intend to retain any earnings for future growth and, therefore, do not expect to pay any cash dividends in the foreseeable future.

Recent Sales of Unregistered Securities

During the fiscal year ended March 31, 2007, we did not issue any unregistered securities.

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STOCK PERFORMANCE GRAPH

The following graph compares the changes in cumulative total returns on EnerSys common stock with the changes in cumulative total returns of the New York Stock Exchange Composite Index, a broad equity market index, and the total return on a selected peer group index. The peer group selected is based on the standard industrial classification codes (SIC Codes) established by the U.S. government. The index chosen was Miscellaneous Electrical Equipment and Suppliers and comprises all publically traded companies having the same three-digit SIC Code (369) as EnerSys. The constituent companies are: Active Power Inc, Advanced Battery Technologies Inc., Axion Power International, Inc., C & D Technologies Inc., China BAK Battery Inc., Cooper Industries Limited, Cymer Inc., Electro Energy Inc., Ener1 Inc., Energizer Holdings Inc., Energy Conversion Devices Inc., Excel Technology Inc., Exide Technologies, Greatbatch Inc., Hoko Scientific Inc., Hybrid Technology Inc., Hydrogen Corp., Komag Inc., Lifestyle Innovations Inc., Lithium Technology Corp., Manhattan Scientifics Inc., Millenium Cell Inc., Motorcar Parts of America, Oak Ridge Micro Energy Inc., Power Technology Inc., Rofin Sinar Technologies, Satcon Technology Corp., Save the World Aircraft, Inc., Spectrum Brands Inc., Standard Motor Products, Inc., TNR Technical Inc., Trans Max Technologies Inc., Turbine Truck Engines Inc., Ultralife Batteries Inc., Valence Technology Inc., Wonder Auto Technology Inc. and Zareba Systems Inc. The peer group data points are weighted by market capitalization of the constituent companies.

The graph was prepared assuming that $100 was invested in EnerSys common stock, the New York Stock Exchange Composite Index and the peer group on July 30, 2004.

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ITEM 6. ***SELECTED FINANCIAL DATA***

The following tables set forth certain selected consolidated financial and operating data. The selected consolidated financial data presented below for the years ended March 31, 2005, 2006 and 2007, and as of March 31, 2006 and 2007 are derived from our audited consolidated financial statements included elsewhere in this Form 10-K. The selected consolidated financial data presented below for the years ended March 31, 2003 and 2004, and as of March 31, 2003, 2004 and 2005 are derived from our audited consolidated financial statements not included in this Form 10-K. This information should be read in conjunction with the consolidated financial statements and the related notes thereto, and Management s Discussion and Analysis of Results of Operations and Financial Condition, each included elsewhere, herein.

	Fiscal Year Ended March 31,				
	2003	2004	2005	2006	2007
	(In thousands, except share and per share data)				
Consolidated Statement of Operations:					
Net sales	$ 859,643	$ 969,079	$ 1,083,862	$ 1,283,265	$ 1,504,474
Cost of goods sold	653,998	722,825	828,447	1,006,467	1,193,266
Gross profit	205,645	246,254	255,415	276,798	311,208
Operating expenses	150,691	171,294	179,015	199,900	221,102
Litigation settlement income					(3,753)
Charges relating to restructuring, bonuses and uncompleted acquisitions		21,147		8,553	
Operating earnings	54,954	53,813	76,400	68,345	93,859
Interest expense	20,511	20,343	23,275	24,900	27,733
Charges relating to a settlement agreement, write-off of deferred financing costs and a prepayment penalty		30,974	6,022		
Other (income), expense net	(764)	(5,297)	(2,639)	(1,358)	3,024
Earnings before income taxes	35,207	7,793	49,742	44,803	63,102
Income tax expense	12,355	2,957	17,359	14,077	17,892
Net earnings	$ 22,852	$ 4,836	$ 32,383	$ 30,726	$ 45,210
Series A convertible preferred stock dividends	24,057	24,689	8,155		
Net (loss) earnings available to common stockholders	$ (1,205)	$ (19,853)	$ 24,228	$ 30,726	$ 45,210
Net (loss) earnings per share					
Basic	$ (0.11)	$ (1.80)	$ 0.67	$ 0.66	$ 0.97
Diluted	(0.11)	(1.80)	0.65	0.66	0.95
Weighted average shares outstanding					
Basic	11,014,421	11,014,421	36,416,358	46,226,582	46,539,638
Diluted	11,014,421	11,014,421	37,046,697	46,788,363	47,546,240

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	Fiscal Year Ended March 31,				
	2003	2004	2005 (In thousands)	2006	2007
Consolidated cash flow data:					
Net cash provided by operating activities	$ 55,438	$ 39,192	$ 29,353	$ 42,872	$ 72,424
Net cash used in investing activities	(12,923)	(26,981)	(28,991)	(76,876)	(49,052)
Net cash (used in) provided by financing activities	(8,209)	(39,989)	3,213	27,905	(1,323)
Other operating data:					
Capital expenditures	$ 23,623	$ 28,580	$ 31,828	$ 39,665	$ 42,355

	As of March 31,				
	2003	2004	2005 (In thousands)	2006	2007
Balance Sheet Data:					
Cash and cash equivalents	$ 44,296	$ 17,207	$ 21,341	$ 15,217	$ 37,785
Working capital	135,356	135,320	182,177	211,434	276,252
Total assets	1,075,808	1,153,943	1,194,761	1,263,948	1,409,013
Total debt, including capital leases	252,162	511,303	375,457	402,490	402,311
Total stockholders equity	$ 465,747	$ 239,302	$ 437,650	$ 445,188	$ 542,099

ITEM 7. ***MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS***

The following discussion and analysis of our results of operations and financial condition for the fiscal years ended March 31, 2005, 2006, and 2007, should be read in conjunction with Selected Consolidated Financial Data and our audited consolidated financial statements and the notes to those statements. Our discussion contains forward-looking statements based upon current expectations that involve risks and uncertainties, such as our plans, objectives, opinions, expectations, anticipations and intentions and beliefs. Actual results and the timing of events could differ materially from those anticipated in those forward-looking statements as a result of a number of factors. See Cautionary Note Regarding Forward-Looking Statements and Business sections elsewhere in this Report on Form 10-K. 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 Annual Report on Form 10-K. EnerSys management uses the non-GAAP measures, EBITDA and Adjusted EBITDA, in their computation of compliance with loan covenants. These measures, as used by EnerSys, adjust net earnings determined in accordance with GAAP for interest, taxes, depreciation and amortization, and certain charges or credits as permitted by our credit agreements, that were recorded during the periods presented. EnerSys management uses the non-GAAP measures, Primary Working Capital and primary working capital percentage (see definition in Liquidity and Capital Resources below) along with capital expenditures, in their evaluation of business segment cash flow and financial position performance. These disclosures should not be viewed as a substitute for net earnings determined in accordance with GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies.

Overview

We are 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 in more than 100 countries to over 10,000 customers through a network of distributors, independent representatives and an internal sales force.

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We have two business segments: reserve power and motive power. Revenue and expense classifications by segment 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, for premium starting, lighting and ignition applications, switchgear and electrical control systems used in electric utilities and energy pipelines, and commercial and military aircraft, submarines and tactical military vehicles.

- **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, rail car lighting and rail signaling equipment.

We evaluate business segment performance based primarily upon operating earnings, exclusive of highlighted items. All corporate and centrally incurred regional costs are allocated to the business segments based principally on net sales. We evaluate business segment cash flow and financial position performance based primarily upon capital expenditures and primary working capital levels. Primary working capital for this purpose is trade accounts receivable, plus inventories, minus trade accounts payable and the resulting net amount is divided by the trailing three month net sales (annualized) for the respective business segment or reporting location, to derive a primary working capital percentage. Although we monitor the three elements of primary working capital (receivables, inventory and payables), our primary focus is on the total amount and percentage due to the significant impact it has on cash flow and, as a result, our level of debt.

We operate and manage our business in three primary geographic regions of the world the Americas, Europe and Asia. Our business is highly decentralized with manufacturing locations throughout the world. Nearly 60% of our net sales for fiscal 2005, 2006 and 2007 were generated outside of North America. More than half of our manufacturing capacity is located outside of the U.S. Our management structure and financial reporting systems, and associated internal controls and procedures, are all consistent with our two business segments and three geographic regions in which we operate. We report on a March 31 fiscal year.

Our financial results are largely driven by the following factors:

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

- changes in our market share in the business segments and regions where we operate;

- changes in our selling prices and, in periods when our product costs increase, our ability to raise our selling prices to pass such cost increases through to our customers;

- the extent to which we are able to efficiently utilize our global manufacturing facilities and optimize their capacity;

- the extent to which we can control our fixed and variable costs, including those for our raw materials, manufacturing and distribution, operating activities;

- changes in our levels 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.

Over the last three fiscal years, the costs of our raw materials (of which lead is our primary material) have risen significantly. We estimate that our average cost of lead per pound (excluding premiums), as it affects our operating results, has risen from approximately $0.23 in fiscal 2004 to $0.56 in fiscal 2007. Our estimated incremental lead cost, due to increased price, in fiscal 2007 over fiscal 2006 was approximately $71 million. We expect lead prices to rise further in fiscal 2008.

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We have been subjected to continual and significant pricing pressures over the past several years. We anticipate continuing competitive pricing pressure as Chinese and other foreign producers, able to employ labor at significantly lower costs than producers in the U.S. and Western Europe, expand their export capacity and increase their marketing presence in our major U.S. and European markets.

Our selling price increases approximated 2% of net sales for both fiscal 2005 and fiscal 2006 and increased net sales by approximately 5% in fiscal 2007. We announced additional price increases from time to time during the course of fiscal 2007, however, these pricing actions will not be fully realized in our operating results until fiscal 2008.

Our ability to maintain and improve our operating margins has depended, and continues to depend, on our ability to control our costs and obtain appropriate pricing. Our business strategy in this environment of high commodity costs is to improve profitability by cost savings and pricing actions, as well as to tightly control operating cash flow and capital spending.

See Market and Economic Conditions below for a further discussion of commodity costs and our ability to offset some of the impact of these rising costs through selling price increases.

Our Corporate History

There have been several key stages in the development of our business, which explain to a significant degree our results of operations over the past three years.

We were formed in late 2000 by Morgan Stanley Capital Partners (currently Metalmark Capital), and the management of Yuasa, Inc. to acquire the industrial battery business of Yuasa Corporation (Japan) in North and South America. Our results of operations for the past five fiscal years have been significantly affected by our acquisition of ESG on March 22, 2002, which more than doubled our size; and to a lesser extent, by the Company s acquisitions of the motive power battery business of FIAMM, S.p.A. (FIAMM) on June 1, 2005, and several smaller acquisitions.

Our successful integration of ESG provided global scale in both the reserve and motive power markets. The ESG acquisition also provided us with a further opportunity to reduce costs and improve operating efficiency that, among other initiatives, led to closing underutilized manufacturing plants, distribution facilities, sales offices and eliminating other redundant costs, including staff. FIAMM complements our existing European motive power business and also provided us with opportunities to reduce costs and improve operating efficiency.

The Company s other recent acquisitions include Gerate- und Akkumulatorwerk Zwickau GmbH (GAZ) on October 11, 2005, Alliant Techsystems lithium primary battery business (EAS) on May 18, 2006, the manufacturing facilities of Chaozhou Xuntong Power Source Company Limited (CFT), located in Chaoan, China on August 22, 2006, the lead-acid battery business of Leclanché SA based in Yverdon-les-Bains, Switzerland on January 1, 2007, and on May 18, 2007, the Company acquired a 97% interest in Energia AD, a producer of industrial batteries, located in Targovishte, Bulgaria.

Our results of operations include ESG for all fiscal years presented. Our results of operations for fiscal 2006 and 2007 include FIAMM, GAZ, EAS, CFT and Leclanché from their respective acquisition dates.

In August 2004, EnerSys completed an initial public offering (the IPO) and the Company s common stock commenced trading on the New York Stock Exchange on July 30, 2004, under the trading symbol ENS.

Our historical consolidated financial statements for fiscal 2003 and 2004 show our result of operations as a private company. In fiscal 2005, 2006 and 2007, the cost of complying with our public company reporting obligations (primarily costs associated with Sarbanes-Oxley Section 404 compliance) was approximately $3 million,

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$10 million and $8 million, respectively. The significant increase in fiscal 2006 costs was due primarily to our initial year of compliance with the requirements of Sarbanes-Oxley Section 404.

Critical Accounting Policies and Estimates

The Company s significant accounting policies are described in the notes to the Consolidated Financial Statements in this Form 10-K.

In preparing our financial statements, management is required to make estimates and assumptions that, among other things, affect the reported amounts of assets, liabilities, sales and expense. These estimates and assumptions are most significant where they involve levels of subjectivity and judgment necessary to account for highly uncertain matters or matters susceptible to change, and where they can have a material impact on our financial condition and operating performance. We discuss below the more significant estimates and related assumptions used in the preparation of our consolidated financial statements. If actual results were to differ materially from the estimates made, the reported results could be materially affected.

Asset Impairment Determinations

As a result of the adoption of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, goodwill is no longer amortized. The Company tests for the impairment of its goodwill and trade names at least annually and whenever events or circumstances occur indicating that a possible impairment has been incurred. The Company utilizes financial projections of its reporting segments, certain cash flow measures, as well as its market capitalization in its determination of the fair value of these assets.

With respect to our other long-lived assets other than goodwill and indefinite lived intangible assets, we are required to test for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable. We apply Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, in order to determine whether or not an asset was impaired. This standard requires an impairment analysis when indicators of impairment are present. If such indicators are present, the standard indicates that if the sum of the future expected cash flows from the asset, undiscounted and without interest charges, is less than the carrying value, an asset impairment must be recognized in the financial statements. The amount of the impairment is the difference between the fair value of the asset and the carrying value of the asset.

In making future cash flow analyses of goodwill and other long-lived assets, the Company makes assumptions relating to the following:

- The intended use of assets and the expected future cash flows resulting directly from such use;
- Industry specific economic conditions;
- Competitor activities and regulatory initiatives; and
- Client and customer preferences and patterns.

We believe that an accounting estimate relating to asset impairment is a critical accounting estimate because the assumptions underlying future cash flow estimates are subject to change from time to time and the recognition of an impairment could have a significant impact on our financial statements.

Litigation and Claims

From time to time the Company has been or may be a party to various legal actions and investigations including, among others, employment matters, compliance with government regulations, federal and state employment laws, including wage and hour laws, contractual disputes and other matters, including matters

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arising in the ordinary course of business. These claims may be brought by, among others, the government, clients, customers and employees. Management considers the measurement of litigation reserves as a critical accounting estimate because of the significant uncertainty in some cases relating to the outcome of potential claims or litigation and the difficulty of predicting the likelihood and range of potential liability involved, coupled with the material impact on our results of operations that could result from litigation or other claims. In determining legal reserves, management considers, among other issues:

- Interpretation of contractual rights and obligations;
- The status of government regulatory initiatives, interpretations and investigations;
- The status of settlement negotiations;
- Prior experience with similar types of claims;
- Whether there is available insurance; and
- Advice of counsel.

Environmental Loss Contingencies

Accruals for environmental loss contingencies (i.e., environmental reserves) are recorded when it is probable that a liability has been incurred and the amount can reasonably be estimated. Management views the measurement of environmental reserves as a critical accounting estimate because of the considerable uncertainty surrounding estimation, including the need to forecast well into the future. We are involved in legal proceedings under state, federal and local environmental laws in connection with our operations and companies that we have acquired. The estimation of environmental reserves is based on the evaluation of currently available information, prior experience in the remediation of contaminated sites and assumptions with respect to government regulations and enforcement activity, changes in remediation technology and practices, and financial obligations and credit worthiness of other responsible parties and insurers.

Warranty

We record a warranty reserve for possible claims against our product warranties, which generally run for a period of one- to twenty-years for our reserve power batteries and for a period of one-year to seven-years for our motive power batteries. The assessment of the adequacy of the reserve includes a review of open claims and historical experience.

Management believes that the accounting estimate related to the warranty reserve is a critical accounting estimate because the underlying assumptions used for the reserve can change from time to time and warranty claims could potentially have a material impact on our results of operations.

Allowance for Doubtful Accounts

We encounter risks associated with sales and the collection of the associated accounts receivable. We record a provision for accounts receivable that are considered to be uncollectible. In order to calculate the appropriate provision, management analyzes the creditworthiness of specific customers and the aging of customer balances. Management also considers general and specific industry economic conditions, industry concentration and contractual rights and obligations.

Management believes that the accounting estimate related to the allowance for doubtful accounts is a critical accounting estimate because the underlying assumptions used for the allowance can change from time to time and uncollectible accounts could potentially have a material impact on our results of operations.

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Inventory Obsolescence

We record an inventory obsolescence reserve for obsolete, excess and slow-moving inventory. In calculating our inventory obsolescence reserve, management analyzes historical data regarding customer demand within specific product categories and makes assumptions regarding economic conditions within customer specific industries, as well as style and product changes. Management believes that its accounting estimate related to inventory obsolescence is a critical accounting estimate because customer demand in certain of our businesses can be variable and changes in our reserve for inventory obsolescence could have a material affect on our results of operations.

Critical accounting estimates and assumptions related to our inventory obsolescence reserve are evaluated periodically as conditions warrant, and changes to such estimates are recorded as new information or changed conditions require revision.

Pension Plans

We use certain assumptions in the calculation of the actuarial valuation of our defined benefit plans. These assumptions include the weighted average discount rate, rates of increase in compensation levels and expected long-term rates of return of assets. If actual results are less favorable than those projected by us, additional expense may be required.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB No. 87, 88, 106, and 132(R)* (SFAS 158). SFAS 158 requires an entity to recognize in its statement of financial position an asset for a defined benefit postretirement plan s overfunded status or a liability for a plan s underfunded status, measure a defined benefit postretirement plan s assets and obligation that determine its funded status as of the end of the employer s fiscal year, and recognize changes in the funded status of a defined benefit postretirement plan in comprehensive income in the year in which the change occurs. The requirement to recognize the funded status of a defined benefit postretirement plan became effective March 31, 2007, and we adopted the recognition requirements as of March 31, 2007.

In connection with the fiscal 2007 adoption of SFAS 158*,* the Company recorded an additional pension liability of $2.8 million for the remaining underfunded status of our benefit plans at March 31, 2007, with an offsetting amount recorded in accumulated other comprehensive income, net of taxes.

Critical accounting estimates and assumptions related to the actuarial valuation of our defined benefit plans are evaluated periodically as conditions warrant and changes to such estimates are recorded as new information or changed conditions require revision.

Income Taxes

We account for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes* (SFAS 109), which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between book and tax bases on recorded assets and liabilities. SFAS 109 also requires that deferred tax assets be reduced by a valuation allowance, if it is more likely than not that some portion or all of the deferred tax assets will not be recognized.

We evaluate on a quarterly basis the reliability of our deferred tax assets by assessing our valuation allowance and by adjusting the amount of such allowance, if necessary. The factors used to assess the likelihood of realization are our forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets.

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The Company accounts for income tax contingencies in accordance with the SFAS No. 5, *Accounting for Contingencies* (SFAS 5). The Company is subject to periodic audits of its income tax returns by federal, state and local agencies. In evaluating the exposures associated with our various tax filing positions, including state and local taxes, the Company records reserves for what is identified as probable exposures. A number of years may elapse before a particular matter for which a reserve has been established is audited and fully resolved. The estimate of the Company s tax contingencies reserve contains uncertainty because management must use judgment to estimate the exposures associated with various tax filing positions. To make these judgments, management makes determinations about the likelihood that the specific taxing authority may challenge the tax deductions that have been taken on the Company s tax return. Based on information about other tax settlements, the Company estimates amounts that may be settled with taxing authorities in order to conclude audits. To the extent the Company prevails in matters for which reserves have been established, or is required to pay amounts in excess of its reserves, its effective tax rate in a given financial statement period could be materially affected. An unfavorable tax settlement would require use of the Company s cash and result in an increase in the effective tax rate in the year of resolution. A favorable tax settlement would be recognized as a reduction in the Company s effective tax rate in the year of resolution.

Derivative Financial Instruments

The Company has entered into interest rate swap agreements and option agreements to manage risk on a portion of its long-term floating-rate debt. The Company has entered into lead forward purchase contracts to manage risk of the cost of lead. The Company has entered into foreign exchange forward contracts to manage risk on foreign currency exposures. The agreements are with major financial institutions, and the Company believes the risk of nonperformance by the counterparties is negligible. The counterparties to certain of these agreements are lenders under the Credit Agreement and liabilities related to these agreements are covered under the security provisions of the Credit Agreement. The Company does not hold or issue derivative financial instruments for trading or speculative purposes. SFAS 133, as amended, establishes accounting and reporting standards for derivative instruments and hedging activities. The Company recognizes all derivatives as either assets or liabilities in the accompanying balance sheet and measures those instruments at fair value. Changes in the fair value of those instruments are reported in accumulated other comprehensive income if they qualify for hedge accounting or in earnings if they do not qualify for hedge accounting. Derivatives qualify for hedge accounting if they are designated as hedge instruments and if the hedge is highly effective in achieving offsetting changes in the fair value or cash flow of the asset or liability hedged. Effectiveness is measured on a regular basis using statistical analysis and by comparing the overall changes in the expected cash flows on the lead and foreign currency forward contracts with the changes in the expected all-in cash outflow required for the lead and foreign currency purchases. This analysis is performed on the initial purchases each month that cover the quantities hedged. Accordingly, gains and losses from changes in derivative fair value are deferred until the underlying transaction occurs. Interest expense on the debt is adjusted to include the payments made or received under such interest rate swap agreements. Inventory and cost of goods sold is adjusted to include the payments made or received under such lead and foreign currency forward contracts. Any deferred gains or losses associated with derivative instruments, which on infrequent occasions may be terminated prior to maturity are recognized in earnings in the period in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, such instrument would be closed and the resulting gain or loss would be recognized in earnings.

Market and Economic Conditions

Our operating results are directly affected by the general cyclical pattern of the industries in which our major customer groups operate. Both our reserve power and motive power segments are heavily dependent on the end markets they serve, and our results of operations will vary depending on the capital expenditure environment in these markets. In addition, general economic conditions in the U.S. and international markets in which we and our customers operate also affect demand for our products. Sales of our motive power products, for example, depend significantly on demand for new electric industrial forklift trucks, which in turn depends on end-user demand for additional motive capacity in their distribution and manufacturing facilities. The overall economic conditions in the markets we serve can be expected to have a material effect on our results of operations.

In fiscal 2005, economic growth and the market for industrial batteries were up significantly in the Americas, very strong in Asia, and showed modest growth in Europe. In fiscal 2006 market and economic conditions remained strong in all regions, however we experienced significant cost pressure on our raw material costs, primarily lead. In fiscal 2007, market and economic conditions generally remained strong, however lead prices hit substantially higher levels. See Quarterly Information.

Over the last three fiscal years, the costs of our raw materials (of which lead is our primary material) have risen significantly. We estimate that our average pure lead based cost (excluding premiums) per pound, as it affects our operating results, has risen from $0.23 in fiscal 2004 to $0.36 in fiscal 2005, $0.41 in fiscal 2006 and $0.56 in fiscal 2007. Since the cost of purchased lead is not reflected in our cost of goods sold for two to three months after purchase, we compare our actual cost to London Metal Exchange (LME) prices that are in effect two to three months prior to the income statement period being shown. On this basis, average LME prices per period were $0.23, $0.40, $0.44 and $0.59 in fiscal 2004, 2005, 2006 and 2007, respectively, as they would have been reflected in our operating results. Our estimated incremental lead cost (due to increased price) was approximately $44 million in fiscal 2005 over fiscal 2004; approximately $23 million in fiscal 2006 over fiscal 2005; and approximately $71 million in fiscal 2007 over fiscal 2006.

The highest price for lead during fiscal 2005 was $0.479 per pound on December 31, 2004. The highest price for lead during fiscal 2006 was $0.657 per pound on February 2, 2006. The highest price for lead during fiscal 2007 was $0.907 per pound on February 26, 2007. In May 2007, lead reached an historical high of over $1.06 per pound on the London Metal Exchange.

We have implemented a series of selling price increases to offset some of the impact of these rising commodity costs. We believe we recovered approximately 55% of the cumulative increase in commodity costs since the beginning of fiscal 2005. These incremental selling price increases approximate 2% of net sales for both fiscal 2005 and 2006 and 5% of net sales for fiscal 2007.

Cost savings programs are and have been a continuous element of our business strategy and are directed primarily at further reductions in plant manufacturing (labor and overhead), raw materials costs and our operating expenses (primarily selling, general and administrative). Numerous individual cost savings opportunities are identified and evaluated by management with a formal selection and approval process that results in an ongoing list of cost savings projects to be implemented. In certain cases, projects are either modified or abandoned during their respective implementation phases. In order to realize cost savings benefits for a majority of these initiatives, costs are incurred either in the form of capital expenditures, funding the cash obligations of previously recorded restructuring expenses or current period expenses.

Components of Revenue and Expense

Net sales include the invoiced amount for all products sold and services provided; freight costs, when paid for by our customers; less all related allowances, rebates, discounts and sales, value-added or similar taxes.

Cost of goods sold includes the cost of material, labor and overhead; the cost of our service businesses; freight; warranty and other costs such as distribution centers; obsolete or slow moving inventory provisions; and certain types of insurance.

For fiscal 2005, 2006 and 2007, we estimate that materials costs comprised approximately one-half of cost of goods sold. The largest single raw material cost is lead, which comprised approximately 21% and 25% of cost of goods sold in fiscal 2006 and 2007, respectively.

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We employ significant amounts of lead, plastics, steel, copper and other materials in manufacturing our products. The costs of these raw materials, particularly lead, are volatile and beyond our control. Incremental lead costs were approximately $44 million in fiscal 2005, $23 million in fiscal 2006 and $71 million in fiscal 2007 as a result of price increases experienced during those years. Lead is our single largest raw material item and the price of lead has continued to increase rapidly. Lead, plastics, steel and copper in the aggregate represent our principal raw materials costs. Volatile raw materials costs can significantly affect our operating results and make period-to-period comparisons difficult. The costs of commodity raw materials such as lead, steel and copper have increased significantly in recent periods. We attempt to control our raw materials costs through strategic purchasing decisions. Where possible, we pass along some or all of our increased raw materials costs to our customers. The following table shows certain average commodity prices for fiscal 2005, 2006 and 2007, which have not been adjusted for the timing of the impact on our financial results:

	2005	2006	2007
Lead $/lb.(1)	$ 0.417	$ 0.473	$ 0.647
Steel $/lb.(2)	0.267	0.255	0.363
Copper $/lb.(1)	1.361	1.901	3.202

(1) Source: London Metal Exchange (LME)
(2) Source: Nucor Corporation

Labor and overhead are primarily attributable to our manufacturing facilities. Overhead includes plant operating costs such as utilities, repairs and maintenance, taxes, supplies and depreciation.

Operating expenses include all non-manufacturing selling, general and administrative, engineering and other expenses. These include salaries and wages, sales commissions, fringe benefits, professional fees, supplies, maintenance, general business taxes, rent, communications, travel and entertainment, depreciation, advertising and bad debt expenses.

Operating expenses in fiscal 2007 were incurred in the following functional areas of our business (as a percent of the total) and are substantially similar in both of our business segments.

	2006	2007
Selling	64%	63%
General and administrative	30	30
Engineering	6	7
Total	100%	100%

Restructuring and other charges and litigation settlement income

In comparing fiscal 2007 financial results to fiscal 2006, and fiscal 2006 financial results to fiscal 2005, management believes it is appropriate to highlight the $3.8 million of litigation settlement income, the $1.1 million of expenses for a shelf registration and secondary offering and an abandoned acquisition attempt, and a $2.0 million non-recurring tax benefit that were incurred in fiscal 2007; $8.6 million of operating restructuring and other charges incurred in fiscal 2006 and the $6.0 million of non-operating IPO-related charges that occurred in fiscal 2005.

Other income (expense), net includes non-operating foreign currency transaction gains (losses), license income and excise taxes. Due to our global manufacturing and distribution footprint, which means that most of our operating costs and revenues are incurred and paid in local currencies, we believe that we have a significant natural hedge against the impact on our business of exchange rate fluctuations.

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Results of Operations Fiscal 2007 Compared to Fiscal 2006

The following table presents summary consolidated statement of income data for fiscal year ended March 31, 2007, compared to fiscal year ended March 31, 2006:

	Fiscal 2006		Fiscal 2007		Increase (Decrease)	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Net sales	$ 1,283.3	100.0%	$ 1,504.5	100.0%	$ 221.2	17.2%
Cost of goods sold	1,006.5	78.4	1,193.3	79.3	186.8	18.6
Gross profit	276.8	21.6	311.2	20.7	34.4	12.4
Operating expenses	199.9	15.6	221.1	14.7	21.2	10.6
Restructuring and other charges	8.6	0.7			(8.6)	NA
Litigation settlement income			(3.8)	(0.2)	(3.8)	NA
Operating earnings	68.3	5.3	93.9	6.2	25.6	37.3
Interest expense	24.9	1.9	27.7	1.8	2.8	11.4
Other (income) expense, net	(1.4)	(0.1)	3.1	0.2	4.5	321.4
Earnings before income taxes	44.8	3.5	63.1	4.2	18.3	40.8
Income tax expense	14.1	1.1	17.9	1.2	3.8	27.3
Net earnings	$ 30.7	2.4%	$ 45.2	3.0%	$ 14.5	47.2%

Overview

Fiscal 2007 results include a net sales increase over fiscal 2006 of 17.2%, to $1.5 billion, with a gross profit increase of 12.4% to $311.2 million. Our gross profit margin decreased 90 basis points to 20.7% due primarily to the unfavorable effect of higher commodity costs, partially offset by increased sales volume, price increases to our customers and our cost savings initiatives. We estimate that the impact of higher lead costs alone, our primary raw material, unfavorably affected our cost of goods sold by approximately $71 million in fiscal 2007. We estimate that our price increases realized in fiscal 2007 increased our net sales by approximately 5%. Operating expenses in fiscal 2007 grew at a slower rate over fiscal 2006 of 10.6%, due partly to a decrease in public company costs (primarily costs associated with Sarbanes-Oxley Section 404 compliance) of approximately $2 million, cost savings actions and the favorable impact from higher net sales relative to the fixed elements of our operating expenses. We did not incur any restructuring expenses in fiscal 2007 as compared to $8.6 million in fiscal 2006, and in fiscal 2007 we received litigation settlement income of $3.8 million. Interest expense in fiscal 2007 increased over fiscal 2006 by approximately $2.8 million or 11.4%, due primarily to higher interest rates from our variable rate debt, as global interest rates have increased due to actions taken by central banks to raise borrowing costs. Other (income) expense, net in fiscal 2007 grew by approximately $4.5 million over fiscal 2006 due primarily to $1.1 million of expenses for a shelf registration and secondary offering and an abandoned acquisition attempt, and higher foreign currency transaction losses primarily on short-term intercompany loans. Additionally, we recorded a non-recurring tax benefit of approximately $2.0 million in fiscal 2007. These factors resulted in the net earnings increase of $14.5 million or 47.2% to $45.2 million.

In comparing fiscal 2007 financial results to fiscal 2006, management believes it is appropriate to highlight the $3.8 million of litigation settlement income, the $1.1 million of expenses for a shelf registration and secondary offering and an abandoned acquisition attempt and the $2.0 million in non-recurring tax benefit incurred in fiscal 2007, and the $8.6 million of operating restructuring and other charges incurred in fiscal 2006.

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Net sales by geographic region were as follows:

	Fiscal 2006		Fiscal 2007		Increase	
	In Millions	% Total Sales	In Millions	% Total Sales	In Millions	%
Europe	$ 675.4	52.6%	$ 784.6	52.2%	$ 109.2	16.2%
Americas	535.9	41.8	630.8	41.9	94.9	17.7
Asia	72.0	5.6	89.1	5.9	17.1	23.8
Total	$ 1,283.3	100.0%	$ 1,504.5	100.0%	$ 221.2	17.2%

All geographic regions experienced solid sales growth in fiscal 2007. The euro increased on average by approximately 6.6 % in fiscal 2007, having an impact of approximately $51.1 million on our Europe business fiscal 2007 net sales growth. We believe our global business continued to gain market share with particularly strong growth in the motive power segment. Asia s revenue growth is primarily attributed to continued general business expansion in that region. Further, Europe revenue benefited from the FIAMM and other smaller acquisitions, which increased their net sales by approximately $12.9 million in fiscal 2007. Asia revenues increased by approximately $17.1 million in fiscal 2007. After excluding the impact of the FIAMM and other smaller acquisitions and adjusting for the impact of the stronger currencies (primarily the euro) and price increases in fiscal 2007, consolidated net sales increased approximately 6.6% compared to the prior year.

Operating earnings by geographic region were as follows:

	Fiscal 2006		Fiscal 2007		Increase (Decrease)	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Europe	$ 35.7	5.3%	$ 36.0	4.6%	$ 0.3	0.8%
Americas	39.3	7.3	52.7	8.4	13.4	34.1
Asia	1.9	2.6	1.4	1.6	(0.5)	(26.3)
Subtotal	76.9	6.0	90.1	6.0	13.2	17.2
Restructuring and other charges	(8.6)	(0.7)			8.6	NA
Litigation settlement income			3.8	0.3	3.8	NA
Total	$ 68.3	5.3%	$ 93.9	6.2%	$ 25.6	37.3%

Europe s operating earnings were flat in fiscal 2007 compared to fiscal 2006 as increased sales were offset by higher commodity costs.

Americas operating earnings increased 34.1% as net sales grew by approximately 17.7%. The Americas operating earnings were favorably affected by sales price increases, improved plant utilization and cost savings programs which offset higher commodity costs.

Asia s operating earnings were negatively affected by higher commodity costs in fiscal 2007 with a modest increase in sales prices realized as competitive conditions remain challenging in this region.

A discussion of specific fiscal 2007 versus fiscal 2006 operating results follows, including an analysis and discussion of the results of our two business segments.

Net Sales

	Fiscal 2006	Fiscal 2007	Increase	
				%

	In Millions	% Total Sales	In Millions	% Total Sales	In Millions	
Reserve power	$ 571.1	44.5%	$ 642.6	42.7%	$ 71.5	12.5%
Motive power	712.2	55.5	861.9	57.3%	149.7	21.0
Total	$ 1,283.3	100.0%	$ 1,504.5	100.0%	$ 221.2	17.2%

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Net sales increased $221.2 million or 17.2% in fiscal 2007 over fiscal 2006. This growth resulted primarily from four main factors: currency fluctuations, acquisitions, pricing and organic growth. All regions benefited from strong economic conditions and, we believe, an increase in market shares.

Stronger currencies, primarily the euro compared to the U.S. dollar, resulted in an increase of $55.0 million or 4.3% in fiscal 2007 net sales. The euro exchange rate to the U.S. dollar averaged $1.29($/) in fiscal 2007 compared to $1.21 ($/) in fiscal 2006. Excluding the effect of foreign currency fluctuations, net sales in the Americas region increased 17.5%, Asia increased 20.0% and Europe increased 8.6% in fiscal 2007 compared to fiscal 2006.

Acquisitions of FIAMM in June 2005, GAZ in October 2005, EAS in May 2006 and Leclanché in January 2007, contributed $19.5 million of worldwide incremental net sales in fiscal 2007 as compared to fiscal 2006.

We have implemented a series of selling price increases to offset some of the increased costs associated with lead and other key materials used in the manufacturing of our products. As described previously, competitive conditions remain challenging in our industry, with only a partial recovery of higher commodity costs experienced in fiscal 2006 and 2007 from sales price increases. We estimate realized selling price increases of approximately 2% in fiscal 2006 and 5% in fiscal 2007, which represents roughly 50% of the commodity cost increases experienced in fiscal 2006 and roughly 66% of the commodity cost increases in fiscal 2007. We remain highly focused on maximizing our pricing actions; however, there is a time lag in realizing the full impact from our most recently announced price increases (November 2006, January 2007 and April 2007) in our operating results, caused primarily by the impact of our order backlog. Price increases resulted in an increase in net sales by approximately $61 million or approximately 5% in fiscal 2007 over fiscal 2006. Strong efforts were made to pass through sales price increases in all regions. In general, more selling price realization has occurred in our motive power business in comparison to our reserve power business during fiscal 2006 and 2007. Organic growth (increased net sales excluding the impact of currency, pricing and sales resulting from acquisitions), which had the largest impact on sales growth, contributed approximately $85 million or 6.6% to net sales in fiscal 2007 over fiscal 2006. We believe our organic growth resulted from a combination of our increased market share and overall market growth.

Fiscal 2007 net sales growth, excluding the effect of foreign currency translation, in reserve power and motive power was approximately 8.5% and 16.5%, respectively, compared to fiscal 2006.

Excluding the effect of foreign currency translation, the reserve power segment achieved solid growth in fiscal 2007 sales as compared to fiscal 2006 sales, due primarily to improving sales trends for both telecom and UPS battery markets and the strong sales of aerospace and defense batteries, coupled with the impact of $10.5 million of increased sales from recent acquisitions.

The strong growth experienced in our motive power segment in the prior year continued into fiscal 2007 and benefited from $9.0 million of increased sales from the FIAMM acquisition.

See Note 2 of the notes to the Consolidated Financial Statements in this Form 10-K for descriptions of the FIAMM, GAZ, Leclanche and EAS acquisitions.

Gross Profit

	Fiscal 2006		**Fiscal 2007**		**Increase**	
	In Millions	**As % Net Sales**	**In Millions**	**As % Net Sales**	**In Millions**	**%**
Gross profit	$ 276.8	21.6%	$ 311.2	20.7%	$ 34.4	12.4%

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Gross profit increased $34.4 million or 12.4% in fiscal 2007 compared to fiscal 2006. Gross profit, excluding the effect of foreign currency translation, increased $25.9 million or 9.4% in fiscal 2007 compared to fiscal 2006. Gross profit margin declined 90 basis points in fiscal 2007 compared to fiscal 2006. The primary cause of the decline in gross profit margin is attributed to higher commodity and energy costs. Pricing recovery to offset higher commodity costs increased net sales by approximately 5% in fiscal 2007 and continues to be challenging. Lead represents our principal raw material and approximated 25% of total cost of goods sold for fiscal 2007. Lead costs continue to increase dramatically and, on an LME basis as it affects our income statement, approximated $0.56/lb in fiscal 2007 compared to approximately $0.41/lb in the prior year. We continue to focus on cost savings initiatives to help mitigate the rising cost of commodities. Additionally, we continue to focus on a wide variety of sales initiatives which benefit our margins by improving product mix to higher margin products. Lastly, as previously discussed, we have implemented multiple sales price increases throughout the year to offset commodity cost increases.

Operating Expenses

	Fiscal 2006		Fiscal 2007		Increase	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Operating expenses	$ 199.9	15.6%	$ 221.1	14.7%	$ 21.2	10.6%

Operating expenses represented 14.7 % of net sales in fiscal 2007 as compared to 15.6 % in fiscal 2006. Operating expenses increased $21.2 million or 10.6% in fiscal 2007 over fiscal 2006 as net sales increased 17.2%. Excluding the effect of foreign currency translation, operating expenses increased 6.1% in fiscal 2007 over fiscal 2006, while net sales increased 13.0% in fiscal 2007 over fiscal 2006. These increases also reflect the additional operating expenses and sales of the acquired FIAMM, GAZ, EAS and Leclanche businesses. Selling expenses were 62.8% of operating expenses in fiscal 2007, compared to 64.2% in fiscal 2006. We continued to further reduce our costs in this area through cost savings initiatives and the reduction in expenses associated with being a public company. Such public company costs were reduced from approximately $10 million in fiscal 2006 to $8 million in fiscal 2007.

Restructuring and Other Charges Operating

	Fiscal 2006		Fiscal 2007		Increase (Decrease)	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Restructuring and other charges	$ 8.6	0.7%	$	%	$ (8.6)	NA

Included in our prior fiscal year s operating results are $8.6 million of highlighted restructuring and other charges that were incurred to cover estimated costs, primarily in Europe, of staff reductions, exiting and moving product lines, and closing several ancillary locations, and a non-cash write-off of machinery and equipment based on impairment testing. These were primarily driven by the FIAMM and GAZ acquisitions. No restructuring charges were recorded in fiscal 2007.

Litigation Settlement Income Operating

	Fiscal 2006		Fiscal 2007		Increase (Decrease)	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Litigation settlement income	$	%	$ (3.8)	(0.3)%	$ (3.8)	NA

Included in our fiscal 2007 operating results is litigation settlement income of $3.8 million, net of fees and expenses, from the settlement of two separate legal matters associated with our Americas business. The amounts

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of the settlements have been recorded as increases in operating earnings in fiscal 2007, as the costs related to these matters were previously recorded as an element of operating earnings.

Operating Earnings

	Fiscal 2006		Fiscal 2007		Increase (Decrease)	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Reserve power	$ 34.5	6.0%	$ 31.3	4.9%	$ (3.2)	(9.7)%
Motive power	42.4	6.0	58.8	6.8	16.4	39.3
Subtotal	76.9	6.0	90.1	6.0	13.2	17.2
Restructuring and other charges	(8.6)	(0.7)			8.6	NA
Litigation settlement income			3.8	0.2	3.8	NA
Total	$ 68.3	5.3%	$ 93.9	6.2%	$ 25.6	37.3%

Fiscal 2007 operating earnings of $93.9 million were $25.6 million higher than in fiscal 2006 with our operating margins increasing 90 basis points to 6.2%. Excluding the effect of the highlighted charges in fiscal 2006 and the highlighted litigation income in fiscal 2007, operating earnings increased $13.2 million or 17.2%. Our reserve power segment, excluding the effect of the highlighted charges, decreased 9.7%, and our margin declined 120 basis points. Our motive power segment, excluding the effect of the highlighted charges, increased 39.3% and our margin increased 90 basis points. As discussed above, our operating earnings were favorably affected by sales volume, price increases (particularly in the motive power segment) and our continuing cost savings programs, partially offset by higher commodity costs.

Interest Expense

	Fiscal 2006		Fiscal 2007		Increase	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Interest expense	$ 24.9	1.9%	$ 27.7	1.8%	$ 2.8	11.4%

Fiscal 2007 interest expense of $27.7 million (net of interest income of $1.1 million) increased 11.4% over fiscal 2006. Our average debt outstanding in fiscal 2007 was approximately $417 million, the same as our average debt in fiscal 2006. Our average interest rate on borrowings incurred in fiscal 2007 was 6.6%, an increase of 90 basis points from 5.7% in fiscal 2006. Included in fiscal 2007 interest expense are non-cash charges of $1.4 million for deferred financing fees, unchanged from fiscal 2006. The increase in interest expense is due primarily to higher interest rates on our variable rate debt in fiscal 2007 attributable to actions taken by central banks to increase rates.

Other (Income) Expense, Net

	Fiscal 2006		Fiscal 2007		Increase	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Other (income) expense, net	$ (1.4)	(0.1)%	$ 3.1	0.2%	$ 4.5	321.4%

Fiscal 2007 other expense, net, which was $3.1 million, consists primarily of $1.6 million in foreign currency transaction losses and $1.1 million in fees related to a secondary stock offering and an abandoned acquisition attempt. This compares to fiscal 2006 other income of $1.4 million, which consisted primarily of $1.3 million in foreign currency transaction gains. Both years foreign currency transaction gains and losses were primarily associated with short-term intercompany loan balances.

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Earnings Before Income Taxes

	Fiscal 2006		Fiscal 2007		Increase	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Earnings before income taxes	$ 44.8	3.5%	$ 63.1	4.2%	$ 18.3	40.8%

As a result of the factors discussed earlier, fiscal 2007 earnings before income taxes were $63.1 million, an increase of $18.3 million or 40.8% compared to fiscal 2006. Excluding the $3.8 million of litigation settlement income and $1.1 million secondary offering expenses and loss on an abandoned acquisition in fiscal 2007, and the $8.6 million in restructuring and other charges in fiscal 2006, fiscal 2007 earnings before income taxes increased $7.0 million to $60.4 million or 13.1%.

Income Tax Expense

	Fiscal 2006		Fiscal 2007		Increase	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Income tax expense	$ 14.1	1.1%	$ 17.9	1.2%	$ 3.8	27.3%
Effective tax rate	31.4%		28.4%			

The effective income tax rate was 28.4 % in fiscal 2007, compared to 31.4% in fiscal 2006. The fiscal 2007 tax expense includes a non-recurring tax benefit of approximately $2.0 million recorded in the third fiscal quarter of 2007, attributable to the favorable resolution of a prior year tax matter related to our European business, which reduced our book effective tax rate by 3.2 percentage points. Additionally, in fiscal 2007, changes in the mix of earnings among our various legal entities in multiple foreign jurisdictions had an approximate one percentage point decrease on our effective tax rate. A non-recurring $0.5 million tax benefit was recorded in the third fiscal quarter of 2006.

Net Earnings

	Fiscal 2006		Fiscal 2007		Increase	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Net earnings	$ 30.7	2.4%	$ 45.2	3.0%	$ 14.5	47.2%

As a result of the factors discussed earlier, fiscal 2007 net earnings were $45.2 million compared to fiscal 2006 earnings of $30.7 million. The $14.5 million increase is due primarily to a $34.4 million increase in fiscal 2007 gross profit, $3.8 million (pre-tax) of litigation settlement income in fiscal 2007 and the $8.6 million of restructuring charges fiscal 2006, partially offset by a $21.2 million increase in operating expenses, a $2.8 million increase in interest expense, a $4.5 million increase in other expense and a $3.8 million increase in income taxes. Also contributing to the improvement was the non-recurring tax benefit of approximately $2.0 million recorded in fiscal 2007.

Fiscal 2007 net earnings increased $14.5 million or 47.2% compared to fiscal 2006. Excluding the highlighted items for fiscal 2006 and 2007 discussed above in earnings before taxes, and the $2.0 million non-recurring fiscal 2007 tax benefit, fiscal 2007 net earnings increased $4.8 million to $41.4 million or 13.1%.

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Results of Operations Fiscal 2006 Compared to Fiscal 2005

The following table presents consolidated fiscal year ended March 31, 2006, compared to fiscal year ended March 31, 2005, statement of income highlights:

	Fiscal 2005		Fiscal 2006		Increase (Decrease)	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Net sales	$ 1,083.9	100.0%	$ 1,283.3	100.0%	$ 199.4	18.4%
Cost of goods sold	828.5	76.4	1,006.5	78.4	178.0	21.5
Gross profit	255.4	23.6	276.8	21.6	21.4	8.4
Operating expenses	179.0	16.56	199.9	15.6	20.9	11.7
Restructuring and other charges			8.6	0.7	8.6	NA
Operating earnings	76.4	7.0	68.3	5.3	(8.1)	(10.6)
Interest expense	23.3	2.1	24.9	1.9	1.6	7.0
Charges relating to a write-off of deferred financing costs and a prepayment penalty	6.0	0.6			(6.0)	NA
Other income, net	(2.6)	(0.2)	(1.4)	(0.1)	(1.2)	(46.2)
Earnings before income taxes	49.7	4.6	44.8	3.5	(4.9)	(9.9)
Income tax expense	17.3	1.6	14.1	1.1	(3.2)	(18.5)
Net earnings	$ 32.4	3.0%	$ 30.7	2.4%	$ (1.7)	(5.2)%

Overview

Fiscal 2006 results include a net sales increase over fiscal 2005 of 18.4%, to $1.3 billion, with a gross profit increase of 21.4% to $276.8 million. Our gross profit margin decreased 200 basis points to 21.6% due primarily to the unfavorable effect of higher commodity and energy costs not being fully offset by selling price increases and our cost savings initiatives. Pricing recovery to offset higher commodity costs was approximately 2% of net sales and continues to be challenging. Incremental commodity costs in fiscal 2006 compared to the pricing of commodities in the comparable periods of fiscal 2005 were approximately $39 million.

Net sales by geographic region were as follows:

	Fiscal 2005		Fiscal 2006		Increase (Decrease)	
	In Millions	% Total Sales	In Millions	% Total Sales	In Millions	%
Europe	$ 568.8	52.5%	$ 675.4	52.6%	$ 106.6	18.7%
Americas	450.0	41.5	535.9	41.8	85.9	19.1
Asia	65.1	6.0	72.0	5.6	6.9	10.6
Total	$ 1,083.9	100.0%	$ 1,283.3	100.0%	$ 199.4	18.4%

All geographic regions experienced solid sales growth in fiscal 2006. The euro, which had strengthened throughout fiscal 2005, weakened by an average of 4% in fiscal 2006, having an unfavorable impact on our Europe business net sales of approximately $33 million or 6%. We believe the Americas business continued to gain market share with particularly strong growth in the motive power segment. Asia s revenue growth is primarily attributed to continued general business expansion in that region. Further, Europe revenue benefited from the FIAMM and GAZ acquisitions, which increased their net sales by approximately $64 million or 11% in fiscal 2006. After excluding the impact of the FIAMM and GAZ acquisitions and adjusting for the impact of the weaker currencies (primarily the euro) in fiscal 2006, consolidated net sales increased approximately 15% compared to the prior year.

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Operating expenses increased $20.9 million or 11.7% in fiscal 2006 over fiscal 2005. Excluding the effect of foreign currency translation, operating expenses increased 14.4%. The increase included approximately $7 million of increased expenses associated with being a public company, the additional operating expenses of the acquired FIAMM and GAZ businesses and the impact of increased sales volume.

Operating earnings by geographic region were as follows:

	Fiscal 2005		Fiscal 2006		Increase (Decrease)	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Europe	$ 32.1	5.6%	$ 35.7	5.3%	$ 3.6	11.2%
Americas	38.7	8.6	39.5	7.4	0.8	2.1
Asia	5.8	8.9	1.9	2.6	(3.9)	(67.2)
Other	(0.2)	N/A	(0.2)	N/A		
Subtotal	76.4	7.0	76.9	6.0	0.5	0.7
Restructuring and other charges			8.6	0.7	8.6	N/A
Total	$ 76.4	7.0%	$ 68.3	5.3%	$ (8.1)	(10.6)%

Adjusting for the unfavorable impact of weaker currencies (primarily the euro), Europe s operating earnings increased approximately 12% in fiscal 2006, which is less than the net sales growth of approximately 19%. This slower growth in operating earnings was primarily attributable to higher commodity and public company costs, partially offset by sales price increases and cost savings programs.

Americas operating earnings increased moderately as net sales grew by approximately 19%. The Americas operating earnings were also adversely affected by higher commodity and public company costs, which were partially offset by sales price increases and cost savings programs.

Asia s operating earnings were negatively affected by higher commodity costs in fiscal 2006 with virtually no increase in sales prices realized as competitive conditions remain particularly challenging in this region.

Interest expense in fiscal 2006 increased over fiscal 2005 by approximately $1.6 million or 7.0%, due primarily to higher interest rates from our variable rate debt which offset the effect of lower average debt.

In comparing fiscal 2006 financial results to fiscal 2005, management believes it is appropriate to highlight the $8.6 million of operating restructuring charges incurred in fiscal 2006 and the $6.0 million in non-operating IPO-related charges associated with the write-off of deferred financing costs and a debt prepayment penalty incurred in fiscal 2005.

Other income, net in fiscal 2006 of $1.4 million was 1.2 million lower than the approximately $2.6 million in fiscal 2005 due primarily to lower foreign currency translation gains.

Our fiscal 2006 effective tax rate was 31.4% as compared to the fiscal 2005 rate of 34.9%. This rate reduction is primarily due to a change in the mix of earnings among our various legal entities in multiple foreign jurisdictions, which resulted in a higher proportion of our consolidated earnings being in tax jurisdictions with tax rates lower than our previous global averages, and a non-recurring $0.5 million tax benefit recorded in the third quarter of fiscal 2006 which reduced the fiscal 2006 book effective rate by 110 basis points.

These factors resulted in the net earnings decrease of $1.7 million or 5.2% to $30.7 million.

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Operating Results

A discussion of specific fiscal 2006 versus fiscal 2005 operating results follows, including an analysis and discussion of the results of our two business segments.

Net Sales

	Fiscal 2005		Fiscal 2006		Increase	
	In Millions	% Total Sales	In Millions	% Total Sales	In Millions	%
Reserve power	$ 510.5	47.1%	$ 571.1	44.5%	$ 60.6	11.9%
Motive power	573.4	52.9	712.2	55.5%	138.8	24.2
Total	$ 1,083.9					