Meritage Homes CORP
Form 8-K
March 09, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of report (Date of earliest event reported) March 8, 2005

MERITAGE HOMES CORPORATION

(Exact Name of Registrant as Specified in Charter)

Maryland	**1-9977**	**86-0611231**
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

8501 E. Princess Drive, Suite 290, Scottsdale, Arizona	**85255**
(Address of Principal Executive Offices)	(Zip Code)

(480) 609-3330
(Registrant s telephone number, including area code)

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 8.01. **Other Events**

On February 23, 2005, we announced an offer to purchase for cash all of our outstanding 9 ¾% Senior Notes due 2011 (the Notes) and the solicitation of consents to eliminate most of the restrictive covenants in the indenture governing the Notes. On March 8, 2005, we received notice from the depositary that as of the consent expiration date, the holders of more than two-thirds of the aggregate principal amount of the outstanding Notes had validly tendered and not withdrawn their Notes and provided their consents to effect the proposed amendments to the indenture under which the Notes were issued. As a result, we have received the requisite consents and tenders for our Notes in order to effect all of the proposed amendments to the indenture and we plan to promptly execute and deliver a supplemental indenture to the indenture under which the Notes were issued.

A copy of the press release, including information concerning forward-looking statements and factors that may affect our future results, is attached hereto as Exhibit 99.1 and incorporated herein by this reference.

Item 9.01. **Financial Statements and Exhibits**

(c) Exhibits

99.1 Press Release dated March 9, 2005

SIGNATURES

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

Dated: March 9, 2005

MERITAGE HOMES CORPORATION

/s/	Larry W. Seay
By:	Larry W. Seay Chief Financial Officer, Vice President and Secretary

3

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

For the quarter ended January 1, 2017

Derivatives Designated as Cash Flow Hedges	**Pretax Gain (Loss) Recognized in AOCI on Derivative (Effective Portion)**	**Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)**	**Pretax Gain (Loss) Reclassified from AOCI into Income (Effective Portion)**
Lead forward contracts	$ (2,362)	Cost of goods sold	$ 1,524
Foreign currency forward contracts	595	Cost of goods sold	(93)
Total	$ (1,767)		$ 1,431

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Pretax Gain (Loss)
Foreign currency forward contracts	Other (income) expense, net	$ (25)
Total		$ (25)

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

For the quarter ended December 27, 2015

Derivatives Designated as Cash Flow Hedges	Pretax Gain (Loss) Recognized in AOCI on Derivative (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Pretax Gain (Loss) Reclassified from AOCI into Income (Effective Portion)
Lead forward contracts	$ 1,109	Cost of goods sold	$ (4,448)
Foreign currency forward contracts	525	Cost of goods sold	(296)
Total	$ 1,634		$ (4,744)

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Pretax Gain (Loss)
Foreign currency forward contracts	Other (income) expense, net	$ 175
Total		$ 175

11

Table of Contents

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

Derivatives Designated as Cash Flow Hedges	Pretax Gain (Loss) Recognized in AOCI on Derivative (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Pretax Gain (Loss) Reclassified from AOCI into Income (Effective Portion)
Lead forward contracts	$ 2,258	Cost of goods sold	$ 2,800
Foreign currency forward contracts	873	Cost of goods sold	(319)
Total	$ 3,131		$ 2,481

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Pretax Gain (Loss)
Foreign currency forward contracts	Other (income) expense, net	$ (202)
Total		$ (202)

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

Derivatives Designated as Cash Flow Hedges	Pretax Gain (Loss) Recognized in AOCI on Derivative (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Pretax Gain (Loss) Reclassified from AOCI into Income (Effective Portion)
Lead forward contracts	$ (4,006)	Cost of goods sold	$ (7,461)
Foreign currency forward contracts	(2,048)	Cost of goods sold	3,655
Total	$ (6,054)		$ (3,806)

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Pretax Gain (Loss)
Foreign currency forward contracts	Other (income) expense, net	$ (119)
Total		$ (119)

5. Income Taxes

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

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

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

12

Table of Contents

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

6. Warranty

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

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

7. Commitments, Contingencies and Litigation

Litigation and Other Legal Matters

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

European Competition Investigations

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

Environmental Issues

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

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

13

Table of Contents

Lead Contracts

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

Foreign Currency Forward Contracts

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

8. Restructuring and Other Exit Charges

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

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

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

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

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

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

14

Table of Contents

Other Exit Charges

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

9. Debt

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

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

5.00% Senior Notes

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

2011 Credit Facility

The Company is party to a $500,000 senior secured revolving credit facility and a $150,000 senior secured incremental term loan (the "Term Loan") that matures on September 30, 2018, comprising the "2011 Credit Facility". The quarterly installments payable on the Term Loan were $1,875 beginning June 30, 2015 and $3,750 beginning June 30, 2016 with a final payment of $108,750 on September 30, 2018. The 2011 Credit Facility may be increased by an aggregate amount of $300,000 in revolving commitments and/or one or more new tranches of term loans, under certain conditions. Both revolving loans and the Term Loan under the 2011 Credit Facility bear interest, at the Company's option, at a rate per annum equal to either (i) the London Interbank Offered Rate ("LIBOR") plus between1.25% and 1.75% (currently 1.25% and based on the Company's consolidated net leverage ratio) or (ii) the Base Rate (which is the highest of (a) the Bank of America prime rate, and (b) the Federal Funds Effective Rate) plus between 0.25% and 0.75% (based on the Company's consolidated net leverage ratio). Obligations under the 2011 Credit Facility are secured by substantially all of the Company's existing and future acquired assets, including substantially all of the capital stock of the Company's United States subsidiaries that are guarantors under the credit facility and65% of the capital stock of certain of the Company's foreign subsidiaries that are owned by the Company's United States subsidiaries.

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

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

Short-Term Debt

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

Letters of Credit

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

Table of Contents

Debt Issuance Costs

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

Available Lines of Credit

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

10. Retirement Plans

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

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

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

11. Stock-Based Compensation

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

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

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

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

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

Table of Contents

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

12. Stockholders' Equity and Noncontrolling Interests

Common Stock

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

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

Treasury Stock

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

Accumulated Other Comprehensive Income ("AOCI")

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

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

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

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

Table of Contents

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

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

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

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

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

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

18

Table of Contents

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

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

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

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

13. Earnings Per Share

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

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

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

19

Table of Contents

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

14. Business Segments

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

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

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

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

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

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

15. Subsequent Events

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

20

Table of Contents

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

Forward-looking statements involve risks, uncertainties and assumptions. Although we do not make forward-looking statements unless we believe we have a reasonable basis for doing so, we cannot guarantee their accuracy. Actual results may differ materially from those expressed in these forward-looking statements due to a number of uncertainties and risks, including the risks described in the Company's2016 Annual Report on Form 10-K (the "2016 Annual Report") and other unforeseen risks. You should not put undue reliance on any forward-looking statements. These statements speak only as of the date of this Quarterly Report on Form 10-Q, even if subsequently made available by us on our website or otherwise, and we undertake no obligation to update or revise these statements to reflect events or circumstances occurring after the date of this Quarterly Report on Form 10-Q.

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

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

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

Table of Contents

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

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

Overview

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

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

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

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

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

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

Economic Climate

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

Volatility of Commodities and Foreign Currencies

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

Customer Pricing

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

Liquidity and Capital Resources

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

Table of Contents

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

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

Results of Operations

Net Sales

Segment sales

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

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

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

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

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

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

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

23

Table of Contents

Product line sales

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

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

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

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

Gross Profit

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

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

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

24

Table of Contents

Operating Items

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

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

NM = not meaningful

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

Restructuring and other exit charges

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

South Africa exit activities

During the nine months of fiscal 2017, the Company recorded exit charges of $3.3 million related to the South Africa joint venture, consisting of cash charges of $2.6 million primarily relating to severance and non-cash charges of $0.7 million. Included in the non-cash charges is a $2.1 million charge relating to the inventory adjustment which is reported in cost of goods sold, partially offset by a credit of $1.1 million relating to a change in estimate of contract losses and a $0.3 million gain on deconsolidation of the joint venture. Weakening of the general economic environment in South Africa, exacerbated by limited growth in the mining industry and competitive products flooding the market, affected the joint venture’s ability to compete effectively in the marketplace and consequently, the Company initiated an exit plan in consultation with its joint venture partner in the second quarter of fiscal 2017. The joint venture is currently under liquidation resulting in a loss of control and deconsolidation of the joint venture. The impact of the deconsolidation has been reflected in the Consolidated Condensed Statements of Income included in this Quarterly Report on Form 10-Q.

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

Table of Contents

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

Legal proceedings charge

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

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

Gain on sale of facility

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

Operating Earnings

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

Table of Contents

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

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

NM = not meaningful

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

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

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

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

27

Table of Contents

Interest Expense

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

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

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

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

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

Other (Income) Expense, Net

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

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

NM = not meaningful

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

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

Earnings Before Income Taxes

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

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

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

Income Tax Expense

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

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

Table of Contents

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

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

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

Critical Accounting Policies and Estimates

Except as discussed in the following paragraph, there have been no material changes to our critical accounting policies from those discussed under the caption “Critical Accounting Policies and Estimates” in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our2016 Annual Report.

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

Liquidity and Capital Resources

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

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

Primary working capital for this purpose is trade accounts receivable, plus inventories, minus trade accounts payable. The resulting net amount is divided by the trailing three month net sales (annualized) to derive a primary working capital percentage. Primary working capital was $611.6 million (yielding a primary working capital percentage of 27.1%) at January 1, 2017, $593.4 million (yielding a primary working capital percentage of 24.3%) at March 31, 2016 and $590.1 million at December 27, 2015 (yielding a primary working capital percentage of 25.7%). The primary working capital percentage of 27.1% at January 1, 2017 is 280 basis points higher than that for March 31, 2016, and is 140 basis points higher than that for the prior year period. Primary working capital percentage increased during the nine months of fiscal 2017 largely due to higher inventory levels. The reason for the increase in inventory is partially due to rising lead costs and is broad-based across the regions. We expect inventory turns to return to normal levels in our fourth quarter, which is usually our highest quarter for sales.

Table of Contents

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

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

($ in Millions)

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

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

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

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

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

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

All obligations under our 2011 Credit Facility are secured by, among other things, substantially all of our U.S. assets. The 2011 Credit Facility contains various covenants which, absent prepayment in full of the indebtedness and other obligations, or the receipt of waivers, limit our ability to conduct certain specified business transactions, buy or sell assets out of the ordinary course of business, engage in sale and leaseback transactions, pay dividends and take certain other actions. There are no prepayment penalties on loans under this credit facility.
We are in compliance with all covenants and conditions under our credit agreement. We believe that we will continue to comply with these covenants and conditions, and that we have the financial resources and the capital available to fund the foreseeable organic growth in our business and to remain active in pursuing further acquisition opportunities. See Note 8 to the Consolidated Financial Statements included in our 2016 Annual Report and Note 9 to the Consolidated Condensed Financial Statements included in this Quarterly Report on Form 10-Q for a detailed description of our debt.

Contractual Obligations and Commercial Commitments

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risks

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

Table of Contents

Counterparty Risks

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

Interest Rate Risks

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

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

Commodity Cost Risks – Lead Contracts

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

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

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

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

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

Foreign Currency Exchange Rate Risks

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

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

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

Table of Contents

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

(1) Based on the fiscal year currency requirements.

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

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

ITEM 4. CONTROLS AND PROCEDURES

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

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

Table of Contents

PART II OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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

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

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

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

Purchases of Equity Securities

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

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

Item 4. Mine Safety Disclosures

Not applicable.

Table of Contents

ITEM 6. EXHIBITS

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

Table of Contents

SIGNATURES

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

ENERSYS (Registrant)

By /s/ Michael J. Schmidtlein
Michael J. Schmidtlein
Chief Financial Officer

Date: February 8, 2017

Table of Contents

EnerSys
EXHIBIT INDEX

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32.1	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
101.INS	XBRL Instance Document - The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document