

FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC  
Form N-CSR  
January 27, 2012

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM N-CSR  
CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT  
COMPANIES**

**Investment Company Act file number 811-06179  
Flaherty & Crumrine Preferred Income Fund Incorporated**

(Exact name of registrant as specified in charter)

301 E. Colorado Boulevard, Suite 720

Pasadena, CA 91101

(Address of principal executive offices) (Zip code)

Donald F. Crumrine

Flaherty & Crumrine Incorporated

301 E. Colorado Boulevard, Suite 720

Pasadena, CA 91101

(Name and address of agent for service)

registrant's telephone number, including area code: 626-795-7300

Date of fiscal year end: November 30

Date of reporting period: November 30, 2011

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles. A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget (OMB) control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

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**Table of Contents****Item 1. Reports to Stockholders.**

The Report to Shareholders is attached herewith.

**FLAHERTY & CRUMRINE PREFERRED INCOME FUND**

To the Shareholders of Flaherty & Crumrine Preferred Income Fund:

We begin with some good news the Fund ended the fiscal year with a bit of extra income, so shareholders of record on December 22, 2011 received a special one-time distribution of \$0.047 per share. This was in addition to the regular monthly dividend of \$0.093 per share.

During the fourth fiscal quarter of 2011<sup>1</sup>, total return on net asset value<sup>2</sup> of the Fund was -2.2%; the return for the full fiscal year was +5.7%. Total return based on market price of Fund shares for the comparable periods was +2.4% and +24.0% respectively. The table below presents these and other performance measures of interest to investors.

**TOTAL RETURN ON NET ASSET VALUE  
FOR PERIODS ENDED NOVEMBER 30, 2011**

	Actual Returns			Average Annualized Returns			
	Three Months	Six Months	One Year	Three Years	Five Years	Ten Years	Life of Fund <sup>(1)</sup>
Flaherty & Crumrine Preferred Income Fund	-2.2%	-4.8%	5.7%	36.4%	2.7%	5.9%	9.4%
Barclays Capital U.S. Aggregate Index <sup>(2)</sup>	0.8%	3.5%	5.5%	7.7%	6.1%	5.6%	6.9%
S&P 500 Index <sup>(3)</sup>	2.9%	-6.3%	7.8%	14.1%	-0.2%	2.9%	8.6%

(1) Since inception on January 31, 1991.

(2) The Barclays Capital U.S. Aggregate Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. It is generally considered to be representative of the domestic, investment-grade, fixed-rate, taxable bond market. Unless otherwise noted, index returns reflect the reinvestment of dividends and capital gains, if any, but do not reflect fees, brokerage commissions or other expenses of investing. This index was formerly known as the Lehman Brothers U.S. Aggregate Index.

(3) The S&P 500 is a capitalization-weighted index of 500 common stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

*Current performance may be lower or higher than the quoted past performance, which cannot guarantee future results. In addition, NAV performance will vary from market price performance, and you may have a taxable gain or loss when you sell your shares.*

Financial markets have been highly volatile in recent months, driven largely by economic jitters in Europe and the United States. As reflected in the numbers above, the market for preferred securities has also been uneven. Despite these challenging conditions, the Fund is achieving its primary objective of high current income. The monthly dividend was raised twice during the fiscal year; as of November 30<sup>th</sup>, the distribution rate stood at 8.2% based on market price of Fund shares.

<sup>1</sup> September 1, 2011 – November 30, 2011

<sup>2</sup> Following the methodology required by the SEC, total return includes income and principal change, plus the impact of the Fund's leverage and expenses.

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When the economic narrative of 2011 is ultimately written, it seems certain the focus will be on politics in the United States and Europe, and the terms *circus* and *dysfunction* will be prominent. We've known sovereign debt burdens in Europe and the U.S. are not sustainable without major, politically-difficult reforms. The only question was when that day of reckoning would arrive.

In Europe, awareness of the sovereign debt crisis built slowly over the past two years, and political leaders dragged their feet during most of that time. They finally appear to have gotten serious and are quickening the pace of needed reforms, although much work remains to be done.

The U.S. is also on a risky long-term budgetary path, with political expediencies of Washington D.C. thus far taking precedence over addressing the problem. In addition, without the luxury of running large deficits, state and local governments have been dramatically cutting spending to manage their own fiscal challenges. Businesses and households, on the other hand, continue to reduce their debt burdens and are fundamentally (though not uniformly) healthy. We expect this dichotomy between an improving private sector and a deteriorating public sector to persist in 2012, which is likely to keep market volatility elevated and dampen near-term economic growth.

Prices on securities issued by European companies have been hit particularly hard. As of November 30<sup>th</sup>, 12% of the Fund's portfolio consisted of securities issued or guaranteed by banks and insurance companies based in Europe. As we've discussed previously, each of these companies has operations throughout the world, but is tied most closely to economic conditions in the Eurozone. We believe these issuers are well capitalized and well managed, and therefore better able to handle market turbulence, but continued weakness in the Eurozone will be a challenge. Several of these positions declined in value during the quarter, contributing to the drop in NAV.

In the U.S., stocks and bonds issued by financial institutions also have been under pressure. Slow economic growth and unresolved regulatory issues continue to have investors wary of the industry. In our view, expanded in the discussion section that follows, the *credit quality* of the industry is far better than at any time in the recent past. For the foreseeable future, we believe the best opportunities in the financial sector will be found in preferred securities.

Once again we use the occasion of our annual report to dig more deeply into several topics of interest to shareholders. We hope you'll read on and learn more about your Fund, as well as our thoughts on the factors important to its outlook. In addition, we encourage you to visit the Fund's website [www.preferredincome.com](http://www.preferredincome.com) for a more in-depth discussion of conditions in both preferred markets and the broader economy.

Sincerely,

Donald F. Crumrine  
Chairman

Robert M. Ettinger  
President

December 30, 2011

**Table of Contents****DISCUSSION TOPICS****The Fund's Portfolio Results and Components of Total Return on NAV**

The table below reflects performance over both the recent six months and the Fund's fiscal year of each element comprising total return of the Fund, namely: (a) investing in a portfolio of securities; (b) hedging that portfolio of securities against significant increases in long-term interest rates (see the following discussion on status of the Fund's interest-rate hedging strategy); and (c) utilizing leverage to enhance returns to shareholders. Next, we compute the impact of the Fund's operating expenses. All of the parts are summed to determine total return on NAV.

**Components of PFD's Total Return on NAV  
for the Fiscal Year Ended November 30, 2011**

	<i>Six Months*</i>	<i>One Year</i>
Total Return on Unleveraged Securities Portfolio (including principal change and income)	-2.3 %	+5.5 %
Return from Interest Rate Hedging Strategy	N/A	N/A
Impact of Leverage (including leverage expense)	-1.7%	+1.7%
Expenses (excluding leverage expense)	-0.8%	-1.5%

\* Actual, not annualized.

*Total Return on NAV*      **-4.8%**      **+5.7%**

For comparison, the following table displays returns over the same two time periods on four indices compiled by Bank of America Merrill Lynch, reflecting various segments of the preferred market. In addition, we have calculated and included a fifth measure—a composite of these four indices weighted by the size of each segment. In our view, this composite represents a broad measure of the entire preferred market. Because the index returns exclude all expenses and the impact of leverage, they compare most directly to the top line in the Fund's performance table. As you can see, the Fund outperformed the composite by a substantial amount over the fiscal year, though the results have been much closer during the past six months.

**Total Returns of Bank of America Merrill Lynch Preferred Securities Indices\*  
for Periods Ended November 30, 2011**

	<i>Six Months</i>	<i>One Year</i>
BofA Merrill Lynch 8% Capped DRD Preferred Stock Index <sup>SM</sup>	+2.0%	+8.1%
BofA Merrill Lynch 8% Capped Hybrid Preferred Securities Index <sup>SM</sup>	-1.9%	+3.2%
BofA Merrill Lynch 8% Capped Corporate U.S. Capital Securities Index <sup>SM</sup>	-4.1%	+1.9%
BofA Merrill Lynch Adjustable Preferred Stock, 7% Constrained Index <sup>SM</sup>	-15.2%	-8.4%
Composite Preferred Market Benchmark Index	-2.4%	+3.2%

\* The Bank of America Merrill Lynch 8% Capped DRD Preferred Stock Index<sup>SM</sup> (P8D0) includes investment grade preferred securities issued by both corporations and government agencies that qualify for the corporate dividend received deduction with issuer concentration capped at a maximum of 8%. The Bank of America Merrill Lynch 8% Capped Hybrid Preferred Securities Index<sup>SM</sup> (P8HO) includes taxable, fixed-rate, U.S. dollar-denominated investment-grade, preferred securities listed on a U.S. exchange with issuer concentration capped at 8%. The Bank of America Merrill Lynch 8% Capped Corporate U.S. Capital Securities Index<sup>SM</sup> (C8CT) includes investment grade fixed rate or fixed-to-floating rate \$1,000 par securities that receive some degree of equity credit from the rating agencies or their regulators with issuer concentration capped at a maximum of 8%. The Bank of America Merrill Lynch Adjustable Preferred Stock, 7% Constrained Index<sup>SM</sup>

(P0AC) includes adjustable rate preferred securities issued by U.S. corporations and government agencies with issuer concentration capped at a maximum of 7%. The Composite Preferred Market Benchmark Index weights the above four Bank of America Merrill

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Lynch indices by that market segment's relative size according to Flaherty & Crumrine data (42.0% P8HO, 36.0% C8CT, 18.3% P8D0, 3.7% P0AC). All index returns include interest and dividend income, and, unlike the Fund's returns, are unmanaged and do not reflect any expenses.

Total return on NAV also includes the impact of expenses and leverage (the bottom line on the Fund performance table). When compared to the market indices, we reach a similar conclusion, though the differentials are greater for both measurement periods.

**Total Return on Market Price of Fund Shares**

While our focus is primarily on managing the Fund's investment portfolio, our shareholders' actual return is comprised of the Fund's monthly dividend payments *plus* changes in its *market price*. During the twelve months ending November 30, 2011, total return on market price of Fund shares was +24.0%.

In a perfect world, the market price of Fund shares would closely track the Fund's net asset value. As can be seen from the graph below, over the life of the Fund this often has not been the case. However, for almost all of the past year the Fund's market price has been above its NAV (in market parlance, trading at a premium). Because the Fund began fiscal 2011 with its market price at only a modest premium to NAV and ended the fiscal year significantly above, the total return earned on market price materially exceeded the total return on NAV shown in the first table on the previous page.

Based on a closing price of \$14.14 on December 30<sup>th</sup>, the current annualized yield on market price of the Fund's shares (assuming the current monthly distribution of \$0.093 does not change) is 7.9%. In our opinion, this distribution rate measures up favorably with most comparable investment opportunities.

**Preferred Market Conditions**

Conditions in the market for preferred securities have been mixed recently, as participants sort through a great deal of conflicting information. Improving trends in credit quality have been countered by tepid economic growth and European sovereign risk concerns. Politicians and regulators have been slow to

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resolve issues big and small, leaving investors with large unknowns in their decision-making processes. These uncertainties have sent many investors to the sidelines and pushed down prices of preferred securities.

Trading volumes for most preferred securities have declined recently, but by most measures the markets remain healthy. Flows tend to be lumpy, indicating an increase in institutional trades along with a drop in retail activity. Price volatility remains stubbornly high for the traditionally sleepy preferred market. We expect this will persist over the near term given current uncertainties in both macroeconomic and political environments.

New issue activity has been slow, and redemptions continue to outpace new supply. However, when new preferred securities have been issued, demand has been reasonably strong. Investors are cautious, but if an issue is structured and priced properly, demand has been high.

Looking to the future, we believe investor concerns, while real, have gone too far. U.S. economic growth has improved following surprisingly slow growth in the first half of 2011, and our outlook is for continued, though modest growth.<sup>1</sup> We believe the risk of deflation has receded and economic growth should return to the 2-3% range. Although that is slow for a typical recovery from recession, it should be fast enough to accommodate ongoing household and financial sector deleveraging and balance sheet improvement. It also should keep new issuance of preferred securities relatively light. We see this as a fundamentally constructive environment for preferreds.

The major risk to this outlook is the sovereign debt crisis in Europe. From our perspective as preferred investors, we see three recent painful but ultimately positive developments that represent real progress toward a comprehensive solution to the crisis in Europe. First, markets over the second half of the year lost patience with the piecemeal actions taken previously in Europe, prompting policymakers to agree in July to an expansion of the European Financial Stability Facility (EFSF). Although additional funds from the European Central Bank (ECB) or elsewhere may prove necessary, this was a major step up from previous efforts. Second, policymakers recognized that the sovereign debt crisis has also become a banking crisis, given the sizable holdings of sovereign debt at European banks. Banks that need additional capital under recent stress tests are being required to raise it in the marketplace; if they are unable to do so, member states or the EFSF will provide the capital. In addition, the ECB has both eased monetary policy and expanded its lending facilities, offering ample liquidity to European banks. Third, European Monetary Union members recently agreed to a meaningful degree of fiscal union, which should help deliver greater fiscal discipline in the future. There is still much work to do in Europe, but things are finally moving in the right direction.

In the U.S., credit trends in major sectors of the preferred market show ongoing improvement. Problem loans at banks are falling, with both new delinquencies and charge-offs declining. Earnings at banks are likely to remain under some pressure given falling net interest margins, rising costs of regulatory compliance and, for some banks, mortgage-related litigation. However, from a preferred investor's perspective, we think this will be offset by greater balance sheet strength and more-focused, lower-risk business operations.

Insurance company credit fundamentals remain healthy and business volumes generally have remained good. Property and casualty companies have had to pay sizable claims on recent natural disasters, but their balance sheets are very strong and premiums are rising. Life insurance companies are facing some earnings

<sup>1</sup> For a detailed explanation of our economic views, see our *Fourth-Quarter U.S. Economic Update*.



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stress and balance-sheet volatility, but most have comfortable capital cushions and solid earnings streams that can weather those near-term headwinds.

Electric utilities have been an anchor of stability in recent years. While sales volumes are growing a little more slowly than expected, balance sheets are strong and earnings are rising modestly on incremental (but rarely transformational) capital expenditures. As preferred investors, we are satisfied with strong fixed charge coverage and 9-10% return on equity, which is what we see at a number of utilities. Other sectors, including real estate investment trusts, pipeline, energy, and industrial companies show similar stable or improving credit profiles.

On the two major bank regulatory fronts (Dodd-Frank Wall Street Reform and Consumer Protection Act and Basel Committee on Banking Supervision), there has been only limited progress in recent months. Regulatory uncertainty has limited the amount of new issue supply in the preferred market, as banks cannot be sure that preferred stock issues sold today will qualify as Tier 1 capital in 2013 and beyond. We expect the supply pipeline to remain low until capital rules are clarified. The uncertainty, however, has not prevented issuers from redeeming certain preferred securities that are expensive in today's low-yield environment.

On balance, we expect continued improvement in credit fundamentals, partially offset and sometimes overwhelmed by nervousness over Europe. Although that probably will make for volatile markets, we still see good opportunity in preferred securities.

**Bank Credit Quality and Ratings Diverge**

In the aftermath of the credit crisis, the three largest nationally-recognized statistical rating organizations—Moody's Investors Service, Standard & Poor's, and Fitch Ratings—have lowered their ratings on preferred securities issued by banks. Although their reasoning varies (we are painting with a broad brush here), the rating agencies have cited two primary reasons for the lower ratings. First, they generally have lowered senior debt ratings on banks in recent years to reflect what they view as greater risk at these institutions and a lower likelihood that banks will receive government financial support in a crisis. Second, they often have lowered ratings on preferred securities relative to senior debt of the same issuer, in part reflecting a view that regulators will force preferred capital providers to absorb losses prior to receiving government financial support in any future crisis.

These actions have resulted in lower ratings on a number of preferred securities held in the Fund's portfolio. Although we base our investment decisions primarily on our own assessment of an issuer's creditworthiness (along with an analysis of each issue's particular terms and conditions), we still pay attention to the impact of these downgrades on the portfolio. That is because the Fund's investment guidelines incorporate ratings thresholds, and we must manage within the rating guidelines for the Fund.

This does not mean that we agree with these ratings. In particular, we believe that most U.S. banks are now considerably healthier than they were before the crisis, yet they are rated lower by the agencies. Part of that reflects agency ratings that often were too high prior to the crisis. However, we think many current bank preferred ratings underappreciate both the enormous increase in common equity capital and the lower risk profile at banks in the wake of financial reform legislation and upcoming capital requirements. For many U.S. bank preferreds today, lower agency credit ratings do not necessarily mean lower credit quality. Our job is to know which companies deserve the lower ratings and which do not.

**Monthly Distributions to Fund Shareholders**

The Fund makes monthly distributions of income to shareholders consistent with its primary objective of providing high current income. Effectively, the Fund earns its income both by investing its assets in income

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producing securities, such as preferred securities, and by employing leverage to borrow additional money and invest the proceeds in more income-producing securities.

This use of leverage is an important part of the Fund's strategy to produce high current income, because, over time, the cost of leverage typically is lower than the yield on the Fund's portfolio. The difference between what the Fund earns on its investments and pays on the money it borrows increases the income available to common shareholders.

This past year, leverage has had a particularly meaningful impact on the Fund's distributions. First, the Fund twice lowered the rate it paid for leverage, and for the fiscal year paid a weighted-average interest rate of 1.202% on its borrowed money (versus much higher current yields generated by the Fund's portfolio). Second, as the Fund's net asset value improved during the year, the Fund was able to increase the amount of leverage employed. Both the lowering of rates and the increase in leverage balances supported the Fund's two dividend increases during the year.

Even though it would seem to be fairly straightforward, we believe there is a bit of art involved in setting dividend policy. One approach would be for the Fund to simply pay out its net earnings each month. Because of the uneven nature of the Fund's income and expenses—and, over longer stretches of time, changes in the Fund's cost of leverage this approach would likely result in distribution rates that would change frequently. This has never seemed terribly appealing to us.

We believe our shareholders are better served by a more stable level of monthly distributions. In striving for more stability, and to reflect inherent uncertainty in predicting future net earnings, in any particular month the Fund may pay out less than the amount earned for that same month; in other months, the distribution may be comprised of current month's earnings *plus* income from prior months. Nonetheless, as a general matter, the Fund tries to set dividend rates that will result in it distributing to shareholders most of the net income it earns during a year.

It is important, however, that shareholders understand the primary drivers behind dividend policy, and not confuse stable dividend with constant dividend. Broad trends in top-line portfolio income and changes in the cost of leverage (short-term rates) will require the Fund to modify the ongoing dividend rate periodically.

This year the Fund ended up with a little bit of extra income at the end of year, mainly due to timing of leverage increases relative to timing of dividend adjustments. As in the past, the Fund has decided to make a small extra distribution of \$0.047 per share and to carry over a bit of income for distribution in the next fiscal year period.

### **Status of the Fund's Hedging Strategy**

The Fund suspended its interest rate hedging program as the financial crisis intensified in the autumn of 2008. There were three principal reasons why we stopped hedging the long-term interest rate risk of the portfolio at that time. First, the relationship between preferred securities prices and the Fund's hedging instruments (Treasury bond futures, interest rate swaps, or options on both) broke down during the financial crisis, and hedging lost its effectiveness. Second, the cost of hedging rose dramatically, as the yield curve steepened, volatility increased, and options prices rose. Finally, preferred securities became exceptionally cheap and were likely to offer high returns to shareholders even if long-term Treasury yields increased. We believed hedging simply would not work under market conditions existing at the time.

Today, the correlation between preferred securities and our hedge instruments has improved, but it remains both weaker and significantly less stable than historical norms. A steep yield curve and high option implied volatility continue to make hedging very expensive. And, the decline in preferred securities prices

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since mid-year makes them less sensitive to higher long-term Treasury or interest-rate swap yields. Although market conditions are not as extreme as they were in 2008, hedging still does not make sense to us.

We will add another reason to the above list: the lower duration (i.e., interest rate sensitivity) of the portfolio today. Changes in regulation (especially for banks) and rating agency criteria combined with a sustained low-yield environment have substantially increased the probability that certain preferred securities will be called over the next several years. This has reduced the duration of the Fund's portfolio, meaning it is less sensitive to higher long-term interest rates than it has been historically—reducing the need for interest rate hedging. That may change in the future as issuers replace called securities with new, long-duration preferreds. If the portfolio's interest rate sensitivity increases, we may be more willing to spend a bit on hedging, although the cost and anticipated effectiveness of doing so will always be important. We will continue to evaluate market conditions and the composition of the Fund's portfolio, and we may reinstate the hedge if we judge that conditions warrant it.

**Federal Tax Advantages of 2011 Calendar Year Distributions**

In 2011, the Fund passed on a portion of its income to individuals in the form of qualified dividend income or QDI. Under federal law, QDI is taxed at a maximum 15% rate instead of an individual's ordinary income tax rate.

In calendar year 2011, approximately 52% of distributions made by the Fund was eligible for QDI treatment. For an individual in the 28% marginal tax bracket, this means that the Fund's total distributions will only be taxed at a blended 21.2% rate versus the 28% rate which would apply to distributions by a fund containing traditional corporate bonds. This tax advantage means that, all other things being equal, such an individual who held 100 shares of Common Stock of the Fund for the calendar year would have had to receive approximately \$124.92 in distributions from a traditional corporate bond fund to net the same after-tax amount as the \$114.20 distributions paid by the Fund.

For detailed information about tax treatment of particular distributions received from the Fund, please see the Form 1099 you receive from either the Fund or your broker.

Corporate shareholders also receive a federal tax benefit from the 22.8% distributions that were eligible for the inter-corporate dividends received deduction or DRD.

It is important to remember that composition of the portfolio and income distributions can change from one year to the next, and that the QDI or DRD portions of 2012's distributions may not be the same (or even similar) to 2011.

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**INVESTMENT POLICY MODIFICATION**

On February 3, 2011, the Fund announced the following changes to its investment policies. These changes were effective on April 4, 2011.

**Old Policy:** At time of purchase, at least 75% of the securities that the Fund will acquire will be rated investment grade by either Moody's Investors Services, Inc. ( Moody's ) or Standard & Poor's Corporation ( S&P ), or, if unrated, judged to be comparable in quality. In addition, the Fund may invest up to 25% of its assets at the time of purchase in securities rated below investment grade by both Moody's and S&P, if (a) such securities are rated at least Ba3 by Moody's or BB- by S&P and (b) such securities are issued by an issuer having an outstanding class of senior debt rated investment grade at the time of purchase. Thus, the Fund may not invest in securities rated below Ba3 by Moody's and below BB- by S&P.

**New Policy:** At time of purchase, at least 75% of the securities that the Fund will acquire will be rated investment grade by any one of Moody's, S&P or Fitch Ratings Group ( Fitch ). In addition, the Fund may invest up to 25% of its assets at the time of purchase in securities rated below investment grade by all of Moody's, S&P and Fitch, provided that (a) such securities are rated at least Ba3 by Moody's, BB- by S&P, or BB- by Fitch or (b) such securities are issued by an issuer having an outstanding class of senior debt rated investment grade by any one of Moody's, S&P, or Fitch at the time of purchase. Thus, the Fund may invest in securities rated below Ba3 by Moody's, BB- by S&P and BB- by Fitch if the issuer has investment grade senior debt outstanding.

**Impact of Changes:**

- (1) Fitch is now one of the approved ratings agencies for determining whether a security meets the definition of investment grade for purposes of the Fund's policy of investing at least 75% of its assets in securities rated investment grade at the time of purchase or in securities of equivalent quality;
- (2) The Fund may now purchase securities rated below Ba3/BB-/BB- by each of Moody's, S&P and Fitch, respectively, as long as the senior debt of the same issuer is rated investment grade by any one of Moody's, S&P or Fitch at the time of purchase; and
- (3) If the senior debt of an issuer is unrated or it has no outstanding senior debt, the Fund may now purchase its preferred securities if they are rated at least Ba3/BB-/BB- by any one of Moody's, S&P or Fitch, respectively.

As a result of these changes, a security would be counted as investment grade if it had an investment grade rating by any one of Moody's, S&P or Fitch, even if the other two rating agencies rated it below investment grade. The effect of this change would be to reduce the Fund's holdings deemed below investment grade purchases, as of January 31, 2011, from 15.9% to 12.4%. In addition, the Fund would be authorized to purchase below Ba or BB securities of investment grade issuers, subject to an overall 25% limit on purchasing below investment grade securities. While this change would permit the Fund to acquire securities rated B and below, the Fund's adviser has no current intention of doing so.

As before, the Fund will apply the ratings criteria at the time of purchase and the Fund will not be required to dispose of securities if, after purchase, they are downgraded, although the adviser may take this into account in determining whether to retain the security. As a result, more than 25% of the Fund's holdings at any time may be rated below investment grade or in equivalent securities. In addition, as before, the Fund may invest in unrated securities that the Fund's investment adviser deems to be comparable in quality to rated issues in which the Fund is authorized to invest.

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**Risks of Investing in Securities Rated Below Ba3/BB-**

The Fund can purchase below-investment grade securities with ratings of at least Ba3 by Moody's and BB- by S&P and Fitch; such ratings generally indicate an issuer that is less vulnerable to non-payment of its obligations than other speculative issuers. The issuer, however, faces major ongoing uncertainty or exposure to adverse business, financial or economic conditions that could lead to inadequate capacity to meet its financial commitments. Under the Fund's new investment policy with respect to the investment grade rating of securities, the Fund may invest in securities with ratings below Ba3/BB- so long as the issuer of such securities has an outstanding class of senior debt rated investment grade by any one of Moody's, S&P or Fitch. Although a company's senior debt rating may be investment grade, an underlying security issued by such company in which the Fund may invest may have a lower than investment grade rating. A security with a rating below Ba3/BB- generally indicates the issuer of such security has a high degree of vulnerability of not paying its financial obligations. A security rated B1 to B3 by Moody's, or B+ to B- by S&P or Fitch, for example, indicates an issuer that is more vulnerable to not paying its obligations than a Ba3 or BB- issuer; the issuer, however, currently has the capacity to meet its financial commitments, although adverse business, financial, or economic conditions will likely impair the issuer's capacity or willingness to meet its financial commitments. Securities rated Caa by Moody's or CCC by S&P or Fitch indicate an issuer that is highly speculative and likely to be in, or very near default with some prospects of recovery of principal and interest, although the issuer is dependent upon favorable business, financial, and economic conditions to meet its financial commitments. Securities rated below Caa or CCC generally indicate an issuer that is highly vulnerable to not paying its obligations or that has defaulted on an obligation.

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Flaherty & Crumrine Preferred Income Fund Incorporated  
**PORTFOLIO OVERVIEW**  
**November 30, 2011 (Unaudited)**

**Fund Statistics**

Net Asset Value	\$ 11.45
Market Price	\$ 13.63
Premium	19.04%
Yield on Market Price	8.19%
Common Stock Shares Outstanding	10,840,310

**Moody's Ratings**

	<b>% of Net Assets</b>
A	5.4%
BBB	71.7%
BB	18.6%
Below BB	0.8%
Not Rated*	0.6%
Below Investment Grade**	11.3%

\* Does not include net other assets and liabilities of 2.9%

\*\* Below investment grade by all of Moody's, S&P, and Fitch.

**Industry Categories**

**% of Net Assets**

**Top 10 Holdings by Issuer**

**% of Net Assets**

Banco Santander, S.A.	4.8%
HSBC PLC	4.1%
Capital One Financial	4.0%
Metlife	3.9%
PNC Financial Services	3.8%
Liberty Mutual Group	3.8%
Southern California Edison	3.4%
Wells Fargo	3.0%
Enbridge Energy Partners	2.7%
Interstate Power & Light	2.7%

**% of Net Assets\*\*\***

Holdings Generating Qualified Dividend Income (QDI) for Individuals	41%
Holdings Generating Income Eligible for the Corporate Dividends Received Deduction (DRD)	28%

\*\*\* This does not reflect year-end results or actual tax categorization of Fund distributions. These percentages can, and do, change, perhaps significantly, depending on market conditions. Investors should consult their tax advisor regarding their personal situation.

See accompanying notes to financial statements for the tax characterization of 2011 distributions.

Net Assets include assets attributable to the use of leverage.

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Flaherty & Crumrine Preferred Income Fund Incorporated  
**PORTFOLIO OF INVESTMENTS**  
**November 30, 2011**

Shares/\$ Par		Value
<b>Preferred Securities 91.4%</b>		
	<b>Banking 37.6%</b>	
	Astoria Financial:	
\$ 2,750,000	Astoria Capital Trust I, 9.75% 11/01/29, Series B	\$ 2,865,940 <sup>(1)</sup>
\$ 1,500,000	Banco Bilbao Vizcaya Argentaria, S.A.:	
	BBVA International Preferred, 5.919%	907,500** <sup>(1)(2)(3)</sup>
355,000	Banco Santander, S.A.:	
	Banco Santander, 10.50% Pfd., Series 10	9,323,188** <sup>(1)(3)</sup>
	Bank of America:	
2,837	Bank of America Corporation, 6.70% Pfd.	56,343* <sup>(1)</sup>
26,920	Bank of America Corporation, 8.20% Pfd.	593,586*
45,450	Bank of America Corporation, 8.625% Pfd.	1,008,990*
\$ 500,000	BankAmerica Institutional, Series A, 8.07% 12/31/26, 144A****	462,500
2,500	Countrywide Capital IV, 6.75% Pfd. 04/01/33	50,704
15,000	Countrywide Capital V, 7.00% Pfd. 11/01/36	302,438
\$ 500,000	Fleet Capital Trust II, 7.92% 12/11/26	461,250
\$ 550,000	MBNA Capital, 8.278% 12/01/26, Series A	514,937
\$ 1,303,000	NB Capital Trust IV, 8.25% 04/15/27	1,221,562 <sup>(1)</sup>
	Barclays Bank PLC:	
\$ 3,250,000	Barclays Bank PLC, 6.278%	2,007,892** <sup>(1)(3)</sup>
1,200	Barclays Bank PLC, 7.75% Pfd., Series 4	26,040** <sup>(3)</sup>
75,000	Barclays Bank PLC, 8.125% Pfd., Series 5	1,702,500** <sup>(1)(3)</sup>
	BB&T Corp.:	
13,775	BB&T Capital Trust VI, 9.60% Pfd. 08/01/64	360,492 <sup>(1)</sup>
	BNP Paribas:	
\$ 1,750,000	BNP Paribas, 7.195%, 144A****	1,190,000** <sup>(1)(2)(3)</sup>
	Capital One Financial:	
\$ 4,750,000	Capital One Capital III, 7.686% 08/15/36	4,732,187 <sup>(1)(2)</sup>
\$ 500,000	Capital One Capital V, 10.25% 08/15/39	521,875 <sup>(1)</sup>
\$ 2,500,000	Capital One Capital VI, 8.875% 05/15/40	2,526,380 <sup>(1)(2)</sup>
	Citigroup:	
15,250	Citigroup Capital XII, 8.50% Pfd. 03/30/40	384,475
62,300	Citigroup Capital XIII, 7.875% Pfd. 10/30/40	1,602,281 <sup>(1)(2)</sup>
\$ 160,000	Citigroup Capital XXI, 8.30% 12/21/57	160,800
	Colonial BancGroup:	
\$ 5,210,000	Colonial BancGroup, 7.114%, 144A****	156,300 <sup>(4)(5)</sup>
	FBOP Corp.:	
9,000	FBOP Corporation, Adj. Rate Pfd., 144A****	4,500* <sup>(4)(5)</sup>

The accompanying notes are an integral part of the financial statements.



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Flaherty & Crumrine Preferred Income Fund Incorporated  
**PORTFOLIO OF INVESTMENTS (Continued)**  
**November 30, 2011**

Shares/\$ Par		Value
<b>Preferred Securities (Continued)</b>		
<b>Banking (Continued)</b>		
	Fifth Third Bancorp.:	
\$ 750,000	Fifth Third Capital Trust IV, 6.50% 04/15/37	\$ 727,500
30,000	Fifth Third Capital Trust V, 7.25% Pfd. 08/15/67	751,500
130,000	Fifth Third Capital Trust VI, 7.25% Pfd. 11/15/67	3,278,444 <sup>(1)(2)</sup>
	First Horizon:	
3,750	First Tennessee Bank, Adj. Rate Pfd., 3.75% <sup>(6)</sup> , 144A****	2,275,781 <sup>*(1)</sup>
\$ 500,000	First Tennessee Capital II, 6.30% 04/15/34, Series B	431,050
1	FT Real Estate Securities Company, 9.50% Pfd., 144A****	955,000
	First Republic Bank:	
1,250	First Republic Preferred Capital Corporation, 10.50% Pfd., 144A****	1,296,875
	Goldman Sachs Group:	
2,800	STRIPES Custodial Receipts, Adj. Rate, 10.70% <sup>(6)</sup> , Pvt.	585,200 <sup>*(4)(5)</sup>
\$ 785,000	Goldman Sachs, Capital I, 6.345% 02/15/34	672,057 <sup>(1)(2)</sup>
\$ 1,058,000	Goldman Sachs, Capital II, 5.793%	685,055 <sup>(1)(2)</sup>
	HSBC PLC:	
132,900	HSBC Holdings PLC, 8.00% Pfd., Series 2	3,447,625 <sup>***(1)(3)</sup>
\$ 500,000	HSBC USA Capital Trust II, 8.38% 05/15/27, 144A****	475,245 <sup>(1)(2)</sup>
144,000	HSBC USA, Inc., 6.50% Pfd., Series H	3,519,000 <sup>*(1)</sup>
	JPMorgan Chase:	
\$ 1,725,000	JPMorgan Chase Capital XVIII, 6.95% 08/17/36, Series R	1,742,250 <sup>(1)(2)</sup>
	KeyCorp:	
30,100	Keycorp Capital X, 8.00% Pfd. 03/15/68	769,958 <sup>(1)</sup>
	Lloyds Banking Group PLC:	
\$ 550,000	Lloyds Banking Group PLC, 6.657%, 144A****	294,250 <sup>***(3)</sup>
	Morgan Stanley:	
25,000	Morgan Stanley Capital Trust VI, 6.60% Pfd. 02/01/46	532,813
	PNC Financial Services:	
200,000	PNC Financial Services, 9.875% Pfd., Series L	5,512,500 <sup>*(1)</sup>
\$ 1,750,000	PNC Preferred Funding Trust III, 8.70%, 144A****	1,785,651 <sup>(1)(2)</sup>
	Sovereign Bancorp:	
1,750	Sovereign REIT, 12.00% Pfd., Series A, 144A****	1,901,704
	SunTrust Banks:	
6,025	SunTrust Capital IX, 7.875% Pfd. 03/15/68	153,073
	Washington Mutual:	
\$ 1,000,000	Washington Mutual, 9.75%, 144A****	25,000

The accompanying notes are an integral part of the financial statements.

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Flaherty & Crumrine Preferred Income Fund Incorporated  
**PORTFOLIO OF INVESTMENTS (Continued)**  
**November 30, 2011**

Shares/\$ Par		Value
<b>Preferred Securities (Continued)</b>		
<b>Banking (Continued)</b>		
	Webster Financial:	
\$ 1,600,000	Webster Capital Trust IV, 7.65% 06/15/37	\$ 1,561,682 <sup>(1)</sup>
	Wells Fargo:	
\$ 1,500,000	First Union Capital II, 7.95% 11/15/29	1,563,310 <sup>(1)(2)</sup>
\$ 2,400,000	Wachovia Capital Trust III, Adj. Rate, 5.56975% <sup>(6)</sup>	2,037,000* <sup>(1)</sup>
17,145	Wachovia Preferred Funding, 7.25% Pfd., Series A	445,813 <sup>(1)</sup>
1,305	Wells Fargo & Company, 7.50% Pfd., Series L	1,378,733* <sup>(1)</sup>
15,000	Wells Fargo & Company, 8.00% Pfd., Series J	419,550*
		72,368,279
<b>Financial Services 0.8%</b>		
	Credit Suisse Group:	
\$ 1,000,000	Claudius, Ltd. Credit Suisse AG, 7.875%, Series B	955,000 <sup>(3)</sup>
	HSBC PLC:	
23,704	HSBC Finance Corporation, 6.36% Pfd., Series B	490,945* <sup>(1)</sup>
	Lehman Brothers:	
15,000	Lehman Brothers Holdings, Inc., 5.67% Pfd., Series D	4,035*
19,500	Lehman Brothers Holdings, Inc., 5.94% Pfd., Series C	195* <sup>(5)</sup>
25,000	Lehman Brothers Holdings, Inc., 6.50% Pfd., Series F	250* <sup>(5)</sup>
27,500	Lehman Brothers Holdings, Inc., 7.95% Pfd.	528*
		1,450,953
<b>Insurance 18.8%</b>		
	Ace Ltd.:	
\$ 975,000	Ace Capital Trust II, 9.70% 04/01/30	1,276,802 <sup>(1)(3)</sup>
	Aon Corporation:	
\$ 250,000	AON Corp, 8.205% 01/01/27	282,964
	Arch Capital Group:	
14,300	Arch Capital Group Ltd., 8.00% Pfd., Series A	363,756** <sup>(1)(3)</sup>
	AXA SA:	
\$ 3,500,000	AXA SA, 6.379%, 144A****	2,345,000** <sup>(1)(2)(3)</sup>
	Axis Capital:	
35,900	Axis Capital Holdings, 7.50% Pfd., Series B	3,348,799 <sup>(1)(2)(3)</sup>
	Delphi Financial:	
90,600	Delphi Financial Group, 7.376% Pfd. 05/15/37	2,136,575 <sup>(1)</sup>
	Everest Re Group:	

\$ 4,000,000

Everest Re Holdings, 6.60% 05/15/37

3,540,000<sup>(1)(2)</sup>

The accompanying notes are an integral part of the financial statements.

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Flaherty & Crumrine Preferred Income Fund Incorporated  
**PORTFOLIO OF INVESTMENTS (Continued)**  
**November 30, 2011**

Shares/\$ Par		Value
<b>Preferred Securities (Continued)</b>		
<b>Insurance (Continued)</b>		
	Liberty Mutual Group:	
\$ 4,100,000	Liberty Mutual Group, 10.75% 06/15/58, 144A****	\$ 4,981,500 <sup>(1)</sup>
	MetLife:	
\$ 900,000	MetLife Capital Trust IV, 7.875% 12/15/37, 144A****	922,500 <sup>(1)(2)</sup>
\$ 3,150,000	MetLife Capital Trust X, 9.25% 04/08/38, 144A****	3,531,937 <sup>(1)(2)</sup>
\$ 2,400,000	MetLife, Inc., 10.75% 08/01/39	3,109,697 <sup>(1)(2)</sup>
	PartnerRe Ltd.:	
30,000	PartnerRe Ltd., 7.250% Pfd., Series E	781,800** <sup>(1)(3)</sup>
	Principal Financial:	
14,000	Principal Financial Group, 5.563% Pfd., Series A	1,324,313* <sup>(1)</sup>
103,445	Principal Financial Group, 6.518% Pfd., Series B	2,683,105* <sup>(1)</sup>
	RenaissanceRe Holdings:	
23,539	RenaissanceRe Holdings Ltd., 6.08% Pfd., Series C	560,934** <sup>(1)(3)</sup>
	Scottish Re:	
119,500	Scottish Re Group Ltd., 7.25% Pfd.	761,813** <sup>(3)</sup>
	StanCorp Financial Group:	
\$ 1,300,000	Stancorp Financial Group, 6.90% 06/01/67	1,132,078 <sup>(1)</sup>
	The Travelers Companies:	
\$ 750,000	USF&G Capital, 8.312% 07/01/46, 144A****	909,886 <sup>(1)(2)</sup>
	XL Group PLC:	
\$ 2,700,000	XL Capital Ltd., 6.50%, Series E	2,119,500 <sup>(1)(3)</sup>
		36,112,959
	<b>Utilities 24.4%</b>	
	Alabama Power:	
56,430	Alabama Power Company, 6.45% Pfd.	1,569,459* <sup>(1)</sup>
	Baltimore Gas & Electric:	
10,000	Baltimore Gas & Electric Company, 6.70% Pfd., Series 1993	1,019,375* <sup>(1)</sup>
2,400	Baltimore Gas & Electric Company, 7.125% Pfd., Series 1993	244,800*
	Commonwealth Edison:	
\$ 3,458,000	COMED Financing III, 6.35% 03/15/33	2,845,132 <sup>(1)(2)</sup>
	Constellation Energy:	
15,000	Constellation Energy Group, 8.625% Pfd. 06/15/63, Series A	406,350
	Dominion Resources:	
\$ 250,000	Dominion Resources Capital Trust I, 7.83% 12/01/27	253,511
\$ 3,500,000	Dominion Resources, Inc., 7.50% 06/30/66	3,678,542 <sup>(1)(2)</sup>

The accompanying notes are an integral part of the financial statements.



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Flaherty & Crumrine Preferred Income Fund Incorporated  
**PORTFOLIO OF INVESTMENTS (Continued)**  
**November 30, 2011**

Shares/\$ Par		Value
<b>Preferred Securities (Continued)</b>		
<b>Utilities (Continued)</b>		
\$ 750,000	Energy Future Competitive Holdings Corp.: TXU Electric Capital V, 8.175% 01/30/37	\$ 161,250 <sup>(4)</sup>
40,000	Entergy Arkansas: Entergy Arkansas, Inc., 6.45% Pfd.	1,008,752 <sup>*(1)</sup>
25,000	Entergy Louisiana: Entergy Louisiana, Inc., 6.95% Pfd.	2,489,845 <sup>*(1)</sup>
25,000	Georgia Power: Georgia Power Company, 6.50% Pfd., Series 2007A	2,717,188 <sup>*(1)</sup>
7,500	Gulf Power: Gulf Power Company, 6.45% Pfd., Series 2007A	796,590 <sup>*(1)</sup>
32,650	Indianapolis Power & Light: Indianapolis Power & Light Company, 5.65% Pfd.	3,200,722 <sup>*</sup>
\$ 2,725,000	Integrays Energy Group: WPS Resources Corporation, 6.11% 12/01/66	2,618,755 <sup>(1)</sup>
181,641	Interstate Power & Light: Interstate Power & Light Company, 8.375% Pfd., Series B	5,188,121 <sup>*(1)</sup>
20,600	MidAmerican Energy Holdings: Calenergy Capital Trust III, 6.50% Pfd. 09/01/27	1,030,000
\$ 3,400,000	Nextera Energy: FPL Group Capital, Inc., 6.65% 06/15/67	3,386,859 <sup>(1)(2)</sup>
\$ 500,000	Peco Energy: PECO Energy Capital Trust III, 7.38% 04/06/28, Series D	496,980 <sup>(1)(2)</sup>
\$ 1,100,000	PPL Corp.: PPL Capital Funding, 6.70% 03/30/67, Series A	1,062,664 <sup>(1)</sup>
18,890	PPL Electric Utilities Corporation, 6.25% Pfd.	481,695 <sup>*(1)</sup>
\$ 3,800,000	Puget Energy: Puget Sound Energy, Inc., 6.974% 06/01/67	3,773,256
47,392	South Carolina Electric & Gas: Scana Corporation, 7.70% Pfd. 01/30/65	1,356,359 <sup>(1)(2)</sup>
43,500	Southern California Edison: Southern California Edison, 6.00% Pfd., Series C	4,296,987 <sup>*(1)</sup>
9,000	Southern California Edison, 6.125% Pfd., Series B	891,563 <sup>*(1)</sup>
12,500	Southern California Edison, 6.50% Pfd., Series D	1,296,875 <sup>*(1)</sup>
3,000	Virginia Electric & Power: Virginia Electric & Power Company, \$6.98 Pfd.	293,719 <sup>*</sup>

The accompanying notes are an integral part of the financial statements.

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Flaherty & Crumrine Preferred Income Fund Incorporated  
**PORTFOLIO OF INVESTMENTS (Continued)**  
**November 30, 2011**

Shares/\$ Par		Value
<b>Preferred Securities (Continued)</b>		
<b>Utilities (Continued)</b>		
	Wisconsin Public Service:	
3,700	Wisconsin Public Service Corporation, 6.88% Pfd.	\$ 376,697*
		46,942,046
<b>Energy 6.8%</b>		
	Enbridge Energy Partners:	
\$ 5,000,000	Enbridge Energy Partners LP, 8.05% 10/01/37	5,238,920 <sup>(1)(2)</sup>
	Enterprise Products Partners:	
\$ 4,100,000	Enterprise Products Partners, 8.375% 08/01/66, Series A	4,329,653 <sup>(1)(2)</sup>
	Kinder Morgan:	
3,500	Kinder Morgan GP, Inc., 8.33% Pfd., 144A****	3,580,063*
		13,148,636
<b>Real Estate Investment Trust (REIT) 0.5%</b>		
	PS Business Parks:	
3,600	PS Business Parks, Inc., 6.70% Pfd., Series P	90,009
7,500	PS Business Parks, Inc., 6.875% Pfd., Series R	194,625
23,500	PS Business Parks, Inc., 7.00% Pfd., Series H	590,590
		875,224
<b>Miscellaneous Industries 2.5%</b>		
	Ocean Spray Cranberries:	
37,400	Ocean Spray Cranberries, Inc., 6.25% Pfd., 144A****	3,267,825 <sup>*(1)</sup>
	Textron, Inc.:	
\$ 2,125,000	Textron Financial Corporation, 6.00%, 02/15/67, 144A****	1,561,875
		4,829,700
	<b>Total Preferred Securities</b> (Cost \$183,948,547)	<b>175,727,797</b>

The accompanying notes are an integral part of the financial statements.

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Flaherty & Crumrine Preferred Income Fund Incorporated  
**PORTFOLIO OF INVESTMENTS (Continued)**  
 November 30, 2011

Shares/\$ Par		Value
	<b>Corporate Debt Securities 5.8%</b>	
	<b>Banking 1.8%</b>	
	Goldman Sachs Group:	
\$ 2,525,000	Goldman Sachs Group, 6.75% 10/01/37, Sub Notes	\$ 2,253,010 <sup>(1)(2)</sup>
	Regions Financial:	
\$ 1,460,000	Regions Financial Corporation, 7.375%, 12/10/37, Sub Notes	1,208,150
		3,461,160
	<b>Insurance 2.3%</b>	
	Liberty Mutual Group:	
\$ 2,500,000	Liberty Mutual Insurance, 7.697% 10/15/97, 144A****	2,291,702 <sup>(1)(2)</sup>
	Unum Group:	
\$ 2,000,000	UnumProvident Corporation, 7.25% 03/15/28	2,104,062 <sup>(1)</sup>
		4,395,764
	<b>Utilities 1.7%</b>	
	Southern Union:	
\$ 2,700,000	Southern Union Company, 8.25% 11/15/29	3,255,382 <sup>(1)(2)</sup>
		3,255,382
	<b>Total Corporate Debt Securities</b>	
	(Cost \$9,965,575)	11,112,306
	<b>Common Stock 0.4%</b>	
	<b>Banking 0.1%</b>	
	CIT Group:	
3,620	CIT Group, Inc.	122,573*
		122,573
	<b>Utilities 0.3%</b>	
	Exelon Corp.:	
6,250	Exelon Corporation	276,938*
	PPL Corp.:	
14,558	PPL Corporation	437,031*



	713,969
<b>Total Common Stock</b>	
(Cost \$962,666)	836,542

The accompanying notes are an integral part of the financial statements.

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Flaherty & Crumrine Preferred Income Fund Incorporated  
**PORTFOLIO OF INVESTMENTS (Continued)**  
**November 30, 2011**

Shares/\$ Par		Value
<b>Money Market Fund</b>	<b>1.2%</b>	
2,328,888	BlackRock Liquidity Funds: T-Fund	\$ 2,328,888
	<b>Total Money Market Fund</b> (Cost \$2,328,888)	2,328,888
<b>Total Investments</b> (Cost \$197,205,676****)	98.8%	190,005,533
<b>Other Assets And Liabilities</b> (Net)	1.2%	2,389,634
<b>Total Managed Assets</b>	100.0%	\$ 192,395,167
<b>Loan Principal Balance</b>		(68,300,000)
<b>Total Net Assets Available To Common Stock</b>		\$ 124,095,167

\* Securities eligible for the Dividends Received Deduction and distributing Qualified Dividend Income.

\*\* Securities distributing Qualified Dividend Income only.

\*\*\* Aggregate cost of securities held.

\*\*\*\* Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration to qualified institutional buyers. At November 30, 2011, these securities amounted to \$34,215,094 or 17.8% of total managed assets.

(1) All or a portion of this security is pledged as collateral for the Fund's loan. The total value of such securities was \$135,422,532 at November 30, 2011.

(2) All or a portion of this security has been rehypothecated. The total value of such securities was \$59,545,682 at November 30, 2011.

(3) Foreign Issuer.

(4) Illiquid.

(5) Valued at fair value as determined in good faith by or under the direction of the Board of Directors as of November 30, 2011.

(6) Represents the rate in effect as of the reporting date.

Non-income producing.

The issuer has filed for bankruptcy protection. As a result, the Fund may not be able to recover the principal invested and also does not expect to receive income on this security going forward.

The percentage shown for each investment category is the total value of that category as a percentage of total managed assets.

**ABBREVIATIONS:**

**Pfd.** Preferred Securities

**Pvt.** Private Placement Securities

**REIT** Real Estate Investment Trust

**STRIPES** Structured Residual Interest Preferred Enhanced Securities

The accompanying notes are an integral part of the financial statements.

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Flaherty & Crumrine Preferred Income Fund Incorporated  
**STATEMENT OF ASSETS AND LIABILITIES**  
**November 30, 2011**

**ASSETS:**

Investments, at value (Cost \$197,205,676)	\$ 190,005,533
Receivable for investments sold	70,210
Dividends and interest receivable	2,609,729
Prepaid expenses	38,009

Total Assets	192,723,481
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**LIABILITIES:**

Loan Payable	\$ 68,300,000
Dividends payable to Common Stock Shareholders	94,276
Investment advisory fee payable	90,298
Administration, Transfer Agent and Custodian fees payable	37,867
Professional fees payable	78,798
Directors fees payable	2,907
Accrued expenses and other payables	24,168

Total Liabilities	68,628,314
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<b>NET ASSETS AVAILABLE TO COMMON STOCK</b>	<b>\$ 124,095,167</b>
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**NET ASSETS AVAILABLE TO COMMON STOCK** consist of:

Undistributed net investment income	\$ 488,602
Accumulated net realized loss on investments sold	(23,446,011)
Unrealized depreciation of investments	(7,200,143)
Par value of Common Stock	108,403
Paid-in capital in excess of par value of Common Stock	154,144,316

Total Net Assets Available to Common Stock	\$ 124,095,167
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**NET ASSET VALUE PER SHARE OF COMMON STOCK:**

Common Stock (10,840,310 shares outstanding)	\$ 11.45
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The accompanying notes are an integral part of the financial statements.

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Flaherty & Crumrine Preferred Income Fund Incorporated  
**STATEMENT OF OPERATIONS**  
**For the Year Ended November 30, 2011**

**INVESTMENT INCOME:**

Dividends	\$ 7,435,462
Interest	7,551,877
Rehypothecation Income	6,303
 Total Investment Income	 14,993,642

**EXPENSES:**

Investment advisory fees	\$ 1,107,023
Administrator's fees	201,442
Professional fees	187,052
Insurance expenses	98,079
Transfer Agent fees	66,144
Directors' fees	75,190
Custodian fees	25,901
Compliance fees	38,015
Interest expenses	808,038
Other	102,722
 Total Expenses	 2,709,606

**NET INVESTMENT INCOME** 12,284,036

**REALIZED AND UNREALIZED GAIN/(LOSS) ON INVESTMENTS**

Net realized gain on investments sold during the year	8,429,046
Change in net unrealized appreciation/depreciation of investments	(13,072,757)

**NET REALIZED AND UNREALIZED LOSS ON INVESTMENTS** (4,643,711)

**NET INCREASE IN NET ASSETS TO COMMON STOCK RESULTING  
FROM OPERATIONS**

\$ 7,640,325

For Federal income tax purposes, a significant portion of this amount may not qualify for the inter-corporate dividends received deduction ( DRD ) or as qualified dividend income ( QDI ) for individuals.

The accompanying notes are an integral part of the financial statements.

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Flaherty &amp; Crumrine Preferred Income Fund Incorporated

**STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE TO COMMON STOCK**

	<b>Year Ended November 30, 2011</b>	<b>Year Ended November 30, 2010</b>
<b>OPERATIONS:</b>		
Net investment income	\$ 12,284,036	\$ 11,505,823
Net realized gain/(loss) on investments sold during the year	8,429,046	4,930,971
Change in net unrealized appreciation/depreciation of investments	(13,072,757)	15,769,549
Distributions to APS* Shareholders from net investment income, including changes in accumulated undeclared distributions		(70,977)
<b>Net increase in net assets resulting from operations</b>	<b>7,640,325</b>	<b>32,135,366</b>
<b>DISTRIBUTIONS:</b>		
Dividends paid from net investment income to Common Stock Shareholders <sup>(1)</sup>	(12,115,178)	(10,325,246)
<b>Total Distributions to Common Stock Shareholders</b>	<b>(12,115,178)</b>	<b>(10,325,246)</b>
<b>FUND SHARE TRANSACTIONS:</b>		
Increase from shares issued under the Dividend Reinvestment and Cash Purchase Plan	1,008,897	986,882
<b>Net increase in net assets available to Common Stock resulting from Fund share transactions</b>	<b>1,008,897</b>	<b>986,882</b>
<b>NET INCREASE/(DECREASE) IN NET ASSETS AVAILABLE TO COMMON STOCK FOR THE YEAR</b>	<b>\$ (3,465,956)</b>	<b>\$ 22,797,002</b>
<b>NET ASSETS AVAILABLE TO COMMON STOCK:</b>		
Beginning of year	\$ 127,561,123	\$ 104,764,121
Net increase/(decrease) in net assets during the year	(3,465,956)	22,797,002
End of year (including undistributed net investment income of \$488,602 and \$621,099, respectively)	\$ 124,095,167	\$ 127,561,123

\* Auction Preferred Stock.

<sup>(1)</sup> May include income earned, but not paid out, in prior fiscal year.

The accompanying notes are an integral part of the financial statements.

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Flaherty & Crumrine Preferred Income Fund Incorporated  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended November 30, 2011**

**INCREASE/(DECREASE) IN CASH****CASH FLOWS FROM OPERATING ACTIVITIES:**

Net increase in net assets resulting from operations	\$ 7,640,325
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**ADJUSTMENTS TO RECONCILE NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:**

Purchase of investment securities	(52,270,969)
Proceeds from disposition of investment securities	45,379,547
Purchase of short-term investment securities, net	(1,552,259)
Cash received from litigation claim	280,794
Proceeds from bankruptcy settlement	3,006
Increase in dividends and interest receivable	(190,713)
Increase in receivable for investments sold	(62,775)
Decrease in prepaid expenses	21,229
Net amortization/(accretion) of premium/(discount)	(339,020)
Decrease in payable for investments purchased	(265,400)
Increase in payables to related parties	3,880
Increase in accrued expenses and other liabilities	21,638
Change in net unrealized appreciation/depreciation on securities	13,072,757
Net realized gain from investments sold	(8,429,046)
 Net cash provided by operating activities	 3,312,994

**CASH FLOWS FROM FINANCING ACTIVITIES:**

Proceeds from loan	7,800,000
Dividends paid (net of reinvestment of dividends and change in dividends payable) to common stock shareholders from net investment income	(11,112,994)
 Net cash used in financing activities	 (3,312,994)

Net increase/(decrease) in cash

**CASH:**

Beginning of the year

End of the year

\$

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:**

Interest paid during the year	\$ 808,336
Reinvestment of dividends	1,008,897
Decrease in dividends payable to common stock shareholders	(6,713)

The accompanying notes are an integral part of the financial statements.





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Flaherty &amp; Crumrine Preferred Income Fund Incorporated

**FINANCIAL HIGHLIGHTS****For a Common Stock share outstanding throughout each year.**

Contained below is per share operating performance data, total investment returns, ratios to average net assets and other supplemental data. This information has been derived from information provided in the financial statements and market price data for the Fund's shares.

	<b>Year Ended November 30,</b>				
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>PER SHARE OPERATING PERFORMANCE:</b>					
Net asset value, beginning of year	\$ 11.86	\$ 9.82	\$ 5.98	\$ 12.85	\$ 15.80
<b>INVESTMENT OPERATIONS:</b>					
Net investment income	1.14	1.07	0.92	1.27	1.35
Net realized and unrealized gain/(loss) on investments	(0.43)	1.94	3.78	(6.80)	(2.90)
<b>DISTRIBUTIONS TO APS* SHAREHOLDERS:</b>					
		389,480	276,252	211,434	
Total assets	1,652,010	1,492,851	1,710,790	1,409,013	1,263,948
Total debt, including capital leases	350,486	375,656	426,754	402,311	402,490
Total EnerSys stockholders' equity	779,897	670,151	691,543	542,099	445,188

(1) In the first fiscal quarter of 2010, we adopted the new accounting for convertible notes as required by the FASB guidance, effective retrospectively to the first fiscal quarter of 2009, for the initial issuance of Convertible Notes in May 2008. The adoption resulted in a restatement of fiscal 2009 net earnings of approximately \$2.7 million (\$4.3 million pre-tax) and an initial reclass of debt to Paid in Capital of approximately \$46.3 million. Additionally, the rules adoption resulted in a comparable decrease in net earnings related to non-cash interest of approximately \$3.4 million (\$5.4 million pre-tax) in fiscal 2010.

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

The following discussion and analysis of our results of operations and financial condition for the fiscal years ended March 31, 2010, 2009, and 2008, should be read in conjunction with our audited consolidated financial statements and the notes to those statements included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K. Our discussion contains forward-looking statements based upon current expectations that involve risks and uncertainties, such as our plans, objectives, opinions, expectations, anticipations and intentions and beliefs. Actual results and the timing of events could differ materially from those anticipated in those forward-looking statements as a result of a number of factors. See Cautionary Note Regarding Forward-Looking Statements, Business and Risk Factors, sections elsewhere in this Annual Report on Form 10-K. In the following discussion and analysis of results of operations and financial condition, certain financial measures may be considered non-GAAP financial measures under Securities and Exchange Commission rules. These rules require supplemental explanation and reconciliation, which is provided in this Annual Report on Form 10-K.

EnerSys management uses the non-GAAP measures, EBITDA and Adjusted EBITDA, in their computation of compliance with loan covenants. These measures, as used by EnerSys, adjust net earnings determined in accordance with GAAP for interest, taxes, depreciation and amortization, and certain charges or credits as permitted by our credit agreements, that were recorded during the periods presented.

EnerSys management uses the non-GAAP measures, Primary Working Capital and Primary Working Capital Percentage (see definition in Overview below) along with capital expenditures, in their evaluation of business segment cash flow and financial position performance.

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*These non-GAAP disclosures have limitations as analytical tools, should not be viewed as a substitute for cash flow or operating earnings 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. This supplemental presentation should not be construed as an inference that the Company's future results will be unaffected by similar adjustments to operating earnings determined in accordance with GAAP.*

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### **Overview**

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

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

**Reserve power products** are used for backup power for the continuous operation of critical applications in telecommunications systems, UPS, applications for computer and computer-controlled systems, and other specialty power applications, including security systems, for premium starting, lighting and ignition applications, in switchgear and electrical control systems used in electric utilities and energy pipelines, and in commercial aircraft and military aircraft, submarines, ships and tactical vehicles.

**Motive power products** are used to provide power for manufacturing, warehousing and other material handling equipment, primarily electric industrial forklift trucks, mining equipment, and for diesel locomotive starting, rail car lighting and rail signaling equipment.

We previously reported two business segments consisting of reserve power and motive power products. The FASB guidance defines that a segment for reporting purposes, is based on the financial performance measures that are regularly reviewed by the chief operating decision maker to assess segment performance and to make decisions about a public entity's allocation of resources. Recent consideration of this guidance and changes made to our management structure, have led us to decide to report our segment results based upon our three geographic regions. Additionally, FASB guidance mandates a single basis of segmentation and therefore we will no longer report our operating earnings by both geographic regions and product lines. We will, however, continue to provide revenue information for our reserve power and motive power product lines, consistent with FASB guidance.

We operate and manage our business in three geographic regions of the world—Americas, Europe and Asia, as described below. Our business is highly decentralized with manufacturing locations throughout the world. More than half of our manufacturing capacity is located outside of the United States, and approximately 60% of our net sales are generated outside of the United States. Under the criteria of the FASB guidance, the Company has three reportable business segments based on geographic regions, defined as follows:

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

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

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

Additionally, see Note 24 to the Consolidated Financial Statements for revenue by country, revenues by key product lines and other required disclosures.

We evaluate business segment performance based primarily upon operating earnings, exclusive of highlighted items. All corporate and centrally incurred regional costs are allocated to the business segments based principally on net sales. We evaluate business segment cash flow and financial position performance based primarily upon capital expenditures and primary working capital levels. Primary working capital for this purpose is trade accounts receivable, plus inventories, minus trade accounts payable and the resulting net amount is divided by the trailing three month net sales (annualized) for the respective business segment or reporting

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location, to derive a primary working capital percentage. Although we monitor the three elements of primary working capital (receivables, inventory and payables), our primary focus is on the total amount and percentage due to the significant impact it has on cash flow and, as a result, our level of debt.

Our management structure and financial reporting systems, and associated internal controls and procedures, are all consistent with our two business product lines and three geographic regions in which we operate.

Our financial results are largely driven by the following factors:

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

changes in our market share in the product line markets and business segments where we operate;

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

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

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

changes in our levels of debt and changes in the variable interest rates under our credit facilities; and

the size and number of acquisitions and our ability to achieve their intended benefits.

### **Current Market Conditions**

#### ***Economic Climate***

Market conditions in our industry were generally strong in fiscal 2008 and through the first fiscal quarter of 2009. Global economic activity declined sharply after that and our revenue reached a recent low point in the first quarter of fiscal 2010. Since then, economic activity has improved and our quarterly revenue has increased along with global increases in industrial production and capital spending. As explained below, we have taken numerous steps to restructure our manufacturing base and administrative operations to reduce our costs. Our capital structure has improved over the last two fiscal years and we believe we have the capital available to meet our business needs and to continue to remain aggressive in pursuing further acquisition opportunities.

#### ***Volatility of Commodities***

Volatility of commodity costs and foreign currency exchange rates and customer demand have caused large swings in our production costs. In addition, if the economy improves in future periods, our commodity costs may be subject to inflationary cost increases. The cost of lead, our principal raw material, has fluctuated widely during recent years. Our estimated change in lead cost due to fluctuations in price was a decrease of approximately \$87 million in fiscal 2010 from fiscal 2009. Our estimated incremental lead cost due to increases in average lead prices in fiscal 2009 over fiscal 2008 was approximately \$15 million.

#### ***Customer Pricing***

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We have been subjected to pricing pressures over the past several years. We anticipate continuing competitive pricing pressure as Chinese and other foreign producers expand their export capacity and increase their marketing presence in our major United States and European markets. Additionally, in our current environment, economic pressures have weakened customer demand and increased customer credit risks in both our ability to extend customer credit as well as the ability of our customers to meet their commitments.

Our selling prices have changed substantially during the last several years to reflect the cost of commodities. During fiscal 2009, as a result of reductions in the cost of lead, our average selling prices began to decline as

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measured on a sequential quarterly basis. During fiscal 2010, our selling prices began to increase to reflect rising commodity prices. Approximately 35% of our revenue is currently subject to agreements that adjust pricing to a market-based index for lead.

### ***Cost Savings Initiatives-Restructuring***

To minimize the impacts discussed above, we took actions to further rationalize our production facilities and move capacity to lower cost facilities, as more fully explained below.

We anticipate different demand volatility in each of the business segments for our products and services, influenced by the geographical economic conditions in each segment, and have taken numerous steps to address this volatility. We view this as a time for us to continue to further consolidate operations and undertake additional restructuring of our business. Cost savings programs remain a continuous element of our business strategy and are directed primarily at further reductions in plant manufacturing, raw materials costs and our operating expenses. Examples of such cost savings initiatives include our fiscal 2008 European restructuring programs, primarily related to the Energia acquisition, and the fiscal 2009 restructuring program, primarily related to closing our Italian manufacturing operation. In fiscal 2009, we initiated restructuring programs in the Americas and Europe, and, in fiscal 2010, we began the restructuring programs primarily related to the Oerlikon acquisition in Europe. Our operating results reflect most of the benefits of those actions with the remainder to be experienced in future periods. We believe that these restructuring actions will have a favorable pre-tax earnings impact of \$36 million when fully implemented by the end of fiscal 2011.

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

The worldwide volatility in the economic climate had been a major concern in the past two years. However, we started actions at the beginning of fiscal 2009 that positioned us well to weather the current economic downturn. In May 2008, we completed the sale of \$172.5 million aggregate principal amount of senior unsecured 3.375% Convertible Notes due 2038, and used the net proceeds of \$168.2 million to repay a portion of its existing senior secured Term Loan B. The senior unsecured Convertible Notes are potentially convertible, at the option of the holders, into shares of our common stock. It is our current intent to settle the principal amount of any conversions in cash, and any additional conversion consideration in cash, shares of EnerSys common stock or a combination of cash and shares. The notes will mature on June 1, 2038, unless earlier converted, redeemed or repurchased. As explained, however, in *Critical Accounting Policies and Estimates*, our adoption of FASB guidance on accounting for convertible debt instruments that may be settled in cash upon conversion, was effective in the first fiscal quarter of 2010, and was applied on a retrospective basis. The adoption of the guidance increased interest expense for fiscal 2009, retroactively, by a non-cash charge of approximately \$4 million, increased fiscal 2010 by approximately \$5 million, and is expected to increase to \$8 million by fiscal 2015.

Also, immediately following the closing of the \$172.5 million senior unsecured Convertible Notes Issue, we commenced refinancing the outstanding combined balance of the senior secured Term Loan B and our existing Revolver of approximately \$300 million, with a new \$350 million senior secured credit facility comprising a \$225 million Term A Loan and a new \$125 million Revolver. These actions, along with solid operating performance during fiscal 2009, provided us with the opportunity to repurchase 1.8 million shares of our outstanding common stock at a cost of approximately \$19.8 million, which we expect will improve our future earnings per share performance.

Our combined cash flow from operations was approximately \$356 million during fiscal 2009 and 2010. During that time we invested \$102 million in capital expenditures and in fiscal 2010 we invested \$33 million in new business opportunities.

As a result of the above actions, at March 31, 2010, our financial position is strong and we have substantial liquidity with approximately \$201 million of available cash and short-term investments, approximately \$131 million

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of undrawn, committed credit lines, and over \$116 million of uncommitted credit lines. We believe that we have the financial resources and the capital available to remain active in pursuing further investment and acquisition opportunities.

### **Our Corporate History**

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

We were formed in late 2000 by Morgan Stanley Capital Partners (currently Metalmark Capital) and the management of Yuasa, Inc. to acquire the reserve power and motive power battery business of Yuasa Corporation (Japan) in North and South America. Our results of operations for the past eight fiscal years have been significantly affected by our acquisition of the reserve power and motive power business of ESG on March 22, 2002 and several smaller acquisitions, including three in fiscal 2010.

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

In August 2004, EnerSys completed an IPO, and our common stock commenced trading on the New York Stock Exchange on July 30, 2004, under the trading symbol ENS.

### **Critical Accounting Policies and Estimates**

Our significant accounting policies are described in Notes to Consolidated Financial Statements in Item 8. In preparing our financial statements, management is required to make estimates and assumptions that, among other things, affect the reported amounts of assets, liabilities, sales and expense. These estimates and assumptions are most significant where they involve levels of subjectivity and judgment necessary to account for highly uncertain matters or matters susceptible to change, and where they can have a material impact on our financial condition and operating performance. We discuss below the more significant estimates and related assumptions used in the preparation of our consolidated financial statements. If actual results were to differ materially from the estimates made, the reported results could be materially affected.

#### *Revenue Recognition*

We recognize revenue when the earnings process is complete. This occurs when we ship in accordance with terms of the underlying agreement, title transfers, collectibility is reasonably assured and pricing is fixed and determinable. Shipment terms to our battery product customers are primarily shipping point or destination and do not differ significantly between our business segments of the world. Accordingly revenue is recognized when title is transferred to the customer. Amounts invoiced to customers for shipping and handling are classified as revenue. Taxes on revenue producing transactions are not included in net sales.

We recognize revenue from the service of reserve power and motive power products when the respective services are performed.

Management believes that the accounting estimates related to revenue recognition are critical accounting estimates because they require reasonable assurance of collection of revenue proceeds and completion of all performance obligations. Also, revenues are recorded net of provisions for sales discounts and returns, which are established at the time of sale. These estimates are based on our past experience.

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### *Asset Impairment Determinations*

According to the FASB guidance on the accounting for goodwill and other intangible assets, goodwill is not amortized. We test for the impairment of our goodwill and trade names at least annually and whenever events or circumstances occur indicating that a possible impairment has been incurred. We utilize financial projections of our business segments, certain cash flow measures, as well as our market capitalization in the determination of the fair value of these assets.

With respect to our other long-lived assets other than goodwill and indefinite lived intangible assets, we are required to test for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable. We apply the FASB guidance on the accounting for the impairment or disposal of long-lived assets, in order to determine whether or not an asset was impaired. This standard requires an impairment analysis when indicators of impairment are present. If such indicators are present, the standard indicates that if the sum of the future expected cash flows from the asset, undiscounted and without interest charges, is less than the carrying value, an asset impairment must be recognized in the financial statements. The amount of the impairment is the difference between the fair value of the asset and the carrying value of the asset.

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

The intended use of assets and the expected future cash flows resulting directly from such use;

Industry specific economic conditions;

Competitor activities and regulatory initiatives; and

Client and customer preferences and patterns.

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

### *Litigation and Claims*

From time to time the Company has been or may be a party to various legal actions and investigations including, among others, employment matters, compliance with government regulations, federal and state employment laws, including wage and hour laws, contractual disputes and other matters, including matters arising in the ordinary course of business. These claims may be brought by, among others, the government, customers, suppliers and employees. Management considers the measurement of litigation reserves as a critical accounting estimate because of the significant uncertainty in some cases relating to the outcome of potential claims or litigation and the difficulty of predicting the likelihood and range of potential liability involved, coupled with the material impact on our results of operations that could result from litigation or other claims. In determining legal reserves, management considers, among other issues:

Interpretation of contractual rights and obligations;

The status of government regulatory initiatives, interpretations and investigations;

The status of settlement negotiations;



Prior experience with similar types of claims;

Whether there is available insurance coverage; and

Advice of outside counsel.

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*Environmental Loss Contingencies*

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

*Warranty*

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

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

*Allowance for Doubtful Accounts*

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

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

*Retirement Plans*

We use certain assumptions in the calculation of the actuarial valuation of our defined benefit plans. These assumptions include the weighted average discount rate, rates of increase in compensation levels and expected long-term rates of return of assets. Changes in these assumptions can result in changes to the recognized pension expense and recorded liabilities.

We account for Defined Benefit Pension Plans in accordance with FASB guidance. The guidance requires an entity to recognize in its statement of financial position an asset for a defined benefit postretirement plan's overfunded status or a liability for a plan's underfunded status, measure a defined benefit postretirement plan's assets and obligation that determine its funded status as of the end of the employer's fiscal year, and recognize changes in the funded status of a defined benefit postretirement plan in comprehensive income in the year in which the change occurs.

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

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### *Equity-based compensation*

We recognize compensation cost relating to equity-based payment transactions by using a fair-value measurement method, in accordance with the FASB guidance on accounting for share-based payment. The FASB guidance requires all equity-based payments to employees, including grants of stock options, to be recognized as compensation expense based on fair value over the requisite service period of the awards. We determine the fair value of restricted stock and restricted stock units based on the number of shares granted and the quoted price of our common stock, and the fair value of stock options is determined using the Black-Scholes option-pricing model, which uses both historical and current market data to estimate the fair value. This method incorporates various assumptions such as the risk-free interest rate, expected volatility, expected dividend yield and expected life of the options. When estimating the requisite service period of the awards, we consider expected forfeitures and many related factors including types of awards, employee class, and historical experience. Actual results, and future changes in estimates of the requisite service period may differ substantially from our current estimates.

### *Income Taxes*

Our effective tax rate is based on pretax income, statutory tax rates and tax planning opportunities available in the various jurisdictions in which we operate. We account for income taxes in accordance with the FASB guidance on accounting for income taxes, which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between book and tax bases on recorded assets and liabilities. The FASB guidance also requires that deferred tax assets be reduced by a valuation allowance, when it is more likely than not that a tax benefit will not be realized.

The recognition and measurement of a tax position is based on management's best judgment given the facts, circumstances and information available at the reporting date. In accordance with the FASB guidance on accounting for uncertainty in income taxes, we evaluate tax positions to determine whether the benefits of tax positions are more likely than not of being sustained upon audit based on the technical merits of the tax position. For tax positions that are more likely than not of being sustained upon audit, we recognize the largest amount of the benefit that is greater than 50% likely of being realized upon ultimate settlement in the financial statements. For tax positions that are not more likely than not of being sustained upon audit, we do not recognize any portion of the benefit in the financial statements. If the more likely than not threshold is not met in the period for which a tax position is taken, we may subsequently recognize the benefit of that tax position if the tax matter is effectively settled, the statute of limitations expires, or if the more likely than not threshold is met in a subsequent period.

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

To the extent we prevail in matters for which reserves have been established, or are required to pay amounts in excess of our reserves, our effective tax rate in a given financial statement period could be materially affected. An unfavorable tax settlement would require use of cash and result in an increase in the effective tax rate in the year of resolution. A favorable tax settlement would be recognized as a reduction in our effective tax rate in the year of resolution.

### *Derivative Financial Instruments*

We have entered into interest rate swap agreements to manage risk on a portion of our long-term floating-rate debt. We have entered into lead forward purchase contracts to manage risk of the cost of lead. We have entered into foreign exchange forward contracts and purchased option contracts to manage risk on foreign currency exposures. Our agreements are with creditworthy financial institutions, and for those contracts that result in a liability position there is no risk of nonperformance by the counterparties. The risk of nonperformance

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of those contracts that result in an asset position are not considered material and the vast majority of these will settle within one year. The counterparties to certain of these agreements are lenders under the senior secured credit agreement and liabilities related to these agreements are covered under the security provisions of the Credit Agreement. We do not hold or issue derivative financial instruments for trading or speculative purposes. The FASB guidance on accounting for derivative instruments and hedging activities, establishes accounting and reporting standards for derivative instruments and hedging activities. We recognize all derivatives as either assets or liabilities in the accompanying balance sheet and measure those instruments at fair value. Changes in the fair value of those instruments are reported in accumulated other comprehensive income if they qualify for hedge accounting or in earnings if they do not qualify for hedge accounting. Derivatives qualify for hedge accounting if they are designated as hedge instruments and if the hedge is highly effective in achieving offsetting changes in the fair value or cash flow of the asset or liability hedged. Effectiveness is measured on a regular basis using statistical analysis and by comparing the overall changes in the expected cash flows on the lead and foreign currency forward contracts with the changes in the expected all-in cash outflow required for the lead and foreign currency purchases. This analysis is performed quarterly on the initial purchases that cover the quantities hedged. Accordingly, gains and losses from changes in derivative fair value are deferred until the underlying transaction occurs. Interest expense on the debt is adjusted to include the payments made or received under such interest rate swap agreements. Inventory and cost of goods sold is adjusted to include the payments made or received under such lead and foreign currency forward contracts. Any deferred gains or losses associated with derivative instruments, which on infrequent occasions may be terminated prior to maturity are recognized in earnings in the period in which the underlying hedged transaction is terminated. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, such instrument would be closed and the resulting gain or loss would be recognized in earnings.

In the fourth quarter of fiscal 2009, we adopted the FASB guidance on disclosures about derivative instruments and hedging activities, which is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. The FASB guidance was effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008.

### *Fair Value Measurements*

In the first quarter of fiscal 2009, we adopted the FASB guidance on the fair value option for financial assets and financial liabilities. The guidance permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings.

Also, in the first quarter of fiscal 2009, we adopted the FASB guidance on fair value measurements as it relates to fair value measurement requirements for financial assets and liabilities. The guidance defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles ( GAAP ), and expands disclosures about fair value measurements. The statement applies under other accounting pronouncements that require or permit fair value measurements. However, FASB deferred the effective date of the guidance until the beginning of our fiscal 2010, as it relates to fair value measurement requirements for non-financial assets and liabilities that are not remeasured at fair value on a recurring basis. These include goodwill and other non-amortized intangibles.

### **Market and Economic Conditions**

The overall economic conditions in the markets we serve can be expected to have a material effect on our results of operations. Our operating results are directly affected by the world-wide and geographic economic climate as well as general cyclical patterns of the industries in which our major customer groups operate. Each of our business segments are heavily dependent on the end markets they serve and our results of operations will vary depending on general economic activity and the capital expenditure environment in these markets.

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Market conditions in our industry were generally strong in fiscal 2008 and through the first quarter of fiscal 2009. Global economic activity declined strongly after that and our revenue reached a recent low point in the first quarter of 2010. Since then, economic activity has improved and our quarterly revenue has increased along with global increases in industrial production and capital spending.

Additionally, during the last four fiscal years, the cost of lead, our principal raw material, has fluctuated widely. The highest price for lead on the London Metal Exchange during fiscal 2007 was \$0.91 per pound on February 26, 2007 and during fiscal 2008 was \$1.81 per pound on October 15, 2007. The highest and the lowest price for lead on the London Metal Exchange during fiscal 2009 was, respectively, \$1.34 per pound on April 7, 2008 and \$0.40 per pound on December 22, 2008. The highest and the lowest price for lead on the London Metal Exchange during fiscal 2010 was, respectively, \$1.18 per pound on January 7, 2010 and \$0.56 per pound on April 1, 2009. Since March 31, 2010, lead averaged approximately \$0.93 per pound. Our estimated change in lead cost due to fluctuations in price was a decrease of approximately \$87 million in fiscal 2010 from fiscal 2009 compared to an increase of approximately \$15 million in fiscal 2009 over fiscal 2008.

We manufacture and assemble our products primarily in Bulgaria, China, the Czech Republic, France, Germany, Mexico, Poland, the United Kingdom and the United States. 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. Volatile changes in foreign currency exchange rates, such as we experienced in fiscal 2009 and 2010, impact our results of operations.

Our business strategy continues to focus on improving our operating margins by closely monitoring our pricing, controlling our costs and enhancing our product mix. We also remain active in seeking acquisitions to help grow revenue and earnings.

We have been subjected to pricing pressures over the past several years. Our selling prices have changed substantially during the last several years to reflect the cost of commodities. During fiscal 2009, as a result of reductions in the cost of lead, our average selling prices began to decline as measured on a sequential quarterly basis. During fiscal 2010, our selling prices began to increase to reflect rising commodity prices. Approximately 35% of our revenue is currently subject to agreements that adjust pricing to a market-based index for lead.

### ***Cost Savings Initiatives Restructuring***

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

During fiscal 2008, we initiated a restructuring plan, primarily in Europe, to facilitate the integration of Energia's reserve and motive power businesses into the Company's worldwide operations. The restructuring was designed to improve operational efficiencies and eliminate redundant costs primarily as a result of the Energia transaction. Total spending for this plan was \$17 million with the final \$0.5 million charge in fiscal 2010. This plan resulted in the reduction of 272 employees and total annual saving of \$12 million.

During fiscal 2009 and fiscal 2010, we announced a plan to restructure our European and American operations, which will result in the reduction of approximately 515 employees on completion of the plan. These actions are primarily in Europe, the most significant of which is the closure of our leased Italian manufacturing

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facility and the opening of a new Italian distribution center to continue to provide responsive service to our customers in that market. We estimate that the total charges for these actions will amount to approximately \$33 million, which includes cash expenses of approximately \$24 million, primarily for employee severance-related payments, and a non-cash charge of approximately \$9 million, primarily for impairment of fixed assets. Based on the applicable accounting guidance, we recorded restructuring charges of \$19.1 million in fiscal 2009 and \$12.4 million in fiscal 2010. These restructuring actions will have a favorable annualized pre-tax earnings impact of \$24 million when fully implemented.

During fiscal 2010, in connection with the acquisition of Oerlikon, we initiated a plan to restructure Oerlikon's operations in Switzerland, which will result in the reduction of approximately 75 employees based on actions taken as of March 31, 2010. We estimate that the total charges for these actions will amount to approximately \$2 million, which is primarily for employee severance-related payments. Based on the applicable accounting guidance, we recorded a restructuring charge of \$1.3 million in fiscal 2010.

The Company expects to be committed to approximately \$2 million of expenses for the remaining restructuring programs in fiscal 2011.

**Components of Revenue and Expense**

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

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

For fiscal 2010, 2009 and 2008, we estimate that materials costs comprised over half of cost of goods sold. The largest single raw material cost is lead, which comprised approximately 26%, 32% and 33% of cost of goods sold in fiscal 2010, 2009 and 2008, respectively.

We use significant amounts of lead, plastics, steel, copper and other materials in manufacturing our products. The costs of these raw materials, particularly lead, are volatile and some of the volatility can be mitigated through hedging activities. Year over year lead costs decreased approximately \$87 million in fiscal 2010 and increased approximately \$15 million in fiscal 2009 and \$222 million in fiscal 2008, as a result of cost fluctuations experienced during those years. Lead, plastics, steel and copper in the aggregate represent our principal raw materials costs. Volatile raw materials costs can significantly affect our operating results and make period-to-period comparisons difficult. We attempt to control our raw materials costs through strategic purchasing decisions and hedging transactions. Where possible, we pass along our increased raw materials costs to our customers.

The following table shows certain average commodity prices for fiscal 2010, 2009 and 2008, which have not been adjusted for the timing of the impact on our financial results:

	2010	2009	2008
Lead \$/lb. <sup>(1)</sup>	\$ 0.901	\$ 0.751	\$ 1.296
Steel \$/lb. <sup>(2)</sup>	0.298	0.333	0.366
Copper \$/lb. <sup>(1)</sup>	2.783	2.660	3.430

(1) Source: London Metal Exchange ( LME )

(2) Source: Nucor Corporation

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

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

Operating expenses in fiscal 2010, 2009 and 2008 were incurred in the following functional areas of our business (as a percent of the total).

	2010	2009	2008
Selling	59%	61%	62%
General and administrative	34	33	32
Engineering	7	6	6
Total	100%	100%	100%

In comparing fiscal 2010 financial results to fiscal 2009, and fiscal 2009 financial results to fiscal 2008, management believes it is appropriate to consider the following highlighted pretax charges and credits:

Fiscal 2010 included: \$2.9 million of a bargain purchase gain on the Oerlikon acquisition, \$13.9 million of operating restructuring charges and \$2.0 million of expenses for acquisition related charges.

Fiscal 2009 included: \$22.4 million of operating restructuring charges, \$3.4 million of legal proceedings charge, and the non-operating charges of \$5.2 million related to our debt refinancing; partially offset by gains of \$11.3 million on sales of facilities.

Fiscal 2008 included: \$13.2 million of operating restructuring charges.

*Other income (expense), net* consists primarily of non-operating foreign currency transaction gains (losses) and expenses associated with shelf registrations and secondary offerings.

We quantify and monitor our global foreign currency exposures. On a selective basis, we will enter into foreign currency forward contracts and option contracts to reduce the impact from the volatility of currency movements. However, in fiscal 2009 foreign currency transaction gains exceeded the normal statistical ranges. The high volatility of currency fluctuations resulted in foreign currency transaction gains of \$11.6 million in fiscal 2009 as compared to a loss of \$3.0 million in fiscal 2010. We took steps in fiscal 2009 and 2010 that we believe will mitigate the impact of these foreign currency rate fluctuations in the future; however, we cannot be certain that foreign currency fluctuations of the size recognized in fiscal 2009 will not occur in the future.

**Table of Contents****Results of Operations Fiscal 2010 Compared to Fiscal 2009**

The following table presents summary consolidated statement of income data for fiscal year ended March 31, 2010, compared to fiscal year ended March 31, 2009:

	Fiscal 2010		Fiscal 2009		Increase (Decrease)	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Net sales	\$ 1,579.4	100.0%	\$ 1,972.9	100.0%	\$ (393.5)	(19.9)%
Cost of goods sold	1,218.5	77.1	1,559.5	79.0	(341.0)	(21.9)
Gross profit	360.9	22.9	413.4	21.0	(52.5)	(12.7)
Operating expenses	235.6	15.0	256.5	13.0	(20.9)	(8.1)
Bargain purchase gain	(2.9)	(0.2)			(2.9)	NA
Gain on sale of facilities			(11.3)	(0.6)	11.3	NA
Legal proceedings charge			3.4	0.2	(3.4)	NA
Restructuring charges	13.9	0.9	22.4	1.2	(8.5)	(37.9)
Operating earnings	114.3	7.2	142.4	7.2	(28.1)	(19.8)
Interest expense	22.7	1.4	26.7	1.4	(4.0)	(15.2)
Charges related to refinancing			5.2	0.3	(5.2)	NA
Other (income) expense, net	4.3	0.3	(8.6)	(0.4)	12.9	NA
Earnings before income taxes	87.3	5.5	119.1	6.0	(31.8)	(26.7)
Income tax expense	25.0	1.6	37.2	1.8	(12.2)	(32.9)
Net earnings	\$ 62.3	3.9%	\$ 81.9	4.2%	\$ (19.6)	(24.0)%

**Overview**

Fiscal 2010 results include a net sales decrease from fiscal 2009 of 19.9%, to \$1.6 billion, due to the recent decline in global economic activity, with a decrease to gross profit of 12.7% to \$360.9 million. Our gross profit margin increased 190 basis points to 22.9% due primarily to our cost savings initiatives and the favorable effect of lower commodity costs, partially offset by price decreases to our customers and decreased sales volume. We estimate that the reduction in average selling prices decreased our net sales by approximately 4% in fiscal 2010.

Operating expenses in fiscal 2010 decreased from fiscal 2009 by 8.1%, due mainly to volume, cost restructuring, lower commissions and lower bad debt expense. Operating expenses as a percentage of sales were 15.0% in fiscal 2010, an increase from 13.0% in fiscal 2009 as we did not reduce the fixed cost components at the rate our net sales decreased.

In comparing fiscal 2010 financial results to fiscal 2009, management believes it is appropriate to highlight the following items. We incurred \$13.9 million in restructuring expenses in fiscal 2010 compared to \$22.4 million in fiscal 2009. Also in fiscal 2010, we expensed \$2.0 million acquisition related costs in operating expenses. In fiscal 2009 we incurred a \$3.4 million legal proceedings charge. Partially offsetting these unfavorable items in fiscal 2010 was the recognition of a bargain purchase gain of \$2.9 million, and, in fiscal 2009, we recorded a gain on sale of facilities of \$11.3 million.

Interest expense in fiscal 2010 decreased from fiscal 2009 by approximately \$4.0 million or 15.2%, due primarily to higher levels of invested cash, lower borrowing levels and lower LIBOR variable rates offset by an increase of \$1.1 million of non-cash accreted interest on our Convertible Notes.

In addition, in fiscal 2009, we incurred approximately \$5.2 million of charges in connection with the refinancing of amounts borrowed under our prior senior secured credit facility.





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Other (income) expense, net was expense of approximately \$4.3 million in fiscal 2010 compared to income of \$8.6 million in fiscal 2009. This is primarily attributed to \$3.0 million of net foreign currency transaction losses in fiscal 2010, as compared to net foreign currency transaction gains primarily on short-term intercompany loans and receivables of \$11.6 million in fiscal 2009.

Fiscal 2010 net earnings were \$62.3 million compared to fiscal 2009 net earnings of \$81.9 million. Net earnings per common share in fiscal 2010 were \$1.29 per basic share and \$1.28 per diluted share, compared to \$1.68 per basic share and \$1.66 per diluted share in fiscal 2009.

A discussion of specific fiscal 2010 versus fiscal 2009 operating results follows, including an analysis and discussion of the results of our business segments.

**Net Sales**

Total net sales decreased \$393.5 million or 19.9% in fiscal 2010 from fiscal 2009. This was due to a 17% decline in organic volume and price decreases of 4% as a direct result of the recent economic slowdown. Acquisitions in fiscal 2010 added approximately 1% to net sales.

Fluctuations in the U.S. dollar versus foreign currencies had minimal impact on fiscal 2010 net sales versus fiscal 2009. The euro exchange rate to the U.S. dollar averaged \$1.417 / € in fiscal 2010 compared to \$1.422 / € in fiscal 2009.

Organic volume declined as a result of the global decline in economic activity. Worldwide industrial production and capital spending slowed significantly and both have a significant impact on our unit sales volume. The organic volume change in sales (the change in sales, excluding the effects of foreign currency translation, acquisitions and price increases) was a decrease of approximately \$339 million or 17% in fiscal 2010 from fiscal 2009. The majority of this decrease occurred as a direct result of the recent economic slowdown, particularly in Europe.

In addition, selling price reductions contributed an approximate \$77 million or a 4% decrease in our sales in fiscal 2010 from fiscal 2009.

Partially offsetting the above declines was an approximate \$24 million or 1% increase in our sales in fiscal 2010 from fiscal 2009 attributable to acquisitions.

Net sales by business segment were as follows:

	Fiscal 2010		Fiscal 2009		Increase (Decrease)	
	In Millions	% Net Sales	In Millions	% Net Sales	In Millions	%
Europe	\$ 742.0	47.0%	\$ 987.2	50.0%	\$ (245.2)	(24.8)%
Americas	700.3	44.3	831.3	42.2	(131.0)	(15.8)
Asia	137.1	8.7	154.4	7.8	(17.3)	(11.2)
Total net sales	\$ 1,579.4	100.0%	\$ 1,972.9	100.0%	\$ (393.5)	(19.9)%

The Europe segment's revenue decreased by \$245.2 million or 24.8% in fiscal 2010, as compared to fiscal 2009, primarily due to a 21% decrease in organic volume. Also contributing to the decline were lower prices, partially offset by the favorable impact of acquisitions.

The Americas segment's revenue decreased by \$131.0 million or 15.8% in fiscal 2010, as compared to fiscal 2009, primarily due to a 14% decrease in organic volume. Also contributing to the decline were lower prices, partially offset by the favorable impact of acquisitions.

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The Asia segment's revenue decreased by \$17.3 million or 11.2% in fiscal 2010 as compared to fiscal 2009, primarily due to an 8% decrease in organic volume. Also contributing to the decline were lower prices, partially offset by stronger foreign exchange rates.

Net sales by product line were as follows:

	Fiscal 2010		Fiscal 2009		Increase (Decrease)	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Reserve power	\$ 820.5	52.0%	\$ 933.8	47.3%	\$ (113.3)	(12.1)%
Motive power	758.9	48.0	1,039.1	52.7	(280.2)	(27.0)
<b>Total net sales</b>	<b>\$ 1,579.4</b>	<b>100.0%</b>	<b>\$ 1,972.9</b>	<b>100.0%</b>	<b>\$ (393.5)</b>	<b>(19.9)%</b>

Sales in our reserve power product line decreased in fiscal 2010 by \$113.3 million or 12.1% compared to the prior year primarily due to lower organic volume and prices, with a small offset from sales attributed to acquisitions.

Sales in our motive power product line decreased in fiscal 2010 by \$280.2 million or 27.0% compared to the prior year primarily due to a decrease in organic volume and prices resulting from the effects of the global economic decline with a small offset from sales attributed to acquisitions.

**Gross Profit**

	Fiscal 2010		Fiscal 2009		Increase (Decrease)	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Gross profit	\$ 360.9	22.9%	\$ 413.4	21.0%	\$ (52.5)	(12.7)%

Gross profit decreased \$52.5 million or 12.7% in fiscal 2010 compared to fiscal 2009. Gross profit, excluding the effect of foreign currency translation, decreased \$53 million or 12.8% in fiscal 2010 compared to fiscal 2009. Gross profit margin improved 190 basis points in fiscal 2010 compared to fiscal 2009. Lead costs represented approximately 26% of total cost of goods sold for fiscal 2010 as compared to approximately 32% of total cost of goods sold for fiscal 2009. We have made great efforts to improve gross margin in an environment of fluctuating commodity and energy costs, and we continue to focus on a wide variety of sales initiatives, which include improving product mix to higher margin products and obtaining appropriate pricing for products relative to our costs. Lastly, we continue to focus on cost savings initiatives such as relocating production to low cost facilities and implementing more automation in our manufacturing plants.

**Operating Expenses, Bargain Purchase Gain, Gain On Sale Of Manufacturing Facility and Other Charges**

	Fiscal 2010		Fiscal 2009		Increase (Decrease)	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Operating expenses	\$ 235.6	15.0%	\$ 256.5	13.0%	\$ (20.9)	(8.1)%
Bargain purchase (gain)	(2.9)	(0.2)			(2.9)	NA
(Gain) on sale of facilities			(11.3)	(0.6)	11.3	NA
Legal proceedings charge			3.4	0.2	(3.4)	NA
Restructuring charges	13.9	0.9	22.4	1.2	(8.5)	(37.9)

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***Operating Expenses***

Operating expenses decreased \$20.9 million or 8.1% in fiscal 2010 from fiscal 2009 as net sales decreased 19.9%. Operating expenses represented 15.0% of net sales in fiscal 2010 as compared to 13.0% in fiscal 2009. Selling expenses were 59.0% of operating expenses in fiscal 2010, compared to 61.0% in fiscal 2009. Operating expenses decreased in fiscal 2010 as compared to fiscal 2009, primarily as a result of lower sales commissions due to lower sales volumes, cost restructuring, and lower bad debt expense. As we reduced our costs in this area through cost savings initiatives, we made a conscious decision to maintain much of our selling and administrative personnel through the recent economic decline. This ensured we have adequate staff to grow in the future.

***Bargain Purchase Gain***

In fiscal 2010, we acquired the industrial battery businesses of the Swiss company Accu Holding AG, which included the acquisition of the stock of OEB Traction Batteries and the operating assets and liabilities of Oerlikon Stationery Batteries and its Swedish sales subsidiary (all collectively referred to as Oerlikon). The accounting for the Oerlikon acquisition resulted in the recognition of a bargain purchase gain of \$2.9 million. The Company commenced restructuring with the integration of Oerlikon into the Company's operations in the fourth quarter of fiscal 2010. See Restructuring Charges below.

***Gain on Sale of Facilities***

Included in our fiscal 2009 operating results are \$11.3 million of highlighted gains resulting from the sale of two of our facilities, the most significant of which was the sale of our manufacturing facility in Manchester, England. Included in the Manchester gain was the release of \$6.6 million of environmental reserves since the buyers assumed all environmental liabilities associated with this facility. The sale of the Manchester facility was a planned element of ongoing European restructuring programs and is consistent with our strategy to migrate production to lower cost facilities.

***Restructuring Charges***

In fiscal 2010, we incurred \$13.9 million of obligations for activities primarily related to the completion of the restructurings that began in fiscal 2008 and to restructure our recently acquired Oerlikon operation.

In fiscal 2009, we incurred restructuring expenses from activities to restructure our Europe and Americas operations. These actions are primarily in Europe, the most significant of which was the closure of our leased Italian manufacturing facility and the opening of a new Italian distribution center to continue to provide responsive service to our customers in that market. In addition, we implemented additional cost reduction actions in our continuing efforts to reduce overall costs. The 2009 restructuring plan charge, which totaled \$19.1 million, included \$12.9 million incurred for staff reductions plus \$6.2 million of non-cash impairment charges for redundant machinery and equipment. Also in fiscal 2009, we incurred obligations of approximately \$3.3 million for 2008 European restructuring plan activities that resulted from the Energia acquisition, which included \$2.9 million incurred for staff reductions and professional fees, plus \$0.4 million of non-cash impairment charges for redundant machinery and equipment, bringing the total expense to date for the 2008 European restructuring initiative to approximately \$17.0 million.

At March 31, 2010, the 2008 European restructuring programs were essentially complete; however, the 2009 restructuring program is expected to incur additional obligations of approximately \$1 million, primarily in fiscal 2011.

***Legal Proceedings Charge***

Included in our fiscal 2009 operating results are \$3.4 million of highlighted expenses resulting from a June 2008 ruling from the Court of Commerce in Lyon, France that our French subsidiary, EnerSys Sarl, which was acquired by us in 2002, was partially responsible for a 1999 fire in a French hotel under construction. We have appealed this ruling.

**Table of Contents****Operating Earnings**

Fiscal 2010 operating earnings of \$114.3 million were \$28.1 million lower than in fiscal 2009 and remained at 7.2% of sales. Fiscal 2010 operating earnings were unfavorably affected by lower organic volume and price decreases, partially offset by lower commodity costs and our continuing cost savings programs. As discussed above, fiscal 2010 operating earnings included \$2.9 million of highlighted gains resulting from a bargain purchase, and fiscal 2009 operating earnings included \$11.3 million of highlighted gains resulting from the sale of two of our facilities and \$3.4 million of highlighted legal proceedings charge. In addition, fiscal 2010 and 2009 operating earnings included the negative impact of \$13.9 million and \$22.4 million, respectively, of restructuring charges. Although not highlighted below, fiscal 2010 also included the negative impact of \$2.0 million for acquisition activity related expense in Europe and Americas.

Operating earnings by geographic segment were as follows:

	Fiscal 2010		Fiscal 2009		Increase (Decrease)	
	In Millions	As % Net Sales <sup>(1)</sup>	In Millions	As % Net Sales <sup>(1)</sup>	In Millions	%
Europe	\$ 17.6	2.4%	\$ 64.9	6.6%	\$ (47.3)	(72.9)%
Americas	87.2	12.4	79.2	9.5	8.0	10.1
Asia	20.5	15.0	12.8	8.3	7.7	60.2
Subtotal	125.3	7.9	156.9	8.0	(31.6)	(20.1)
Bargain purchase gain-Europe	(2.9)	(0.4)			(2.9)	NA
Restructuring charges-Europe	13.2	1.8	22.0	2.2	(8.8)	(40.0)
Restructuring charges-Americas	0.7	0.1	0.4	0.1	0.3	75.0
Gain on sales of facilities-Europe			(11.3)	(1.1)	11.3	NA
Legal proceedings charge-Europe			3.4	0.3	(3.4)	NA
Total	\$ 114.3	7.2%	\$ 142.4	7.2%	\$ (28.1)	(19.8)%

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

The Europe segment's operating earnings, excluding the highlighted items discussed above, decreased \$47.3 million or 72.9% in fiscal 2010 compared to fiscal 2009 due to lower organic volumes and sales prices. Organic volume in Europe dropped more than 20% in fiscal 2010, a significantly larger decrease than in our other two segments. We could not reduce costs in Europe as quickly as in the case of the other segments and, therefore experienced a substantial decline in operating earnings.

The Americas segment's operating earnings, excluding the highlighted items discussed above, increased \$8.0 million or 10.1% in fiscal 2010 despite a net sales decrease of 15.8%. The Americas segment's operating earnings were favorably affected by improved plant utilization and cost savings programs, which more than offset a 14% decline in organic growth and a 3% decline in prices.

The Asia segment's operating earnings, which increased \$7.7 million, reflect the improved operating performance primarily from commodity cost savings despite a decrease in organic volume of approximately 8% and a decline in selling prices.

**Interest Expense**

	Fiscal 2010		Fiscal 2009		Increase (Decrease)	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Interest expense	\$ 22.7	1.4%	\$ 26.7	1.4%	\$ (4.0)	(15.2)%

Interest expense of \$22.7 million in fiscal 2010 (net of interest income of \$1.8 million) was \$4.0 million lower than the \$26.7 million in fiscal 2009 (net of interest income of \$0.4 million).



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The decrease in interest expense in fiscal 2010 compared to fiscal 2009 is attributed primarily to higher levels of invested cash, lower borrowing levels and lower LIBOR variable rates.

Our average debt outstanding (including the amount of the Convertible Notes discount of \$39.4 million) was \$364.1 million in fiscal 2010, compared to our average debt outstanding (including the amount of \$44.2 million in Convertible Notes discount) of \$395.8 million, in fiscal 2009. Our average cash interest rate incurred in fiscal 2010 was 4.3% compared to 5.0% in fiscal 2009.

Included in interest expense is non-cash, accreted interest on the Convertible Notes of \$5.4 million in fiscal 2010 and \$4.3 million in fiscal 2009. Also included in interest expense are non-cash charges for deferred financing fees of \$1.7 million in fiscal 2010, compared to \$1.7 million, in fiscal 2009.

**Charges Related to Refinancing**

	Fiscal 2010		Fiscal 2009		Increase (Decrease)	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Charges related to refinancing	\$	%	\$ 5.2	0.3%	\$ (5.2)	NA

In fiscal 2009, we incurred charges in connection with the refinancing of amounts borrowed under our prior senior secured credit facility. These charges included approximately \$4.0 million in write offs of deferred financing fees and \$1.2 million of losses incurred as a result of the termination of certain interest rate swap agreements.

**Other (Income) Expense, Net**

	Fiscal 2010		Fiscal 2009		Increase (Decrease)	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Other (income) expense, net	\$ 4.3	0.3%	\$ (8.6)	(0.4)%	\$ 12.9	NA

Other (income) expense, net was a net expense of approximately \$4.3 million in fiscal 2010 compared to a net income of approximately \$8.6 million in fiscal 2009. This is primarily attributed to net foreign currency transaction losses primarily on short-term intercompany loans and receivables of \$3.0 million in fiscal 2010, as compared to a gain of \$11.6 million in fiscal 2009.

**Earnings Before Income Taxes**

	Fiscal 2010		Fiscal 2009		Increase (Decrease)	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Earnings before income taxes	\$ 87.3	5.5%	\$ 119.1	6.0%	\$ (31.8)	(26.7)%

As a result of the factors discussed above, fiscal 2010 earnings before income taxes were \$87.3 million, a decrease of \$31.8 million or 26.7% compared to fiscal 2009.

**Income Tax Expense**

	Fiscal 2010		Fiscal 2009		Increase (Decrease)	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Income tax expense	\$ 25.0	1.6%	\$ 37.2	1.8%	\$ (12.2)	(32.9)%

Effective tax rate	28.6%	31.2%
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The effective income tax rate was 28.6% in fiscal 2010, compared to the fiscal 2009 effective tax rate of 31.2%. The lower effective income tax rate in fiscal 2010 was primarily due to changes in the mix of earnings among our various legal entities in multiple jurisdictions and a non-recurring tax benefit of approximately \$2.1 million that was recognized during fiscal 2010 on the filing of amended tax returns. The fiscal 2009 effective income tax rate included a non-recurring benefit of approximately \$1.1 million on the effective settlement of a foreign tax credit.

**Net Earnings**

	Fiscal 2010		Fiscal 2009		Increase (Decrease)	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Net earnings	\$ 62.3	3.9%	\$ 81.9	4.2%	\$ (19.6)	(24.0)%

As a result of the factors described above, fiscal 2010 net earnings were \$62.3 million compared to fiscal 2009 net earnings of \$81.9 million. The \$19.6 million decrease is due primarily to a \$52.5 million or 12.7% decrease in gross profit as a result of a \$393.5 million or 19.9% decline in sales. Gross profit margin increased by 190 basis points. In fiscal 2010, operating expenses declined \$20.9 million or 8.1% as we did not reduce expenses as much as the percentage decline in revenue.

Net earnings per common share in fiscal 2010 were \$1.29 per basic share and \$1.28 per diluted share compared to \$1.68 per basic share and \$1.66 per diluted share in fiscal 2009.

**Results of Operations Fiscal 2009 Compared to Fiscal 2008**

The following table presents summary consolidated statement of income data for fiscal year ended March 31, 2009, compared to fiscal year ended March 31, 2008:

	Fiscal 2009		Fiscal 2008		Increase (Decrease)	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Net sales	\$ 1,972.9	100.0%	\$ 2,026.6	100.0%	\$ (53.7)	(2.7)%
Cost of goods sold	1,559.5	79.0	1,644.7	81.2	(85.2)	(5.2)
Gross profit	413.4	21.0	381.9	18.8	31.5	8.3
Operating expenses	256.5	13.0	249.4	12.3	7.1	2.8
Gain on sale of facilities	(11.3)	(0.6)			(11.3)	NA
Legal proceedings charge	3.4	0.2			3.4	NA
Restructuring charges	22.4	1.2	13.2	0.7	9.2	69.7
Operating earnings	142.4	7.2	119.3	5.9	23.1	19.4
Interest expense	26.7	1.4	28.9	1.4	(2.2)	(7.6)
Charges related to refinancing	5.2	0.3			5.2	NA
Other (income) expense, net	(8.6)	(0.4)	4.2	0.2	(12.8)	NA
Earnings before income taxes	119.1	6.0	86.2	4.3	32.9	38.2
Income tax expense	37.2	1.8	26.5	1.3	10.7	40.4
Net earnings	\$ 81.9	4.2%	\$ 59.7	2.9%	\$ 22.2	37.2%

**Overview**

Fiscal 2009 results include a net sales decrease from fiscal 2008 of 2.7%, to \$1.97 billion, with an increase to gross profit of 8.3% to \$413.4 million. Our gross profit margin increased 220 basis points to 21% due primarily to price increases to our customers and our cost savings initiatives, partially offset by the unfavorable



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effect of higher commodity costs of approximately \$32 million and decreased sales volume. We estimate that the impact of higher lead costs alone, our primary raw material, unfavorably affected our cost of goods sold by approximately \$15 million in fiscal 2009. We estimate that our price increases realized in fiscal 2009 increased our net sales by approximately 5%.

Operating expenses in fiscal 2009 grew over fiscal 2008 by 2.8%, due mainly to general cost increases and higher provisions for bad debts and legal accruals. Operating expenses as a percentage of sales were 13% in fiscal 2009, an increase from 12.3% in fiscal 2008 due to costs described above.

In comparing fiscal 2009 financial results to fiscal 2008, management believes it is appropriate to highlight the following items. We incurred \$22.4 million in restructuring expenses in fiscal 2009 compared to \$13.2 million in fiscal 2008, and in fiscal 2009 we incurred a \$3.4 million legal proceedings charge. Partially offsetting these unfavorable items in fiscal 2009 was a gain on sale of facilities of \$11.3 million.

Interest expense in fiscal 2009 decreased from fiscal 2008 by approximately \$2.2 million or 7.6%, due primarily to lower LIBOR variable rates, coupled with higher interest income on invested cash. In addition, in fiscal 2009, we incurred approximately \$5.2 million of charges in connection with the refinancing of amounts borrowed under our prior senior secured credit facility.

Other (income) expense, net was income of approximately \$8.6 million in fiscal 2009 compared to a net expense of approximately \$4.2 million in fiscal 2008. This is primarily attributed to net foreign currency transaction gains primarily on short-term intercompany loans and receivables of \$11.6 million in fiscal 2009, as compared to \$2.7 million of losses in fiscal 2008, partially offset in fiscal 2009 by a \$0.5 million write-off of minority interest losses.

***Fiscal 2009 Compared to Fiscal 2008***

Net sales by business segment were as follows:

	Fiscal 2009		Fiscal 2008		Increase (Decrease)	
	In Millions	% Net Sales	In Millions	% Net Sales	In Millions	%
Europe	\$ 987.2	50.0%	\$ 1,115.3	55.0%	\$ (128.1)	(11.5)%
Americas	831.3	42.2	777.9	38.4	53.4	6.9
Asia	154.4	7.8	133.4	6.6	21.0	15.8
Total net sales	\$ 1,972.9	100.0%	\$ 2,026.6	100.0%	\$ (53.7)	(2.7) %

Consolidated net sales decreased by \$53.7 million or 2.7% in fiscal 2009. In fiscal 2009, price increases of approximately 5% were more than offset by the negative impact of currency fluctuations of approximately 1% and a decrease in organic volume of approximately 7%. The majority of this decrease occurred in the second half of fiscal 2009 as a direct result of the prevailing economic slowdown, particularly in Europe. We believe our competitors experienced the same economic challenges and allowed our global business to continue to gain market share.

Fluctuations in the U.S. dollar versus foreign currencies resulted in a decrease of approximately \$24 million or 1% in fiscal 2009 net sales. The euro exchange rate to the U.S. dollar averaged \$1.42/ in fiscal 2009 compared to \$1.43/ in fiscal 2008, while other European currencies, such as the British pound, declined sharply.

Organic volume declined as a result of the global decline in economic activity. Worldwide industrial production and capital spending slowed and both had a significant impact on our unit sales volume. The organic volume change in sales (the change in sales, excluding the effects of foreign currency translation and price increases) was a decrease of approximately \$132 million or 7% in fiscal 2009 from fiscal 2008.

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Partially offsetting the above declines was an approximate \$102 million or 5% increase in our sales in fiscal 2009 from fiscal 2008 attributable to selling price recovery actions.

The Europe segment's revenue decreased by \$128.1 million or 11.5% in fiscal 2009, as compared to fiscal 2008, primarily due to lower organic volume and declining European currencies, which was substantially offset by price increases.

The Americas segment's revenue increased by \$53.4 million or 6.9% in fiscal 2009 as compared to fiscal 2008, due to higher prices, partially offset by declines of approximately 1% in both currency and organic growth.

The Asia segment's revenue increased by approximately \$21.0 million or 15.8% in fiscal 2009, primarily attributed to higher prices, stronger foreign exchange rates, and continued general business expansion in that region during the period.

**Product Line Net Sales**

	Fiscal 2009		Fiscal 2008		Increase (Decrease)	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Reserve power	\$ 933.8	47.3%	\$ 883.8	43.6%	\$ 50.0	5.7%
Motive power	1,039.1	52.7	1,142.8	56.4	(103.7)	(9.1)
<b>Total net sales</b>	<b>\$ 1,972.9</b>	<b>100.0%</b>	<b>\$ 2,026.6</b>	<b>100.0%</b>	<b>\$ (53.7)</b>	<b>(2.7)%</b>

Sales in our reserve power business increased in fiscal 2009 by \$50.0 million or 5.7% compared to the prior year primarily due to price increases.

Sales in our motive power product line decreased in fiscal 2009 by \$103.7 million or 9.1% compared to the prior year primarily due to a decrease in organic volume from the effects of the global economic decline.

**Gross Profit**

	Fiscal 2009		Fiscal 2008		Increase (Decrease)	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Gross profit	\$ 413.4	21.0%	\$ 381.9	18.8%	\$ 31.5	8.3%

Gross profit increased \$31.5 million or 8.3% in fiscal 2009 compared to fiscal 2008. Gross profit, excluding the effect of foreign currency translation, increased \$34.6 million or 9.0% in fiscal 2009 compared to fiscal 2008. Gross profit margin improved 220 basis points in fiscal 2009 compared to fiscal 2008. Gross profit percentage of net sales has improved on a sequential quarterly basis in every quarter of fiscal 2009. Prices for lead, our principal raw material, fluctuated widely in fiscal 2009. Lead costs approximated 32% of total cost of goods sold for fiscal 2009 as compared to approximately 33% of total cost of goods sold for fiscal 2008. We made great efforts to improve gross margin in an environment of

fluctuating commodity and energy costs, and we continued to focus on a wide variety of sales initiatives, which benefit our margins by improving product mix to higher margin products. Lastly, we continued to focus on cost savings initiatives such as relocating production to low cost facilities and implementing more automation in our manufacturing plants.

**Table of Contents***Operating Expenses, Gain On Sale Of Manufacturing Facility and Other Charges*

	Fiscal 2009		Fiscal 2008		Increase (Decrease)	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Operating expenses	\$ 256.5	13.0%	\$ 249.4	12.3%	\$ 7.1	2.8%
(Gain) on sale of facilities	(11.3)	(0.6)			(11.3)	NA
Legal proceedings charge	3.4	0.2			3.4	NA
Restructuring charges	22.4	1.2	13.2	0.7	9.2	69.7
	<i>Operating Expenses</i>					

Operating expenses increased \$7.1 million or 2.8% in fiscal 2009 over fiscal 2008 as net sales decreased 2.7%. Excluding the effect of foreign currency translation, operating expenses increased 3.8% in fiscal 2009 over fiscal 2008, while net sales decreased 1.5% in fiscal 2009 from fiscal 2008. Operating expenses represented 13.0% of net sales in fiscal 2009 as compared to 12.3% in fiscal 2008. Selling expenses were 61.0% of operating expenses in fiscal 2009, compared to 61.8% in fiscal 2008. Operating expenses increased in fiscal 2009 as compared to fiscal 2008, primarily due to higher provisions for bad debts and legal accruals. We continued to further reduce our costs in this area through cost savings initiatives.

*Gain on Sale of Facilities*

Included in our fiscal 2009 operating results are \$11.3 million of highlighted gains resulting from the sale of two of our facilities, the most significant of which was the sale of our manufacturing facility in Manchester, England. Included in the Manchester gain was the release of \$6.6 million of environmental reserves established through purchase accounting of the ESG acquisition in fiscal 2002 as the buyers assumed all environmental liabilities associated with this facility. The sale of the Manchester facility was a planned element of ongoing European restructuring programs and is consistent with our strategy to migrate production to lower cost facilities.

*Restructuring Charges*

In fiscal 2009, we incurred restructuring expenses for activities to restructure our European and American operations. These actions were primarily in Europe, the most significant of which is the closure of our leased Italian manufacturing facility and the opening of a new Italian distribution center to continue to provide responsive service to our customers in that market. In addition, we made additional cost reduction actions in order to meet current and anticipated future customer demand. The 2009 restructuring plan charge, which totals \$19.1 million, includes \$12.9 million incurred for staff reductions plus \$6.2 million of non-cash impairment charges for redundant machinery and equipment. Also in fiscal 2009, we incurred obligations of approximately \$3.3 million for 2008 European restructuring plan activities that resulted from the Energia acquisition, which included \$2.9 million incurred for staff reductions and professional fees, plus \$0.4 million of non-cash impairment charges for redundant machinery and equipment, bringing the total expense to date for the 2008 European restructuring initiative to approximately \$17.0 million.

Included in our fiscal 2008 operating results are \$13.2 million of highlighted restructuring charges for European restructuring activities, which included \$9.3 million that were incurred for staff reductions and professional fees, plus \$3.9 million of non-cash impairment charges for redundant machinery and equipment.

*Legal Proceedings Charge*

Included in our fiscal 2009 operating results are \$3.4 million of highlighted expenses resulting from a June 2008 ruling from the Court of Commerce in Lyon, France that our French subsidiary, EnerSys Sarl, which was acquired by us in 2002, was partially responsible for a 1999 fire in a French hotel under construction. We have appealed this ruling.

**Table of Contents****Operating Earnings**

	Fiscal 2009		Fiscal 2008		Increase (Decrease)	
	In Millions	As % Net Sales <sup>(1)</sup>	In Millions	As % Net Sales <sup>(1)</sup>	In Millions	%
Europe	\$ 64.9	6.6%	\$ 61.9	5.6%	\$ 3.0	4.8%
Americas	79.2	9.5	67.9	8.7	11.3	16.7
Asia	12.8	8.3	2.7	2.1	10.1	NA
Subtotal	\$ 156.9	8.0%	\$ 132.5	6.5%	\$ 24.4	18.4%
Gain on sale of facilities-Europe	(11.3)	(1.1)			(11.3)	NA
Restructuring charges-Europe	22.0	2.2	13.2	1.2	8.8	66.7
Restructuring charges-Americas	0.4	0.1			0.4	NA
Litigation proceedings charge-Europe	3.4	0.3			3.4	NA
<b>Total operating earnings</b>	<b>\$ 142.4</b>	<b>7.2%</b>	<b>\$ 119.3</b>	<b>5.9%</b>	<b>\$ 23.1</b>	<b>19.4%</b>

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

**Operating Earnings**

Fiscal 2009 operating earnings of \$142.4 million were \$23.1 million higher than in fiscal 2008 and our operating margins increased 130 basis points to 7.2%. Fiscal 2009 operating earnings were favorably affected by price increases and our continuing cost savings programs, partially offset by higher commodity costs and lower sales volume. Fiscal 2009 operating earnings included \$11.3 million of highlighted gains resulting from the sale of two of our facilities and \$3.4 million of highlighted legal proceedings charge. In addition fiscal 2009 and 2008 operating earnings included the negative impact of \$22.4 million and \$13.2 million, respectively, of restructuring charges.

The Europe segment's operating earnings increased \$3.0 million or 4.8% in fiscal 2009 compared to fiscal 2008 as increased sales prices and cost savings programs more than offset the effect of lower organic volume. The Europe segment's operating earnings were also adversely affected by approximately \$22.0 million of restructuring charges and approximately \$3.4 million for a legal proceedings charge, and favorably affected by the approximate \$11.3 million gain on sale of facilities, primarily our Manchester, England manufacturing facility. The restructuring program that was begun in fiscal 2009, the most significant of which is related to our Italian operation. In fiscal 2008, the Europe segment's operating earnings were adversely affected by the approximate \$13.2 million in charges for the restructuring program in Europe, primarily related to the Energia acquisition.

The Americas segment's operating earnings increased \$11.3 million or 16.7% in fiscal 2009 as net sales grew by approximately 6.9%. The Americas segment's operating earnings were favorably affected by sales price increases, improved plant utilization and cost savings programs, which more than offset a 1.1% decline in organic growth. The Americas segment's operating earnings were also adversely affected by approximately \$0.4 million for a restructuring program charge.

The Asia segment's operating earnings, which increased \$10.1 million, reflect the improved operating performance primarily from cost savings despite a decrease in organic volume and sale prices.

**Interest Expense**

	Fiscal 2009		Fiscal 2008		Increase (Decrease)	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Interest expense	\$ 26.7	1.4%	\$ 28.9	1.4%	\$ (2.2)	(7.6)%



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Fiscal 2009 interest expense of \$26.7 million (net of interest income of \$0.4 million) decreased 7.6% from fiscal 2008.

The decrease in interest expense in fiscal 2009 compared to fiscal 2008 is attributed primarily to lower LIBOR variable rates, coupled with higher interest income on invested cash. Included in interest expense is non-cash interest on the Convertible Notes of \$4.3 million in fiscal 2009.

Our average debt outstanding (including the amount of the Convertible Notes discount of \$44.2 million) was \$395.8 million in fiscal 2009, compared to \$430 million in fiscal 2008.

Our average cash interest rate incurred in fiscal 2009 was 5.0% compared to 6.5% in fiscal 2008. Also included in interest expense are non-cash charges for deferred financing fees of \$0.4 million and \$1.4 million in 2009, compared to \$1.6 million in fiscal 2008.

**Charges Related to Refinancing**

	Fiscal 2009		Fiscal 2008		Increase (Decrease)	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Charges related to refinancing	\$ 5.2	0.3%	\$	%	\$ 5.2	NA

In fiscal 2009, we incurred charges in connection with the refinancing of amounts borrowed under our prior senior secured credit facility. These charges included approximately \$4.0 million in write-offs of deferred financing fees and \$1.2 million of losses incurred as a result of the termination of certain interest rate swap agreements.

**Other (Income) Expense, Net**

	Fiscal 2009		Fiscal 2008		Increase (Decrease)	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Other (income) expense, net	\$ (8.6)	(0.4)%	\$ 4.2	0.2%	\$ (12.8)	NA

Other (income) expense, net was income of approximately \$8.6 million in fiscal 2009 compared to a net expense of approximately \$4.2 million in fiscal 2008. This is primarily attributed to net foreign currency transaction gains primarily on short-term intercompany loans and receivables of \$11.6 million in fiscal 2009, as compared to \$2.7 million of losses in fiscal 2008, partially offset in fiscal 2009 by a \$0.5 million write-off of minority interest losses. In addition, other (income) expense, net in fiscal 2009 and 2008 included expenses of \$0.3 million and \$0.6 million, respectively, for shelf registration statements and secondary offerings.

**Earnings Before Income Taxes**

	Fiscal 2009		Fiscal 2008		Increase (Decrease)	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Earnings before income taxes	\$ 119.1	6.0%	\$ 86.2	4.3%	\$ 32.9	38.2%

As a result of the factors discussed above, fiscal 2009 earnings before income taxes were \$119.1 million, an increase of \$32.9 million or 38.2% compared to fiscal 2008.



**Table of Contents*****Income Tax Expense***

	Fiscal 2009		Fiscal 2008		Increase (Decrease)	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Income tax expense	\$ 37.2	1.8%	\$ 26.5	1.3%	\$ 10.7	40.4%
Effective tax rate	31.2%		30.7%			

The effective income tax rate was 31.2% in fiscal 2009, compared to the fiscal 2008 effective tax rate of 30.7%. The higher effective income tax rate in fiscal 2009 was due to changes in the mix of earnings among our various legal entities in multiple jurisdictions, partially offset by a non-recurring tax benefit of approximately \$1.1 million that was recognized in the first fiscal quarter of 2009 on the effective settlement of a foreign tax audit, which reduced our book effective tax rate by 0.9%.

***Net Earnings***

	Fiscal 2009		Fiscal 2008		Increase (Decrease)	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Net earnings	\$ 81.9	4.2%	\$ 59.7	2.9%	\$ 22.2	37.2%

As a result of the factors discussed above, fiscal 2009 net earnings were \$81.9 million compared to fiscal 2008 net earnings of \$59.7 million. The \$22.2 million increase is due primarily to a \$31.5 million increase in gross profit, a \$11.3 million gain on sale of facilities, and a \$12.8 million favorable increase in other (income) expense, net, and a \$2.2 million decrease in interest expense. These favorable changes were partially offset by a \$7.1 million increase in operating expenses, a \$9.2 million increase in restructuring charges, a \$3.4 million legal proceedings charge, a \$5.2 million charge related to refinancing, and a \$10.7 million increase in income taxes in fiscal 2009.

Net earnings per common share in fiscal 2009 were \$1.68 per basic share and \$1.66 per diluted share compared to \$1.25 per basic share and \$1.22 per diluted share in fiscal 2008.

**Liquidity and Capital Resources*****Overview***

As we discussed in our *Overview* and *Market and Economic Conditions* above, our results have been significantly affected by the unfavorable economic environments in each of our business segments during the past two fiscal years. As our net sales declined in the four consecutive quarters beginning in the second quarter of fiscal 2009, our need for primary working capital was reduced. As our net sales improved in each of the last three quarters of fiscal 2010, we controlled the growth of primary working capital. The cash flow generated from the reduction of primary working capital, excluding working capital increases from acquisitions, in fiscal 2010 and 2009 was \$28.4 million and \$67.1 million, respectively, as compared to the \$142.8 million used to increase primary working capital in fiscal 2008. During fiscal 2009, the aging and quality of our accounts receivable deteriorated somewhat as a small number of our customers experienced serious financial difficulties in the economic downturn. However, this has improved in fiscal 2010 and we believe our allowance for doubtful accounts is adequate. In fiscal 2010, we invested \$33.2 million in acquisitions and other business ventures, which included approximately \$19 million of primary working capital.

During the first quarter of fiscal 2009, we refinanced the majority of our debt with a new \$350 million senior secured credit facility and the issuance of \$172.5 million of senior unsecured Convertible Notes. This refinancing was completed during favorable debt market conditions and significantly lowered our cash interest

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costs. In addition, it provided greater flexibility to grow the business. Should we need a significant increase in our debt for potential growth, there is no assurance that our current favorable capital structure would continue.

***Cash Flow and Financing Activities***

Cash and cash equivalents at March 31, 2010, 2009, and 2008, were \$201.0 million, \$163.2 million, and \$20.6 million, respectively.

Cash provided by operating activities for fiscal 2010, 2009, and 2008, was \$136.6 million, \$219.4 million and, \$4.0 million, respectively.

During fiscal 2010, cash from operating activities was provided primarily from net earnings of \$62.3 million, depreciation and amortization of \$44.9 million, a \$28.4 million decrease in primary working capital and \$23.8 million from non-cash interest expense, provision for doubtful accounts, deferred taxes and stock compensation. This cash flow was partially offset by a \$16.6 million decrease in accrued expenses and other liabilities, a \$2.9 million non-cash bargain purchase gain on the acquisition of Oerlikon, and a \$0.9 million gain on disposal of assets.

During fiscal 2009, cash from operating activities was provided primarily from net earnings of \$81.9 million, a \$67.1 million decrease in primary working capital, depreciation and amortization of \$47.2 million and \$34.9 million for other non-cash charges for non-cash interest expense, write-off of deferred finance fees, losses on the disposal and impairment of fixed assets, provision for doubtful accounts, deferred taxes and stock compensation. This cash flow was partially offset by an \$11.3 million non-cash gain on sale of manufacturing facilities, primarily in Manchester, England.

During fiscal 2008, cash from operating activities was provided primarily from net earnings of \$59.7 million, depreciation and amortization of \$47.6 million, a \$16.6 million increase in accrued expenses, a \$4.6 million decrease in other assets and \$17.9 million for other non-cash charges for provision for doubtful accounts, non-cash interest expense, deferred taxes, stock compensation and a loss on disposal of assets. These increases in cash were almost entirely offset by a \$142.8 million use of cash to increase primary working capital.

As explained above in the discussion of our use of non-GAAP financial measures, we monitor the level and percentage of sales of primary working capital. Primary working capital for this purpose is trade accounts receivable, plus inventories, minus trade accounts payable and the resulting net amount is divided by the trailing three month net sales (annualized) to derive a primary working capital percentage. Primary working capital was \$439.7 million (yielding a primary working capital percentage of 24.4%) at March 31, 2010 and \$437.9 million (yielding a primary working capital percentage of 27.8%) at March 31, 2009. The 340 basis point decrease during fiscal 2010 was a result of maintaining a stable level of primary working capital. Increases in receivables and inventory were offset by an increase in accounts payable, and sales were 14.6% higher in the fourth quarter of 2010 as compared to the prior year. We recognize there is additional credit risk in the current economic environment and are taking appropriate steps to reduce this risk. However, we do not believe the increase in credit risk in fiscal 2010 is material to our overall business. We increased our allowance for doubtful accounts by approximately \$1.9 million and \$3.0 million in fiscal 2010 and 2009, respectively, to a level that we believe is adequate at this time. We had reduced inventory levels in fiscal 2009 as demand softened, and increased inventories and the related accounts payable in fiscal 2010 as we experienced an improvement in orders and sales, and as a result of our recent acquisitions. We closely monitor our inventory turns and continue to adjust production levels as necessary.

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Primary working capital and primary working capital percentages at March 31, 2010, 2009 and 2008 are computed as follows:

At March 31,	Trade Receivables	Inventory	Accounts Payable (in millions)	Primary Working Capital	Quarter Revenue Annualized	Primary Working Capital %
2010	\$ 383.6	\$ 254.4	\$ (198.3)	\$ 439.7	\$ 1,802.1	24.4%
2009	356.2	209.3	(127.6)	437.9	1,572.6	27.8%
2008	503.0	335.7	(260.5)	578.2	2,327.5	24.8%

Cash used in investing activities for fiscal 2010, 2009 and 2008 was \$77.2 million, \$46.8 million and \$62.1 million, respectively. Capital expenditures were \$45.1 million, \$57.1 million and \$45.0 million in fiscal 2010, 2009 and 2008, respectively. The current year's capital spending included the continuation of a capacity expansion of our thin-plate, pure-lead manufacturing facilities. Our purchases of and investments in businesses were \$33.2 million and \$17.4 million in fiscal 2010 and fiscal 2008, respectively. Additionally, we received \$10.3 million from the sale of facilities in fiscal 2009.

Financing activities used cash of \$24.5 million in fiscal 2010 and \$23.2 million in fiscal 2009, as compared to cash provided of \$39.6 million in fiscal 2008.

During fiscal 2010, we repaid \$7.4 million of short-term debt and made regularly scheduled payments of \$25.2 million of long-term debt.

During the first fiscal quarter of 2009, we repaid \$351.4 million borrowed under our prior senior secured credit facility with the issuance of \$172.5 million of senior unsecured Convertible Notes, and \$225.0 million of Term A Loans borrowed under our new \$350 million senior secured credit facility. Additionally, in fiscal 2009, we repaid \$34.2 million of short-term debt and paid \$10.9 million in refinancing fees related to the new senior unsecured Convertible Notes and senior secured credit facility.

During fiscal 2009, we purchased 1.8 million shares of our common stock at \$11.00 per common share for \$19.8 million in the aggregate from an institutional stockholder.

The exercise of stock options and the related tax benefits contributed \$7.3 million, \$11.9 million and \$26.8 million, respectively, in fiscal 2010, 2009, and 2008.

As a result of the above, cash and cash equivalents increased \$37.8 million from \$163.2 million at March 31, 2009 to \$201.0 million at March 31, 2010.

***Fiscal 2009 Debt Refinancing Program and Sale of Convertible Debt***

During May 2008, we completed the sale of \$172.5 million aggregate principal amount of senior unsecured 3.375% Convertible Notes due 2038, and used the net proceeds of \$168.2 million to repay a portion of our existing senior secured Term Loan B. The senior unsecured Convertible Notes are potentially convertible, at the option of the holders, into shares of EnerSys common stock. It is our current intent to settle the principal amount of any conversions in cash, and any additional conversion consideration in cash, shares of EnerSys common stock or a combination of cash and shares. The notes will mature on June 1, 2038, unless earlier converted, redeemed or repurchased.

Concurrently with the Convertible Notes offering, certain of our stockholders sold 3.69 million shares of EnerSys common stock pursuant to an effective shelf registration statement filed with the SEC on May 19, 2008. We did not receive any proceeds from the common stock offering.

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Also, immediately following the closing of the senior unsecured convertible note issue, we commenced refinancing the outstanding combined balance of the senior secured Term Loan B and our existing Revolver of approximately \$300 million, with a new \$350 million senior secured credit facility comprising Term A Loans of \$225 million and a new \$125 million Revolver.

The \$225.0 million senior secured Term A Loans are subject to a quarterly principal amortization of 1.25% in Year 1, 1.88% in Years 2-3, 2.50% in Year 4, 3.13% in Year 5 and 14.38% in Year 6 and matures on June 27, 2014. The \$125.0 million revolving credit facility matures on June 27, 2013. Borrowings under this credit agreement bears interest at a floating rate based, at our option, upon (i) a LIBOR rate plus an applicable percentage (currently 1.50%), or (ii) the greater of the federal funds rate plus 0.5% or the prime rate, plus an applicable percentage (currently 0.50%).

All obligations under the senior secured credit agreement are secured by, among other things, substantially all of our U.S. assets. Our credit agreements contain various covenants, which, absent prepayment in full of the indebtedness and other obligations, or the receipt of waivers, would 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 the \$350 million senior secured credit facility.

We currently are in compliance with all covenants and conditions under our credit agreements.

In addition to the above described credit facility, our foreign subsidiaries maintain local credit facilities to provide credit for working capital and other purposes.

In addition to cash flows from operating activities, we had available committed and uncommitted credit lines of approximately \$247 million at March 31, 2010 and \$265 million at March 31, 2009 to cover short-term liquidity requirements. On a long-term basis, our senior secured revolving credit facility is committed through June 2013, as long as we continue to comply with the covenants and conditions of the credit facility agreement. Included in our available credit lines at March 31, 2010 is \$123.9 million of our senior secured revolving credit facility.

We believe that our cash flow from operations, available cash and short-term investments and available borrowing capacity under our senior secured credit agreement will be sufficient to meet our liquidity needs, including normal levels of capital expenditures, for the foreseeable future; however, there can be no assurance that this will be the case.

***Off-Balance Sheet Arrangements***

The Company did not have any off-balance sheet arrangements during any of the periods covered by this report.

**Table of Contents*****Contractual Obligations and Commercial Commitments***

At March 31, 2010, we had certain cash obligations, which are due as follows:

	Total	Less than 1 year	2 to 3 years	4 to 5 years	After 5 years
	(in millions)				
Long-term debt	\$ 384.8	\$ 26.0	\$ 49.8	\$ 136.5	\$ 172.5
Interest on debt	40.9	9.4	17.4	13.2	0.9
Operating leases	45.5	13.6	19.5	10.3	2.1
Pension and profit sharing	27.3	1.9	4.1	5.2	16.1
Restructuring	13.1	11.8	0.6	0.2	0.5
Facility construction commitments	8.0	8.0			
Interest rate swap agreements	9.7	6.1	3.6		
Purchase commitments	3.3	3.3			
Capital lease obligations, including interest	2.3	0.7	1.2	0.4	
Total	\$ 534.9	\$ 80.8	\$ 96.2	\$ 165.8	\$ 192.1

Under our senior secured credit facility, we had outstanding standby letters of credit of \$1.2 million for each of the fiscal years ending March 31, 2010, 2009 and 2008.

***Credit Facilities and Leverage***

Our focus on working capital management and cash flow from operations is measured by our ability to reduce debt and reduce our leverage ratios. Shown below are the leverage ratios in connection with our senior secured credit agreement for fiscal 2010 and 2009. The total leverage ratio for fiscal 2010 is 1.7 times adjusted EBITDA (non-GAAP) as described below.

Our improved leverage in fiscal 2010 reflects continued net earnings and positive cash flows. The total net debt as defined under our senior secured credit agreement for fiscal 2010 of approximately \$268.9 million is 1.7 times adjusted EBITDA (non-GAAP).

Our improved leverage in fiscal 2009 reflects improved net earnings and positive cash flows from a decrease in primary working capital caused by lower sales volume. Approximately \$19.8 million of cash was used to repurchase 1.8 million shares of our common stock in October 2008. The total net debt as defined under our senior secured credit agreement for fiscal 2009 of approximately \$337.2 million is 1.6 times adjusted EBITDA (non-GAAP).

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The following table provides a reconciliation of net earnings to EBITDA (non-GAAP) and adjusted EBITDA (non-GAAP) as per our credit agreement:

	Fiscal 2010 (in millions, except ratios)	Fiscal 2009
Net earnings as reported	\$ 62.3	\$ 81.9
Add back:		
Depreciation and amortization	44.9	47.3
Interest expense	22.7	26.7
Income tax expense	25.0	37.2
 EBITDA (non GAAP) <sup>(1)</sup>	 \$ 154.9	 \$ 193.1
Adjustments per credit agreement definitions	4.1 <sup>(2)</sup>	12.6 <sup>(3)</sup>
 Adjusted EBITDA (non-GAAP) per credit agreements	 \$ 159.0	 \$ 205.7
 Total net debt <sup>(4)</sup>	 \$ 268.9	 \$ 337.2
 Leverage ratios:		
Total net debt/adjusted EBITDA ratio <sup>(5)</sup>	1.7X	1.6X
Maximum ratio permitted	3.3X	3.5X
Consolidated interest coverage ratio <sup>(5)</sup>	9.7X	9.3X
Minimum ratio required	4.8X	4.5X

- (1) We have included EBITDA (non-GAAP) and adjusted EBITDA (non-GAAP) because our lenders use it as a key measure of our performance. EBITDA is defined as earnings before interest expense, income tax expense, depreciation and amortization. EBITDA is not a measure of financial performance under GAAP and should not be considered an alternative to net earnings or any other measure of performance under GAAP or to cash flows from operating, investing or financing activities as an indicator of cash flows or as a measure of liquidity. Our calculation of EBITDA may be different from the calculations used by other companies, and therefore comparability may be limited. Certain financial covenants in our senior secured credit facility are based on EBITDA, subject to adjustments, which is shown above. Because we have a significant amount of debt, and because continued availability of credit under our senior secured credit facility is critical to our ability to meet our business plans, we believe that an understanding of the key terms of our credit agreement is important to an investor's understanding of our financial condition and liquidity risks. Failure to comply with our financial covenants, unless waived by our lenders, would mean we could not borrow any further amounts under our revolving credit facility and would give our lenders the right to demand immediate repayment of all outstanding term and revolving credit loans. We would be unable to continue our operations at current levels if we lost the liquidity provided under our credit agreements. Depreciation and amortization in this table excludes the amortization of deferred financing costs, which is included in interest expense.
- (2) The \$4.1 million adjustments to EBITDA in fiscal 2010 related primarily to the adjustment for \$2.9 million for non-cash bargain purchase gain on the Oerlikon acquisition, offset by adding back \$7.0 million related primarily to stock compensation expense.
- (3) The \$12.6 million adjustments to EBITDA in fiscal 2009 related primarily to the adjustment for restructuring charges, which included \$6.4 million for non-cash equipment write-offs and fixed asset impairment, \$5.0 million related primarily to stock compensation expense and \$1.2 million, net of other non-cash expenses.
- (4) Debt includes capital lease obligations and letters of credit issued under the senior secured credit facility and is net of U.S. cash and cash equivalents.
- (5) These ratios are included to show compliance with the leverage ratios set forth in our credit facilities. We show both our current ratios and the maximum ratio permitted or minimum ratio required under our senior secured credit facility.

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*Stockholders' Equity*

Stockholders' equity increased \$109.8 million during fiscal 2010 due to net earnings of \$62.3 million; an increase for currency translation adjustments of \$31.2 million due primarily to the strengthening of European currencies, \$14.2 million of increases related to stock-based compensation and the exercise of stock options and a \$2.6 million unrealized gain on derivative instruments.

Stockholders' equity decreased \$21.4 million during fiscal 2009, primarily because of a decrease for currency translation adjustments of \$130.7 million due primarily to the weakening of European currencies; and a \$19.8 million decrease related to the purchase of 1.8 million treasury shares. This decrease was partially offset by net earnings of \$81.9 million; \$16.9 million of increases related to stock-based compensation and the exercise of stock options and a \$1.3 million unrealized gain on derivative instruments. The decrease was also offset by the reclassification of \$46.3 million of Convertible Notes discount and the related \$17.9 million for amortization, write-off of deferred finance fees, net of tax due to the retrospective application of new FASB guidance on accounting for convertible debt instruments that may be settled in cash upon conversion, as explained further in Note 1 of Notes to Consolidated Financial Statements in Item 8.

***RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS***

On April 1, 2009, we adopted new guidance from the FASB, which provides guidance for the accounting, reporting and disclosure of noncontrolling interests and requires, among other things, that noncontrolling interests be recorded as equity in the consolidated financial statements. The guidance became effective for us as of April 1, 2009 and had no material impact on our results of operations or financial position. The adoption of this guidance resulted in the reclassification of \$4.3 million and \$4.2 million of Minority Interests (now referred to as noncontrolling interests) to a separate component of Total Equity on the Consolidated Balance Sheet as of March 31, 2010 and March 31, 2009, respectively. The impact of adopting the guidance on our statements of income and cash flow was deemed immaterial.

On April 1, 2009, we adopted new guidance, which is intended to improve reporting by creating greater consistency in the accounting and financial reporting of business combinations, resulting in more complete, comparable, and relevant information for investors and other users of financial statements. To achieve this goal, the new guidance requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. The new guidance also requires that professional fees associated with acquisition activities be expensed as incurred. Accordingly, any business combination we engage in on or after April 1, 2009 will be recorded and disclosed in accordance with the new guidance. We expect the new guidance will have an impact on our consolidated financial statements at the time we acquire new businesses in the future. For fiscal 2010, the Company expensed \$2.0 million incurred for professional fees associated with acquisition activities.

In December 2008, the FASB issued authoritative guidance on employers' disclosures about pensions and other postretirement benefits. Under the new guidance an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan is expanded and is effective for financial statements issued by us for fiscal 2010. We have included such disclosures under Item 8 in the Notes to the Consolidated Financial Statements.

In May 2008, the FASB issued new guidance on the accounting for convertible debt instruments that may be settled in cash upon conversion (including partial settlement). This FASB guidance specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. The FASB guidance was effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, and must be applied retrospectively to all periods presented. The Company adopted the guidance effective May 28, 2008, the date of the Convertible Notes offering.

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**Related Party Transactions**

The FASB guidance, on related party disclosures, requires us to identify and describe material transactions involving related persons or entities and to disclose information necessary to understand the effects of such transactions on our consolidated financial statements. In fiscal years 2010 and 2009, under the terms of a security holder agreement, we paid approximately \$0.2 million and \$0.3 million, respectively, in fees related to shelf registration statements and secondary offerings of 3.20 million shares and 3.69 million shares, respectively, of our common stock to underwriters by certain of our stockholders, including affiliates of Metalmark Capital LLC and certain other institutional stockholders.

**Sequential Quarterly Information**

Fiscal 2010 and 2009 quarterly operating results, and the associated quarterly trends within each of those two fiscal years, are affected by the same economic and business conditions as described in the fiscal 2010 versus fiscal 2009 analyses previously discussed.

	Fiscal 2009				Fiscal 2010			
	June 29, 2008 1 <sup>st</sup> Qtr.	Sept. 28, 2008 2 <sup>nd</sup> Qtr.	Dec. 27, 2008 3 <sup>rd</sup> Qtr.	March 31, 2009 4 <sup>th</sup> Qtr.	June 28, 2009 1 <sup>st</sup> Qtr.	Sept. 27, 2009 2 <sup>nd</sup> Qtr.	Dec. 27, 2009 3 <sup>rd</sup> Qtr.	March 31, 2010 4 <sup>th</sup> Qtr.
	(in millions, except per share amounts)							
Net sales	\$ 592.1	\$ 526.8	\$ 460.8	\$ 393.2	\$ 340.3	\$ 367.3	\$ 421.3	\$ 450.5
Cost of goods sold	479.5	417.7	359.4	302.9	262.8	278.7	323.0	354.0
Gross profit	112.6	109.1	101.4	90.3	77.5	88.6	98.3	96.5
Operating expenses, including amortization	69.9	64.1	63.0	59.5	54.4	60.3	61.6	59.3
Gain on sale of facilities	(10.9)		(0.4)					
Legal proceedings charge	3.4							
Restructuring charges	2.2	1.0		19.2	3.5	3.2	1.0	6.2
Bargain purchase gain							(2.9)	
Operating earnings	48.0	44.0	38.8	11.6	19.6	25.1	38.6	31.0
Interest expense	6.6	7.0	6.8	6.3	5.4	5.6	5.7	6.0
Charges related to refinancing	5.2							
Other (income) expense, net	2.6	1.0	(13.1)	0.9	1.9	0.8	1.4	0.2
Earnings before income taxes	33.6	36.0	45.1	4.4	12.3	18.7	31.5	24.8
Income tax expense	8.4	11.6	15.3	1.9	3.9	5.8	8.3	7.0
Net earnings	\$ 25.2	\$ 24.4	\$ 29.8	\$ 2.5	\$ 8.4	\$ 12.9	\$ 23.2	\$ 17.8
Net earnings per common share:								
Basic	\$ 0.51	\$ 0.49	\$ 0.61	\$ 0.05	\$ 0.18	\$ 0.27	\$ 0.48	\$ 0.37
Diluted	0.50	0.48	0.61	0.05	0.17	0.26	0.47	0.36
Weighted average shares outstanding:								
Basic	49,329,724	49,578,424	48,483,224	47,906,364	47,936,401	48,031,005	48,179,030	48,342,392
Diluted	50,507,516	50,621,441	48,601,254	47,951,003	48,454,695	48,838,160	48,841,856	49,201,668

**Net Sales**

Quarterly net sales by business segment were as follows:

	Fiscal 2009				Fiscal 2010			
	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
	(in millions)							



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Net sales by segment:								
Europe	\$ 320.3	\$ 266.1	\$ 221.5	\$ 179.3	\$ 156.1	\$ 168.0	\$ 209.7	\$ 208.2
Americas	229.3	221.9	199.7	180.4	150.3	164.6	179.0	206.4
Asia	42.5	38.8	39.6	33.5	33.9	34.7	32.6	35.9
<b>Total</b>	<b>\$ 592.1</b>	<b>\$ 526.8</b>	<b>\$ 460.8</b>	<b>\$ 393.2</b>	<b>\$ 340.3</b>	<b>\$ 367.3</b>	<b>\$ 421.3</b>	<b>\$ 450.5</b>
Segment net sales as % total:								
Europe	54.1%	50.5%	48.1%	45.6%	45.9%	45.7%	49.8%	46.2%
Americas	38.7	42.1	43.3	45.9	44.1	44.8	42.5	45.8
Asia	7.2	7.4	8.6	8.5	10.0	9.5	7.7	8.0
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

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Quarterly net sales by product line were as follows:

	Fiscal 2009				Fiscal 2010			
	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
(in millions)								
<b>Net sales by product line:</b>								
Reserve power	\$ 258.8	\$ 246.1	\$ 227.3	\$ 201.6	\$ 182.8	\$ 198.0	\$ 213.3	\$ 226.4
Motive power	333.3	280.7	233.5	191.6	157.5	169.3	208.0	224.1
Total	\$ 592.1	\$ 526.8	\$ 460.8	\$ 393.2	\$ 340.3	\$ 367.3	\$ 421.3	\$ 450.5
<b>Product line net sales as % total:</b>								
Reserve power	43.7%	46.7%	49.3%	51.3%	53.7%	53.9%	50.6%	50.3%
Motive power	56.3	53.3	50.7	48.7	46.3	46.1	49.4	49.7
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

In all segments, reserve power product line sales are highly dependent on capital investment in standby power systems for the telecom and UPS industries. Motive power product line sales are primarily influenced by manufacturing and distribution activity along with trends relating to orders for new industrial forklift trucks.

From our record high quarterly sales of \$592.1 million in the first quarter of fiscal 2009, net sales declined 43% to \$340.3 million in the first quarter of fiscal 2010, which was the lowest recent quarter. Eleven percentage points of the decrease was due to the effects of weaker foreign currencies versus the U.S. dollar and reduced pricing. The decline in volume generally followed the timing of the global decline in economic activity. Since the first quarter of fiscal 2010, we have experienced three consecutive quarters of sequential increases in revenue, as worldwide economic activity has improved.

Our Europe segment experienced the largest decline from the high point of the first quarter of fiscal 2009 to the low point in the first quarter of fiscal 2010. Europe quarterly net sales decreased 51% during that period as European economies were affected most severely by the recent global recession. However, the fourth quarter fiscal 2010 sales of \$208.2 million were 33% above the lowest recent quarterly sales of \$156.1 million in the first quarter of fiscal 2010.

During the same periods, revenue in the Americas declined 34% from the highest quarter to the lowest quarter and has since increased 37% from \$150.3 million in the first quarter to \$206.4 million in the fourth quarter of fiscal 2010.

We believe net sales in Asia were much less affected by global economic factors than in Europe and Americas. The reserve power and motive power markets continued to grow in Asia during the decline in the other segments. Our revenue in Asia has been somewhat limited recently by manufacturing capacity and, to a certain extent, on the timing of large orders from the major telecom companies. In addition, pricing in fiscal 2010 decreased more in Asia than in our other segments.

Quarterly net sales in our two product lines followed the same timing pattern as total quarterly net sales, but with very different magnitudes of change. From the peak first quarter of fiscal 2009 to the recent low first quarter of fiscal 2010, reserve power sales declined 29% with 18 percentage points organic volume and the balance due to lower pricing and foreign currencies. Motive power sales declined a much sharper 53% in the same period with 42 percentage points of the decline coming from a drop in organic volume.

Compared to the first quarter of fiscal 2010, reserve power revenue was at \$226.4 million in the fourth quarter of fiscal 2010, a 24% increase, while the motive power sales were \$224.1 million, a 42% increase over the first quarter.

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The global economic recovery that started in the middle of calendar year 2009 is reflected in our recent increases in quarterly revenue. During the recent global recession, our motive power sales declined considerably more than our reserve power sales; however, motive power sales are now recovering at a faster rate.

### ***Operating Earnings***

Our fiscal 2010 operating earnings were significantly affected by \$11.0 million of net highlighted (gains) and charges as follows: restructuring costs of \$3.5 million, \$3.2 million, \$1.0 million and \$6.2 million in the first, second, third and fourth fiscal quarters, respectively; partially offset by a bargain purchase (gain) of (\$2.9) million on the acquisition of Oerlikon in the third fiscal quarter of 2010 and the realization of benefits from our ongoing cost savings programs.

Our fiscal 2009 operating earnings were significantly affected by \$14.5 million of net highlighted (gains) and charges as follows: (gains) on sales of facilities of (\$10.9) million and (\$0.4) million in the first and third quarters, respectively; restructuring costs of \$2.2 million, \$1.0 million and \$19.2 million in the first, second and fourth fiscal quarters, respectively; a legal proceedings charge of \$3.4 million in the first quarter; and higher commodity costs in the first and second quarters, partially offset by selling price increases and our continuing cost savings programs.

### ***Charges Related to Refinancing***

In the first fiscal quarter of 2009, we incurred charges in connection with the refinancing of amounts borrowed under our prior senior secured credit facility. These charges included approximately \$4.0 million in write-offs of deferred financing fees and \$1.2 million of losses incurred as a result of the termination of certain interest rate swap agreements.

### ***Other (Income) Expense, Net***

Other (income) expense, net was net expense of \$4.3 million in fiscal 2010 compared to a net income of approximately (\$8.6) million in fiscal 2009. This is primarily attributed to net foreign currency transaction losses primarily on short-term intercompany loans and receivables of \$3.0 million in fiscal 2010, as compared to a (\$11.6) million gain in fiscal 2009.

Other (income) expense, net was a net expense of \$13.1 million in the third fiscal quarter of 2009 compared to a net expense of approximately \$1.8 million in the comparable period of fiscal 2008, primarily attributed to net foreign currency transaction gains primarily on short-term intercompany loans of \$13.8 million in the fiscal 2009 period, as compared to \$1.2 million of losses in fiscal 2008 period.

## **ITEM 7A. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***

### ***Market Risks***

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

### ***Counterparty Risks***

We have entered into interest rate swap agreements to manage risk on a portion of our long-term floating-rate debt. We have entered into lead forward purchase contracts to manage risk on the cost of lead. We have entered into foreign exchange forward contracts and purchased option contracts to manage risk on foreign currency exposures.

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The Company's agreements are with creditworthy financial institutions. Those contracts that result in a liability position at March 31, 2010 are \$10.3 million (pre-tax), therefore the Company believes there is no risk of nonperformance by the counterparties. Those contracts that result in an asset position at March 31, 2010 are \$2.6 million (pre-tax) and the vast majority of these will settle within one year.

*Interest Rate Risks*

We are exposed to changes in variable U.S. interest rates on borrowings under our credit agreements. On a selective basis, from time to time, we enter into interest rate swap agreements to reduce the negative impact that increases in interest rates could have on our outstanding variable rate debt. Management considers the interest rate swaps to be highly effective against changes in the cash flows from our underlying variable rate debt based on the criteria in the FASB guidance. Cash flows related to the interest rate swap agreements are included in interest expense over the terms of the agreements. At March 31, 2010 and 2009, such agreements effectively convert \$170.0 million of our variable-rate debt to a fixed-rate basis, utilizing the three-month LIBOR as a floating rate reference. Fluctuations in LIBOR and fixed rates affect both our net financial investment position and the amount of cash to be paid or received by us under these agreements. The following commentary provides details for the outstanding interest rate swap agreements:

In October 2005, we entered into interest rate swap agreements to fix interest rates on \$75.0 million of floating rate debt through December 22, 2010. The fixed rates per year plus an applicable credit spread began December 22, 2005, and are 4.25% during the first year, 4.525% the second year, 4.80% the third year, 5.075% the fourth year, and 5.47% in the fifth year. In connection with the issuance of \$172.5 million aggregate principal amount of Convertible Notes and the repayment of a portion of the senior secured Term Loan B in May 2008, we terminated \$30.0 million of these interest rate swap agreements at a loss of \$1.2 million.

In August 2007, we entered into interest rate swap agreements, which became effective in February 2008, to fix interest rates on \$40.0 million of floating rate debt through February 22, 2011, at 4.85% per year.

In November 2007, we entered into interest rate swap agreements which became effective in May 2008, to fix interest rates on \$40.0 million of floating rate debt through May 7, 2013, at 4.435% per year.

In December 2007, we entered into \$45.0 million of interest rate swap agreements which became effective in February and May 2008, to fix the interest rates on \$20.0 million of floating rate debt through February 22, 2013, at 4.134% per year and to fix the interest rates on \$25.0 million of floating rate debt through May 7, 2013, at 4.138% per year.

A 100 basis point increase in interest rates would increase interest expense by approximately \$0.6 million on the non-hedged variable rate portions of our debt.

*Commodity Cost Risks*

We have a significant risk in our exposure to certain raw materials, which we estimate were over half of total cost of goods sold for fiscal 2010 and 2009. Our largest single raw material cost is lead, the cost of which remains volatile. To mitigate against large increases in lead costs, we enter into contracts with financial institutions to fix the price of lead. We had the following contracts at the dates shown below:

Date	\$ s Under Contract (in millions)	# Pounds Under Contract (in millions)	Average Contract Price/Pound	Approximate % of Lead Requirements <sup>(1)</sup>
March 31, 2010	\$ 60.7	63.4	\$ 0.96	17%
March 31, 2009	14.9	29.7	0.50	7
March 31, 2008	72.3	58.5	1.24	12

(1) Based on the fiscal year lead requirements for the period then ended.

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We estimate that a 10% increase in our cost of lead (over our current estimated cost in fiscal 2010) would increase our annual total cost of goods sold by approximately \$32 million or 2% of fiscal 2010 net sales.

*Foreign Currency Exchange Rate Risks*

We manufacture and assemble our products primarily in China, the Czech Republic, France, Germany, Mexico, Poland, Bulgaria, the United Kingdom and the United States. Approximately 60% of our sales and expenses are transacted in foreign currencies. Our sales revenue, production costs, profit margins and competitive position are affected by the strength of the currencies in countries where we manufacture or purchase goods relative to the strength of the currencies in countries where our products are sold. Additionally, as we report our financial statements in the U.S. dollar, 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, British pound, Polish zloty, Chinese renminbi and Mexican peso.

We quantify and monitor our global foreign currency exposures. Our largest foreign currency exposure is from the purchase and conversion of U.S. dollar based lead costs into local currencies in Europe. Additionally, we have currency exposures from intercompany financing and trade transactions. On a selective basis, we will enter into foreign currency forward contracts and option contracts to reduce the impact from the volatility of currency movements. Based primarily on statistical currency correlations on our current estimated exposures for fiscal 2010, we are confident that the pretax effect on annual earnings of changes in the principal currencies in which we conduct our business would not be in excess of approximately \$10 million in more than one year out of twenty years. The fiscal 2009 gains exceeded the normal statistical range. The settlement or translation of intercompany financing and trading balances during a period of unusually high volatility of foreign currency exchange rates in fiscal 2009, resulted in a gain of \$11.6 million from foreign currency transactions as compared to an expense of \$3.0 million in fiscal 2010. These fluctuations involved foreign currencies against the U.S. dollar and, in many cases, against other foreign currencies, primarily the cross rates of the euro/British pound, euro/Polish zloty and euro/U.S. dollar. We have taken steps that we believe will mitigate the impact of these foreign currency rate fluctuations and such fluctuations were minimized in fiscal 2010; however, we cannot be certain that foreign currency fluctuations of the size recognized in fiscal 2009 will not occur in the future.

To hedge these exposures we have entered into forward purchase contracts with financial institutions to fix the value at which we will buy or sell certain currencies. Each contract is for a period not extending beyond one year. As of March 31, 2010 and 2009, we had entered into a total of \$64.2 million and \$19.4 million, respectively, of forward contracts, with the March 31, 2010 details as follows:

Transactions Hedged	\$US Equivalent (in millions)	Average Rate Hedged	Approximate % of Annual Requirements <sup>(2)</sup>
Sell euros for U.S. dollars	\$ 25.6	\$/ 1.37	18%
Sell euros for Polish zloty	30.5	PLN/ 4.11	52
Sell euros for British pounds	8.1	/ £0.89	46
Total	\$ 64.2		

(2) Based on the fiscal year currency requirements for the year ended March 31, 2010.

Foreign exchange translation adjustments are recorded on the Consolidated Statements of Comprehensive Income.

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

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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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**EnerSys**

**Consolidated Financial Statements for fiscal years ended March 31, 2010, 2009 and 2008**

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

EnerSys

We have audited EnerSys' internal control over financial reporting as of March 31, 2010, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). EnerSys' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying *Management's Report On Internal Control Over Financial Reporting*.

Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, EnerSys maintained, in all material respects, effective internal control over financial reporting as of March 31, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of EnerSys as of March 31, 2010 and 2009, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2010 and our report dated June 1, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania

June 1, 2010

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

EnerSys

We have audited the accompanying consolidated balance sheets of EnerSys as of March 31, 2010 and 2009, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2010. Our audits also included the financial statement schedule listed in the index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of EnerSys at March 31, 2010 and 2009, and the consolidated results of its operations and its cash flows for each of the three years in the period ended March 31, 2010, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), EnerSys' internal control over financial reporting as of March 31, 2010, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 1, 2010, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania

June 1, 2010

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**Table of Contents****EnerSys****Consolidated Balance Sheets****(In Thousands, Except Share and Per Share Data)**

	March 31,	
	2010	2009
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 201,042	\$ 163,161
Accounts receivable, net	383,641	356,200
Inventories, net	254,371	209,329
Deferred taxes	16,378	16,994
Prepaid and other current assets	39,849	32,522
Total current assets	895,281	778,206
Property, plant, and equipment, net	315,141	301,365
Goodwill	317,265	301,658
Other intangible assets, net	90,136	79,544
Deferred taxes	10,744	13,399
Other assets	23,443	18,679
Total assets	\$ 1,652,010	\$ 1,492,851
<b>Liabilities and stockholders equity</b>		
Current liabilities:		
Short-term debt	\$ 43	\$ 7,363
Current portion of long-term debt	26,045	24,641
Current portion of capital lease obligations	650	661
Accounts payable	198,345	127,586
Accrued expenses	190,004	184,094
Deferred taxes	4,426	4,092
Total current liabilities	419,513	348,437
Long-term debt	322,168	342,534
Capital lease obligations	1,580	457
Deferred taxes	70,023	64,428
Other liabilities	54,502	62,602
Total liabilities	867,786	818,458
Equity:		
Series A Convertible Preferred Stock, \$0.01 par value, 1,000,000 shares authorized, no shares issued or outstanding at March 31, 2010 and at March 31, 2009		
Common Stock, \$0.01 par value, 135,000,000 shares authorized, 50,381,832 shares issued and 48,581,832 shares outstanding at March 31, 2010; 49,775,396 shares issued and 47,975,396 shares outstanding at March 31, 2009	504	498
Additional paid-in capital	428,579	414,292
Treasury stock at cost, 1,800,000 shares held as of March 31, 2010 and 2009	(19,800)	(19,800)
Retained earnings	303,410	241,106
Accumulated other comprehensive income	67,204	34,055
Total EnerSys stockholders equity	779,897	670,151

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Non-controlling interest	4,327	4,242
Total equity	784,224	674,393
Total liabilities and stockholders equity	\$ 1,652,010	\$ 1,492,851

See accompanying notes.

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

	Fiscal year ended March 31,		
	2010	2009	2008
Net sales	\$ 1,579,385	\$ 1,972,867	\$ 2,026,640
Cost of goods sold	1,218,481	1,559,433	1,644,753
Gross profit	360,904	413,434	381,887
Operating expenses	235,597	256,507	249,350
Bargain purchase gain	(2,919)		
Gain on sales of facilities		(11,308)	
Legal proceedings charge		3,366	
Restructuring charges	13,929	22,424	13,191
Operating earnings	114,297	142,445	119,346
Interest expense	22,658	26,733	28,917
Charges related to refinancing		5,209	
Other (income) expense, net	4,384	(8,597)	4,234
Earnings before income taxes	87,255	119,100	86,195
Income tax expense	24,951	37,170	26,499
Net earnings	\$ 62,304	\$ 81,930	\$ 59,696
Net earnings per common share:			
Basic	\$ 1.29	\$ 1.68	\$ 1.25
Diluted	\$ 1.28	\$ 1.66	\$ 1.22
Weighted-average shares of common stock outstanding:			
Basic	48,122,207	48,824,434	47,645,225
Diluted	48,834,095	49,420,303	48,644,450

See accompanying notes.

**Table of Contents****EnerSys****Consolidated Statements of Changes in Stockholders' Equity****(In Thousands)**

	Series A Convertible Preferred Stock	Common Stock	Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total EnerSys Stockholders' Equity	Non-Controlling Interest	Total Stockholders' Equity
<b>Balance at March 31, 2007</b>	\$	\$ 471	\$ 339,114	\$	\$ 99,480	\$ 103,034	\$ 542,099	\$ 4,242	\$ 546,341
Stock-based compensation			3,028				3,028		3,028
Exercise of stock options		20	22,794				22,814		22,814
Tax benefit from stock options			4,027				4,027		4,027
Net earnings					59,696		59,696		59,696
Other comprehensive income:									
Pension funded status adjustment, net of tax benefit of \$411						352	352		352
Unrealized loss on derivative instruments, net of tax benefit of \$8,499						(15,783)	(15,783)		(15,783)
Foreign currency translation adjustment						75,310	75,310		75,310
Comprehensive income									119,575
<b>Balance at March 31, 2008</b>		<b>491</b>	<b>368,963</b>		<b>159,176</b>	<b>162,913</b>	<b>691,543</b>	<b>4,242</b>	<b>695,785</b>
Stock-based compensation			5,021				5,021		5,021
Exercise of stock awards		7	5,788				5,795		5,795
Tax benefit from stock options			6,100				6,100		6,100
Convertible Note discount			46,280				46,280		46,280
Tax benefit from Convertible Note discount			(17,860)				(17,860)		(17,860)
Purchase of common stock				(19,800)			(19,800)		(19,800)
Net earnings					81,930		81,930		81,930
Other comprehensive income:									
Pension funded status adjustment, net of tax benefit of \$152						544	544		544
Unrealized gain on derivative instruments, net of tax of (\$675)						1,250	1,250		1,250
Foreign currency translation adjustment						(130,652)	(130,652)		(130,652)
Comprehensive loss									(46,928)
<b>Balance at March 31, 2009</b>		<b>498</b>	<b>414,292</b>	<b>(19,800)</b>	<b>241,106</b>	<b>34,055</b>	<b>670,151</b>	<b>4,242</b>	<b>674,393</b>
Stock-based compensation			6,964				6,964		6,964
Exercise of stock options		6	5,036				5,042		5,042
Tax benefit from stock options			2,287				2,287		2,287
Increase in non-controlling interest								85	85
Net earnings					62,304		62,304		62,304
Other comprehensive income:									
Pension funded status adjustment, net of tax of (\$367)						(685)	(685)		(685)
Unrealized income on derivative instruments, net of tax of (\$1,421)						2,626	2,626		2,626
Foreign currency translation adjustment						31,208	31,208		31,208
Comprehensive income									95,453
<b>Balance at March 31, 2010</b>	\$	\$ 504	\$ 428,579	\$ (19,800)	\$ 303,410	\$ 67,204	\$ 779,897	\$ 4,327	\$ 784,224

See accompanying notes.

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**Table of Contents****EnerSys****Consolidated Statements of Cash Flows****(In Thousands)**

	Fiscal year ended March 31,		
	2010	2009	2008
<b>Cash flows from operating activities</b>			
Net earnings	\$ 62,304	\$ 81,930	\$ 59,696
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	44,851	47,233	47,629
Bargain purchase gain	(2,919)		
Gain on sale of facilities		(11,308)	
Write-off of deferred finance fees		3,963	
Provision for doubtful accounts	2,712	4,873	1,436
Provision for deferred taxes	6,975	8,828	7,972
Non-cash interest expense	7,163	5,994	1,586
Stock compensation expense	6,964	5,021	3,028
(Gain)/loss on disposal and impairment of fixed assets	(912)	6,219	3,908
Changes in assets and liabilities, net of effects of acquisitions:			
Accounts receivable	(7,303)	85,915	(107,113)
Inventory	(23,445)	90,930	(70,278)
Prepaid expenses and other current assets	(1,075)	(1,509)	374
Other assets	(1,218)	142	4,585
Accounts payable	59,116	(109,712)	34,593
Accrued expenses	(5,816)	4,895	15,805
Other liabilities	(10,795)	(3,977)	797
Net cash provided by operating activities	136,602	219,437	4,018
<b>Cash flows from investing activities</b>			
Capital expenditures	(45,111)	(57,143)	(45,037)
Purchase of businesses, net of cash acquired	(33,242)		(17,434)
Proceeds from disposal of property, plant, and equipment	1,109	10,333	321
Net cash used in investing activities	(77,244)	(46,810)	(62,150)
<b>Cash flows from financing activities</b>			
Net (decrease) increase in short-term debt	(7,436)	(34,195)	23,516
Proceeds from the issuance of long-term debt		397,500	
Deferred financing costs		(10,950)	(23)
Payments of long-term debt	(25,243)	(367,018)	(9,780)
Capital lease obligations and other	878	(628)	(996)
Exercise of stock options	5,042	5,795	22,814
Purchase of treasury stock		(19,800)	
Tax benefits from exercise of stock options	2,287	6,100	4,027
Net cash (used in) provided by financing activities	(24,472)	(23,196)	39,558
Effect of exchange rate changes on cash	2,995	(6,890)	1,409
Net increase (decrease) in cash and cash equivalents	37,881	142,541	(17,165)
Cash and cash equivalents at beginning of year	163,161	20,620	37,785
Cash and cash equivalents at end of year	\$ 201,042	\$ 163,161	\$ 20,620

See accompanying notes.

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**EnerSys**

**Notes to Consolidated Financial Statements**

**March 31, 2010**

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

**1. Summary of Significant Accounting Policies**

***Description of Business***

EnerSys and its predecessor companies have been manufacturers of industrial batteries for over 100 years. Morgan Stanley Capital Partners (currently Metalmark Capital) teamed with the management of Yuasa, Inc. in late 2000 to acquire from Yuasa Corporation (Japan) its reserve power and motive power battery businesses in the Americas. The Company was incorporated in October 2000 for the purpose of completing the Yuasa, Inc. acquisition from Yuasa Corporation (Japan). The acquired businesses included the *Exide*, *General Battery* and *Yuasa* brands. On January 1, 2001, the Company changed its name from Yuasa, Inc. to EnerSys to reflect its focus on the energy systems nature of its businesses.

In March 2002, the Company acquired the worldwide reserve power and motive power business of the Energy Storage Group (ESG), of Invensys plc (Invensys), whose principal brands were *Hawker*, *PowerSafe* and *DataSafe*. The Company has since made numerous other smaller acquisitions.

***Principles of Consolidation***

The consolidated financial statements include the accounts of the Company and its majority-owned and wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated.

***Foreign Currency Translation***

Results of foreign operations are translated into U.S. dollars using average exchange rates during the period. The assets and liabilities are translated into U.S. dollars using current rates as of the balance sheet date. Gains or losses resulting from translating the foreign currency financial statements are accumulated as a separate component of accumulated other comprehensive income in EnerSys stockholders' equity.

Transaction gains and losses resulting from exchange rate changes on transactions denominated in currencies other than the functional currency of the applicable subsidiary are included in other (income) expense, net in the year in which the change occurs.

***Revenue Recognition***

The Company recognizes revenue when the earnings process is complete. This occurs when we ship in accordance with terms of the underlying agreement, title transfers, collectibility is reasonably assured and pricing is fixed and determinable. Shipment terms to our battery product customers are primarily shipping point or destination and do not differ significantly between our business segments. Accordingly, revenue is recognized when title is transferred to the customer. Amounts invoiced to customers for shipping and handling are classified as revenue. Taxes on revenue producing transactions are not included in net sales.

The Company recognizes revenue from the service of its reserve power and motive power products when the respective services are performed.

Accruals are made at the time of sale for sales returns and other allowances based on the Company's experience.

***Freight Expense***

Amounts billed to customers for outbound freight costs are classified as sales in the consolidated statement of income. Costs incurred by the Company for outbound freight costs to customers, inbound and transfer freight are classified in cost of goods sold.





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**Notes to Consolidated Financial Statements (Continued)**

**March 31, 2010**

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

***Warranties***

Substantially all of the Company's products are warranted for a period of one to twenty years. The Company provides for estimated product warranty expenses when the related products are sold.

***Cash and Cash Equivalents***

Cash and cash equivalents include all highly liquid investments with an original maturity of three months or less when purchased.

***Accounts Receivable***

Accounts receivable are reported net of an allowance for doubtful accounts of \$9,879 and \$7,978 at March 31, 2010 and 2009, respectively. The allowance is based on management's estimate of uncollectible accounts, analysis of historical data and trends, as well as reviews of all relevant factors concerning the financial capability of its customers. Accounts receivable are considered to be past due based on how payments are received compared to the customer's credit terms. Accounts are written off when management determines the account is uncollectible.

***Inventories***

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method. The cost of inventory consists of material, labor, and associated overhead.

***Property, Plant, and Equipment***

Property, plant, and equipment are recorded at cost and include expenditures that substantially increase the useful lives of the assets. Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows: 10 to 33 years for buildings and improvements and 3 to 15 years for machinery and equipment.

Depreciation expense for the fiscal years ended March 31, 2010, 2009 and 2008 totaled \$44,145, \$46,694, and \$47,151, respectively. Maintenance and repairs are expensed as incurred. Interest on capital projects is capitalized during the construction period and amounted to \$929, \$1,062, and \$829 for the fiscal years ended March 31, 2010, 2009 and 2008, respectively.

***Intangible Assets***

FASB guidance on the accounting for Goodwill and Other Intangible Assets eliminated the amortization of goodwill and indefinite-lived intangible assets and requires a review at least annually for impairment. The Company has determined that trade names and goodwill are indefinite-lived assets, as defined by the FASB guidance, and therefore not subject to amortization.

The Company tests for the impairment of its goodwill and trade names at least annually and whenever events or circumstances occur indicating that a possible impairment has been incurred. The Company utilizes financial projections of its business segments, certain cash flow measures, as well as its market capitalization in its determination of the fair value of these assets.

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**Notes to Consolidated Financial Statements (Continued)**

**March 31, 2010**

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***Environmental Expenditures***

In accordance with FASB guidance on the accounting for contingencies and environmental remediation liabilities, we record a loss and establish a reserve for the remediation when it is probable that an asset has been impaired or a liability exists and the amount of the liability can be reasonably estimated. Reasonable estimates involve judgments made by management after considering a broad range of information including: notifications, demands or settlements that have been received from a regulatory authority or private party, estimates performed by independent engineering companies and outside counsel, available facts existing and proposed technology, the identification of other potentially responsible parties, their ability to contribute and prior experience. These judgments are reviewed quarterly as more information is received and the amounts reserved are updated as necessary. However, the reserves may materially differ from ultimate actual liabilities if the loss contingency is difficult to estimate or if management's judgments turn out to be inaccurate. If management believes no best estimate exists, the minimum probable loss is accrued.

***Impairment of Long-Lived Assets***

The Company reviews the carrying values of its property and equipment for possible impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable based on undiscounted estimated cash flows expected to result from its use and eventual disposition. The factors considered by the Company in performing this assessment include current operating results, trends and other economic factors. In assessing the recoverability of the carrying value of the property and equipment, the Company must make assumptions regarding future cash flows and other factors. If these estimates or the related assumptions change in the future, the Company may be required to record an impairment loss for these assets. In fiscal 2010, 2009 and 2008 the Company recorded impairment charges of \$290, \$6,607 and \$3,863 respectively, which were included in restructuring charges.

***Fair Value of Financial Instruments***

The Company's financial instruments include cash and cash equivalents, accounts receivable, accounts payable, and debt. The Company uses interest rate swap agreements to manage risk on a portion of its floating-rate debt.

Because of short maturities, the carrying amount of cash and cash equivalents, accounts receivable, accounts payable, and short-term debt approximates fair value.

The fair value of the Company's senior secured credit facility approximates its carrying value, as it is variable rate debt. The senior unsecured Convertible Notes were issued when our stock price was trading at \$30.19 per share. On March 31, 2010, our stock price closed at \$24.66 per share. Because the Convertible Notes have a conversion option at \$40.60 per share, and due to current conditions in the financial markets, our senior unsecured Convertible Notes were trading at 94% of the face value on March 31, 2010.

**Table of Contents****EnerSys****Notes to Consolidated Financial Statements (Continued)****March 31, 2010****(In Thousands, Except Share and Per Share Data)**

The FASB guidance includes a fair value hierarchy that is intended to increase consistency and comparability in fair value measurements and related disclosures. The fair value hierarchy is based on inputs to valuation techniques that are used to measure fair value that are either observable or unobservable. Observable inputs reflect assumptions market participants would use in pricing an asset or liability based on market data obtained from independent sources while unobservable inputs reflect a reporting entity's pricing based upon their own market assumptions.

The fair value hierarchy consists of the following three levels:

- Level 1: Inputs are unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2: Inputs are quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable and market-corroborated inputs, which are derived principally from or corroborated by observable market data.
- Level 3: Inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable.

The following table represents our assets (liabilities) measured at fair value on a recurring basis as of March 31, 2010 and the basis for that measurement:

	Total Fair Value Measurement March 31, 2010	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest rate swap agreements	\$ (9,710)	\$	\$ (9,710)	\$
Lead forward contracts	62		62	
Foreign currency forward contracts	1,911		1,911	
Total derivatives	\$ (7,737)	\$	\$ (7,737)	\$

The fair value of interest rate swap agreements are based on observable prices as quoted for receiving the variable three month London Interbank Offered Rates, or LIBOR and paying fixed interest rates and, therefore, were classified as Level 2.

The fair value of lead forward contracts were calculated using observable prices for lead as quoted on the London Metal Exchange ( LME ) and, therefore, were classified as Level 2.

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

See Note 11 for a further discussion of the Company's derivative instruments and hedging activities.

**Table of Contents****EnerSys****Notes to Consolidated Financial Statements (Continued)****March 31, 2010****(In Thousands, Except Share and Per Share Data)**

The carrying amounts and estimated fair values of the Company's financial instruments at March 31, 2010 and 2009 are as follows:

	2010		March 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial assets:</b>				
Cash and cash equivalents	\$ 201,042	\$ 201,042	\$ 163,161	\$ 163,161
<b>Financial liabilities:</b>				
Long-term debt:				
Term A Loan	\$ 201,094	\$ 201,094	\$ 216,563	\$ 216,563
Senior Unsecured Convertible Notes	135,920	161,978	130,481	110,400
Euro Term Loan and other	11,199	11,199	20,131	20,131
Capital lease obligations	2,230	2,230	1,118	1,118
Derivatives	(7,737)	(7,737)	(11,777)	(11,777)

**Income Taxes**

We account for income taxes in accordance with the FASB guidance, which requires deferred tax assets and liabilities be recognized using enacted tax rates to measure the effect of temporary differences between book and tax bases on recorded assets and liabilities. The FASB guidance also requires that deferred tax assets be reduced by a valuation allowance, if it is more likely than not some portion or all of the deferred tax assets will not be recognized.

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

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. These temporary differences are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be realized.

Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. The provision for income taxes represents income taxes paid or payable for the current year and the change in deferred taxes.

In accordance with the FASB guidance on accounting for uncertainty in income taxes, the Company evaluates tax positions to determine whether the benefits of tax positions are more likely than not of being sustained upon audit based on the technical merits of the tax position. For tax positions that are more likely than not of being sustained upon audit, the Company recognizes the largest amount of the benefit that is greater than 50% likely of being realized upon ultimate settlement. For tax positions that are not more likely than not of being sustained upon audit, the Company does not recognize any portion of the benefit. If the more likely than not

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**EnerSys**

**Notes to Consolidated Financial Statements (Continued)**

**March 31, 2010**

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

threshold is not met in the period for which a tax position is taken, the Company may subsequently recognize the benefit of that tax position if the tax matter is effectively settled, the statute of limitations expires, or if the more likely than not threshold is met in a subsequent period.

***Deferred Financing Fees***

In connection with the issuance of the \$172,500 senior unsecured 3.375% Convertible Notes in May 2008 and the refinancing under the new \$350,000 senior secured credit facility in June 2008 (see Note 8), the Company wrote-off approximately \$3,963 of unamortized deferred financing costs associated with the prior senior secured credit facility, and incurred approximately \$10,950 in new deferred financing costs.

Deferred financing fees, net of accumulated amortization totaled \$6,581 and \$8,292 as of March 31, 2010 and 2009, respectively. Amortization expense included in interest expense was \$1,724, \$1,733, and \$1,586 for the fiscal years ended March 31, 2010, 2009 and 2008, respectively.

***Derivative Financial Instruments***

The Company has entered into interest rate swap agreements to manage risk on a portion of its long-term floating-rate debt. The Company has entered into lead forward purchase contracts to manage risk of the cost of lead. The Company has entered into foreign exchange forward contracts and purchased option contracts to manage risk on foreign currency exposures. The Company's agreements are with creditworthy financial institutions. Those contracts that result in a liability position at March 31, 2010 are \$10,295 and therefore the Company believes there is no risk of nonperformance by the counterparties. Those contracts that result in an asset position at March 31, 2010 are \$2,558 and nonperformance risk associated with those contracts are not considered material and the vast majority of these will settle within one year. The Company does not hold or issue derivative financial instruments for trading or speculative purposes. The FASB established accounting and reporting guidance for derivative instruments and hedging activities. The Company recognizes derivatives as either assets or liabilities in the accompanying balance sheet and measures those instruments at fair value. Changes in the fair value of those instruments are reported in accumulated other comprehensive income if they qualify for hedge accounting or in earnings if they do not qualify for hedge accounting. Derivatives qualify for hedge accounting if they are designated as hedge instruments and if the hedge is highly effective in achieving offsetting changes in the fair value or cash flow of the asset or liability hedged. Effectiveness is measured on a regular basis using statistical analysis and by comparing the overall changes in the expected cash flows on the lead and foreign currency forward contracts with the changes in the expected all-in cash outflow required for the lead and foreign currency purchases. This analysis is performed on the initial purchases quarterly that cover the quantities hedged. Accordingly, gains and losses from changes in derivative fair value are deferred until the underlying transaction occurs. Interest expense on the debt is adjusted to include the payments made or received under such interest rate swap agreements. Inventory and cost of goods sold are adjusted to include the payments made or received under such lead and foreign currency forward contracts. Any deferred gains or losses associated with derivative instruments, which on infrequent occasions may be terminated prior to maturity, are recognized in earnings in the period in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, such instrument would be closed and the resulting gain or loss would be recognized in earnings.

***Retirement Plans***

The Company accounts for pensions in accordance with FASB guidance on employers' accounting for defined benefit pension benefit plans, which requires an entity to recognize in its statement of financial position

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**EnerSys**

**Notes to Consolidated Financial Statements (Continued)**

**March 31, 2010**

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

an asset for a defined benefit postretirement plan's overfunded status or a liability for a plan's underfunded status, and to measure a defined benefit postretirement plan's assets and obligation that determine its funded status as of the end of the employer's fiscal year.

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

***Stock-Based Compensation Plans***

The Company accounts for share-based payments in accordance with FASB guidance, which focuses primarily on transactions in which an entity obtains employee services in exchange for share-based payments. Under the guidance, a public entity is required to measure the cost of employee services received in exchange for the award of an equity instrument based on the grant-date fair value of the award, with such cost recognized over the applicable vesting period. In addition, the guidance requires an entity to provide certain disclosures in order to assist in understanding the nature of share-based payment transactions and the effects of those transactions on the financial statements.

The compensation cost to be recorded is based on the fair value at the grant date. The fair value of the options granted was estimated at the date of grant using the Black-Scholes option-pricing model utilizing assumptions based on historical data and current market data. The assumptions include expected term of the options, risk-free interest rate, volatility, and dividend yield. The expected term represents the expected amount of time that options granted are expected to be outstanding, based on historical and forecasted exercise behavior. The risk-free rate is based on the rate at grant date of zero-coupon U.S. Treasury Notes with a term equal to the expected term of the option. Expected volatility is estimated using historical volatility based on historical weekly price changes. The Company recognizes compensation expense using the straight-line method.

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**Table of Contents****EnerSys****Notes to Consolidated Financial Statements (Continued)****March 31, 2010****(In Thousands, Except Share and Per Share Data)*****Accumulated Other Comprehensive Income***

The components of accumulated other comprehensive income are as follows:

	<b>Beginning Balance</b>	<b>Before-Tax Amount</b>	<b>Tax Benefit (Expense)</b>	<b>Net-of-Tax Amount</b>	<b>Ending Balance</b>
<b>March 31, 2010</b>					
Pension funded status adjustment	\$ (4,794)	\$ (318)	\$ (367)	\$ (685)	\$ (5,479)
Unrealized gain (loss) on derivative instruments	(7,660)	4,047	(1,421)	2,626	(5,034)
Foreign currency translation adjustment	46,509	31,208		31,208	77,717
Accumulated other comprehensive income	\$ 34,055	\$ 34,937	\$ (1,788)	\$ 33,149	\$ 67,204
<b>March 31, 2009</b>					
Pension funded status adjustment	\$ (5,338)	\$ 392	\$ 152	\$ 544	\$ (4,794)
Unrealized gain (loss) income on derivative instruments	(8,910)	1,925	(675)	1,250	(7,660)
Foreign currency translation adjustment	177,161	(130,652)		(130,652)	46,509
Accumulated other comprehensive income	\$ 162,913	\$ (128,335)	\$ (523)	\$ (128,858)	\$ 34,055
<b>March 31, 2008</b>					
Pension funded status adjustment	\$ (5,690)	\$ (59)	\$ 411	\$ 352	\$ (5,338)
Unrealized gain (loss) income on derivative instruments	6,873	(24,282)	8,499	(15,783)	(8,910)
Foreign currency translation adjustment	101,851	75,310		75,310	177,161
Accumulated other comprehensive income	\$ 103,034	\$ 50,969	\$ 8,910	\$ 59,879	\$ 162,913

***Earnings Per Share***

Basic earnings per common share ( EPS ) are computed by dividing net earnings available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that would occur if securities or other contracts to issue common stock were exercised or converted into common stock. On October 30, 2008, the Company completed the purchase of 1,800,000 shares of its common stock at \$11.00 per common share for \$19,800 in the aggregate from an institutional shareholder. At March 31, 2010 and 2009, the Company had outstanding stock options, restricted stock, restricted stock units and senior unsecured 3.375% Convertible Notes, which could potentially dilute basic earnings per share in the future.

***Segment Reporting***

We previously reported two business segments consisting of reserve power and motive power products. The FASB guidance defines that a segment for reporting purposes, is based on the financial performance measures that are regularly reviewed by our chief operating decision maker to assess segment performance and to make decisions about a public entity's allocation of resources. Recent consideration of this guidance and changes made to our management structure, have led us to decide to report our segment results based upon our three geographic regions.



*New Accounting Pronouncements*

On April 1, 2009, the Company adopted new guidance from FASB, which provides guidance for the accounting, reporting and disclosure of noncontrolling interests and requires, among other things, that

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**EnerSys**

**Notes to Consolidated Financial Statements (Continued)**

**March 31, 2010**

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

noncontrolling interests be recorded as equity in the consolidated financial statements. The FASB guidance became effective for the Company as of April 1, 2009 and had no material impact on its results of operations or financial position. The adoption of this guidance resulted in the reclassification of \$4,327 and \$4,242 of Minority Interests (now referred to as noncontrolling interests) to a separate component of total equity on the Consolidated Balance Sheet as of March 31, 2010 and March 31, 2009, respectively. The impact of adopting the guidance on the Company's statements of income and cash flow was immaterial.

On April 1, 2009, the Company adopted new FASB guidance, which is intended to improve reporting by creating greater consistency in the accounting and financial reporting of business combinations, resulting in more complete, comparable, and relevant information for investors and other users of financial statements. To achieve this goal, the new FASB guidance requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. The new FASB guidance also requires that professional fees associated with acquisition activities be expensed as incurred. Accordingly, any business combination we engage in on or after April 1, 2009 will be recorded and disclosed in accordance with the new FASB guidance. For fiscal 2010, the Company recorded expenses of \$2,000 for professional fees associated with acquisition activities, \$1,269 for restructuring charges and a bargain purchase gain of \$2,919.

On April 1, 2009, the Company adopted new FASB guidance, which changed the accounting treatment for convertible securities which the issuer may settle fully or partially in cash. Cash settled convertible securities will be separated into their debt and equity components. The value assigned to the debt component will be the estimated fair value, as of the issuance date, of a similar debt instrument without the conversion feature. The difference between the proceeds for the convertible debt and the amount reflected as a debt liability will be recorded as additional paid-in capital. As a result, the debt will be recorded at a discount reflecting its below market coupon interest rate. The debt will subsequently be accreted to its par value over its expected life, with the rate of interest that reflects the market rate at issuance being reflected on the income statement. This change in methodology will affect the calculations of net income and earnings per share. This guidance was effective for financial statements issued by the Company for the first quarter of fiscal 2010. The adoption of this guidance had the following impact on the Company's financial position and results of operations, applied on a retrospective basis: a) the separation of our Convertible Notes into its debt and equity components reduced long-term debt as of inception by \$46,280 and, b) the accretion of debt discount increased interest expense by a non-cash expense of \$5,439 and \$4,261 in fiscal 2010 and fiscal 2009, respectively, and will increase up to approximately \$8,000 annually through fiscal 2015.

In December 2008, the FASB issued authoritative guidance on employers' disclosures about pensions and other postretirement benefits. Under the new guidance an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan is expanded and is effective for financial statements issued by the Company for fiscal 2010.

***Collective Bargaining***

At March 31, 2010, we had approximately 7,800 employees. Of these employees, approximately 2,870, almost all of whom work in our European facilities, were covered by collective bargaining agreements. The average term of these agreements is two years, with the longest term being three years. These agreements expire over the period from calendar years 2010 to 2012.

**Table of Contents****EnerSys****Notes to Consolidated Financial Statements (Continued)****March 31, 2010****(In Thousands, Except Share and Per Share Data)**

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

*Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**2. Acquisitions**

In fiscal 2010, the Company made acquisitions, the most significant of which was the acquisition of the industrial battery businesses of the Swiss company Accu Holding AG, which included the acquisition of the stock of OEB Traction Batteries and the operating assets and liabilities of Oerlikon Stationery Batteries and its Swedish sales subsidiary (all collectively referred to as Oerlikon) during November 2009. The total purchase price for these transactions, net of cash received, was \$33,242 and was financed using cash on hand. These acquisitions and the investment provide the Company with an additional range of well respected and designed products for use in high integrity applications in telecommunications, utilities, rail, material handling and mining, as well as other sectors. The accounting for the Oerlikon acquisition resulted in the recognition of a bargain purchase gain of \$2,919. The Company is finalizing plans for restructuring Oerlikon and in the fourth quarter of fiscal year 2010 incurred \$1,269 in charges related to this plan.

The Company made initial allocations of the purchase prices at the dates of the acquisitions based upon its understanding of the fair value of the acquired assets and liabilities. The Company obtained this information during due diligence and through other sources. In the months after the closings, as the Company obtains additional information about these assets and liabilities, the estimates of fair value will be refined and the allocations of purchase prices will be adjusted.

The results of these acquisitions have been included in the Company's results of operations from the dates of their respective acquisitions. Pro forma earnings per share computations have not been presented as these acquisitions are not considered material.

In connection with certain of its acquisitions, the Company formulated restructuring plans for the integration of the acquired businesses. See Note 20 for additional information regarding these plans.

**3. Inventories**

Net inventories consist of:

	<b>March 31,</b>	
	<b>2010</b>	<b>2009</b>
Raw materials	\$ 66,288	\$ 50,469
Work-in-process	80,397	57,506
Finished goods	107,686	101,354
Total	\$ 254,371	\$ 209,329

Inventory reserves for obsolescence and other estimated losses, mainly relating to finished goods, were \$11,678 and \$16,725 at March 31, 2010 and 2009, respectively, and have been included in the net amounts shown above.

**Table of Contents****EnerSys****Notes to Consolidated Financial Statements (Continued)****March 31, 2010****(In Thousands, Except Share and Per Share Data)****4. Property, Plant, and Equipment**

Property, plant, and equipment consist of:

	March 31,	
	2010	2009
Land, buildings, and improvements	\$ 161,211	\$ 153,529
Machinery and equipment	443,799	375,309
Construction in progress	29,041	42,577
	634,051	571,415
Less accumulated depreciation	(318,910)	(270,050)
Total	\$ 315,141	\$ 301,365

**5. Goodwill and Other Intangible Assets**

Information regarding the Company's goodwill and other intangible assets follows:

	March 31,					
	2010		2009			
	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Unamortizable intangible assets:						
Goodwill	\$ 318,677	\$ (1,412)	\$ 317,265	\$ 303,070	\$ (1,412)	\$ 301,658
Trademarks	82,598	(953)	81,645	79,746	(953)	78,793
Amortizable intangible assets:						
Customer lists	6,814	(1,416)	5,398	1,326	(979)	347
Non-compete	1,890	(708)	1,182	683	(500)	183
Patents	680	(165)	515	250	(142)	108
Trademarks	1,853	(465)	1,388	464	(381)	83
Licenses	82	(74)	8	80	(50)	30
Total	\$ 412,594	\$ (5,193)	\$ 407,401	\$ 385,619	\$ (4,417)	\$ 381,202

The Company's intangible assets amortization expense was \$706, \$539, and \$536, for the years ended March 31, 2010, 2009 and 2008, respectively. The expected amortization expense based on intangible assets at March 31, 2010 is \$755 in 2011, \$687 in 2012, \$680 in 2013, \$671 in 2014 and \$665 in 2015.

The changes in the carrying amount of goodwill by business segment are as follows:

	<b>Fiscal year ended March 31, 2010</b>			
	<b>Europe</b>	<b>Americas</b>	<b>Asia</b>	<b>Total</b>
Balance at beginning of year	\$ 153,941	\$ 126,117	\$ 21,600	\$ 301,658
Fiscal 2010 acquisitions		5,072		5,072
Foreign currency translation	8,700	1,726	109	10,535
Balance at end of year	\$ 162,641	\$ 132,915	\$ 21,709	\$ 317,265

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**Table of Contents****EnerSys****Notes to Consolidated Financial Statements (Continued)****March 31, 2010****(In Thousands, Except Share and Per Share Data)**

	Fiscal year ended March 31, 2009			Total
	Europe	Americas	Asia	
Balance at beginning of year	\$ 208,902	\$ 128,271	\$ 21,256	\$ 358,429
Income tax adjustment for ESG and Yuasa, Inc. acquisitions	(11,754)	159		(11,595)
Foreign currency translation	(43,207)	(2,313)	344	(45,176)
Balance at end of year	\$ 153,941	\$ 126,117	\$ 21,600	\$ 301,658

The Company estimated tax-deductible goodwill to be approximately \$17,016 and \$17,150 as of March 31, 2010 and 2009, respectively.

**6. Other Assets**

Prepaid and other current assets consist of the following:

	March 31,	
	2010	2009
Prepaid income taxes	\$ 11,372	\$ 7,880
Prepaid other taxes	8,064	5,964
Non-trade receivables	5,665	4,715
Lead hedges	62	2,191
Foreign currency forward contracts	1,911	
Other	12,775	11,772
<b>Total</b>	<b>\$ 39,849</b>	<b>\$ 32,522</b>

Other assets consist of the following:

	March 31,	
	2010	2009
Rental batteries	\$ 5,462	\$ 4,030
Leases receivable	5,240	6,024
Deferred financing fees	4,862	6,576
Other	7,879	2,049
<b>Total</b>	<b>\$ 23,443</b>	<b>\$ 18,679</b>

**Table of Contents****EnerSys****Notes to Consolidated Financial Statements (Continued)****March 31, 2010****(In Thousands, Except Share and Per Share Data)****7. Accrued Expenses**

Accrued expenses consist of the following:

	<b>March 31,</b>	
	<b>2010</b>	<b>2009</b>
Payroll and benefits	\$ 54,267	\$ 50,449
Warranty	31,739	30,914
Accrued selling expenses	21,509	25,994
Income taxes, currently payable	16,592	18,886
Restructuring	9,033	12,941
Freight	8,371	6,823
VAT and other non-income taxes	5,629	6,396
Pension and social security	4,488	3,473
Interest	3,117	3,220
Deferred income	3,055	2,002
Other	32,204	22,996
 Total	 \$ 190,004	 \$ 184,094

**8. Debt*****Senior Unsecured 3.375% Convertible Notes***

On May 28, 2008, the Company completed a registered offering of \$172,500 aggregate principal amount of senior unsecured 3.375% Convertible Notes Due 2038 ( "Convertible Notes" ) (see prospectus and supplemental indenture dated 05/28/2008). The Company received net proceeds of approximately \$168,200 after the deduction of commissions and offering expenses. The Company used all of the net proceeds to repay a portion of its then existing senior secured Term Loan B.

The Convertible Notes are general senior unsecured obligations and rank equally with the Company's existing and future senior unsecured obligations and are junior to any of the Company's future secured obligations to the extent of the value of the collateral securing such obligations. The Convertible Notes are not guaranteed, and are structurally subordinate in right of payment to, all of the (i) existing and future indebtedness and other liabilities of the Company's subsidiaries and (ii) preferred stock of the Company's subsidiaries to the extent of their respective liquidation preferences.

The Convertible Notes require the semi-annual payment of interest in arrears on June 1 and December 1 of each year beginning December 1, 2008, at 3.375% per annum on the principal amount outstanding. The Convertible Notes will accrete principal beginning on June 1, 2015 and will bear contingent interest, if any, beginning with the six-month interest period commencing on June 1, 2015 under certain circumstances. The Convertible Notes will mature on June 1, 2038. Prior to maturity the holders may convert their Convertible Notes into shares of the Company's common stock under certain circumstances. When issued, the initial conversion rate was 24.6305 shares per \$1,000 principal amount of Convertible Notes, which was equivalent to an initial conversion price of approximately \$40.60 per share.



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At any time after June 6, 2015, the Company may at its option redeem the Convertible Notes, in whole or in part, for cash, at a redemption price equal to 100% of the accreted principal amount of Convertible Notes to be redeemed, plus any accrued and unpaid interest. A holder of Convertible Notes may require the Company to

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**Table of Contents****EnerSys****Notes to Consolidated Financial Statements (Continued)****March 31, 2010****(In Thousands, Except Share and Per Share Data)**

repurchase some or all of the holder's Convertible Notes for cash upon the occurrence of a fundamental change as defined in the indenture and on each of June 1, 2015, 2018, 2023, 2028 and 2033 at a price equal to 100% of the accreted principal amount of the Convertible Notes being repurchased, plus accrued and unpaid interest, if any, in each case. It is the Company's current intent to settle the principal amount of any conversions in cash, and any additional conversion consideration in cash, shares of EnerSys common stock or a combination of cash and shares.

The Convertible Notes will mature on June 1, 2038, unless earlier converted, redeemed or repurchased.

If applicable, the Company will pay a make-whole premium on Convertible Notes converted in connection with certain fundamental changes that occur prior to June 6, 2015. The amount of the make-whole premium, if any, will be based on the Company's stock price and the effective date of the fundamental change. The indenture contains a detailed description of how the make-whole premium will be determined and a table showing the make-whole premium that would apply at various stock prices. No make-whole premium would be paid if the price of the Common Stock on the effective date of the fundamental change is less than \$29.00. Any make-whole premium will be payable in shares of Common Stock (or the consideration into which the Company's Common Stock has been exchanged in the fundamental change) on the conversion date for the Convertible Notes converted in connection with the fundamental change.

The Convertible Notes were issued in an offering registered under the Securities Act of 1933, as amended (Securities Act).

*Accounting for Certain Convertible Debt Instruments*

In May 2008, the FASB issued new guidance on the accounting for convertible debt instruments that may be settled in cash upon conversion (including partial settlement). This FASB guidance specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. The FASB guidance was effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, and must be applied retrospectively to all periods presented. The Company adopted the guidance effective May 28, 2008, the date of the Convertible Notes offering.

The adoption of the new FASB guidance had the following effect, applied retrospectively, on our Consolidated Statement of Income for the fiscal year ended March 31, 2009:

	<b>Fiscal year ended March 31, 2009</b>		
	<b>Previously Reported</b>	<b>As Adjusted</b>	<b>Effect of Change</b>
Interest expense	\$ 22,646	\$ 26,733	\$ 4,087
Income tax expense	38,600	37,170	(1,430)
Net income	84,587	81,930	(2,657)
Basic net income per share	1.73	1.68	(0.05)
Diluted net income per share	1.71	1.66	(0.05)

**Table of Contents****EnerSys****Notes to Consolidated Financial Statements (Continued)****March 31, 2010****(In Thousands, Except Share and Per Share Data)**

The adoption of the new guidance had the following effect on our Consolidated Balance Sheet as of March 31, 2009:

	<b>Previously Reported</b>	<b>March 31, 2009 As Adjusted</b>	<b>Effect of Change</b>
Prepaid and other current assets	\$ 32,734	\$ 32,522	\$ (212)
Long-term deferred tax asset	12,881	13,399	518
Other assets	19,776	18,679	(1,097)
Long-term debt	384,553	342,534	(42,019)
Long-term deferred tax liability	48,963	64,428	15,465
Other liabilities	66,844	62,602	(4,242)
Additional paid-in capital	385,872	414,292	28,420
Accumulated earnings	243,763	241,106	(2,657)

The adoption of the new guidance had no effect on our Consolidated Statement of Cash Flows for the fiscal year ended March 31, 2009.

The following represents the principal amount of the liability component, the unamortized discount, and the net carrying amount of our Convertible Notes as of March 31, 2010 and March 31, 2009, respectively:

	<b>March 31, 2010</b>	<b>March 31, 2009</b>
Principal	\$ 172,500	\$ 172,500
Unamortized discount	(36,580)	(42,019)
<b>Net carrying amount</b>	<b>\$ 135,920</b>	<b>\$ 130,481</b>

As of March 31, 2010, the remaining discount will be amortized over a period of 62 months. The conversion price of the \$172,500 in aggregate principal amount of the Convertible Notes is approximately \$40.60 per share and the number of shares on which the aggregate consideration to be delivered upon conversion is 4,248,761.

The effective interest rate on the liability component of the Convertible Notes was 8.50% for the fiscal years ended March 31, 2010 and March 31, 2009. The amount of interest cost recognized for the amortization of the discount on the liability component of the Convertible Notes was \$5,439 and \$4,261, respectively, for the fiscal years ended March 31, 2010 and March 31, 2009.

**Senior Secured Credit Facility**

In June 2008, the Company completed the refinancing of approximately \$192,000 of the outstanding combined balance of the senior secured Term Loan B and its then existing revolving credit facility with a new \$350,000 senior secured credit facility comprising a \$225,000 Term A Loan and a new, undrawn \$125,000 revolving credit facility.

The \$225,000 senior secured Term A Loan is subject to a quarterly principal amortization of 1.25% in Year 1, 1.88% in Years 2-3, 2.50% in Year 4, 3.13% in Year 5 and 14.38% in Year 6 and matures on June 27, 2014. The \$125,000 revolving credit facility matures on June 27, 2013.

Borrowings under the credit agreements bear

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**EnerSys**

**Notes to Consolidated Financial Statements (Continued)**

**March 31, 2010**

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

interest at a floating rate based, at our option, upon (i) a LIBOR rate plus an applicable percentage (currently 1.50%), or (ii) the greater of the federal funds rate plus 0.50% or the prime rate, plus an applicable percentage (currently 0.50%). There are no prepayment penalties on loans under the \$350,000 senior secured credit facility.

At March 31, 2010 and 2009, there was \$201,094 and \$216,563 outstanding under the new Term A Loan. There were no borrowings under the revolving credit facility.

Obligations under the new senior secured credit facility are secured by substantially all of our existing and hereafter acquired assets located in the United States, including substantially all of the capital stock of our United States subsidiaries that are guarantors under the new credit facility, and 65% of the capital stock of certain of our foreign subsidiaries that are owned by our United States companies. The Company's credit agreements contain various covenants that, absent prepayment in full of the indebtedness and other obligations, or the receipt of waivers, would limit the Company's ability to conduct certain specified business transactions including incurring debt, mergers, consolidations or similar transactions, buying or selling assets out of the ordinary course of business, engaging in sale and leaseback transactions, repurchasing the Company's common stock, paying dividends and certain other actions. At March 31, 2010, the Company was in compliance with all such covenants.

In connection with the issuance of the \$172,500 Convertible Notes and the refinancing under the new \$350,000 senior secured credit facility, the Company wrote-off approximately \$3,963 of unamortized deferred financing costs associated with the prior senior secured credit facility, and incurred approximately \$10,950 in new deferred financing costs. The Company also terminated interest rate swap agreements of \$30,000, which had been placed in October 2005, at a loss of \$1,246.

***Euro 25,000 Credit Agreement and Amendments***

On October 16, 2008, the Company amended its Euro 25,000 Credit Agreement in order to incorporate into the agreement, changes and covenants from the new \$350,000 senior secured credit facility and change the guaranty from EnerSys Capital Inc. to EnerSys.

On May 15, 2008, the Company amended its Euro 25,000 Credit Agreement to allow for the issuance of up to \$205,000 of unsecured indebtedness. The proceeds from the unsecured indebtedness were required to be used to pay down the senior secured Term Loan B. Additionally, the amendment authorized the Company to enter into a new \$350,000 US credit facility on terms substantially similar to the then existing Credit Agreement.

On June 15, 2005, the Company entered in a Euro 25,000 Credit Facility Agreement among EnerSys Holdings (Luxembourg), S.a.r.l., San Paolo IMI S.p.A., as Facility Agent and lender, and Banca Intesa S.p.A., as lender (the Euro Credit Agreement). The proceeds from the Euro Credit Agreement were used to reduce the outstanding balance of the U.S. Credit Agreement that was utilized as bridge financing for the June 1, 2005 acquisition of the motive power battery business of FIAMM S.p.A. The Euro Credit Agreement matures on June 30, 2011, and is subject to quarterly principal amortization between 1,000 1,750 beginning March 31, 2007. Obligations under the Euro Credit Agreement are secured by a pledge of the shares of our Italian subsidiary and guaranty from EnerSys Capital Inc., a subsidiary of the Company. Borrowings under the Euro Credit Agreement bear interest at a floating rate based upon a EURIBOR rate plus 1.15%.

***Prior Senior Secured Credit Facility***

The \$355,900 senior secured Term Loan B was subject to a 0.25% quarterly principal amortization and a maturity date of March 17, 2011. The \$100,000 revolving credit facility had a maturity date of March 17, 2009.



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Borrowings under the credit agreements bore interest at a floating rate based, at our option, upon (i) a LIBOR rate plus an applicable percentage (1.75% at time of termination), or (ii) the greater of the federal funds rate plus 0.50% or the prime rate, plus an applicable percentage (0.75% at time of termination). The facility required prepayment based upon certain excess cash flow amounts, as defined. There was no prepayment penalty on loans under the \$455,900 senior secured credit facility.

**Summary of Long-Term Debt**

The following summarizes the Company's long-term debt:

	<b>March 31,</b>	
	<b>2010</b>	<b>2009</b>
Term A Loan : Payable in quarterly installments of 1.25% in year 1, 1.88% in years 2-3, 2.50% in year 4, 3.13% in year 5 and 14.388% in year 6, with the remaining balance due on June 27, 2014, bearing interest at 1.76% at March 31, 2010	\$ 201,094	\$ 216,563
Senior Unsecured Convertible Notes bearing interest at 3.375% (net of discount of \$36,580 and \$42,019, respectively)	135,920	130,481
Euro Term Loan: Payable in quarterly installments between 1,000 and 1,750 beginning March 31, 2008 through June 30, 2011, bearing interest at 1.785% at March 31, 2010	11,158	19,261
Other	41	870
	<b>348,213</b>	<b>367,175</b>
Less current portion	26,045	24,641
<b>Total long-term debt</b>	<b>\$ 322,168</b>	<b>\$ 342,534</b>

**Other debt**

At March 31, 2010 and 2009, there were \$11,242 and \$27,494 respectively, of borrowings outstanding outside the United States.

As of March 31, 2010 and 2009, the Company had available under all its lines of credit approximately \$247,400 and \$266,702, respectively. Included in the March 31, 2010 and 2009 amounts are \$116,788 and \$116,284, respectively, of uncommitted lines of credit.

The Company paid \$16,456, \$21,026 and \$28,534, net of interest received, for interest during the fiscal years ended March 31, 2010, 2009 and 2008, respectively.

Aggregate maturities of long-term debt (including \$36,580 of Convertible Note discount) are as follows:

2011	\$ 26,045
2012	23,122
2013	26,719
2014	104,062

2015	32,345
Thereafter	172,500
	\$ 384,793

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**Table of Contents****EnerSys****Notes to Consolidated Financial Statements (Continued)****March 31, 2010****(In Thousands, Except Share and Per Share Data)**

The Company's financing agreements contain various covenants, which, absent prepayment in full of the indebtedness and other obligations, or the receipt of waivers, would limit the Company's ability to conduct certain specified business transactions including incurring debt, mergers, consolidations or similar transactions, buying or selling assets out of the ordinary course of business, engaging in sale and leaseback transactions, paying dividends and certain other actions. The Company is in compliance with all such covenants.

As of March 31, 2010 and 2009, the Company had \$1,150 of standby letters of credit outstanding that reduced the borrowings available under the Revolving Credit Lines. As of March 31, 2010 and 2009, the Company had no bank guarantees.

**9. Leases**

The Company's future minimum lease payments under capital and operating leases that have noncancelable terms in excess of one year at March 31, 2010 are as follows:

	<b>Capital Leases</b>	<b>Operating Leases</b>
2011	\$ 702	\$ 13,631
2012	661	11,185
2013	568	8,297
2014	386	5,841
2015	21	4,456
Thereafter		2,089
<b>Total minimum lease payments</b>	<b>2,338</b>	<b>\$ 45,499</b>
Amounts representing interest	108	
<b>Net minimum lease payments, including current portion of \$650</b>	<b>\$ 2,230</b>	

Rental expense was \$26,957, \$29,247, and \$28,181 for the fiscal years ended March 31, 2010, 2009 and 2008, respectively. Amortization of capitalized leased assets is included in depreciation expense. Certain operating lease agreements contain renewal or purchase options and/or escalation clauses.

**10. Other Liabilities**

Other long-term liabilities consist of the following:

	<b>March 31,</b>	
	<b>2010</b>	<b>2009</b>
Pension and profit sharing obligation	\$ 26,855	\$ 24,929
Interest rate swap liabilities	9,710	13,628

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Long-term income taxes liabilities	8,140	11,346
Restructuring reserves	1,310	865
Deferred income	3,091	3,512
Other	5,396	8,322
Total	\$ 54,502	\$ 62,602

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**Table of Contents****EnerSys****Notes to Consolidated Financial Statements (Continued)****March 31, 2010****(In Thousands, Except Share and Per Share Data)****11. Derivative Financial Instruments***Interest Rate Swap Agreements*

The Company is exposed to changes in variable interest rates on borrowings under our credit agreements. On a selective basis, from time to time, it enters into interest rate swap agreements to reduce the negative impact that increases in interest rates could have on our outstanding variable rate debt. At March 31, 2010 and March 31, 2009 such agreements effectively convert \$170,000 of our variable-rate debt to a fixed-rate basis, utilizing the three-month London Interbank Offered Rate, or LIBOR, as a floating rate reference. Fluctuations in LIBOR and fixed rates affect both our net financial investment position and the amount of cash to be paid or received by us under these agreements.

The Company recorded unrealized losses on interest rate swaps of (\$3,141), (\$5,667) and (\$11,612) for the fiscal years ended March 31, 2010, 2009, and 2008, respectively, that are included in accumulated other comprehensive income. In the coming twelve months, the Company anticipates that approximately \$6,100 of unrealized losses will be reclassified from accumulated other comprehensive income to earnings, as an increase in interest expense. The estimated fair value of the Company's interest rate swap agreements was a liability of \$9,710, \$13,628 and \$11,593, at March 31, 2010, 2009 and 2008, respectively, as estimated based on quotes from market makers of these instruments. The Company recorded an expense (income) of \$7,059, \$3,632 and (\$588) in fiscal 2010, 2009 and 2008, respectively, which was recorded as an increase (decrease) in interest expense.

*Lead Hedge Contracts*

During the fiscal years ending March 31, 2010, 2009 and 2008, the Company entered into lead hedge contracts to fix the price for lead purchases. Management considers the lead hedge contracts to be highly effective against changes in the cash flows of the underlying lead purchases based on the criteria in the FASB guidance. The vast majority of such contracts are for a period not extending beyond one year. Realized gains (losses) related to the lead hedge contracts are included in inventory and amortized to earnings over the turnover period. The Company recorded unrealized (losses) gains on lead hedge contracts of \$9,844, (\$44,863), and (\$10,355), for the fiscal years ended March 31, 2010, 2009 and 2008, respectively, which are included in accumulated other comprehensive income. The estimated fair value of open lead hedge contracts at March 31, 2010, 2009 and 2008, was \$62, \$2,191, and \$1,685, respectively. The gains (losses) on the settlement of lead hedge contracts during fiscal 2010, 2009 and 2008, was \$11,973, (\$45,369), and \$20,592, respectively, a portion of which is recorded as a reduction (increase) of cost of goods sold and a portion of which was included in inventory at March 31, 2010, 2009 and 2008.

*Foreign Currency Forward Contracts*

On a selective basis the Company will enter into foreign currency forward contracts and option contracts to reduce the volatility from currency movements that affect the Company. The Company's largest exposure is from the purchase and conversion of U.S. dollar based lead costs into local currencies in Europe, China and Mexico and from intercompany loan and receivable transactions. To hedge these exposures the Company may enter into foreign currency forward contracts and option contracts with financial institutions. Each contract is for a period not extending beyond one year. As of March 31, 2010 and 2009, the Company had entered into a total of \$64,234 and \$19,390, respectively, foreign currency forward contracts. The Company recorded an unrealized gain on foreign currency forward contracts of \$2,679, \$206 and (\$2,316), for the fiscal years ended March 31, 2010, 2009 and 2008, respectively, which is included in accumulated other comprehensive income. The estimated fair value of open foreign currency forward contracts at March 31, 2010, 2009 and 2008 was an asset (liability) of \$1,911, (\$340) and

**Table of Contents****EnerSys****Notes to Consolidated Financial Statements (Continued)****March 31, 2010****(In Thousands, Except Share and Per Share Data)**

(\$3,801), respectively. The net gains/(losses) on the settlement of foreign currency hedge contracts during fiscal 2010 and 2009, was \$428 and (\$3,255) respectively, a portion of which was recorded as an (decrease) increase to cost of goods sold and earnings and a portion of which was included in inventory at March 31, 2010 and 2009.

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

**Fair Value of Derivative Instruments****March 31, 2010 and 2009**

	Balance Sheet Location	Asset Derivatives		Balance Sheet Location	Liability Derivatives	
		March 31, 2010 Fair Value	March 31, 2009 Fair Value		March 31, 2010 Fair Value	March 31, 2009 Fair Value
<b>Derivatives designated as hedging instruments</b>						
Interest rate swap agreements		\$	\$	Other liabilities	\$ 9,710	\$ 13,628
Lead hedge contracts	Prepaid and other current assets	62	2,191			
Foreign currency forward contracts	Prepaid and other current assets	1,911		Accrued expenses		340
<b>Total derivatives designated as hedging instruments</b>		<b>\$ 1,973</b>	<b>\$ 2,191</b>		<b>\$ 9,710</b>	<b>\$ 13,968</b>

**The Effect of Derivative Instruments on the Consolidated Statements of Income****For the fiscal years ending March 31, 2010 and 2009**

Derivatives in Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in Accumulated OCI on Derivatives (Effective Portion)		Location of Gain (Loss) Reclassified from Accumulated OCI into Income  (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	
	March 31, 2010	March 31, 2009		March 31, 2010	March 31, 2009
Interest rate swap agreements	\$ (3,141)	\$ (5,667)	Interest expense	\$ (7,059)	\$ (3,632)
Lead hedge contracts	9,844	(44,863)	Cost of goods sold/Inventory	11,973	(45,369)
Foreign currency forward contracts	2,679	206	Cost of goods sold/Inventory	428	(3,255)

<b>Total derivatives designated as hedging instruments</b>	<b>\$ 9,382</b>	<b>\$ (50,324)</b>	<b>\$ 5,342</b>	<b>\$ (52,256)</b>
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**Table of Contents****EnerSys****Notes to Consolidated Financial Statements (Continued)****March 31, 2010****(In Thousands, Except Share and Per Share Data)****12. Income Taxes**

Income tax expense is composed of the following:

	Fiscal year ended March 31,		
	2010	2009	2008
Current:			
Federal	\$ 9,000	\$ 10,793	\$ 220
State	(981)	2,673	976
Foreign	9,957	14,876	17,331
<b>Total current</b>	<b>17,976</b>	<b>28,342</b>	<b>18,527</b>
Deferred:			
Federal	4,678	7,730	3,898
State	852	311	(583)
Foreign	1,445	787	4,657
<b>Total deferred</b>	<b>6,975</b>	<b>8,828</b>	<b>7,972</b>
<b>Income tax expense</b>	<b>\$ 24,951</b>	<b>\$ 37,170</b>	<b>\$ 26,499</b>

Earnings before income taxes consists of the following:

	Fiscal year ended March 31,		
	2010	2009	2008
United States	\$ 37,418	\$ 21,545	\$ 18,465
Foreign	49,837	97,555	67,730
<b>Earnings before income taxes</b>	<b>\$ 87,255</b>	<b>\$ 119,100</b>	<b>\$ 86,195</b>

Income taxes paid by the Company for the fiscal years ended March 31, 2010, 2009 and 2008 were \$22,553, \$21,214 and \$7,255, respectively.

**Table of Contents****EnerSys****Notes to Consolidated Financial Statements (Continued)****March 31, 2010****(In Thousands, Except Share and Per Share Data)**

The following table sets forth the tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities:

	<b>March 31,</b>	
	<b>2010</b>	<b>2009</b>
Deferred tax assets:		
Accounts receivable	\$ 1,140	\$ 1,045
Inventories	4,626	5,834
Net operating loss carryforwards	69,469	67,162
Accrued liabilities and restructuring expenses	14,503	18,939
Other assets	9,189	10,531
<b>Gross deferred tax assets</b>	<b>98,927</b>	<b>103,511</b>
Less valuation allowance	(58,382)	(57,397)
<b>Total deferred tax assets</b>	<b>40,545</b>	<b>46,114</b>
Deferred tax liabilities:		
Property, plant and equipment	28,288	25,964
Other intangible assets	38,363	36,051
Convertible Debt	19,363	18,044
Other liabilities	1,858	4,182
<b>Total deferred tax liabilities</b>	<b>87,872</b>	<b>84,241</b>
<b>Net deferred tax liabilities</b>	<b>\$ (47,327)</b>	<b>\$ (38,127)</b>

The Company has approximately \$15,277 in United States federal net operating loss carryforwards, approximately \$9,233 of which are limited by Section 382 of the Internal Revenue Code, that begin to expire in the year ending 2023. The Company has recorded a valuation allowance against approximately \$8,694 of the losses limited by Section 382.

The net operating loss carryforwards at March 31, 2010 related to the Company's foreign subsidiaries are approximately \$229,873. Some of these net operating loss carryforwards have an unlimited life, while others expire at various times over the next 20 years. In addition, the Company also had approximately \$53,051 of net operating loss carryforwards for state tax purposes that expire at various times over the next 20 years. The Company has recorded a valuation allowance for net deferred tax assets in certain foreign and state tax jurisdictions, primarily related to net operating loss carryforwards, due to the significant losses incurred in these tax jurisdictions. During the fiscal years ended March 31, 2010 and 2009, the Company recorded tax benefits of \$2,260 and \$125, respectively, due to the utilization of net operating loss carryforwards in certain foreign subsidiaries.

A reconciliation of income taxes at the statutory rate to the income tax provision is as follows:

**Fiscal year ended March 31,**

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	2010	2009	2008
United States statutory income tax expense (at 35%)	\$ 30,539	\$ 41,685	\$ 30,168
Increase (decrease) resulting from:			
State income taxes, net of federal effect	(116)	1,942	623
Nondeductible expenses	3,799	427	467
Effect of foreign operations	(9,253)	(9,374)	(7,682)
Valuation allowance	(18)	2,490	2,923
<b>Income tax expense</b>	<b>\$ 24,951</b>	<b>\$ 37,170</b>	<b>\$ 26,499</b>

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**Table of Contents****EnerSys****Notes to Consolidated Financial Statements (Continued)****March 31, 2010****(In Thousands, Except Share and Per Share Data)**

The effective income tax rate was 28.6 % in fiscal 2010, compared to 31.2 % in fiscal 2009 and 30.7 % in fiscal 2008. The fiscal 2010 tax expense includes a non-recurring tax benefit of approximately \$2,141 attributable to the filing of amended tax returns which reduced the effective tax rate by 2.5 percentage points. Similarly, the fiscal 2009 tax expense included a non-recurring tax benefit of approximately \$1,100, attributable to the favorable resolution of a prior year tax matter, which reduced the effective tax rate by 0.9 percentage points.

At March 31, 2010, the Company has not recorded United States income or foreign withholding taxes on approximately \$269,849 of undistributed earnings of foreign subsidiaries that could be subject to taxation if remitted to the United States because the Company currently plans to keep these amounts permanently invested overseas.

The Company recognizes and measures uncertain tax positions taken, or expected to be taken, in a tax return in accordance with FASB guidance on accounting for uncertainty in income taxes.

A reconciliation of the beginning and ending amount of unrecognized tax benefits under FASB guidance is as follows:

March 31, 2009	\$ 13,305
Increases related to current year tax positions	919
Increases related to prior year tax positions due to foreign currency translation	5
Decreases related to prior year tax positions	(2,940)
Lapse of statute of limitations	(539)
March 31, 2010	\$ 10,750

All of the balance of unrecognized tax benefits at March 31, 2010 if recognized, would be included in the Company's Statement of Income and have a favorable impact on both the Company's Statement of Income and effective tax rate.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2005.

The Company anticipates that it is reasonably possible that a portion of the March 31, 2010 balance of the unrecognized tax benefits could be recognized within the next twelve months as a result of the completion of a tax audit or due to the expiration of the relevant statutes of limitations. An estimate of the range of the adjustments cannot be made at this time.

The Company recognizes tax related interest and penalties in income tax expense in its Statement of Income. As of March 31, 2010 and March 31, 2009, the Company had an accrual of approximately \$905 and \$740, respectively, for interest and penalties.

**Table of Contents****EnerSys****Notes to Consolidated Financial Statements (Continued)****March 31, 2010****(In Thousands, Except Share and Per Share Data)****13. Retirement Plans***Defined Benefit Plans*

The Company provides retirement benefits to substantially all eligible salaried and hourly employees. The Company uses a measurement date of March 31 for its pension plans. The following table sets forth a reconciliation of the related benefit obligation, plan assets, and accrued benefit costs related to the pension benefits provided by the Company for these employees covered by defined benefit plans:

	United States Plans		International Plans	
	March 31,		March 31,	
	2010	2009	2010	2009
<b>Change in projected benefit obligation</b>				
Benefit obligation at the beginning of the year	\$ 9,969	\$ 9,872	\$ 38,080	\$ 51,803
Service cost	224	300	621	2,897
Interest cost	635	608	2,520	2,529
Benefits paid	(588)	(569)	(2,299)	(2,204)
Plan participants' contributions				539
Plan curtailments			(60)	
Transfer in (effects of business combinations)				116
Experience (gain) loss	752	(242)	6,575	(6,268)
Foreign currency translation adjustment			1,414	(11,332)
Benefit obligation at the end of the period	\$ 10,992	\$ 9,969	\$ 46,851	\$ 38,080
<b>Change in plan assets</b>				
Fair value of plan assets at the beginning of the period	\$ 6,279	\$ 7,950	\$ 16,285	\$ 23,449
Actual return (loss) on plan assets	1,994	(1,590)	6,326	(3,513)
Employer contributions	174	488	1,659	4,343
Plan participants' contributions				538
Benefits paid, inclusive of plan expenses	(588)	(569)	(2,298)	(2,204)
Foreign currency translation adjustments			740	(6,328)
Fair value of plan assets at the end of the period	\$ 7,859	\$ 6,279	\$ 22,712	\$ 16,285
Funded status deficit	\$ (3,133)	\$ (3,690)	\$ (24,139)	\$ (21,795)
Unrecognized net loss				
Accrued benefit cost	\$ (3,133)	\$ (3,690)	\$ (24,139)	\$ (21,795)

Accrued pension benefit liability is included in accrued expenses and other liabilities.



**Table of Contents****EnerSys****Notes to Consolidated Financial Statements (Continued)****March 31, 2010****(In Thousands, Except Share and Per Share Data)**

Net periodic pension cost for 2010, 2009, and 2008, includes the following components:

	United States Plans March 31,			International Plans March 31,		
	2010	2009	2008	2010	2009	2008
Service cost	\$ 224	\$ 300	\$ 254	\$ 621	\$ 2,897	\$ 3,912
Interest cost	634	608	564	2,520	2,529	2,328
Actual return on plan assets	(491)	(639)	(639)	(1,256)	(1,568)	(1,781)
Amortization and deferral	459	208	150	(43)		66
<b>Net periodic benefit cost</b>	<b>\$ 826</b>	<b>\$ 477</b>	<b>\$ 329</b>	<b>\$ 1,842</b>	<b>\$ 3,858</b>	<b>\$ 4,525</b>

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

	United States Plans March 31,			International Plans March 31,		
	2010	2009	2008	2010	2009	2008
Discount rate	6.5%	6.0%	6.0%	3.8-6.0 %	4.3-6.0 %	4.3-6.0 %
Expected return on plan assets	8.0	8.0	8.0	5.5-7.0	5.5-7.5	5.5-8.0
Rate of compensation increase	N/A	N/A	N/A	2.0-3.5	2.0-3.5	2.0-3.0

As required by the FASB guidance, for pension plans for which the projected benefit obligation exceeds the fair value of plan assets, the Company has recognized in the Consolidated Balance Sheets at March 31, 2010 and 2009, the additional liability of the unfunded projected benefit obligation of \$7,476 and \$7,157, respectively, as current and long-term liabilities, with offsetting equity adjustments. The accumulated benefit obligation for all defined benefit pension plans was \$55,282 and \$45,953 at March 31, 2010 and 2009, respectively.

The accumulated benefit obligation related to all defined benefit pension plans and information related to unfunded and underfunded defined benefit pension plans at the end of each year follows:

	United States Plans March 31,		International Plans March 31,	
	2010	2009	2010	2009
<b>All defined benefit plans:</b>				
Accumulated benefit obligation	\$ 10,992	\$ 9,969	\$ 44,290	\$ 35,984
<b>Unfunded defined benefit plans:</b>				
Projected benefit obligation			23,367	21,186
Accumulated benefit obligation			22,557	20,367
<b>Defined benefit plans with an accumulated benefit obligation in excess of the fair value of plan assets:</b>				
Projected benefit obligation	10,992	9,969	23,367	22,187
Accumulated benefit obligation	10,992	9,969	22,557	21,255

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Fair value of plan assets	7,859	6,279	706
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The United States plans do not include compensation in the formula for determining the pension benefit as it is based solely on years of service.

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**EnerSys**

**Notes to Consolidated Financial Statements (Continued)**

**March 31, 2010**

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

The Company's investment policy emphasizes a balanced approach to investing in securities of high quality and ready marketability. Investment flexibility is encouraged so as not to exclude opportunities available through a diversified investment strategy.

Equity investments are maintained within a target range of 50%-70% of the total portfolio market value. Investments in debt securities include issues of various maturities, and the average quality rating of bonds should be investment grade with a minimum quality rating of B at the time of purchase.

The Company periodically reviews the asset allocation of its portfolio. The proportion committed to equities, debt securities and cash equivalents is a function of the values available in each category and risk considerations. The plan's overall return will be compared to and expected to meet or exceed established benchmark funds and returns over a three to five year period.

The objectives of the Company's investment strategies are: (a) the achievement of a reasonable long-term rate of total return consistent with an emphasis on preservation of capital and purchasing power, (b) stability of annual returns through a portfolio risk level, which is appropriate to conservative accounts, and (c) reflective of our willingness to forgo significantly above-average rewards in order to minimize above-average risks. These objectives may not be met each year but should be attained over a reasonable period of time.

The Company expects to make cash contributions of approximately \$1,900 to its pension plans in fiscal year 2011.

As a result of the ESG business combination, the Company has assumed defined benefit plans in Germany and France. These plans have no assets, while their benefit obligations were \$20,266 and \$18,502 as of March 31, 2010 and 2009, respectively. Other salary and hourly employees are provided benefits in accordance with governmental regulatory requirements.

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The following table represents our assets (liabilities) measured at fair value on a recurring basis as of March 31, 2010 and the basis for that measurement:

Asset Category:	Total Fair Value Measurement March 31, 2010	US Plans		
		Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Cash and Cash Equivalents</b>	\$ 450	\$ 450	\$	\$
<b>Equity Securities:</b>				
U.S. <sup>(a)</sup>	4,058	4,058		
International <sup>(b)</sup>	819	819		
<b>Debt securities:</b>				
Corporate bonds <sup>(c)</sup>	2,532	2,532		
<b>Total</b>	\$ 7,859	\$ 7,859	\$	\$

Asset Category:	Total Fair Value Measurement March 31, 2010	International Plans		
		Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Equity Securities:</b>				
U.S. <sup>(a)</sup>	\$ 2,196	\$ 2,196	\$	\$
International <sup>(b)</sup>	13,053	13,053		
<b>Debt securities:</b>				
Corporate bonds <sup>(c)</sup>	4,287	4,287		
Government and government-related debt securities <sup>(d)</sup>	3,176	3,176		
<b>Total</b>	\$ 22,712	\$ 22,712	\$	\$

The fair values presented above were determined based on valuation techniques categorized as follows:

Level one: The use of quoted prices in active markets for identical instruments.

Level two: The use of quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active or other inputs that are observable in the market or can be corroborated by observable market data.

Level three: The use of significantly unobservable inputs and that typically require the use of management's estimates of assumptions that market participants would use in pricing.

- (a) US equities include companies that are well diversified by industry sector and equity style (i.e., growth and value strategies). Active and passive management strategies are employed. Investments are primarily in large capitalization stocks and, to a lesser extent, mid- and small-cap stocks.
  
- (b) International equities are invested in companies that are traded on exchanges outside the U.S. and are well diversified by industry sector, country and equity style. Active and passive strategies are employed. The vast majority of the investments are made in companies in developed markets with a small percentage in emerging markets.

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- (c) Corporate bonds consist primarily of investment grade bonds from diversified industries.
- (d) Government and government-related debt securities are comprised primarily of inflation protected U.S. treasuries and, to a lesser extent, other government-related securities.  
Benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

	<b>Pension Benefits</b>
2011	\$ 1,900
2012	1,961
2013	2,094
2014	2,449
2015	2,728
Years 2016-2020	16,146

In accordance with the FASB guidance, the Company recognizes the funded status of its retirement plans in its Consolidated Balance Sheet. The underfunded status of our retirement plans recorded as a liability on the Company's Consolidated Balance Sheets at March 31, 2010 and 2009 was approximately \$27,272 and \$25,485, respectively.

The amounts included in accumulated other comprehensive income as of March 31, 2010 that are expected to be recognized as components of net periodic pension cost during the fiscal year ended March 31, 2011 are as follows:

Net loss	\$ (216)
Net prior service cost	(18)
<b>Net amount expected to be recognized</b>	<b>\$ (234)</b>

*Defined Contribution Plan*

Effective January 1, 2004, the Company amended its Defined Contribution Plan (the 401(k) Plan). The amended 401(k) Plan covers substantially all U.S. salaried and hourly employees except those covered by a union plan. All eligible employees of the amended 401(k) Plan receive a matching contribution of 100% of the first 4% of wages contributed and 50% of the next 2% of wages contributed for a total match of up to 5% by the Company.

Effective February 1, 2009, the Company amended its Defined Contribution Plan (Amended U.K. Plan) that covers substantially all UK employees, both direct and salaried. All eligible employees of the Amended U.K. Plan receive a matching contribution from the Company, at various rates as provided by the plan.

Employer expenses for the 401(k) plan and the Amended U.K. Plan for the fiscal years ended March 31, 2010, 2009 and 2008, were \$3,909, \$2,394 and \$2,298, respectively.

**14. Preferred Stock and Common Stock**

The Company's certificate of incorporation authorizes the issuance of up to 1,000,000 shares of preferred stock, par value \$0.01 per share ( Preferred Stock ). At March 31, 2010 and 2009, no shares of Preferred Stock were issued or outstanding. The Board of Directors of the Company has the authority to specify the terms of any Preferred Stock at the time of issuance.

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**Table of Contents****EnerSys****Notes to Consolidated Financial Statements (Continued)****March 31, 2010****(In Thousands, Except Share and Per Share Data)**

The following demonstrates the change in the number of shares of Class A common stock outstanding during fiscal 2010:

	<b>Fiscal Year ended March 31, 2010</b>
Shares outstanding as of beginning of period	47,975,396
Shares issued as part of equity-based compensation plans, net of equity awards surrendered for option price and taxes	606,436
Shares outstanding as of end of period	48,581,832

**15. Secondary Offerings of Common Shares**

In August 2009, certain of the Company's stockholders sold 3,200,000 shares of the Company's common stock pursuant to an effective shelf registration statement filed with the Securities and Exchange Commission on May 19, 2008.

In May 2008, concurrently with the Convertible Notes offering, certain of the Company's stockholders sold 3,690,000 shares of the Company's common stock pursuant to an effective shelf registration statement filed with the Securities and Exchange Commission on May 19, 2008.

The offered shares were sold by those stockholders of the Company, including affiliates of Metalmark Capital LLC and certain other institutional stockholders. The Company did not receive any proceeds from the common stock offerings; however, under the terms of its securityholder agreement, the Company did incur fees related to the offerings in fiscal 2010 and fiscal 2009 of \$150 and \$330, respectively.

**16. Stock-Based Compensation**

At March 31, 2010, the Company maintains three management equity incentive plans, which were approved by the Company's shareholders. These plans, which are the 2000 Management Equity Plan, the 2004 Equity Incentive Plan and the Amended and Restated 2006 Equity Incentive Plan, reserve 11,289,232 shares of common stock for the grant of various classes of nonqualified stock options, restricted stock, restricted stock units and other forms of equity based compensation. At March 31, 2010, 1,321,003 shares are available for future grants. The Company's management equity incentive plans are intended to provide an incentive to employees and non-employee directors of the Company to remain in the service of the Company and to increase their interest in the success of the Company in order to promote the long-term interests of the Company. The plans seek to promote the highest level of performance by providing an economic interest in the long-term performance of the Company. The Company settles employee share-based compensation awards primarily with newly issued shares.

*Stock Incentive Plans*

Non-qualified stock options have been granted to employees under the equity incentive plans at prices not less than the fair market value of the shares on the dates the options were granted. Options issued in fiscal 2010 vest over a three-year or six-month period and options issued in fiscal 2009 vest over a three-year period, and options issued in fiscal 2008 vest over a four-year period. Options become exercisable in equal installments over the vesting period. Options generally expire in 10 years, however options vesting in six months expire in 3 1/2 years.



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Compensation cost is recorded in accordance with FASB guidance, based on the fair value of stock-based awards at the grant date. The fair value of the options granted is estimated at the date of grant using the Black-Scholes option-pricing model utilizing assumptions based on historical data and current market data. The assumptions include expected term of the options, risk-free interest rate, volatility, and dividend yield. The expected term represents the expected amount of time that options granted are expected to be outstanding, based on historical and forecasted exercise behavior. The risk-free interest rate is based on the rate at grant date of zero-coupon U.S. Treasury Notes with a term equal to the expected term of the option. Expected volatility is estimated using historical volatility based on historical weekly price changes. The weighted average fair value of options granted were \$8.35 and \$5.15 in fiscal 2010 and \$11.64 in fiscal 2009 and \$8.00 per option in fiscal 2008, respectively, and were determined using the following assumptions:

	2010 10 Year Options	2010 3.5 Year Options	2009 10 Year Options	2008 10 Year Options
Exercise price	\$ 16.20	\$ 16.24	\$ 30.19	\$ 18.25
Risk-free interest rate	2.01%	0.93%	3.1%	4.7%
Dividend yield	0%	0%	0%	0%
Expected life	5 years	2 years	5 years	6 years
Expected volatility	56.6%	56.6%	38.6%	36.6%

For fiscal 2010, 2009 and 2008, the Company recognized \$2,993 (\$2,095 net of taxes), \$1,906 (\$1,270 net of taxes) and \$1,168 (\$810 net of taxes), respectively, of stock-based compensation expense associated with the stock option grants.

The FASB accounting guidance for the classification in the Statement of Cash Flows of the Income Tax Benefit Received by a Company upon Exercise of a Nonqualified Employee Stock Option requires tax benefits relating to excess equity-based compensation deductions to be prospectively presented in the statement of cash flows as financing cash inflows.

The following table summarizes the Company's stock option activity in the years indicated:

	Number of Options	Weighted Average Remaining Contract Term (Years)	Weighted Average Exercise Price	Aggregate Intrinsic Value
Options outstanding as of March 31, 2007	5,506,499	4.3	\$ 13.94	\$ 23,287
Granted	286,724		18.25	
Exercised	(2,236,505)		12.42	19,338
Canceled	(21,783)		12.99	87
Options outstanding as of March 31, 2008	3,534,935	4.4	\$ 15.27	\$ 30,617
Granted	264,206		30.19	
Exercised	(983,991)		15.30	13,544
Canceled	(171,975)		15.97	
Options outstanding as of March 31, 2009	2,643,175	4.2	\$ 16.70	\$ 1,752
Granted	539,506		16.21	

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Exercised	(667,862)		12.22	7,125
Canceled	(83,586)		21.43	522
Options outstanding as of March 31, 2010	2,431,233	4.0	\$ 17.69	\$ 19,191
Options exercisable as of March 31, 2010	1,816,626	2.5	\$ 16.88	\$ 15,471
Options expected to vest as of March 31, 2011	256,189	8.5	\$ 20.82	\$ 1,406

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**Table of Contents****EnerSys****Notes to Consolidated Financial Statements (Continued)****March 31, 2010****(In Thousands, Except Share and Per Share Data)**

The following table summarizes information regarding stock options outstanding and exercisable at March 31, 2010:

Range of Exercise Prices	Number of Options	Options Outstanding		Options Exercisable	
		Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
\$10.01-15.00	926,686	2.3	\$ 11.22	920,144	\$ 11.20
\$15.01-20.00	674,420	7.4	16.89	219,231	17.17
\$20.01-25.00	447,113	1.7	21.85	447,113	21.85
\$25.01-30.00	142,072	0.6	29.36	142,072	29.36
Over \$30.00	240,942	7.8	30.19	88,066	30.19
	2,431,233	4.0	\$ 17.69	1,816,626	\$ 16.88

A summary of the status of the Company's non-vested options as of March 31, 2010, and changes during the year ended March 31, 2010, is presented below.

	Number of Options	Weighted Average Grant-Date Fair Value
Nonvested at March 31, 2009	503,847	\$ 9.80
Granted	539,506	7.41
Vested	(345,824)	7.48
Forfeited	(82,922)	9.23
Nonvested at March 31, 2010	614,607	9.08

*Restricted Stock and Restricted Stock Units*

The Company granted to non-employee directors 23,723 restricted stock units in fiscal 2010, at the fair market value on that date of \$21.05 per share and 18,408 restricted stock in fiscal 2009, at the fair market value on that date of \$26.08 per share. These restricted stock units vest thirteen-months following the date of grant.

No restricted stock awards were granted in fiscal 2010, 2009 and 2008.

At March 31, 2010 and 2009, the Company had 1,000 and 66,452, respectively, shares of restricted stock outstanding at a weighted average fair market value on that date of grants of \$18.32 and \$13.34 per share, respectively. Generally, restricted stock is granted at the fair market value of the Company's common stock on the date of grant and vest in annual installments of 25% over a four-year period from the date of grant.

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The Company granted to management and other key employees 366,367 restricted stock units on May 18, 2009, at the fair market value on that date of \$16.20, and 227,214 restricted stock units in fiscal 2009, at an average fair market value on date of grants of \$30.19. These restricted stock units are granted at the fair market value of the Company's common stock on the date of grant and vest 25% per year over a four-year period from the date of grant.

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**Table of Contents****EnerSys****Notes to Consolidated Financial Statements (Continued)****March 31, 2010****(In Thousands, Except Share and Per Share Data)**

A summary of the changes in restricted stock and restricted stock units awarded to employees and directors that were outstanding under the Company's equity compensation plans during fiscal 2010 is presented below:

	Restricted Stock		Restricted Stock Units	
	Number of Restricted Shares	Weighted Average Grant Date Fair Value	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value
Non-vested awards as of March 31, 2009	66,452	\$ 13.34	345,875	\$ 26.45
Granted			390,090	16.50
Vested	(58,780)	13.38	(96,767)	25.53
Canceled	(6,672)	13.33	(30,568)	20.46
Non-vested awards as of March 31, 2010	1,000	\$ 18.32	608,630	\$ 20.45

The Company recognized equity-based compensation expense related to the vesting of restricted stock grants of approximately \$174 with a related tax benefit of \$52 during fiscal 2010, approximately \$460 with a related tax benefit of \$152, during fiscal 2009 and approximately \$907 with a related tax benefit of \$279, during fiscal 2008.

The Company recognized equity-based compensation expense related to the vesting of restricted stock units of approximately \$3,794, with a related tax benefit of \$1,138 for fiscal 2010, approximately \$2,655, with a related tax benefit of \$893 for fiscal 2009 and approximately \$953, with a related tax benefit of \$293 for fiscal 2008.

*All Award Plans*

As of March 31, 2010, unrecognized compensation expense associated with the non-vested incentive awards outstanding was \$13,796 and is expected to be recognized over a weighted average period of 19 months.

**17. Earnings Per Share**

The following table sets forth the reconciliation from basic to diluted average common shares and the calculations of net earnings per common share (dollars in thousands, except per share data).

	2010	March 31, 2009	2008
Net earnings	\$ 62,304	\$ 81,930	\$ 59,696
Average common shares:			
Basic (weighted-average outstanding shares)	48,122,207	48,824,434	47,645,225
Dilutive potential common shares from common stock options	711,888	595,869	999,225

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Diluted (weighted-average outstanding shares)	48,834,095	49,420,303	48,644,450
Basic earnings per common share	\$ 1.29	\$ 1.68	\$ 1.25
Diluted earnings per common share	\$ 1.28	\$ 1.66	\$ 1.22
Antidilutive options, unvested restricted stock and restricted stock units not included in weighted average common shares diluted	383,696	2,992,456	183,672

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**EnerSys**

**Notes to Consolidated Financial Statements (Continued)**

**March 31, 2010**

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

The aggregate number of shares that the Company could be obligated to issue upon conversion of its \$172,500, Convertible Notes due 2038, which the Company issued in May 2008, is approximately 4,248,761. It is the Company's current intent to settle the principal amount of any conversions in cash, and any additional conversion consideration in cash, shares of EnerSys common stock or a combination of cash and shares. No contingent shares were included in diluted shares outstanding during fiscal 2010 and 2009, as the specified conversion price exceeded the average market price of the Company's common stock, and the inclusion of contingent shares would have been anti-dilutive.

**18. Concentration of Credit Risk**

Financial instruments that subject the Company to potential concentration of credit risk consist principally of short-term cash investments and trade accounts receivable. The Company invests its cash with various financial institutions and with various investment instruments limiting the amount of credit exposure to any one financial institution or entity. The Company has bank deposits that exceed federally-insured limits. In addition, certain cash investments may be made in U.S. and foreign government bonds, or other highly rated investments guaranteed by the U.S. or foreign governments. Concentration of credit risk with respect to trade receivables is limited by a large, diversified customer base and its geographic dispersion. The Company performs ongoing credit evaluations of its customers' financial condition and requires collateral, such as letters of credit, in certain circumstances.

**19. Commitments, Contingencies and Litigation**

**Litigation**

The Company is involved in litigation incidental to the conduct of its business, the results of which, in the opinion of management, are not likely to be material to the Company's financial condition, results of operations, or cash flows.

**Environmental Issues**

As a result of its operations, the Company is subject to various federal, state, local, and foreign 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 foreign occupational safety and health regulations, including laws and regulations relating to exposure to lead in the workplace.

***Sumter, South Carolina***

The Company is responsible for certain cleanup obligations at the former Yuasa battery facility in Sumter, South Carolina. This manufacturing facility was closed in 2001 and is currently being partially used for distribution purposes. This facility is separate from the Company's current metal fabrication facility in Sumter.

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**EnerSys**

**Notes to Consolidated Financial Statements (Continued)**

**March 31, 2010**

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

Remediation issues related to lead contamination in the soil were addressed pursuant to a 1998 Consent Order with the State of South Carolina, and we believe this matter to be closed. The Company is subject to ongoing storm water inspection requirements under a 2000 Consent Order based on suspected lead contamination. There may be other unidentified contaminants in the soil or groundwater that also predate our ownership of this facility.

The Company has established a reserve for this facility. As of March 31, 2010 and 2009, the reserves related to this facility totaled approximately \$3,682 and \$4,007, respectively. Based on current information, our management believes these reserves are adequate to satisfy the Company's environmental liabilities at this facility.

***Manchester, England***

In the first fiscal quarter of 2009, we sold our Manchester, England manufacturing facility and removed \$6,623 of environmental reserves associated with this location as the new owners assumed the related environmental obligations.

**Lead Contracts**

In order to mitigate against large increases in lead 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 March 31, 2010, the Company contracted to fix the price of approximately 63,335 pounds of lead for a total contract price of \$60,724. At March 31, 2009, the Company contracted to fix the price of approximately 29,665 pounds of lead for a total contract price of \$14,897.

**Foreign Currency Forward Contracts**

We quantify and monitor our global foreign currency exposures. On a selective basis we will enter into foreign currency forward contracts and option contracts to reduce the volatility from currency movements that affect the Company.

Our largest exposure is from the purchase and conversion of U.S. dollar based lead costs into local currencies in Europe and Mexico.

Additionally, we have currency exposures from intercompany loans and trade transactions. To hedge these exposures we have entered into foreign currency forward contracts and purchased option contracts with financial institutions. Each contract is for a period not extending beyond one year. As of March 31, 2010 and 2009, we had entered into a total of \$64,234 and \$19,390 foreign currency forward contracts.

**Interest Rate Swap Agreements**

We are exposed to changes in variable U.S. interest rates on borrowings under our credit agreements. On a selective basis, from time to time, we enter into interest rate swap agreements to reduce the negative impact that increases in interest rates could have on our outstanding variable rate debt. At March 31, 2010 and 2009, such agreements effectively convert \$170,000 of our variable-rate debt to a fixed-rate basis, utilizing the three-month London Interbank Offered Rate, or LIBOR, as a floating rate reference. Fluctuations in LIBOR and fixed rates affect both our net financial investment position and the amount of cash to be paid or received by us under these agreements.

In connection with the May 2008 issuance of \$172,500 of Convertible Notes and the repayment of a portion of the senior secured Term Loan B, the Company terminated \$30,000 of interest rate swap agreements.

**Table of Contents****EnerSys****Notes to Consolidated Financial Statements (Continued)****March 31, 2010****(In Thousands, Except Share and Per Share Data)****20. Restructuring plans**

The Company has acquisition related restructuring plans and non-acquisition related restructuring plans.

**Acquisition related restructuring established through purchase accounting**

The acquisition related restructuring plans were initiated in connection with the acquisition of the assets, stock and business of substantially all of the subsidiaries and affiliates comprising the Energy Storage Group of Invensys plc. ( ESG ) in 2002, the June 2005 acquisition of the motive power battery business of FIAMM, S.p.A. ( FIAMM ) and the acquisition of a 97% interest in Energia ( Energia ) in May 2007. The plans have been aggregated in the following table as the FIAMM and Energia activity is not considered material. The reserves were initially established in the opening balance sheets of these acquired entities and were not included in earnings of the Company.

The Company has described in Note 19, Commitments and Contingencies, the nature of the environmental costs at its Sumter, S.C. location. The reserve for Manchester was eliminated in fiscal 2009 with the sale of the facility as the new owner assumed those liabilities. The Company relied upon FASB guidance on Recognition of Liabilities in Connection with a Purchase Business Combination, and accounting for Business Combinations and Accounting for Contingencies, for the timing and measurement of these costs.

	<b>Employee Severance</b>	<b>Contractual Obligations</b>	<b>Environmental</b>	<b>Plant Closures &amp; Other</b>	<b>Total</b>
Balance at March 31, 2007	\$ 1,279	\$ 853	\$ 6,575	\$ 958	\$ 9,665
Accrual	1,010				1,010
Costs incurred	(312)		(40)	(521)	(873)
Foreign currency impact and other	197	106	50	126	479
Balance at March 31, 2008	2,174	959	6,585	563	10,281
Adjustment to accrual	(415)		(6,585)		(7,000)
Costs incurred	(774)	(32)		(420)	(1,226)
Foreign currency impact and other	(203)	(191)		(77)	(471)
Balance at March 31, 2009	782	736		66	1,584
Adjustment to accrual	125			203	328
Costs incurred	(17)	(314)		(162)	(493)
Foreign currency impact and other	93	19		38	150
Balance at March 31, 2010	\$ 983	\$ 441	\$	\$ 145	\$ 1,569

**ESG acquisition**

In March 2002, EnerSys acquired the assets, stock and business of substantially all of the subsidiaries and affiliates comprising the Energy Storage Group of Invensys plc. ( ESG ). ESG was a manufacturer and supplier of industrial batteries with facilities located in Europe, North America, and Asia. This acquisition enhanced our product offering with complementary product lines and increased our ability to service global clients and gain global market share.



**Table of Contents****EnerSys****Notes to Consolidated Financial Statements (Continued)****March 31, 2010****(In Thousands, Except Share and Per Share Data)**

As of the acquisition date, the Company began to formulate an exit and restructuring plan for certain ESG facilities in North America and Europe, which was finalized during the fiscal year ended March 31, 2003. These facilities, located in England, Germany and the United States, were restructured due mainly to excess capacity brought about by the ESG acquisition and relatively high production costs at these locations compared to other EnerSys facilities. The facility in England has been sold and the facility in Germany remains open with a significantly reduced manufacturing cost structure. The facility in the United States was closed. The exit and restructuring plan affected direct, indirect and certain administrative personnel. As of March 22, 2002, the Company recorded a liability of \$18,173, of which \$7,873 related to involuntary termination of employees and \$10,300 related to the cancellation of certain contractual obligations that required the Company to purchase steam at the Germany location.

As a result of the finalization of these plans, the Company recorded an additional liability of \$26,660 in fiscal 2003 for involuntary termination of employees, environmental costs, warranty costs, and plant closure costs and a reduction of \$5,749 in fiscal 2005 primarily in severance and contractual obligations. These two amounts were recorded as adjustments to the goodwill initially recorded for the ESG acquisition.

During fiscal 2010, 2009 and 2008 the Company utilized \$493, \$1,226 and \$873, respectively of these reserves. Since the creation of this reserve the total utilized as of March 31, 2010 is \$43,338. The Company continues taking actions consistent with its original plan to resolve these issues. The balance of the ESG acquisition-related restructuring reserve at March 31, 2010, is \$1,569. The two remaining significant costs are \$983 for prior service costs of ESG's employee pension at the former facility in Manchester, England and \$441 for demolition and related costs in its facility in Hagen, Germany.

**Acquisition related restructuring plans charged to earnings**

In fiscal 2010, the Company acquired the stock of OEB Traction Batteries and the operating assets and liabilities of Oerlikon Stationery Batteries and its Swedish sales subsidiary (all collectively referred to as Oerlikon). This acquisition provides the Company with an additional range of well respected and designed products for use in high integrity applications in telecommunications, utilities, rail, material handling and mining, as well as other sectors. The application of the guidance for purchase accounting for the Oerlikon acquisition resulted in the recognition of a bargain purchase gain of \$2,919. The Company is finalizing plans for restructuring Oerlikon and in the fourth quarter of fiscal year 2010 incurred \$1,269 in charges related to this plan.

	<b>Employee Severance</b>	<b>Total</b>
Balance at March 31, 2009	\$	\$
Accrued	1,269	1,269
Costs incurred		
Foreign currency impact and other	23	23
Balance at March 31, 2010	\$ 1,292	\$ 1,292

**Non-acquisition related restructuring plans**

The Company bases its accounting and disclosures primarily on FASB guidance on Accounting for Costs Associated with Exit or Disposal Activities. As a result, charges to net earnings were made in the periods in which restructuring plans liabilities were incurred.





**Table of Contents****EnerSys****Notes to Consolidated Financial Statements (Continued)****March 31, 2010****(In Thousands, Except Share and Per Share Data)*****2009 restructuring plan, primarily in Europe***

In February and May 2009, the Company announced a plan to restructure its European and American operations, which will eliminate approximately 515 employees on completion across our operations. These actions are primarily in Europe, the most significant of which is the closure of its leased Italian manufacturing facility and the opening of a new Italian distribution center to continue to provide responsive service to its customers in that market. The Company estimates that the total charges for these actions will amount to approximately \$33,000, which includes cash expenses of approximately \$24,000, primarily for employee severance-related payments, and a non-cash charge of approximately \$9,000, primarily for impairment of fixed assets. Based on commitments incurred to date, the Company recorded a restructuring charge of \$19,087 in the fourth fiscal quarter of 2009 and \$12,370 in fiscal 2010. As of March 31, 2010, the reserve balance associated with these actions is \$7,482. The Company expects to be committed to approximately \$2,000 of the remaining restructuring charges in fiscal 2011.

	<b>Employee Severance</b>	<b>Plant Closures &amp; Other</b>	<b>Total</b>
Accrual of 2009 program expense	\$ 12,941	\$	\$ 12,941
Costs incurred	(2,652)		(2,652)
Foreign currency impact and other			
Balance at March 31, 2009	10,289		10,289
Accrued	10,107	2,263	12,370
Costs incurred	(13,276)	(2,263)	(15,539)
Foreign currency impact and other	362		362
Balance at March 31, 2010	\$ 7,482	\$	\$ 7,482

**21. Warranty**

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

Balance at March 31, 2007	\$ 27,533
Current year provisions	16,854
Costs incurred	(12,869)
Foreign exchange and other	2,519
Balance at March 31, 2008	34,037
Current year provisions	15,274
Costs incurred	(15,189)
Foreign exchange and other	(3,208)
Balance at March 31, 2009	30,914

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Current year provisions	13,123
Costs incurred	(13,283)
Foreign exchange and other	985
Balance at March 31, 2010	\$ 31,739

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**Table of Contents****EnerSys****Notes to Consolidated Financial Statements (Continued)****March 31, 2010****(In Thousands, Except Share and Per Share Data)****22. Other Charges and (Income)**

The following is a summary of other charges and (income):

	Fiscal Years Ended March 31,		
	2010	2009	2008
Bargain purchase gain (see Note 2)	\$ (2,919)	\$	\$
Restructuring charges (see Note 20)	13,929	22,424	13,191
Legal proceedings charge		3,366	
Gain on sales of facilities		(11,308)	

Included in the fiscal 2009 operating results are gains of \$11,308 resulting from the sale of two facilities, the most significant of which was the sale of the manufacturing facility in Manchester, England. Included in the Manchester gain was the release of \$6,623 of environmental reserves established through purchase accounting of the ESG acquisition in fiscal 2002. The sale of the facility was a planned element of the ongoing Europe restructuring program and is consistent with the Company's strategy to migrate production to lower cost facilities.

Included in the fiscal 2009 operating results are \$3,366 of highlighted expenses resulting from a June 2008 ruling from the Court of Commerce in Lyon, France that the French subsidiary, EnerSys Sarl, which was acquired by the Company in 2002, was partially responsible for a 1999 fire in a French hotel under construction. The Company has appealed this ruling.

**23. Other (Income) Expense, Net and Charges Related to Refinancing**

Other (income) expense, net consists of the following:

	Fiscal Years Ended March 31,		
	2010	2009	2008
Foreign exchange transaction (gains) losses	\$ 3,045	\$ (11,571)	\$ 2,686
Other (income) expense, net	346	1,472	1,616
Taxes, other than income	643	965	
Minority interest	350	537	(68)
<b>Total</b>	<b>\$ 4,384</b>	<b>\$ (8,597)</b>	<b>\$ 4,234</b>

In fiscal 2009, the Company incurred charges of \$5,209 in connection with the refinancing of amounts borrowed under the prior senior secured credit facility. These charges included approximately \$3,963 in write offs of deferred financing fees and \$1,246 of losses incurred as a result of the termination of certain interest rate swap agreements.

**24. Operations by Industry Segment and Geographic Area**

The Company has the following three reportable business segments:

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

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

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

**Table of Contents****EnerSys****Notes to Consolidated Financial Statements (Continued)****March 31, 2010****(In Thousands, Except Share and Per Share Data)**

Summarized financial information related to the Company's business segments at March 31, 2010, 2009 and 2008 and for each of the years then ended is shown below.

	2010	2009	2008
<b>Net sales</b>			
Europe	\$ 741,975	\$ 987,178	\$ 1,115,348
Americas	700,297	831,251	777,917
Asia	137,113	154,438	133,375
<b>Total net sales</b>	<b>\$ 1,579,385</b>	<b>\$ 1,972,867</b>	<b>\$ 2,026,640</b>
<b>Operating earnings</b>			
Europe	\$ 17,649	\$ 64,898	\$ 61,310
Americas	87,156	79,236	68,492
Asia	20,502	12,793	2,735
Bargain purchase gain (Europe)	2,919		
Restructuring charges (Europe)	(13,212)	(21,996)	(13,191)
Restructuring charges (Americas)	(717)	(428)	
Legal Proceedings charge (Europe)		(3,366)	
Gain on sale of facilities (Europe)		11,308	
<b>Total operating earnings</b>	<b>\$ 114,297</b>	<b>\$ 142,445</b>	<b>\$ 119,346</b>
<b>Property, plant and equipment, net</b>			
Europe	\$ 156,953	\$ 147,248	\$ 190,792
Americas	138,217	133,880	127,532
Asia	19,971	20,237	21,673
<b>Total</b>	<b>\$ 315,141</b>	<b>\$ 301,365</b>	<b>\$ 339,997</b>

The Company markets its products and services in over 100 countries. Sales are attributed to countries based on the location of sale approval and acceptance. The following represent the net sales to unaffiliated customers of our country of domicile and the other top countries which collectively comprise approximately 70% our consolidated net sales for the periods presented:

	Fiscal years ended	
	March 31, 2010	March 31, 2009
United States	\$ 638,138	\$ 756,389
France	159,242	207,151
Germany	151,031	227,123
United Kingdom	91,355	113,719

Italy	83,893	122,115
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**Table of Contents****EnerSys****Notes to Consolidated Financial Statements (Continued)****March 31, 2010****(In Thousands, Except Share and Per Share Data)****25. Quarterly Financial Data (Unaudited)**

The Company reports interim financial information for 13-week periods, except for the first quarter, which always begins on April 1, and the fourth quarter, which always ends on March 31. The four fiscal quarters in 2010 ended on June 28, 2009, September 27, 2009, December 27, 2009, and March 31, 2010, respectively. The four fiscal quarters in 2009 ended on June 29, 2008, September 28, 2008, December 28, 2008, and March 31, 2009, respectively.

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Fiscal Year
<b>Fiscal year ended March 31, 2010</b>					
Net sales	\$ 340,265	\$ 367,325	\$ 421,258	\$ 450,537	\$ 1,579,385
Gross profit	77,461	88,617	98,329	96,497	360,904
Operating earnings	19,534	25,149	38,577	31,037	114,297
Net earnings	8,411	12,905	23,159	17,829	62,304
Net earnings per common share basic	\$ 0.18	\$ 0.27	\$ 0.48	\$ 0.37	\$ 1.29
Net earnings per common share diluted	\$ 0.17	\$ 0.26	\$ 0.47	\$ 0.36	\$ 1.28
<b>Fiscal year ended March 31, 2009</b>					
Net sales	\$ 592,068	\$ 526,754	\$ 460,878	\$ 393,167	\$ 1,972,867
Gross profit	112,602	108,974	101,536	90,322	413,434
Operating earnings	48,054	43,884	38,920	11,587	142,445
Net earnings	25,198	24,421	29,810	2,501	81,930
Net earnings per common share basic	\$ 0.51	\$ 0.49	\$ 0.61	\$ 0.05	\$ 1.68
Net earnings per common share diluted	\$ 0.50	\$ 0.48	\$ 0.61	\$ 0.05	\$ 1.66

**26. Subsequent Event****Equity Awards**

The Company evaluated all subsequent events through the date that the consolidated financial statements were issued. No material events have occurred since March 31, 2010 that required recognition or disclosure in the consolidated financial statements, except for those disclosed below.

On May 17, 2010, under the Company's Amended and Restated 2006 Equity Incentive Plan, it granted 287,212 Restricted Stock Units, which vest 25% each year over four-years from the date of grant, and 124,093 Market Share Units, which vest 3 years from the date of grant.

**Table of Contents****SCHEDULE II****EnerSys****Valuation and Qualifying Accounts****(In Thousands)**

	<b>Balance at Beginning of Period</b>	<b>Additions Charged to Expense</b>	<b>Charge-Offs</b>	<b>Other<sup>(1)</sup></b>	<b>Balance at End of Period</b>
<b>Allowance for doubtful accounts:</b>					
Fiscal year ended March 31, 2008	\$ 4,420	\$ 1,436	\$ (1,541)	\$ 693	\$ 5,008
Fiscal year ended March 31, 2009	5,008	4,873	(1,319)	(584)	7,978
Fiscal year ended March 31, 2010	7,978	2,712	(1,257)	446	9,879
<b>Allowance for inventory valuation:</b>					
Fiscal year ended March 31, 2008	\$ 10,024	\$ 9,016	\$ (6,491)	\$ 1,414	\$ 13,963
Fiscal year ended March 31, 2009	13,963	10,294	(6,682)	(850)	16,725
Fiscal year ended March 31, 2010	16,725	1,704	(7,437)	686	11,678

*(1)* Primarily the impact of currency changes.

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**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

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

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

The report called for by Item 308(a) of Regulation S-K is included herein as Management's Report on Internal Control Over Financial Reporting.

The attestation report called for by Item 308(b) of Registration S-K is included herein as Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting, which appears in Item 8 in this Annual Report on Form 10-K.

**Management Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. With the participation of the Chief Executive Officer and Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework and criteria established in *Internal Control Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. The scope of management's assessment of the effectiveness of internal control over financial reporting includes substantially all of our businesses. Based on this evaluation, our management has concluded that our internal control over financial reporting was effective as of March 31, 2010.

/s/ JOHN D. CRAIG  
John D. Craig

Chairman, President and CEO

/s/ MICHAEL J. SCHMIDTLEIN  
Michael J. Schmidtlein

Senior Vice President, Finance and CFO

**ITEM 9B. OTHER INFORMATION**

Not applicable.

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**Table of Contents****PART III****ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by this item is incorporated by reference to the sections entitled Board of Directors, Executive Officers, Section 16(a) Beneficial Ownership Reporting Compliance, Corporate Governance Independence of Directors, Corporate Governance Process for Selection of Director Nominee Candidates, Audit Committee Report, and Certain Relationships and Related Transactions Employment of Related Parties of the Company's definitive proxy statement for its 2010 Annual Meeting of Stockholders (the Proxy Statement).

We have adopted a Code of Business Conduct and Ethics that applies to all of our officers, directors and employees (including our Chief Executive Officer, Chief Financial Officer, and Chief Accounting Officer and Controller) and have posted the Code on our website at [www.enersys.com](http://www.enersys.com), and a copy is available in print to any stockholder who requires a copy. If we waive any provision of the Code applicable to any director, our Chief Executive Officer, Chief Financial Officer, or Chief Accounting Officer and Controller, such waiver will be promptly disclosed to the Company's stockholders through the Company's website.

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by this item is incorporated by reference to the sections entitled Corporate Governance Compensation Committee and Executive Compensation of the Proxy Statement.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT RELATED STOCKHOLDER MATTERS**

The information required by this item is incorporated by reference to the section entitled Security Ownership of Certain Beneficial Owners and Management of the Proxy Statement.

Plan Category	Equity Compensation Plan Information		
	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	3,040,863	\$ 14.17	1,321,003
Equity compensation plans not approved by security holders			
<b>Total</b>	<b>3,040,863</b>	<b>\$ 14.17</b>	<b>1,321,003</b>

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this item is incorporated by reference to the sections entitled General Information Metalmark and our Institutional Stockholders, Corporate Governance, and Certain Relationships and Related Transactions of the Proxy Statement.

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On July 24, 2009, our Chief Executive Officer submitted to The New York Stock Exchange ( NYSE ) the CEO certification required by the NYSE s rules, certifying that he was not aware of any violations by EnerSys of the NYSE s corporate governance listing standards.

**ITEM 14. *PRINCIPAL ACCOUNTING FEES AND SERVICES***

The information required by this item is incorporated by reference to the section entitled *Audit Committee Report* of the Proxy Statement.

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**PART IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

(a) The following documents are filed as part of this Report:

(1) Consolidated Financial Statements

See Index to Consolidated Financial Statements.

(2) Financial Statement Schedule

The following consolidated financial statement schedule should be read in conjunction with the consolidated financial statements (see Item 8. Financial Statements and Supplementary Data: ): Schedule II Valuation and Qualifying Accounts.

All other schedules are omitted because they are not applicable or the required information is contained in the consolidated financial statements or notes thereto.

(b) The following documents are filed herewith as exhibits:

<b>Exhibit Number</b>	<b>Description of Exhibit</b>
3.1	Fifth Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to Amendment No. 3 to EnerSys Registration Statement on Form S-1 (File No. 333-115553) filed on July 13, 2004).
3.2	Bylaws (incorporated by reference to Exhibits 3.2 to Amendment No. 3 to EnerSys Registration Statement on Form S-1 (File No. 333-115553) filed on July 13, 2004).
4.1	2004 Securityholder Agreement (incorporated by reference to Exhibit 4.2 to Amendment No. 4 to EnerSys Registration Statement on Form S-1 (File No. 333-115553) filed on July 26, 2004).
4.2	Consent to Waiver dated as of November 1, 2007, between EnerSys, Morgan Stanley Dean Witter Capital Partners IV, L.P. and MSDW IV 892 Investors, L.P. (incorporated by reference to Exhibit 4.2 to EnerSys Annual Report on Form 10-K (File No. 001-32253) filed on June 11, 2008).
4.3	Consent to Waiver dated as of February 2, 2008, by and between Morgan Stanley Dean Witter Capital Partners IV, L.P., MSDW IV 892 Investors, L.P. and EnerSys. (incorporated by reference to Exhibit 4.3 to EnerSys Annual Report on Form 10-K (File No. 001-32253) filed on June 11, 2008).
4.4	Indenture, dated as of May 28, 2008, between EnerSys and The Bank of New York, as trustee (incorporated by reference to Exhibit 4.1 to EnerSys Current Report on Form 8-K (File No. 001-32253) filed on May 28, 2008).
4.5	First Supplemental Indenture, dated as of May 28, 2008, between EnerSys and The Bank of New York, as trustee (incorporated by reference to Exhibit 4.2 to EnerSys Current Report on Form 8-K (File No. 001-32253) filed on May 28, 2008).
10.1	Credit Agreement, dated as of June 27, 2008, among EnerSys, Bank of America, N.A., as Administrative Agent, Wachovia Capital Markets, LLC, as Syndication Agent, Goldman Sachs Credit Partners L.P., RZB Finance LLC and PNC Bank, National Association, as Co-Documentation Agent, and the various lending institutions party thereto (incorporated by reference to Exhibit 10.1 to EnerSys Current Report on Form 8-K (File No. 001-32253) filed on June 30, 2008).
10.2	Euro Credit Agreement, dated June 15, 2005, among EnerSys S.p.A., Banca Intesa S.p.A., Sanpaolo IMI S.p.A., et al. (incorporated by reference to Exhibit 10.2 to EnerSys Current Report on Form 8-K (File No. 001-32253) filed on June 20, 2005).



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<b>Exhibit Number</b>	<b>Description of Exhibit</b>
10.3	Amendment to Euro 25,000,000 Credit Agreement (incorporated by reference to Exhibit 10.1 to EnerSys Current Report on Form 8-K (File No. 001-32253) filed on January 16, 2007).
10.4	Waiver and Amendment Agreement to Euro 25,000,000 Credit Agreement, among EnerSys Holdings (Luxembourg) S.a.r.l., EnerSys, EnerSys Capital, Inc. and Intesa Sanpaolo S.p.A., as Facility Agent and lender (incorporated by reference to Exhibit 10.2 to EnerSys Current Report on Form 8-K (File No. 001-32253) filed on May 19, 2008).
10.5	Amendment and Supplemental Facility Agreement to the Company's Euro 25 Million Credit Facility Agreement, dated October 16, 2008 (incorporated by reference to Exhibit 10.1 to EnerSys Current Report on Form 8-K (File No. 001-32253) filed on February 4, 2009).
10.6	Pledge Agreement, dated March 17, 2004, among EnerSys, various subsidiaries of EnerSys and Bank of America, N.A., as Collateral Agent (incorporated by reference to Exhibit 10.10 to EnerSys Registration Statement on Form S-1 (File No. 333-115553) filed on May 17, 2004).
10.7	Security Agreement, dated March 17, 2004, among EnerSys, various subsidiaries of EnerSys and Bank of America, N.A., as Collateral Agent (incorporated by reference to Exhibit 10.11 to EnerSys Registration Statement on Form S-1 (File No. 333-115553) filed on May 17, 2004).
10.8	Subsidiaries Guaranty, dated March 17, 2004, among various subsidiaries of EnerSys, in favor of Bank of America, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.12 to EnerSys Registration Statement on Form S-1 (File No. 333-115553) filed on May 17, 2004).
10.9	Pledge over the Participation in EnerSys S.p.A., dated June 15, 2005, among EnerSys Holdings (Luxembourg) S.à r.l., Banca Intesa S.p.A., Sanpaolo IMI S.p.A., et al. (incorporated by reference to Exhibit 10.3 to EnerSys Current Report on Form 8-K (File No. 001-32253) filed on June 20, 2005).
10.10	Guaranty, dated June 15, 2005, of EnerSys Capital Inc. in favor of Sanpaolo IMI S.p.A. (incorporated by reference to Exhibit 10.4 to EnerSys Current Report on Form 8-K (File No. 001-32253) filed on June 20, 2005).
10.11	Stock Subscription Agreement, dated March 22, 2002, among EnerSys Holdings Inc., Morgan Stanley Dean Witter Capital Partners IV, L.P., Morgan Stanley Dean Witter Capital Investors IV, L.P., MSDW IV 892 Investors, L.P., Morgan Stanley Global Emerging Markets Private Investment Fund, L.P. and Morgan Stanley Global Emerging Markets Private Investors, L.P. (incorporated by reference to Exhibit 10.27 to Amendment No. 3 to EnerSys Registration Statement on Form S-1 (File No. 333-115553) filed on July 13, 2004).
10.12	Form of Indemnification Agreement between EnerSys and each of its Directors and Officers (incorporated by reference to Exhibit 10.18 to Amendment No. 3 to EnerSys Registration Statement on Form S-1 (File No. 333-115553) filed on July 13, 2004).
10.13	Employment Agreement, dated November 9, 2000, between Yuasa, Inc. and John D. Craig and letter of amendment thereto (incorporated by reference to Exhibit 10.2 to EnerSys Registration Statement on Form S-1 (File No. 333-115553) filed on May 17, 2004).
10.14	Consulting and Separation Agreement dated November 23, 2009, by and between EnerSys, a Delaware corporation (the Company), and Michael T. Phillion (the Executive) filed herewith.
10.15	Employment Agreement, dated November 9, 2000, between Yuasa, Inc. and John A. Shea and letter of amendment thereto (incorporated by reference to Exhibit 10.5 to EnerSys Registration Statement on Form S-1 (File No. 333-115553) filed on May 17, 2004).

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<b>Exhibit Number</b>	<b>Description of Exhibit</b>
10.16	Employment Agreement, dated November 9, 2000, between Yuasa, Inc. and Richard W. Zuidema and letter of amendment thereto (incorporated by reference to Exhibit 10.6 to EnerSys Registration Statement on Form S-1 (File No. 333-115553) filed on May 17, 2004).
10.17	Employment Agreement, dated as of July 1, 2007 between EH Europe GmbH and Raymond R. Kubis (incorporated by reference to Exhibit 10.1 to EnerSys Quarterly Report on Form 10-Q (File No. 001-32253) filed on August 8, 2007).
10.18	Form of 2000 Management Equity Plan (incorporated by reference as Exhibit 10.1 to Amendment No. 3 to EnerSys Registration Statement on Form S-1 (File No. 333-115553) filed on July 13, 2004).
10.19	Form of 2004 Equity Incentive Plan (incorporated by reference to Exhibit 10.24 to Amendment No. 3 to EnerSys Registration Statement on Form S-1 (File No. 333-115553) filed on July 13, 2004).
10.20	EnerSys Amended and Restated 2006 Equity Incentive Plan (incorporated by reference to Exhibit 10.27 to EnerSys Annual Report on Form 10-K (File No. 001-32253) filed on June 11, 2008).
10.21	EnerSys Management Incentive Plan for fiscal year 2007 (incorporated by reference to Exhibit 10.1 to EnerSys Current Report on Form 8-K (File No. 001-32253) filed on July 6, 2006).
10.22	EnerSys Management Incentive Plan for fiscal year 2008 (incorporated by reference to Exhibit 10.1 to EnerSys Current Report on Form 8-K (File No. 001-32253) filed on April 2, 2007).
10.23	EnerSys Voluntary Deferred Compensation Plan for Executives (incorporated by reference to Exhibit 10.1 to EnerSys Current Report on Form 8-K (File No. 001-32253) filed on May 6, 2008).
10.24	Form of Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.26 to Amendment No. 3 to EnerSys Registration Statement on Form S-1 (File No. 333-115553) filed on July 13, 2004).
10.25	Form of Restricted Stock Agreement (incorporated by reference to Exhibit 10.1 to EnerSys Current Report on Form 8-K (File No. 001-32253) filed on December 9, 2005).
10.26	Form of Stock Option Agreement (four year vesting) (incorporated by reference to Exhibit 10.1 to EnerSys Current Report on Form 8-K (File No. 001-32253) filed on May 23, 2007).
10.27	Form of Stock Option Agreement (three year vesting) (incorporated by reference to Exhibit 10.2 to EnerSys Current Report on Form 8-K (File No. 001-32253) filed on May 6, 2008).
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10.29	Form of Restricted Stock Unit Agreement - Non-Employee Directors (incorporated by reference to Exhibit 10.29 to EnerSys Annual Report on Form 10-K (File No. 001-32253) filed on June 1, 2009).
10.30	Form of Restricted Stock Unit Agreement - Employees (filed herewith).
10.31	Form of Market Share Restricted Stock Unit Agreement - Employees (filed herewith).
11.1	Statement regarding Computation of Per Share Earnings.*
12.1	Computation of Ratio of Earnings to Fixed Charges (filed herewith).
21.1	Subsidiaries of the Registrant (filed herewith).

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<b>Exhibit Number</b>	<b>Description of Exhibit</b>
23.1	Consent of Ernst & Young LLP (filed herewith).
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) Under the Securities Exchange Act of 1934 (filed herewith).
31.2	Certification of the Chief 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).

\* Information required to be presented in Exhibit 11 is provided in Note 17 of Notes to Consolidated Financial Statements under Part II, Item 8 of this Form 10-K in accordance with FASB guidance for calculating earnings per share.

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**Table of Contents****SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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

By */s/ JOHN D. CRAIG*  
**John D. Craig**  
 Chairman, President and Chief Executive Officer

Date: June 1, 2010

**POWER OF ATTORNEY**

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose name appears below hereby appoints John D. Craig and Michael J. Schmidtlein and each of them, as his true and lawful agent, with full power of substitution and resubstitution, for him and in his, place or stead, in any and all capacities, to execute any and all amendments to the within annual report, and to file the same, together with all exhibits thereto, with the Securities and Exchange Commission, granting unto each said attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that each said attorney-in-fact and agent may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this annual report has been signed below by the following persons in the capacities and on the dates indicated

<b>Name</b>	<b>Title</b>	<b>Date</b>
<i>/s/ JOHN D. CRAIG</i> <b>John D. Craig</b>	Chairman, President, and Chief Executive Officer and Director (Principal Executive Officer)	June 1, 2010
<i>/s/ MICHAEL J. SCHMIDTLEIN</i> <b>Michael J. Schmidtlein</b>	Senior Vice President Finance and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	June 1, 2010
<i>/s/ HWAN-YOON CHUNG</i> <b>Hwan-yoon Chung</b>	Director	June 1, 2010
<i>/s/ JOSEPH C. MUSCARI</i> <b>Joseph C. Muscari</b>	Director	June 1, 2010
<i>/s/ HOWARD I. HOFFEN</i> <b>Howard I. Hoffen</b>	Director	June 1, 2010
<i>/s/ GENERAL ROBERT MAGNUS, USMC (RETIRED)</i> <b>General Robert Magnus, USMC (Retired)</b>	Director	June 1, 2010
<i>/s/ ARTHUR T. KATSAROS</i>	Director	June 1, 2010

Arthur T. Katsaros

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<b>Name</b>	<b>Title</b>	<b>Date</b>
/s/ JOHN F. LEHMAN	Director	June 1, 2010
<b>John F. Lehman</b>		
/s/ DENNIS S. MARLO	Director	June 1, 2010
<b>Dennis S. Marlo</b>		

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**Table of Contents****Exhibit Index**

<b>Exhibit Number</b>	<b>Description of Exhibit</b>
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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).

\* Information required to be presented in Exhibit 11 is provided in Note 17 of Notes to Consolidated Financial Statements under Part II, Item 8 of this Form 10-K in accordance with FASB guidance for calculating earnings per share.