MODINE MANUFACTURING CO
Form 10-Q
November 06, 2012

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

or

o TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to ____________

Commission file number 1-1373

MODINE MANUFACTURING COMPANY
(Exact name of registrant as specified in its charter)

WISCONSIN	39-0482000
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1500 DeKoven Avenue, Racine, Wisconsin	53403
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (262) 636-1200

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

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

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

Large Accelerated Filer o	Accelerated Filer þ
Non-accelerated Filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ

The number of shares outstanding of the registrant's common stock, $0.625 par value, was 47,198,088 at November 1, 2012.

MODINE MANUFACTURING COMPANY

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements.

MODINE MANUFACTURING COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS
For the three and six months ended September 30, 2012 and 2011
(In thousands, except per share amounts)
(Unaudited)

	Three months ended September 30		Six months ended September 30	
	2012	2011	2012	2011
Net sales	$339,922	$397,290	$690,298	$815,153
Cost of sales	287,326	334,916	586,117	682,977
Gross profit	52,596	62,374	104,181	132,176
Selling, general and administrative expenses	41,318	50,176	84,472	99,720
Impairment charges	16,748	-	16,748	-
Restructuring and repositioning expenses	1,317	-	5,877	-
(Loss) income from operations	(6,787)	12,198	(2,916)	32,456
Interest expense	3,370	3,297	6,409	6,287
Other (income) expense – net	(139)	6,223	(305)	5,884
(Loss) earnings from continuing operations before income taxes	(10,018)	2,678	(9,020)	20,285
Provision for income taxes	1,830	1,678	3,883	6,719
(Loss) earnings from continuing operations	(11,848)	1,000	(12,903)	13,566
(Loss) earnings from discontinued operations (net of income taxes)	(105)	373	72	373
Net (loss) earnings	(11,953)	1,373	(12,831)	13,939
Less: Net earnings attributable to noncontrolling interest	267	38	568	29
Net (loss) earnings attributable to Modine	$(12,220)	$1,335	$(13,399)	$13,910
(Loss) earnings per share from continuing operations attributable to Modine shareholders:				
Basic	$(0.26)	$0.02	$(0.29)	$0.29
Diluted	$(0.26)	$0.02	$(0.29)	$0.29
Net (loss) earnings per share attributable to Modine shareholders:				
Basic	$(0.26)	$0.03	$(0.29)	$0.30
Diluted	$(0.26)	$0.03	$(0.29)	$0.30
Weighted average shares outstanding:				
Basic	46,584	46,477	46,565	46,419
Diluted	46,584	46,858	46,565	46,919

The notes to unaudited condensed consolidated financial statements are an integral part of these statements.

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MODINE MANUFACTURING COMPANY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the three and six months ended September 30, 2012 and 2011

(In thousands)

(Unaudited)

	Three months ended September 30		Six months ended September 30	
	2012	2011	2012	2011
Net (loss) earnings	$(11,953)	$1,373	$(12,831)	$13,939
Other comprehensive income (loss), net of tax:				
Foreign currency translation	5,134	(30,926)	(13,831)	(23,264)
Cash flow hedges	991	(3,462)	1,715	(5,574)
Change in benefit plan adjustment	825	1,670	1,824	3,223
Total other comprehensive income (loss)	6,950	(32,718)	(10,292)	(25,615)
Comprehensive loss	(5,003)	(31,345)	(23,123)	(11,676)
Comprehensive income attributable to noncontrolling interest	267	38	568	29
Comprehensive loss attributable to Modine	$(5,270)	$(31,383)	$(23,691)	$(11,705)

The notes to unaudited condensed consolidated financial statements are an integral part of these statements.

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MODINE MANUFACTURING COMPANY

CONSOLIDATED BALANCE SHEETS
September 30, 2012 and March 31, 2012
(In thousands, except per share amounts)
(Unaudited)

	September 30, 2012	March 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 29,620	$ 31,445
Trade receivables, less allowance for doubtful accounts of $1,011 and $809	177,788	216,103
Inventories	121,585	120,819
Other current assets	71,498	59,164
Total current assets	400,491	427,531
Property, plant and equipment – net	372,077	412,059
Investment in affiliate	4,000	3,728
Goodwill	29,527	29,933
Intangible assets – net	8,903	5,805
Other noncurrent assets	17,490	14,405
Total assets	$ 832,488	$ 893,461
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	$ 19,750	$ 21,296
Long-term debt – current portion	737	1,093
Accounts payable	130,187	156,907
Accrued compensation and employee benefits	48,408	50,643
Other current liabilities	66,169	67,612
Total current liabilities	265,251	297,551
Long-term debt	142,566	141,892
Deferred income taxes	11,943	12,297
Pensions	87,445	94,091
Postretirement benefits	6,557	6,426
Other noncurrent liabilities	14,263	15,072
Total liabilities	528,025	567,329
Commitments and contingencies (See Note 18)		
Shareholders' equity:		
Preferred stock, $0.025 par value, authorized 16,000 shares, issued - none	-	-
Common stock, $0.625 par value, authorized 80,000 shares, issued 47,720 and 47,361 shares, respectively	29,825	29,600
Additional paid-in capital	169,629	168,290
Retained earnings	218,429	231,828
Accumulated other comprehensive loss	(100,598)	(90,306)
Treasury stock at cost: 617 and 594 shares, respectively	(14,648)	(14,505)
Total Modine shareholders' equity	302,637	324,907
Noncontrolling interest	1,826	1,225
Total equity	304,463	326,132
Total liabilities and equity	$ 832,488	$ 893,461

The notes to unaudited condensed consolidated financial statements are an integral part of these statements.

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MODINE MANUFACTURING COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the six months ended September 30, 2012 and 2011
(In thousands)
(Unaudited)

	Six months ended September 30	
	2012	2011
Cash flows from operating activities:		
Net (loss) earnings	$ (12,831)	$ 13,939
Adjustments to reconcile net (loss) earnings with net cash provided by operating activities:		
Depreciation and amortization	28,189	29,154
Impairment charges	16,748	-
Other – net	6,235	6,379
Net changes in operating assets and liabilities	(11,579)	(46,315)
Net cash provided by operating activities	26,762	3,157
Cash flows from investing activities:		
Expenditures for property, plant and equipment	(20,717)	(32,532)
Acquisition, net of cash acquired	(4,938)	-
Other – net	(1,621)	1,794
Net cash used for investing activities	(27,276)	(30,738)
Cash flows from financing activities:		
Short-term debt – net	(1,354)	2,264
Borrowings of long-term debt	59,541	82,749
Repayments of long-term debt	(59,000)	(59,680)
Other – net	(28)	921
Net cash (used for) provided by financing activities	(841)	26,254
Effect of exchange rate changes on cash	(470)	(1,385)
Net decrease in cash and cash equivalents	(1,825)	(2,712)
Cash and cash equivalents at beginning of period	31,445	32,930
Cash and cash equivalents at end of period	$ 29,620	$ 30,218

The notes to unaudited condensed consolidated financial statements are an integral part of these statements.

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MODINE MANUFACTURING COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share amounts)
(unaudited)

Note 1: General

The accompanying condensed consolidated financial statements were prepared in conformity with generally accepted accounting principles (GAAP) in the United States applied on a basis consistent with those principles used in the preparation of the annual consolidated financial statements of Modine Manufacturing Company (Modine or the Company) for the fiscal year ended March 31, 2012. The financial statements include all normal recurring adjustments that are, in the opinion of management, necessary for a fair statement of results for the interim periods. Results for the first six months of fiscal 2013 are not necessarily indicative of the results to be expected for the full year.

These financial statements should be read in conjunction with the consolidated financial statements and related notes in Modine's Annual Report on Form 10-K for the year ended March 31, 2012.

Note 2: Significant Accounting Policies

Revision of prior period financial statements: As described in Note 1 and Note 26 of the Notes to Consolidated Financial Statements in Modine’s Annual Report on Form 10-K for the year ended March 31, 2012, the quarterly results for fiscal 2012 have been revised as a result of errors identified during fiscal 2012 that were not considered material individually or in the aggregate to previously issued financial statements but were considered significant to the quarters in which they were identified. For the three months ended September 30, 2011, cost of sales decreased $355, gross profit increased $355, selling, general and administrative expenses increased $101, other expense – net increased $197, provision for income taxes decreased $318 and earnings from continuing operations increased $375 as a result of the revisions. Diluted earnings per share from continuing operations and diluted net earnings per share increased $0.01 for the three months ended September 30, 2011 as a result of these revisions. For the six months ended September 30, 2011, cost of sales decreased $726, gross profit increased $726, selling, general and administrative expenses increased $207, provision for income taxes increased $694 and earnings from continuing operations decreased $175 as a result of the revisions. Diluted earnings per share from continuing operations and diluted net earnings per share were unchanged for the six months ended September 30, 2011 as a result of these revisions.

Out of period adjustment: During the first quarter of fiscal 2013, the Company identified an error related to certain commodity hedges that should have been deemed ineffective in the fourth quarter of fiscal 2012, which understated pre-tax earnings by $542 in the fourth quarter of fiscal 2012, and overstated pre-tax earnings by this same amount in the first quarter of fiscal 2013. This amount was not considered material to the financial statements of either the fourth quarter of fiscal 2012 or the first six months of fiscal 2013.

New accounting pronouncements: In June 2011, the Financial Accounting Standards Board (FASB) issued an amendment to the accounting guidance for the presentation of comprehensive income. This amendment removes one of the three presentation options for presenting the components of other comprehensive income as part of the statement of changes in shareholders’ equity and requires either a single continuous statement of net income and other comprehensive income or a two consecutive statement approach. The Company adopted this guidance beginning in the first quarter of fiscal 2013 with the two consecutive statement approach.

In September 2011, the FASB issued an amendment to the accounting guidance for testing goodwill for impairment. The amendment provides an option for companies to first use a qualitative approach to test goodwill for impairment if certain conditions are met. If it is determined to be more likely than not that the fair value of the reporting unit is less than its carrying amount, entities must perform the quantitative analysis of the goodwill impairment test. The amendment is effective for the Company's upcoming fiscal 2013 goodwill impairment test. The Company is assessing this new guidance and does not anticipate any impact on its consolidated financial statements from the adoption of this amendment.

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MODINE MANUFACTURING COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share amounts)
(unaudited)

Note 3: Employee Benefit Plans

During the three months ended September 30, 2012 and 2011, the Company recorded compensation expense of $1,414 and $655, respectively, related to its 401(k) defined contribution plans. During the six months ended September 30, 2012 and 2011, the Company recorded compensation expense of $3,044 and $1,885, respectively, related to its 401(k) defined contribution plans.

During the three months ended September 30, 2012 and 2011, the Company elected to contribute $2,600 and $2,150, respectively, to its U.S. pension plans. During the six months ended September 30, 2012 and 2011, the Company elected to contribute $4,750 and $7,200, respectively, to its U.S. pension plans.

Costs for Modine's pension and postretirement benefit plans include the following components:

	Three months ended September 30				Six months ended September 30			
	Pension		Postretirement		Pension		Postretirement	
	2012	2011	2012	2011	2012	2011	2012	2011
Service cost	$157	$425	$12	$9	$298	$851	$23	$21
Interest cost	3,385	3,502	80	89	6,726	7,007	154	173
Expected return on plan assets	(4,023)	(3,848)	-	-	(8,054)	(7,696)	-	-
Amortization of:								
Unrecognized net loss (gain)	1,238	1,995	(6)	-	2,493	3,990	(6)	(12)
Unrecognized prior service credit	-	-	(372)	(416)	-	-	(744)	(831)
Net periodic benefit cost (income)	$757	$2,074	$(286)	$(318)	$1,463	$4,152	$(573)	$(649)

Note 4: Stock-Based Compensation

Stock-based compensation consists of stock options, restricted stock granted for retention and performance and discretionary unrestricted stock. Compensation cost is calculated based on the fair value of the instrument at the time of grant, and is recognized as expense over the vesting period of the stock-based instrument. Modine recognized stock-based compensation cost of $672 and $1,738 for the three months ended September 30, 2012 and 2011, respectively. Modine recognized stock-based compensation cost of $1,564 and $2,578 for the six months ended September 30, 2012 and 2011, respectively. The performance component of awards granted under the long-term incentive plan during the first quarter of fiscal 2013 is based on consolidated target return on average capital employed (ROACE) (weighted at 50 percent), cumulative revenue over the three year performance period (weighted at 25 percent), and a target European ROACE at the end of the three year performance period (weighted at 25 percent). The Company currently considers the attainment of the consolidated ROACE and European ROACE components to be probable. ROACE is defined as operating income adjusted to exclude unusual, non-recurring or extraordinary non-cash charges and cash restructuring and repositioning charges, multiplied by 70 percent to account for an assumed 30 percent income tax rate, and further adjusted to exclude earnings (or losses) attributable to minority shareholders; divided by total debt plus shareholders' equity. Cumulative revenue is the Company's net sales over the performance period. European ROACE is defined as the Europe segment operating income, less research and development charges to the Company's corporate expenses, adjusted to exclude unusual, non-recurring or extraordinary non-cash charges and cash restructuring and repositioning charges, multiplied by 70 percent to account for an assumed 30 percent income tax rate; divided by Europe segment total assets, less cash and cash equivalents and Europe segment total liabilities, excluding debt.

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(In thousands, except per share amounts)
(unaudited)

The following tables present the fair market value of stock-based compensation awards granted during the three and six months ended September 30, 2012 and 2011:

	Three months ended September 30,			
	2012		2011	
	Shares	Fair Value Per Award	Shares	Fair Value Per Award
Stock options	5	$5.58	141	$10.45
Unrestricted stock	-	-	28	$14.93
Restricted stock - retention	15	$6.93	63	$14.93
Restricted stock - performance based	-	-	190	$14.93

	Six months ended September 30,			
	2012		2011	
	Shares	Fair Value Per Award	Shares	Fair Value Per Award
Stock options	243	$4.26	141	$10.45
Unrestricted stock	-	-	28	$14.93
Restricted stock - retention	368	$5.80	63	$14.93
Restricted stock - performance based	353	$5.75	190	$14.93

The accompanying table sets forth the assumptions used in determining fair value for options:

	Six months ended September 30,	
	2012	2011
Expected life of awards in years	6.3	6.3
Risk-free interest rate	0.86 %	1.93 %
Expected volatility of the Company's stock	87.35 %	79.56 %
Expected dividend yield on the Company's stock	0.0 %	0.0 %

As of September 30, 2012, the total remaining unrecognized compensation cost related to the non-vested stock-based compensation awards, which will be amortized over the weighted average remaining service periods, was as follows:

	Unrecognized Compensation Cost	Weighted Average Remaining Service Period in Years
Stock options	$ 1,403	2.1
Restricted stock - retention	3,341	3.2
Restricted stock - performance	1,717	2.3
Total	$ 6,461	2.7

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(In thousands, except per share amounts)
(unaudited)

Note 5: Other Income (Expense) – Net

Other income (expense) was comprised of the following:

	Three months ended September 30		Six months ended September 30	
	2012	2011	2012	2011
Equity in (loss) earnings of non-consolidated affiliate	$(40)	$(13)	$133	$(415)
Interest income	120	206	325	386
Foreign currency transactions	25	(6,412)	(227)	(5,865)
Other non-operating income (expense) - net	34	(4)	74	10
Total other income (expense) - net	$139	$(6,223)	$305	$(5,884)

Foreign currency transactions for the three and six months ended September 30, 2012 and 2011 were primarily comprised of foreign currency transaction gains and losses on the re-measurement or settlement of foreign currency denominated assets and liabilities, including inter-company loans and transactions denominated in a foreign currency.

Note 6: Income Taxes

For the three months ended September 30, 2012 and 2011, the Company's provision for income taxes was $1,830 and $1,678, respectively. For the six months ended September 30, 2012 and 2011, the Company's provision for income taxes was $3,883 and $6,719, respectively.

During the three months ended September 30, 2012, the Company continued to record a full valuation allowance against its net deferred tax assets in the U.S., Germany and certain other foreign jurisdictions as it is more likely than not that these assets will not be realized based on historical performance. The Company will continue to provide a valuation allowance against its net deferred tax assets in each of the applicable jurisdictions going forward until the need for a valuation allowance is eliminated. The need for a valuation allowance will be eliminated when the Company determines it is more likely than not that the deferred tax assets will be realized. It is possible that by the end of fiscal 2013 or in fiscal 2014, the U.S. taxing jurisdiction will no longer be in a cumulative three year loss position thereby removing significant negative evidence concerning the valuation allowance. The Company will continue to evaluate all positive and negative evidence to determine the propriety of the valuation allowance against the net deferred tax assets of this jurisdiction.

Accounting policies for interim reporting require the Company to adjust its effective tax rate each quarter to be consistent with the estimated annual effective tax rate. Under this methodology, the Company applies an estimated annual income tax rate to its year-to-date ordinary earnings to derive its income tax provision each quarter. The tax impacts of certain significant, unusual or infrequently occurring items are recorded in the period in which they occur. For the six months ended September 30, 2012, the U.S. taxing jurisdiction had year-to-date pre-tax earnings and is also forecasting pre-tax earnings for the full fiscal year. As a result, the U.S. taxing jurisdiction continues to no longer be considered on a discrete basis but is included in the overall annual effective tax rate methodology. The impact of the Company's operations in Germany, Austria and certain other foreign locations continue to be excluded from the overall effective tax rate methodology and recorded discretely based upon year-to-date results as these operations anticipate net operating losses for the year. The income tax provision or benefit for the Company's other foreign operations are recorded under the overall effective tax rate methodology.

The Company does not anticipate the gross liability for unrecognized tax benefits to significantly change in the next twelve months other than that which will result from the expiration of the applicable statutes of limitation. The Company files income tax returns in multiple jurisdictions and is subject to examination by taxing authorities throughout the world. A tax audit in Germany, covering fiscal years 2006 through 2010, commenced during the first quarter of fiscal 2013 and is in its early stages. The Company has not been notified of any other tax examinations covering open periods.

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MODINE MANUFACTURING COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share amounts)
(unaudited)

Note 7: Earnings Per Share

The components of basic and diluted earnings per share are as follows:

	Three months ended September 30		Six months ended September 30	
	2012	2011	2012	2011
Basic Earnings Per Share:				
(Loss) earnings from continuing operations	$(11,848)	$1,000	$(12,903)	$13,566
Less: Net earnings attributable to noncontrolling interest	(267)	(38)	(568)	(29)
(Loss) earnings from continuing operations attributable to Modine	(12,115)	962	(13,471)	13,537
Less: Undistributed earnings attributable to unvested shares	-	(3)	-	(51)
Net (loss) earnings from continuing operations available to Modine shareholders	(12,115)	959	(13,471)	13,486
Net (loss) earnings from discontinued operations	(105)	373	72	373
Less: Undistributed earnings attributable to unvested shares	-	(1)	(1)	(1)
Net (loss) earnings from discontinued operations available to Modine shareholders	(105)	372	71	372
Net (loss) earnings available to Modine shareholders	$(12,220)	$1,331	$(13,400)	$13,858
Weighted average shares outstanding - basic	46,584	46,477	46,565	46,419
(Loss) earnings from continuing operations per share	$(0.26)	$0.02	$(0.29)	$0.29
Net earnings from discontinued operations per share	-	0.01	-	0.01
Net (loss) earnings per share - basic	$(0.26)	$0.03	$(0.29)	$0.30

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MODINE MANUFACTURING COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share amounts)
(unaudited)

	Three months ended September 30 2012	Three months ended September 30 2011	Six months ended September 30 2012	Six months ended September 30 2011
Diluted Earnings Per Share:				
(Loss) earnings from continuing operations	$(11,848)	$1,000	$(12,903)	$13,566
Less: Net earnings attributable to noncontrolling interest	(267)	(38)	(568)	(29)
(Loss) earnings from continuing operations attributable to Modine	(12,115)	962	(13,471)	13,537
Less: Undistributed earnings attributable to unvested shares	-	(4)	-	(35)
Net (loss) earnings from continuing operations available to Modine shareholders	(12,115)	958	(13,471)	13,502
Net (loss) earnings from discontinued operations	(105)	373	72	373
Less: Undistributed earnings attributable to unvested shares	-	(1)	(1)	(1)
Net (loss) earnings from discontinued operations available to Modine shareholders	(105)	372	71	372
Net (loss) earnings available to Modine shareholders	$(12,220)	$1,330	$(13,400)	$13,874
Weighted average shares outstanding - basic	46,584	46,477	46,565	46,419
Effect of dilutive securities	-	381	-	500
Weighted average shares outstanding - diluted	46,584	46,858	46,565	46,919
(Loss) earnings from continuing operations per share	$(0.26)	$0.02	$(0.29)	$0.29
Net earnings from discontinued operations per share	-	0.01	-	0.01
Net (loss) earnings per share - diluted	$(0.26)	$0.03	$(0.29)	$0.30

For the three and six months ended September 30, 2012, the total number of potential dilutive securities was 228 and 282, respectively. However, these securities were not included in the computation of diluted net loss per share for the three and six months ended September 30, 2012, since to do so would decrease the loss per share. For the three and six months ended September 30, 2012, 1,273 shares issuable upon the exercise of stock options were anti-dilutive and excluded from the calculation of diluted earnings per share. In addition, for the three and six months ended September 30, 2012, 146 and 131, respectively of restricted stock awards were anti-dilutive and were also excluded from the calculation of diluted earnings per share. For the three and six months ended September 30, 2011, 1,497 shares issuable upon the exercise of stock options and 189 shares of restricted stock awards were anti-dilutive and were excluded from the calculation of diluted earnings per share.

Note 8: Inventories

Inventories consisted of the following:

	September 30, 2012	March 31, 2012
Raw materials and work in process	$ 86,994	$ 88,632
Finished goods	34,591	32,187
Total inventories	$ 121,585	$ 120,819

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MODINE MANUFACTURING COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share amounts)
(unaudited)

Note 9: Property, Plant and Equipment

Property, plant and equipment consisted of the following:

	September 30, 2012	March 31, 2012
Gross property, plant and equipment	$ 1,034,224	$ 1,092,703
Accumulated depreciation	(662,147)	(680,644)
Net property, plant and equipment	$ 372,077	$ 412,059

Note 10: Acquisitions

On July 25, 2012, the Company completed the acquisition of Geofinity Manufacturing of Surrey, British Columbia for cash consideration of $4,938, net of cash acquired. This acquisition, which is included in the Commercial Products segment, provides Modine with a product line of innovative geothermal heat pumps in both water-to-water and water-to-air models. Acquired assets and liabilities assumed were recorded at their respective fair values. The purchase price allocation resulted in acquired technology of $3,477, working capital net assets of $678 and goodwill of $783. Acquired technology consists of a fully developed product line, technical processes and intellectual property and is being amortized over ten years.

During fiscal 2007, the Company acquired the remaining 50 percent of Radiadores Visconde Ltda. The purchase agreement included a $2,000 note which was payable subject to the resolution of certain obligations of the sellers. During the second quarter of fiscal 2013, the Company and the sellers reached a final resolution under which the Company is not obligated to pay the note to the seller. As a result, the Company recorded a $2,000 reduction to selling, general and administrative expenses in the South America segment during the second quarter of fiscal 2013.

Note 11: Impairment and Restructuring Charges

During the first quarter of fiscal 2013, the Company announced its intention to restructure its Europe segment. The Company expects actions will include exiting certain non-core product lines based on its global product strategy, reducing manufacturing costs, implementing headcount reductions, and disposing of or selling certain assets. The restructuring is designed to align the cost structure of the segment with the segment's strategic focus on the commercial vehicle, off-highway and engine product markets, while improving gross margin and return on average capital employed.

Since the commencement of the Europe segment restructuring, the Company has recorded $15,756 of asset impairment charges, $5,616 of employee severance costs and $261 of repositioning expenses. The Company currently anticipates incurring additional restructuring and repositioning costs of approximately $10,000, with the majority of these costs being incurred through fiscal 2014. Total future cash expenditures of approximately $15,000 are anticipated to be incurred related to this restructuring plan.

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MODINE MANUFACTURING COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share amounts)
(unaudited)

Restructuring and repositioning expenses relative to the Europe segment restructuring program were as follows:

	Three months ended September 30		Six months ended September 30	
	2012	2011	2012	2011
Employee severance and related benefits	$1,114	$-	$5,616	$-
Repositioning costs	203	-	261	-
Total restructuring and repositioning expenses	$1,317	$-	$5,877	$-

Changes in accrued severance were as follows:

	Three months ended September 30, 2012	Six months ended September 30, 2012
Beginning balance	$ 4,344	$ -
Additions	1,114	5,616
Payments	(815)	(966)
Effect of exchange rate changes	98	91
Balance, September 30, 2012	$ 4,741	$ 4,741

The Company recorded asset impairment charges of $16,748 during the quarter ended September 30, 2012 to reduce the carrying value of certain facilities held for sale in the North America and Europe segments to their estimated fair value, less costs to sell. Assets held for sale of $6,646 and $2,450 at September 30, 2012 and March 31, 2012, respectively, included in other noncurrent assets, consist of facilities that the Company is currently marketing for sale. Upon designation as held for sale, the carrying value of the asset was measured at the lower of its carrying value or its estimated fair value, less costs to sell.

Note 12: Goodwill and Intangible Assets

Changes in the carrying amount of goodwill during the first six months of fiscal 2013 were as follows:

	Asia	South America	Commercial Products	Total
Goodwill, March 31, 2012	$ 520	$ 13,498	$ 15,915	$ 29,933
Acquisition	-	-	783	783
Fluctuations in foreign currency	-	(1,323)	134	(1,189)
Goodwill, September 30, 2012	$ 520	$ 12,175	$ 16,832	$ 29,527

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Intangible assets were comprised of the following:

	September 30, 2012			March 31, 2012		
	Gross Carrying Value	Accumulated Amortization	Net Intangible Assets	Gross Carrying Value	Accumulated Amortization	Net Intangible Assets
Tradenames	$9,955	$ (4,511)	$5,444	$10,387	$ (4,582)	$5,805
Acquired technology	3,477	(18)	3,459	-	-	-
Total intangible assets	$13,432	$ (4,529)	$8,903	$10,387	$ (4,582)	$5,805

Amortization expense for the three months ended September 30, 2012 and 2011 was $167 and $152, respectively, and for the six months ended September 30, 2012 and 2011 was $317 and $311, respectively. Total estimated amortization expense expected for the remainder of fiscal year 2013 through 2018 and beyond is as follows:

Fiscal Year	Estimated Amortization Expense
Remainder of 2013	$ 400
2014	795
2015	1,111
2016	1,208
2017	1,266
2018 & Beyond	4,123

Note 13: Indebtedness

The Company has $125,000 outstanding 6.83 percent Senior Notes, maturing on August 12, 2020. As of September 30, 2012, the Company also had $6,000 outstanding under its $145,000 domestic revolving credit facility, which expires in August 2014. At March 31, 2012, the Company had $9,000 outstanding on this domestic revolving credit facility.

Provisions contained in the Company's revolving credit facility and Senior Note agreements require the Company to maintain compliance with various covenants. The Company was in compliance with its covenants as of September 30, 2012.

Modine also maintains credit agreements with foreign banks with outstanding short-term borrowings at September 30, 2012 and March 31, 2012 of $19,750 and $21,296, respectively. The foreign unused lines of credit in Europe, Brazil, China and India at September 30, 2012 were $54,000. Domestic unused lines of credit at September 30, 2012 were $133,000. In aggregate, the Company had total available lines of credit of $187,000 at September 30, 2012.

The fair value of long-term debt is estimated by discounting the future cash flows at rates offered to the Company for similar debt instruments of comparable maturities. At September 30, 2012 and March 31, 2012, the carrying value of Modine's long-term debt approximated fair value, with the exception of the Senior Notes, which had a fair value of approximately $142,000 and $139,000 at September 30, 2012 and March 31, 2012, respectively. The fair value of the Senior Notes is categorized as Level 2 of the fair value hierarchy. Refer to Note 15 for the definition of a Level 2 fair value measurement.

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Note 14: Derivatives and Hedging Activities

Modine uses derivative financial instruments from time to time as a tool to manage certain financial risks. Leveraged derivatives are prohibited by Company policy.

Accounting for derivatives and hedging activities requires derivative financial instruments to be measured at fair value and recognized as assets or liabilities in the consolidated balance sheets. Accounting for the gain or loss resulting from the change in the fair value of the derivative financial instruments depends on whether it has been designated, and is effective, as a hedge and, if so, on the nature of the hedging activity.

Commodity Derivatives: The Company has, from time to time, entered into futures contracts related to certain forecasted purchases of aluminum and copper. The Company’s strategy in entering into these contracts was to reduce its exposure to changing market prices for future purchases of these commodities. Until the fourth quarter of fiscal 2012, these contracts were designated as cash flow hedges by the Company. Accordingly, unrealized gains and losses on these contracts were deferred as a component of accumulated other comprehensive (loss) income (AOCI), and recognized as a component of earnings at the same time that the underlying purchases of aluminum and copper impact earnings. During the fourth quarter of fiscal 2012, the contracts used for aluminum and copper hedging became ineffective and the Company began recording the unrealized gains and losses within cost of sales. The amounts recorded in AOCI will remain there until the underlying purchases of aluminum and copper impact earnings. The Company did not enter into any futures contracts during the second quarter of fiscal 2013.

Foreign exchange contracts: The Company’s foreign exchange risk management strategy uses derivative financial instruments in a limited way to mitigate foreign currency exchange risk. The Company periodically enters into foreign currency exchange contracts to hedge specific foreign currency-denominated assets and liabilities. The Company has not designated these contracts for hedge accounting. Accordingly, unrealized gains and losses related to the change in fair value are recorded in other income and expense. Gains and losses on these foreign currency contracts are offset by gains and losses recorded within the related assets and liabilities.

The fair value of the Company’s derivative financial instruments recorded in the consolidated balance sheets were as follows:

	Balance Sheet Location	September 30, 2012	March 31, 2012
Derivative instruments designated as cash flow hedges:			
Commodity derivatives	Other current assets	$ -	$ 156
Commodity derivatives	Other current liabilities	-	924
Derivative instruments not designated as cash flow hedges:			
Foreign exchange contracts	Other current assets	$ 205	$ 205
Commodity derivatives	Other current liabilities	1,593	2,606

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The amounts recorded in AOCI and in the consolidated statement of operations for all of the Company's derivative financial instruments were as follows:

			Three months ended September 30, 2012		Six months ended September 30, 2012	
	Amount of Loss Recognized in AOCI	Location of Loss Reclassified from AOCI into Continuing Operations	Loss Reclassified from AOCI into Continuing Operations	Total (Gain) Loss Recognized in Continuing Operations	Loss Reclassified from AOCI into Continuing Operations	Total (Gain) Loss Recognized in Continuing Operations
Commodity derivatives	$ 1,382	Cost of sales	$ 991	$ (14)	$ 1,715	$ 2,725
Foreign exchange contracts	-	Other (income) expense - net	-	97	-	(339)
Total	$ 1,382		$ 991	$ 83	$ 1,715	$ 2,386

	Amount of Loss Recognized in AOCI	Location of Loss Reclassified from AOCI into Continuing Operations	Three months ended September 30, 2011 Amount of Loss Reclassified from AOCI into Continuing Operations	Six months ended September 30, 2011 Amount of Loss Reclassified from AOCI into Continuing Operations
Commodity derivatives	$ 5,239	Cost of sales	$ 617	$ 417
Total	$ 5,239		$ 617	$ 417

Note 15: Fair Value Measurements

Fair value measurements are classified under the following hierarchy:

- Level 1 – Quoted prices for identical instruments in active markets.
- Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs or significant value-drivers are observable in active markets.
- Level 3 – Model-derived valuations in which one or more significant inputs or significant value-drivers are unobservable.

When available, the Company uses quoted market prices to determine fair value and classifies such measurements within Level 1. In some cases, where market prices are not available, the Company makes use of observable market-based inputs to calculate fair value, in which case the measurements are classified within Level 2. If quoted or observable market prices are not available, fair value is based upon internally developed models that use, where possible, current market-based parameters such as interest rates, yield curves or currency rates. These measurements are classified within Level 3.

Trading securities: The Company's trading securities, which are included within other current assets on the balance sheet, are a mix of various investments maintained in a deferred compensation trust to fund future obligations under Modine's non-qualified deferred compensation plan. The securities' fair values are the market values from active markets and are classified within Level 1 of the valuation hierarchy. The fair values of money market investments have been determined to approximate their net asset values and are classified within Level 2 of the valuation hierarchy.

Derivative financial instruments: As part of the Company's risk management strategy, Modine enters into derivative transactions to mitigate certain identified exposures. The derivative instruments include currency options and commodity derivatives. These are not exchange traded and are customized over-the-counter derivative transactions. These derivative exposures are with counterparties that have long-term credit ratings of BBB – or better.

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The Company measures fair value assuming that the unit of account is an individual derivative transaction and those derivatives are sold or transferred on a stand-alone basis. The Company estimates the fair value of these derivative instruments based on dealer quotes. These derivative instruments are classified within Level 2 of the valuation hierarchy.

Deferred compensation obligation: The fair value of the Company's deferred compensation obligation is recorded at the fair value of the investments held by the deferred compensation trust. As described above, the fair values of the related trading securities are the market values from active markets and are classified within Level 1 of the valuation hierarchy. The fair values of money market investments have been determined to approximate their net asset values and are classified within Level 2 of the valuation hierarchy.

The carrying values of cash and cash equivalents, trade receivables and accounts payable approximate fair value due to the short-term nature of these instruments.

At September 30, 2012, the assets and liabilities that are measured at fair value on a recurring basis were classified as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Trading securities (short-term investments)	$ 2,072	$ -	$ -	$ 2,072
Derivative financial instruments	-	205	-	205
Total assets	$ 2,072	$ 205	$ -	$ 2,277
Liabilities:				
Derivative financial instruments	$ -	$ 1,593	$ -	$ 1,593
Deferred compensation obligation	2,072	-	-	2,072
Total liabilities	$ 2,072	$ 1,593	$ -	$ 3,665

At March 31, 2012, the assets and liabilities that are measured at fair value on a recurring basis were classified as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Trading securities (short-term investments)	$ 1,784	$ 12	$ -	$ 1,796
Derivative financial instruments	-	361	-	361
Total assets	$ 1,784	$ 373	$ -	$ 2,157
Liabilities:				
Derivative financial instruments	$ -	$ 3,530	$ -	$ 3,530
Deferred compensation obligation	1,823	12	-	1,835
Total liabilities	$ 1,823	$ 3,542	$ -	$ 5,365

Assets held for sale: In addition to items that are measured at fair value on a recurring basis, assets held for sale and certain other long-lived assets may be measured at fair value on a nonrecurring basis. These assets have been written down to fair value, based on Level 3 market-based valuation inputs. The carrying value of assets held for sale totaled $6,646 at September 30, 2012.

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Note 16: Product Warranties

Changes in accrued warranty costs were as follows:

	Three months ended September 30	
	2012	2011
Balance, July 1	$ 10,521	$ 14,408
Accruals for warranties issued	1,385	1,849
Accruals (reversals) related to pre-existing warranties	1,689	(624)
Settlements	(1,329)	(2,244)
Effect of exchange rate changes	70	(542)
Balance, September 30	$ 12,336	$ 12,847

	Six months ended September 30	
	2012	2011
Balance, April 1	$ 11,385	$ 14,681
Accruals for warranties issued	2,727	3,398
Accruals (reversals) related to pre-existing warranties	1,209	(467)
Settlements	(2,757)	(4,384)
Effect of exchange rate changes	(228)	(381)
Balance, September 30	$ 12,336	$ 12,847

Note 17: Segment Information

The following is a summary of net sales, gross profit, income (loss) from operations and total assets by segment:

	Three months ended September 30		Six months ended September 30	
	2012	2011	2012	2011
Net sales:				
North America	$143,374	$148,848	$297,000	$305,483
Europe	118,771	151,988	244,219	318,830
South America	34,222	48,095	65,373	96,016
Asia	13,818	19,989	29,609	41,254
Commercial Products	33,824	35,070	63,965	69,218
Segment net sales	344,009	403,990	700,166	830,801
Corporate and eliminations	(4,087)	(6,700)	(9,868)	(15,648)
Net sales	$339,922	$397,290	$690,298	$815,153

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	Three months ended September 30						Six months ended September 30					
	2012			2011			2012			2011		
Gross profit:		% of sales			% of sales			% of sales			% of sales	
North America	$18,499	12.9	%	$20,991	14.1	%	$42,101	14.2	%	$43,603	14.3	%
Europe	17,808	15.0	%	20,302	13.4	%	32,516	13.3	%	45,696	14.3	%
South America	5,775	16.9	%	8,851	18.4	%	10,511	16.1	%	17,843	18.6	%
Asia	23	0.2	%	1,820	9.1	%	440	1.5	%	4,906	11.9	%
Commercial Products	10,124	29.9	%	10,261	29.3	%	18,021	28.2	%	19,790	28.6	%
Segment gross profit	52,229	15.2	%	62,225	15.4	%	103,589	14.8	%	131,838	15.9	%
Corporate and eliminations	367	-		149	-		592	-		338	-	
Gross profit	$52,596	15.5	%	$62,374	15.7	%	$104,181	15.1	%	$132,176	16.2	%

	Three months ended September 30		Six months ended September 30	
	2012	2011	2012	2011
Income (loss) from operations:				
North America	$6,844	$10,899	$20,692	$21,718
Europe	(9,942)	8,341	(10,128)	19,948
South America	4,255	2,687	4,962	5,877
Asia	(2,335)	(750)	(4,597)	63
Commercial Products	2,593	2,897	3,592	6,268
Segment income from operations	1,415	24,074	14,521	53,874
Corporate and eliminations	(8,202)	(11,876)	(17,437)	(21,418)
(Loss) income from operations	$(6,787)	$12,198	$	