

MODINE MANUFACTURING CO
Form 10-Q
August 07, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

or

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

For the transition period from _____ to _____

Commission file number 1-1373

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

WISCONSIN
(State or other jurisdiction of incorporation or organization)

39-0482000
(I.R.S. Employer Identification No.)

1500 DeKoven Avenue, Racine, Wisconsin
(Address of principal executive offices)

53403
(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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer,

Edgar Filing: MODINE MANUFACTURING CO - Form 10-Q

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 Accelerated Filer

Non-accelerated Filer (Do not check if Smaller reporting
a smaller reporting company) company

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

The number of shares outstanding of the registrant's common stock, \$0.625 par value, was 47,111,744 at August 1, 2012.

MODINE MANUFACTURING COMPANY
INDEX

| | |
|---|----|
| <u>PART I. FINANCIAL INFORMATION</u> | 1 |
| Item 1. <u>Financial Statements.</u> | 1 |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations.</u> | 21 |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk.</u> | 29 |
| Item 4. <u>Controls and Procedures.</u> | 29 |
| PART II. OTHER INFORMATION | 30 |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds.</u> | 30 |
| Item 6. <u>Exhibits.</u> | 31 |
| <u>SIGNATURE</u> | 32 |

Index

PART I. FINANCIAL INFORMATION

Item 1.

Financial Statements.

MODINE MANUFACTURING COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

For the three months ended June 30, 2012 and 2011

(In thousands, except per share amounts)

(Unaudited)

| | Three months ended June 30 | |
|--|-------------------------------|-----------|
| | 2012 | 2011 |
| Net sales | \$350,376 | \$417,863 |
| Cost of sales | 298,791 | 348,061 |
| Gross profit | 51,585 | 69,802 |
| Selling, general and administrative expenses | 43,224 | 49,601 |
| Restructuring expense (income) | 4,490 | (57) |
| Income from operations | 3,871 | 20,258 |
| Interest expense | 3,039 | 2,990 |
| Other income – net | (166) | (339) |
| Earnings from continuing operations before income taxes | 998 | 17,607 |
| Provision for income taxes | 2,053 | 5,041 |
| (Loss) earnings from continuing operations | (1,055) | 12,566 |
| Earnings from discontinued operations (net of income taxes) | 177 | - |
| Net (loss) earnings | (878) | 12,566 |
| Less: Net earnings (loss) attributable to noncontrolling interest | 301 | (9) |
| Net (loss) earnings attributable to Modine | \$(1,179) | \$12,575 |
| (Loss) earnings from continuing operations attributable to Modine common shareholders: | | |
| Basic | \$(0.03) | \$0.27 |
| Diluted | \$(0.03) | \$0.27 |
| Net (loss) earnings attributable to Modine common shareholders: | | |
| Basic | \$(0.03) | \$0.27 |
| Diluted | \$(0.03) | \$0.27 |

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

Index

MODINE MANUFACTURING COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the three months ended June 30, 2012 and 2011
(In thousands)
(Unaudited)

| | Three months ended June 30 | |
|---|-------------------------------|----------|
| | 2012 | 2011 |
| Net (loss) earnings | \$(878) | \$12,566 |
| Other comprehensive (loss) income, net of tax: | | |
| Foreign currency translation | (18,965) | 7,662 |
| Cash flow hedges | 724 | (2,112) |
| Change in benefit plan adjustment | 999 | 1,553 |
| Total other comprehensive (loss) income, net of tax | (17,242) | 7,103 |
| Comprehensive (loss) income | (18,120) | 19,669 |
| Comprehensive income (loss) attributable to noncontrolling interest | 301 | (9) |
| Comprehensive (loss) income attributable to Modine | \$(18,421) | \$19,678 |

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

Index

MODINE MANUFACTURING COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

June 30, 2012 and March 31, 2012

(In thousands, except per share amounts)

(Unaudited)

| | June 30, 2012 | March 31, 2012 |
|--|------------------|----------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$43,190 | \$ 31,445 |
| Trade receivables, less allowance for doubtful accounts of \$940 and \$809 | 190,057 | 216,103 |
| Inventories | 125,578 | 120,819 |
| Deferred income taxes and other current assets | 63,465 | 59,164 |
| Total current assets | 422,290 | 427,531 |
| Noncurrent assets: | | |
| Property, plant and equipment – net | 394,559 | 412,059 |
| Investment in affiliates | 4,044 | 3,728 |
| Goodwill | 28,437 | 29,933 |
| Intangible assets – net | 5,506 | 5,805 |
| Other noncurrent assets | 13,660 | 14,405 |
| Total noncurrent assets | 446,206 | 465,930 |
| Total assets | \$868,496 | \$ 893,461 |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Short-term debt | \$21,545 | \$ 21,296 |
| Long-term debt – current portion | 558 | 1,093 |
| Accounts payable | 140,066 | 156,907 |
| Accrued compensation and employee benefits | 49,246 | 50,643 |
| Income taxes | 2,803 | 4,494 |
| Accrued expenses and other current liabilities | 61,154 | 63,118 |
| Total current liabilities | 275,372 | 297,551 |
| Noncurrent liabilities: | | |
| Long-term debt | 161,553 | 141,892 |
| Deferred income taxes | 11,906 | 12,297 |
| Pensions | 90,323 | 94,091 |
| Postretirement benefits | 6,489 | 6,426 |
| Other noncurrent liabilities | 14,068 | 15,072 |
| Total noncurrent liabilities | 284,339 | 269,778 |
| Total liabilities | 559,711 | 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 47,714 and 47,361 shares, respectively | 29,821 | 29,600 |
| Additional paid-in capital | 168,962 | 168,290 |
| Retained earnings | 230,649 | 231,828 |
| Accumulated other comprehensive loss | (107,548) | (90,306) |
| Treasury stock at cost: 611 and 594 shares, respectively | (14,616) | (14,505) |

Edgar Filing: MODINE MANUFACTURING CO - Form 10-Q

| | | |
|-----------------------------------|-----------|------------|
| Total Modine shareholders' equity | 307,268 | 324,907 |
| Noncontrolling interest | 1,517 | 1,225 |
| Total equity | 308,785 | 326,132 |
| Total liabilities and equity | \$868,496 | \$ 893,461 |

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

Index

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

| | Three months ended June 30 | |
|---|----------------------------|-----------|
| | 2012 | 2011 |
| Cash flows from operating activities: | | |
| Net (loss) earnings | \$(878) | \$12,566 |
| Adjustments to reconcile net (loss) earnings with net cash provided by (used for) operating activities: | | |
| Depreciation and amortization | 14,049 | 14,952 |
| Other – net | 4,074 | 2,487 |
| Net changes in operating assets and liabilities, excluding dispositions | (12,470) | (44,004) |
| Net cash provided by (used for) operating activities | 4,775 | (13,999) |
| Cash flows from investing activities: | | |
| Expenditures for property, plant and equipment | (11,734) | (12,644) |
| Proceeds from dispositions of assets | 85 | 761 |
| Settlement of derivative contracts | (779) | 269 |
| Other – net | 163 | 172 |
| Net cash used for investing activities | (12,265) | (11,442) |
| Cash flows from financing activities: | | |
| Short-term debt – net | 822 | 83 |
| Borrowings of long-term debt | 54,366 | 75,045 |
| Repayments of long-term debt | (34,855) | (35,629) |
| Capital contribution by noncontrolling interest in joint venture | - | 936 |
| Other – net | (204) | (97) |
| Net cash provided by financing activities | 20,129 | 40,338 |
| Effect of exchange rate changes on cash | (894) | 501 |
| Net increase in cash and cash equivalents | 11,745 | 15,398 |
| Cash and cash equivalents at beginning of period | 31,445 | 32,930 |
| Cash and cash equivalents at end of period | \$43,190 | \$48,328 |

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

Index

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 by Modine Manufacturing Company (Modine or the Company) for the 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 three 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

Restricted cash: At June 30, 2012 and March 31, 2012, the Company had long-term restricted cash of \$3,457 and \$3,721, respectively, included in other noncurrent assets, consisting of \$1,107 and \$1,371, respectively, to secure long-term employee compensation arrangements for certain employees in Europe and \$2,350 to collateralize insurance liabilities with an insurance carrier in North America.

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 June 30, 2011, cost of goods sold decreased \$371, gross profit increased \$371, selling, general and administrative expenses increased \$106, other income— net increased \$197, provision for income taxes increased \$1,012 and earnings from continuing operations decreased \$550 as a result of the revisions. Diluted earnings per share from continuing operations and diluted net earnings per share decreased \$0.01 for the three months ended June 30, 2011 as a result of these revisions.

Out of period adjustments: During the three months ended June 30, 2012, 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 approximately \$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 quarter of fiscal 2013.

Accounting standards changes and new accounting pronouncements: In June 2011, the 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. This amendment shall be applied retrospectively and is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. This amendment was adopted for the first quarter of fiscal 2013 in the separate condensed consolidated statements of comprehensive income (two consecutive statement approach).

Index

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

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 amendments are effective for goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The Company is assessing this new guidance and currently does not anticipate any impact on the consolidated financial statements from the adoption of this amendment.

Note 3: Employee Benefit Plans

During the three months ended June 30, 2012 and 2011, the Company recorded compensation expense of \$1,629 and \$1,229, respectively, related to its defined contribution employee benefit plans.

During the three months ended June 30, 2012 and 2011, the Company elected to contribute \$2,150 and \$5,050, respectively, to its U.S. pension plans. The Company anticipates making additional contributions of \$8,350 for the remainder of fiscal 2013.

Costs for Modine's pension and postretirement benefit plans for the three months ended June 30, 2012 and 2011 include the following components:

| For the three months ended June 30 | Pension plans | | Postretirement plans | |
|------------------------------------|---------------|----------|----------------------|----------|
| | 2012 | 2011 | 2012 | 2011 |
| Service cost | \$ 141 | \$ 426 | \$ 11 | \$ 12 |
| Interest cost | 3,341 | 3,505 | 74 | 85 |
| Expected return on plan assets | (4,031) | (3,848) | - | - |
| Amortization of: | | | | |
| Unrecognized net loss (gain) | 1,255 | 1,996 | - | (12) |
| Unrecognized prior service credit | - | - | (372) | (416) |
| Net periodic benefit cost (income) | \$ 706 | \$ 2,079 | \$(287) | \$(331) |

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 \$893 and \$843 for the three months ended June 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 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 total revenue over the performance period. European ROACE is defined as the Original Equipment – Europe segment (Europe Segment) operating income, less research and development charges to the Company's corporate and administrative expenses, adjusted to exclude all 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.

Index

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

The following table presents, by type, the fair market value of stock-based compensation awards granted during the three months ended June 30, 2012:

| Type of award | Number Granted | Fair Value Per Award |
|---------------------------------------|-------------------|-------------------------|
| Common stock options | 238.3 | \$ 4.23 |
| Restricted common stock - retention | 352.7 | \$ 5.75 |
| Restricted common stock - performance | 352.7 | \$ 5.75 |

The accompanying table sets forth the assumptions used in determining the fair value for the options granted during the three months ended June 30, 2012:

| | | |
|--|-------|---|
| Expected life of awards in years | 6.3 | |
| Risk-free interest rate | 0.86 | % |
| Expected volatility of the Company's stock | 87.35 | % |
| Expected dividend yield on the Company's stock | 0.00 | % |

As of June 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, is as follows:

| Type of award | Unrecognized Compensation Costs | Weighted Average Remaining Service Period in Years |
|---------------------------------------|---------------------------------------|---|
| Common stock options | \$ 1,590 | 2.3 |
| Restricted common stock - retention | 3,588 | 3.5 |
| Restricted common stock - performance | 1,565 | 2.6 |
| Total | \$ 6,743 | 2.8 |

Note 5: Other Income – Net

Other income – net was comprised of the following:

| | Three months ended June 30 | |
|--|----------------------------|-----------|
| | 2012 | 2011 |
| Equity in earnings (loss) of non-consolidated affiliates | \$ 173 | \$ (402) |
| Interest income | 205 | 180 |
| Foreign currency transactions | (252) | 547 |
| Other non-operating income - net | 40 | 14 |
| Total other income - net | \$ 166 | \$ 339 |

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

Index

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

Note 6: Income Taxes

For the three months ended June 30, 2012 and 2011, the Company's effective income tax rate attributable to earnings from continuing operations before income taxes was 205.8 percent and 28.6 percent, respectively.

The most significant factors impacting changes in the effective tax rate for the three months ended June 30, 2012 as compared to prior periods were changes in the valuation allowance for certain foreign losses for which no benefit is recognized. During the three months ended June 30, 2012, the Company continued to record a full valuation allowance against its net deferred tax assets located in the U.S. and certain 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, the U.S. taxing jurisdiction will no longer be in a cumulative three year loss position thereby removing significant negative evidence concerning valuation allowance. Throughout the remainder of fiscal 2013, all positive and negative evidence will be further analyzed in order 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 effective tax rate 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 impact of certain significant, unusual or infrequently occurring items must be recorded in the interim period in which they occur. For the three months ended June 30, 2012, the U.S. taxing jurisdiction had pre-tax earnings and is forecasting pre-tax earnings for the full fiscal year. As a result, the U.S. taxing jurisdiction is no longer 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 for which no tax benefit can be recognized. The income taxes for the Company's other foreign operations continue to be estimated 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. The 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.

Index

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

Note 7: Earnings Per Share

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

| | Three months ended June 30 | |
|--|-------------------------------|----------|
| | 2012 | 2011 |
| Basic: | | |
| (Loss) earnings from continuing operations | \$(1,055) | \$12,566 |
| Less: Net earnings (loss) attributable to noncontrolling interest | 301 | (9) |
| (Loss) earnings from continuing operations attributable to Modine | (1,356) | 12,575 |
| Less: Undistributed earnings attributable to unvested shares | - | (48) |
| Net (loss) earnings from continuing operations available to Modine common shareholders | (1,356) | 12,527 |
| Net earnings from discontinued operations | 177 | - |
| Less: Undistributed earnings attributable to unvested shares | (1) | - |
| Net earnings from discontinued operations available to Modine common shareholders | 176 | - |
| Net (loss) earnings available to Modine common shareholders | \$(1,180) | \$12,527 |
| Basic Earnings Per Share: | | |
| Weighted average shares outstanding - basic | 46,546 | 46,361 |
| (Loss) earnings from continuing operations per common share | \$(0.03) | \$0.27 |
| Net earnings from discontinued operations per common share | - | - |
| Net (loss) earnings per common share - basic | \$(0.03) | \$0.27 |

Index

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

| | Three months ended June 30 | |
|--|-------------------------------|----------|
| | 2012 | 2011 |
| Diluted: | | |
| (Loss) earnings from continuing operations | \$(1,055) | \$12,566 |
| Less: Net earnings (loss) attributable to noncontrolling interest | 301 | (9) |
| (Loss) earnings from continuing operations attributable to Modine | (1,356) | 12,575 |
| Less: Undistributed earnings attributable to unvested shares | - | (31) |
| Net (loss) earnings from continuing operations available to Modine common shareholders | (1,356) | 12,544 |
| Net earnings from discontinued operations | 177 | - |
| Less: Undistributed earnings attributable to unvested shares | (1) | - |
| Net earnings from discontinued operations available to Modine common shareholders | 176 | - |
| Net (loss) earnings available to Modine common shareholders | \$(1,180) | \$12,544 |
| Diluted Earnings Per Share: | | |
| Weighted average shares outstanding - basic | 46,546 | 46,361 |
| Effect of dilutive securities | - | 619 |
| Weighted average shares outstanding - diluted | 46,546 | 46,980 |
| (Loss) earnings from continuing operations per common share | \$(0.03) | \$0.27 |
| Net earnings from discontinued operations per common share | - | - |
| Net (loss) earnings per common share - diluted | \$(0.03) | \$0.27 |

For the three months ended June 30, 2012, the total number of potential dilutive securities was 336. However, these securities were not included in the computation of diluted net loss per common share for the three months ended June 30, 2012, since to do so would decrease the loss per share. In addition, for the three months ended June 30, 2012, 1,330 of common shares issuable upon the exercise of stock options and 149 restricted stock awards were anti-dilutive and were also excluded from the calculation of diluted earnings per share. For the three months ended June 30, 2011, 1,165 of common shares issuable upon the exercise of stock options and 152 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:

| | June 30, 2012 | March 31, 2012 |
|-----------------------------------|------------------|-------------------|
| Raw materials and work in process | \$89,662 | \$88,632 |
| Finished goods | 35,916 | 32,187 |
| Total inventories | \$125,578 | \$120,819 |

Index

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:

| | June 30, 2012 | March 31, 2012 |
|-------------------------------------|------------------|----------------|
| Gross property, plant and equipment | \$ 1,068,581 | \$ 1,092,703 |
| Less accumulated depreciation | (674,022) | (680,644) |
| Net property, plant and equipment | \$ 394,559 | \$ 412,059 |

Assets held for sale of \$2,450 at June 30, 2012 and March 31, 2012, respectively, included in noncurrent assets, consist of two facilities that the Company has closed within the Original Equipment – North America segment. The Company is currently marketing the facilities held for sale.

Note 10: Restructuring, Plant Closures and Other Related Costs

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

Since the commencement of the Original Equipment – Europe segment restructuring plan, the Company has incurred \$4,502 of termination charges and \$59 of other closure costs, in the aggregate. The Company anticipates incurring additional costs of approximately \$12,500 through fiscal 2017 (with the majority being incurred through fiscal 2014), consisting of additional headcount reductions and equipment moving costs. Total future cash expenditures of approximately \$17,000 are anticipated to be incurred related to this restructuring plan.

Prior to fiscal 2013, the Company had been executing a restructuring plan in the U.S. and its Tubingen, Germany facility. The final plant closure under this restructuring plan was completed in the fourth quarter of fiscal 2012.

Changes in the accrued restructuring liability for the three months ended June 30, 2012 and 2011 were comprised of the following, related to the above-described restructuring activities:

| | Three months ended June 30 | |
|---------------------------------|-------------------------------|----------|
| | 2012 | 2011 |
| Termination Benefits: | | |
| Balance, April 1 | \$ 595 | \$ 1,301 |
| Additions | 4,502 | - |
| Adjustments | (12) | (57) |
| Effect of exchange rate changes | (8) | 4 |
| Payments | (733) | (72) |
| Balance, June 30 | \$ 4,344 | \$ 1,176 |

Index

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

The following is the summary of restructuring and other repositioning costs recorded related to the above-described programs during the three months ended June 30, 2012 and 2011:

| | Three months ended June 30 | |
|---|----------------------------|---------|
| | 2012 | 2011 |
| Restructuring expense (income): | | |
| Employee severance and related benefits | \$4,490 | \$(57) |
| Other repositioning costs | 271 | 135 |
| Total restructuring and other repositioning costs | \$4,761 | \$78 |

Total restructuring and other repositioning costs were recorded in the consolidated statement of operations for the three months ended June 30, 2012 as follows: \$271 was recorded as a component of cost of sales and \$4,490 was recorded as restructuring expense. Total restructuring and other repositioning costs were recorded in the consolidated statement of operations for the three months ended June 30, 2011 as follows: \$135 was recorded as a component of cost of sales and \$57 was recorded as restructuring income. The Company accrues severance in accordance with its policies and relevant statutory requirements. Restructuring income relates to reversals of severance liabilities due to employee terminations prior to completion of required retention periods.

Note 11: Goodwill and Intangible Assets

Changes in the carrying amount of goodwill during the first three months of fiscal 2013, by segment and in the aggregate, are summarized in the following table:

| | OE - Asia | South America | Commercial Products | Total |
|----------------------------------|--------------|------------------|------------------------|----------|
| Balance, March 31, 2012 | \$520 | \$13,498 | \$ 15,915 | \$29,933 |
| Fluctuations in foreign currency | - | (1,219) | (277) | (1,496) |
| Balance, June 30, 2012 | \$520 | \$12,279 | \$ 15,638 | \$28,437 |

Intangible assets are comprised of the following:

| | June 30, 2012 | | | March 31, 2012 | | |
|------------------------------|----------------------------|-----------------------------|-----------------------------|----------------------------|-----------------------------|-----------------------------|
| | Gross Carrying Value | Accumulated Amortization | Net Intangible Assets | Gross Carrying Value | Accumulated Amortization | Net Intangible Assets |
| Amortized intangible assets: | | | | | | |
| Trademarks | \$ 8,940 | \$ (4,271) | \$ 4,669 | \$ 9,064 | \$ (4,180) | \$ 4,884 |
| Other intangibles | 366 | (366) | - | 402 | (402) | - |
| | 9,306 | (4,637) | 4,669 | 9,466 | (4,582) | 4,884 |

Total amortized
intangible assets

Unamortized
intangible assets:

| | | | | | | |
|-------------------------|-----------|-------------|----------|-----------|-------------|----------|
| Tradename | 837 | - | 837 | 921 | - | 921 |
| Total intangible assets | \$ 10,143 | \$ (4,637) | \$ 5,506 | \$ 10,387 | \$ (4,582) | \$ 5,805 |

12

Index

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

Amortization expense for the three months ended June 30, 2012 and 2011 was \$150 and \$160, respectively. Total estimated annual 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 | \$ 447 |
| 2014 | 596 |
| 2015 | 596 |
| 2016 | 596 |
| 2017 | 596 |
| 2018 & Beyond | 1,838 |

Note 12: Indebtedness

The Company has \$125,000 outstanding on 6.83 percent Senior Notes, maturing on August 12, 2020. As of June 30, 2012, the Company also had \$29,000 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 June 30, 2012.

Modine also maintained credit agreements with foreign banks with outstanding short term borrowings at June 30, 2012 and March 31, 2012 of \$21,545 and \$21,296, respectively. The foreign unused lines of credit in Europe, Brazil, and China at June 30, 2012 were approximately \$33,098. Domestic unused lines of credit at June 30, 2012 were \$116,000. In aggregate, the Company had total available lines of credit of \$149,098 at June 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 June 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 \$136,452 and \$139,234 at June 30, 2012 and March 31, 2012, respectively. The fair value of the Senior Notes is categorized within Level 2 of the hierarchy. Refer to Note 15 for the definition of a Level 2 fair value measurement.

Note 13: Financial Instruments

Concentrations of Credit Risk: The Company invests excess cash in investment quality short-term liquid debt instruments. Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of accounts receivable. The Company sells a broad range of products that provide thermal

solutions to a diverse group of customers operating throughout the world. At June 30, 2012 and March 31, 2012, approximately 52 percent and 54 percent, respectively, of the Company's trade accounts receivables were from the Company's top ten individual customers. These customers operate primarily in the automotive, truck and heavy equipment markets and are all influenced by many of the same market and general economic factors. To reduce credit risk, the Company performs periodic customer credit evaluations and actively monitors their financial condition and developing business news. The Company does not generally require collateral or advanced payments from its customers, but does so in those cases where a substantial credit risk is identified. Credit losses to customers operating in the markets served by the Company have not been material. Total bad debt write-offs have been well below one percent of outstanding trade receivable balances for the presented periods. See Note 18 for further discussion on market, credit and counterparty risks.

Index

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

Inter-Company Loans Denominated in Foreign Currencies: The Company has certain foreign-denominated inter-company loans that are sensitive to foreign exchange rates. At June 30, 2012, the Company has inter-company loans outstanding of \$12,000 between two loans to its wholly owned subsidiary, Modine Thermal Systems (Changzhou) Co. Ltd. (Changzhou, China), with various maturity dates through July 2013. These inter-company loans are sensitive to movement in foreign exchange rates, and the Company does not have any derivative instruments to hedge this exposure at June 30, 2012.

Note 14: Derivatives/Hedges

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 enters into futures contracts related to certain of the Company's forecasted purchases of aluminum and copper. The Company's strategy in entering into these contracts is 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 future contracts used for aluminum and copper hedging became ineffective. Accordingly, the Company de-designated the hedges and began recording the unrealized gains and losses within cost of goods sold (see "Out of period adjustments" within Note 2). The amounts recorded in AOCI prior to the de-designation will remain in AOCI until the underlying purchases of aluminum and copper impact earnings.

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 its forward contracts as hedges. Accordingly, unrealized gains and losses related to the change in fair value are recorded in other income – net. Gains and losses on these foreign currency forward contracts are offset by gains and losses recorded on the underlying assets and liabilities.

Index

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

The fair value of the derivative financial instruments recorded in the consolidated balance sheets as of June 30, 2012 and March 31, 2012 are as follows:

| | Balance Sheet Location | June 30, 2012 | March 31, 2012 |
|--|--|------------------|-------------------|
| Derivative instruments designated as cash flow hedges: | | | |
| Commodity derivatives | Deferred income taxes and other current assets | \$- | \$ 156 |
| Commodity derivatives | Accrued expenses and other current liabilities | - | 924 |
| Derivatives not designated as hedges: | | | |
| Foreign exchange contracts | Deferred income taxes and other current assets | \$463 | \$205 |
| Commodity derivatives | Accrued expenses and other current liabilities | 4,265 | 2,606 |

The amounts recorded in AOCI and in the consolidated statement of operations for the three months ended June 30, 2012 are as follows:

| | Amount of Loss Recognized in AOCI | Location of Loss (Gain) Recognized in Income | Amount of Loss Reclassified from AOCI into Continuing Operations | Amount of Loss (Gain) Recognized in Income |
|-----------------------------|--|---|--|---|
| Derivatives not designated: | | | | |
| Commodity derivatives | \$2,366 | Cost of sales | \$780 | \$1,959 |
| Foreign exchange contracts | - | Other income - net | - | (436) |
| Total | \$2,366 | | \$780 | \$1,523 |

The amounts recorded in AOCI and in the consolidated statement of operations for the three months ended June 30, 2011 is as follows:

| | Amount of Loss Recognized in AOCI | Location of Gain Reclassified from AOCI into Continuing Operations | Amount of Gain Reclassified from AOCI into Continuing Operations |
|------------------------------------|--|---|--|
| Designated derivative instruments: | | | |
| Commodity derivatives | \$ 1,777 | Cost of sales | \$ (269) |
| Total | \$ 1,777 | | \$ (269) |

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 classified 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, currency rates, etc. These measurements are classified within Level 3.

Fair value measurements are classified according to the lowest level input or value-driver that is significant to the valuation. A measurement may therefore be classified within Level 3 even though there may be significant inputs that are readily observable.

Index

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

Trading securities

The Company's trading securities 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 (such as New York Stock Exchange (NYSE)) 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, with no discounts for credit quality or liquidity restrictions 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.

The Company measures fair values assuming that the unit of account is an individual derivative transaction and those derivatives are sold or transferred on a stand-alone basis. Therefore, derivative assets and liabilities are presented on a gross basis without consideration of master netting arrangements. The Company estimates the fair value of these derivative instruments based on dealer quotes as the dealer is willing to settle at the quoted prices. These derivative instruments are classified within Level 2 of the valuation hierarchy.

Deferred compensation obligation

The fair value of the deferred compensation obligation is recorded at the fair value of the investments held by the deferred compensation trust. As noted above, the fair values for the securities are the market values directly from active markets (such as NYSE) 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, with no discounts for credit quality or liquidity restrictions 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, without being discounted as of June 30, 2012 and March 31, 2012 due to the short-term nature of these instruments.

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

| | Level 1 | Level 2 | Level 3 | Total Assets / Liabilities at Fair Value |
|---|----------------|--------------|------------|--|
| Assets: | | | | |
| Trading securities (short term investments) | \$1,932 | \$10 | \$- | \$1,942 |
| Derivative financial instruments | - | 463 | - | 463 |
| Total assets | \$1,932 | \$473 | \$- | \$2,405 |
| Liabilities: | | | | |
| Derivative financial instruments | \$- | \$4,265 | \$- | \$4,265 |

| | | | | |
|----------------------------------|---------|---------|-----|---------|
| Deferred compensation obligation | 1,933 | 10 | - | 1,943 |
| Total liabilities | \$1,933 | \$4,275 | \$- | \$6,208 |

Index

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

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 / Liabilities at Fair Value |
|---|----------------|----------------|------------|--|
| 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 |

Note 16: Product Warranties and Other Commitments

Changes in the warranty liability were as follows:

| | Three months ended June 30 | |
|---|-------------------------------|-----------------|
| | 2012 | 2011 |
| Balance, April 1 | \$11,385 | \$14,681 |
| Accruals for warranties issued in current period | 1,342 | 1,549 |
| (Reversals) accruals related to pre-existing warranties | (480) | 157 |
| Settlements made | (1,428) | (2,139) |
| Effect of exchange rate changes | (298) | 160 |
| Balance, June 30 | \$10,521 | \$14,408 |

Commitments: At June 30, 2012, the Company had capital expenditure commitments of \$13,613. Significant commitments include tooling and equipment expenditures for new and renewal platforms with new and current customers in Europe and North America along with new program launches in Asia.

Note 17: Segment Information

The following is a summary of net sales, gross profit, earnings from continuing operations before income taxes and total assets by segment:

| | Three months ended June 30 | |
|-----------------------------|-------------------------------|----------|
| | 2012 | 2011 |
| Sales : | | |
| Original Equipment - Asia | \$15,791 | \$21,265 |
| Original Equipment - Europe | 125,448 | 166,842 |

Edgar Filing: MODINE MANUFACTURING CO - Form 10-Q

| | | |
|------------------------------------|-----------|-----------|
| Original Equipment - North America | 153,626 | 156,635 |
| South America | 31,151 | 47,921 |
| Commercial Products | 30,141 | 34,148 |
| Segment sales | 356,157 | 426,811 |
| Corporate and administrative | 179 | 103 |
| Eliminations | (5,960) | (9,051) |
| Sales from continuing operations | \$350,376 | \$417,863 |

Index

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

| | Three months ended June 30 | | | | | |
|---|----------------------------|------------|---|-----------|------------|---|
| | 2012 | | | 2011 | | |
| | | % of sales | | | % of sales | |
| Gross profit: | | | | | | |
| Original Equipment - Asia | \$417 | 2.6 | % | \$3,086 | 14.5 | % |
| Original Equipment - Europe | 14,708 | 11.7 | % | 25,394 | 15.2 | % |
| Original Equipment - North America | 23,602 | 15.4 | % | 22,612 | 14.4 | % |
| South America | 4,736 | 15.2 | % | 8,992 | 18.8 | % |
| Commercial Products | 7,897 | 26.2 | % | 9,529 | 27.9 | % |
| Segment gross profit | 51,360 | 14.4 | % | 69,613 | 16.3 | % |
| Corporate and administrative | 180 | - | | 169 | - | |
| Eliminations | 45 | - | | 20 | - | |
| Gross profit | \$51,585 | 14.7 | % | \$69,802 | 16.7 | % |
| Operating (loss) earnings: | | | | | | |
| Original Equipment - Asia | \$ (2,262) | | | \$ 813 | | |
| Original Equipment - Europe | (186) | | | 11,607 | | |
| Original Equipment - North America | 13,848 | | | 10,819 | | |
| South America | 707 | | | 3,190 | | |
| Commercial Products | 999 | | | 3,371 | | |
| Segment earnings | 13,106 | | | 29,800 | | |
| Corporate and administrative | (9,257) | | | (9,592) | | |
| Eliminations | 22 | | | 50 | | |
| Other items not allocated to segments | (2,873) | | | (2,651) | | |
| Earnings from continuing operations before income taxes | \$ 998 | | | \$ 17,607 | | |
| | | | | June 30, | March 31, | |
| | | | | 2012 | 2012 | |
| Assets: | | | | | | |
| Original Equipment - Asia | | | | \$94,782 | \$102,567 | |
| Original Equipment - Europe | | | | 346,661 | 370,824 | |
| Original Equipment - North America | | | | 233,779 | 230,405 | |
| South America | | | | 88,573 | 96,588 | |
| Commercial Products | | | | 73,376 | 68,900 | |
| Corporate and administrative | | | | 44,175 | 40,557 | |
| Assets held for sale | | | | 2,450 | 2,450 | |
| Eliminations | | | | (15,300) | (18,830) | |
| Total assets | | | | \$868,496 | \$893,461 | |

Index

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

Note 18: Contingencies and Litigation

Market risk: The Company sells a broad range of products that provide thermal solutions to a diverse group of customers operating primarily in the commercial vehicle, off-highway, automotive and commercial heating and air conditioning markets. The Company operates in diversified markets as a strategy for offsetting the risk associated with a downturn in any one or more of the markets it serves. The Company pursues new market opportunities after careful consideration of the potential associated risks and benefits. Successes in new markets are dependent on the Company's ability to commercialize its investments. Current examples of new and emerging markets for Modine include those related to waste heat recovery and expansion into the Chinese and Indian markets. However, the risk associated with any market downturn, such as the downturn experienced in fiscal 2009 and 2010, is still present.

Credit risk: The Company manages credit risks through its focus on the following:

- Cash and investments – reviewing cash deposits and short-term investments to ensure banks have credit ratings acceptable to the Company and that all short-term investments are maintained in secured or guaranteed instruments;
- Pension assets – ensuring that investments within these plans provide reasonable diversification; monitoring of investment teams and ensuring that portfolio managers are adhering to the Company's investment policies and directives; and ensuring that exposure to high risk securities and other similar assets is limited; and
 - Insurance – ensuring that insurance providers have acceptable financial ratings to the Company.

Counterparty risks: The Company manages counterparty risks through its focus on the following:

- Customers – performing thorough review of customer credit reports and accounts receivable aging reports by internal credit committees;
- Suppliers – implementing a supplier risk management program and utilizing industry sources to identify and mitigate high risk situations; and
- Derivatives – ensuring that counterparties to derivative instruments have acceptable credit ratings to the Company.

European value added tax: During fiscal 2012, the Company determined that it was not properly applying value added tax (VAT) to various cross border transactions within the Original Equipment – Europe segment. At June 30, 2012 and March 31, 2012, the Company had recorded an estimated liability for the VAT exposures of \$10,683, which consists of unpaid VAT and estimated interest and penalties that may be levied against the Company by taxing authorities. The Company is in the process of reporting this matter to the applicable taxing authorities, and cannot provide assurance about the ultimate resolution at this time.

Environmental: At present, the United States Environmental Protection Agency (“USEPA”) has designated the Company as a potentially responsible party (“PRP”) for remediation of six sites with which the Company had involvement. These sites include: Auburn Incinerator, Inc./Lake Calumet Cluster (Illinois), Cam-Or (Indiana), a scrap metal site known as Chemetco (Illinois), Circle Environmental of Dawson (two sites: Dawson, GA and Terrell County, GA), and LWD, Inc. (Kentucky). In addition, Modine is voluntarily participating in the care of an inactive landfill owned by the City of Trenton (Missouri). These sites are not Company-owned and allegedly contain materials attributable to Modine from past operations. The percentage of material allegedly attributable to Modine is relatively low. Remediation of these sites is in various stages of administrative or judicial proceedings and includes recovery of past governmental costs and the costs of future investigations and remedial actions. The Company accrues for costs

anticipated for the remedial settlement of the sites listed above if they are probable and can be reasonably determined. Costs anticipated for the remedial settlement of the sites listed above that are not probable or cannot be reasonably determined at this time have not been accrued; however, the Company does not believe any potential costs are material due to Modine's relatively small portion of contributed materials.

Index

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

The Company actively monitors and addresses environmental issues and has recorded environmental investigation and remediation expense accruals for groundwater contamination at its manufacturing facility in Brazil and subsurface contamination at its former manufacturing facility in the Netherlands, along with other lesser issues at certain facilities located in the United States. These expenditures generally relate to facilities where past operations followed practices and procedures that were considered acceptable under then existing regulations, or where the Company is a successor to the obligations of prior owners and current laws and regulations require investigative and/or remedial work to ensure sufficient environmental compliance. The reserves for these environmental matters totaled \$6,102 and \$6,946 at June 30, 2012 and March 31, 2012, respectively. During the three months ended June 30, 2012 and June 30, 2011, additional reserves of \$20 and \$70, respectively, were recorded as a component of continuing operations. During the three months ended June 30, 2012 reductions to the reserves of \$177 were recorded as a component of discontinued operations. As additional information becomes available, any potential liability related to these matters is assessed and the estimates are revised, if necessary. Based on currently available information, Modine believes that the ultimate outcome of these matters, individually and in the aggregate, will not have a material adverse effect on the financial position or overall trends in results of operations. However, these matters are subject to inherent uncertainties, and unfavorable outcomes could occur, including significant monetary damages. During fiscal 2011, one of the adjacent businesses to the operation in Brazil filed suit against Modine's Brazilian subsidiary seeking remediation and certain other damages as a result of the contamination. The Company is defending this suit and believes that the ultimate outcome of this matter will not be material.

Other litigation: In the normal course of business, the Company and its subsidiaries are named as defendants in various other lawsuits and enforcement proceedings by private parties, the Occupational Safety and Health Administration, the USEPA, other governmental agencies and others in which claims are asserted against the Company. At June 30, 2012 and March 31, 2012, the Company did not have an accrual related to any such matter that was not deemed probable.

Index

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

When we use the terms “Modine,” “we,” “us,” “Company,” or “our” in this report, unless the context otherwise requires, we are referring to Modine Manufacturing Company. Our fiscal year ends on March 31 and, accordingly, all references to quarters refer to our fiscal quarters. The quarter ended June 30, 2012 is the first quarter of fiscal 2013.

First Quarter Highlights: Net sales in the first quarter of fiscal 2013 decreased from the first quarter of fiscal 2012, as anticipated, driven by weakening end market demand and unfavorable foreign currency exchange rate changes. Gross margin decreased mostly due to the overall sales volume declines. Selling, general and administrative (SG&A) expenses decreased from the first quarter of fiscal 2012 to the first quarter of fiscal 2013, primarily due to lower compensation-related expense and favorable foreign currency exchange rate changes. European restructuring expense of \$4.5 million negatively impacted the first quarter of fiscal 2013 results. The European restructuring plan is aimed at aligning the cost structure of the segment with the strategic focus on the commercial vehicle market, while improving gross margin and return on average capital employed. During the first quarter of fiscal 2013, we recorded a loss from continuing operations of approximately \$1 million.

CONSOLIDATED RESULTS OF OPERATIONS – CONTINUING OPERATIONS

The results for the three months ended June 30, 2011 have been revised to reflect the correction of errors relating to that period. In addition, the first quarter of fiscal 2013 results include an out-of-period adjustment related to certain commodity hedges. See Note 2 to the Notes to Condensed Consolidated Financial Statements for further discussion. The following table presents consolidated results from continuing operations on a comparative basis for the three months ended June 30, 2012 and 2011:

| For the three months ended June 30 (dollars in millions) | 2012 | | | 2011 | | |
|---|--------|------------|---|--------|------------|---|
| | \$'s | % of sales | % | \$'s | % of sales | % |
| Net sales | 350.4 | 100.0 | % | 417.9 | 100.0 | % |
| Cost of sales | 298.8 | 85.3 | % | 348.1 | 83.3 | % |
| Gross profit | 51.6 | 14.7 | % | 69.8 | 16.7 | % |
| Selling, general and administrative expenses | 43.2 | 12.3 | % | 49.6 | 11.9 | % |
| Restructuring expense (income) | 4.5 | 1.3 | % | (0.1) | 0.0 | % |
| Income from operations | 3.9 | 1.1 | % | 20.3 | 4.8 | % |
| Interest expense | 3.0 | 0.9 | % | 3.0 | 0.7 | % |
| Other income - net | (0.1) | 0.0 | % | (0.3) | -0.1 | % |
| Earnings from continuing operations before income taxes | 1.0 | 0.3 | % | 17.6 | 4.2 | % |
| Provision for income taxes | 2.1 | 0.6 | % | 5.0 | 1.2 | % |
| (Loss) earnings from continuing operations | (1.1) | -0.3 | % | 12.6 | 3.0 | % |

First quarter net sales of \$350.4 million were 16.2 percent lower than the \$417.9 million reported in the first quarter of last year driven by decreases in overall sales volumes, along with a \$23.5 million unfavorable impact of foreign currency exchange rate changes. Automotive market sales declined 32.1 percent compared to the first quarter of fiscal 2012, as we continue the strategic exit of the automotive module business.

During the first quarter of fiscal 2013, gross profit decreased \$18.2 million from the first quarter of fiscal 2012 on the decreased sales volumes and a \$2.9 million unfavorable impact of foreign currency exchange rate changes. Gross margin decreased 200 basis points from 16.7 percent in the first quarter of fiscal 2012 to 14.7 percent in the first quarter of fiscal 2013 largely due to lower sales volume.

Index

SG&A expenses decreased \$6.4 million from the first quarter of fiscal 2012 to the first quarter of fiscal 2013, yet increased as a percentage of sales to 12.3 percent. The decrease in SG&A expenses is primarily the result of lower compensation-related expense and favorable foreign currency exchange rate changes.

Income from operations declined \$16.4 million from \$20.3 million in the first quarter of fiscal 2012 to \$3.9 million in the first quarter of fiscal 2013. The lower sales volumes, unfavorable impact of foreign currency exchange rate changes and \$4.5 million of restructuring expense related to the Original Equipment – Europe segment were the primary factors contributing to this decline in results from operations.

Restructuring expense increased \$4.6 million from the first quarter of fiscal 2012 to the first quarter of fiscal 2013 due to the initiation of the European restructuring plan in the first quarter of fiscal 2013. The restructuring expense was for severance costs related to reductions in headcount within the Original Equipment – Europe segment.

During the first quarter of fiscal 2013, we recorded a \$2.1 million provision for income taxes, which represents an effective tax rate of 205.8 percent. This compares to a provision for income taxes of \$5.0 million recorded during the first quarter of fiscal 2012, which represented a 28.6 percent effective tax rate. This increase in the effective income tax rate is primarily due to changes in the valuation allowance for certain foreign losses for which no benefit is recognized. During the first quarter of fiscal 2013, the Company continued to record a full valuation allowance against its net deferred tax assets located in the U.S. and certain foreign jurisdictions as it is more likely than not that these assets will not be realized based on historical performance. It is possible that by the end of fiscal 2013, the U.S. taxing jurisdiction will no longer be in a cumulative three year loss position thereby removing significant negative evidence concerning valuation allowance. Throughout the remainder of fiscal 2013, all positive and negative evidence will be further analyzed in order to determine the propriety of the valuation allowance against the net deferred tax assets of this jurisdiction.

Loss from continuing operations of \$1.1 million for the first quarter of fiscal 2013 represents a \$13.7 million decline from the earnings from continuing operations of \$12.6 million recorded for the first quarter of fiscal 2012. In addition, diluted loss per share from continuing operations of \$0.03 decreased \$0.30 from diluted earnings per share from continuing operations of \$0.27 for this same period last year. The decrease in sales volumes and the European restructuring expense were the primary drivers of this decrease.

SEGMENT RESULTS OF OPERATIONS

Original Equipment – Asia

| For the three months ended June 30 (dollars in millions) | 2012 | | | 2011 | | | |
|---|------|------------|-------|------|------------|-----|---|
| | \$'s | % of sales | % | \$'s | % of sales | % | |
| Net sales | 15.8 | 100.0 | % | 21.3 | 100.0 | % | |
| Cost of sales | 15.4 | 97.5 | % | 18.2 | 85.4 | % | |
| Gross profit | 0.4 | 2.6 | % | 3.1 | 14.5 | % | |
| Selling, general and administrative expenses | 2.7 | 17.1 | % | 2.3 | 10.8 | % | |
| (Loss) income from continuing operations | (2.3 |) | -14.6 | % | 0.8 | 3.8 | % |

The Original Equipment – Asia segment is still in a growth phase and is currently launching numerous programs. Net sales decreased \$5.5 million from the first quarter of fiscal 2012 to the first quarter of fiscal 2013 due to an expected decrease in automotive sales as we continue the strategic exit of the automotive module business and a decline in the off-highway vehicular market due to weak economic conditions in China. Gross margin declined from 14.5 percent during the first quarter of fiscal 2012 to 2.6 percent during the first quarter of fiscal 2013 due to the sales volume decrease. Loss from continuing operations of \$2.3 million for the first quarter of fiscal 2013 represents a \$3.1 million

decline from the income from operations of \$0.8 million for the first quarter of fiscal 2012 due to the decrease in gross profit from the lower sales volumes.

Index

Original Equipment – Europe

| For the three months ended June 30 (dollars in millions) | 2012 | | | 2011 | | |
|---|-------|------------|---|-------|------------|---|
| | \$'s | % of sales | | \$'s | % of sales | |
| Net sales | 125.4 | 100.0 | % | 166.8 | 100.0 | % |
| Cost of sales | 110.7 | 88.3 | % | 141.4 | 84.8 | % |
| Gross profit | 14.7 | 11.7 | % | 25.4 | 15.2 | % |
| Selling, general and administrative expenses | 10.4 | 8.3 | % | 13.8 | 8.3 | % |
| Restructuring expense | 4.5 | 3.6 | % | 0.0 | 0.0 | % |
| (Loss) income from continuing operations | (0.2 |) -0.2 | % | 11.6 | 7.0 | % |

Original Equipment – Europe net sales decreased \$41.4 million from the first quarter of fiscal 2012 to the first quarter of fiscal 2013, driven by a \$28.6 million decrease in premium automotive sales volumes as we continue to wind down the automotive module business, a delay in launches of commercial vehicle programs due to the slowdown in demand in the European commercial vehicle market, and a \$15.3 million unfavorable impact of foreign currency exchange rate changes. Gross profit decreased \$10.7 million from the first quarter of fiscal 2012 to the first quarter of fiscal 2013 including a \$1.8 million unfavorable impact of foreign currency exchange rate changes, and gross margin decreased 350 basis points to 11.7 percent from 15.2 percent over this same period. The decline in gross margin is primarily attributable to the lower sales volumes. SG&A expenses decreased \$3.4 million to \$10.4 million from the first quarter of fiscal 2012 to the first quarter of fiscal 2013 due to lower compensation-related expenses and a \$1.8 million favorable impact of foreign currency exchange rate changes. Loss from continuing operations of \$0.2 million during the first quarter of fiscal 2013 represents a decline of \$11.8 million from income from continuing operations of \$11.6 million during the first quarter of fiscal 2012. The (loss) income from continuing operations decline is a result of lower gross profit on lower sales volume and \$4.5 million of restructuring expense recorded in the first quarter of fiscal 2013.

During the first quarter of fiscal 2013, we began implementing a restructuring plan in the Original Equipment – Europe segment. This plan includes exiting certain non-core product lines, reducing manufacturing costs, implementing headcount reductions, and disposing of or selling certain fixed assets. We recorded restructuring expense of \$4.5 million in the quarter due to headcount reductions under this plan. The restructuring plan is designed to align the cost structure of the segment with the strategic focus on the commercial vehicle market. The long-term objectives of the restructuring plan for this segment are to achieve a gross margin in a range of 15 percent to 17 percent, annual SG&A savings of approximately \$6.0 million to \$9.0 million, operating margin in a range of 8 percent to 10 percent, and return on average capital employed of 15 percent.

Index

Original Equipment - North America

| For the three months ended June 30 (dollars in millions) | 2012 | | | 2011 | | |
|---|-------|------------|---|-------|------------|---|
| | \$'s | % of sales | | \$'s | % of sales | |
| Net sales | 153.6 | 100.0 | % | 156.6 | 100.0 | % |
| Cost of sales | 130.0 | 84.6 | % | 134.0 | 85.6 | % |
| Gross profit | 23.6 | 15.4 | % | 22.6 | 14.4 | % |
| Selling, general and administrative expenses | 9.8 | 6.4 | % | 11.9 | 7.6 | % |
| Restructuring income | 0.0 | 0.0 | % | (0.1) | -0.1 | % |
| Income from continuing operations | 13.8 | 9.0 | % | 10.8 | 6.9 | % |

Original Equipment – North America net sales decreased \$3.0 million from the first quarter of fiscal 2012 to the first quarter of fiscal 2013, primarily driven by the wind down of automotive programs, partially offset by increases in commercial vehicle and off highway sales. Gross margin increased 100 basis points to 15.4 percent during the first quarter of fiscal 2013 from 14.4 percent during the first quarter of fiscal 2012 driven primarily by lower material costs and improved plant performance. SG&A expenses decreased \$2.1 million primarily due to lower pension and warranty costs and higher prototype and testing recoveries. Income from continuing operations increased \$3.0 million from the first quarter of fiscal 2012 to the first quarter of fiscal 2013, due to higher gross profit and lower SG&A expenses.

South America

| For the three months ended June 30 (dollars in millions) | 2012 | | | 2011 | | |
|---|------|------------|---|------|------------|---|
| | \$'s | % of sales | | \$'s | % of sales | |
| Net sales | 31.2 | 100.0 | % | 47.9 | 100.0 | % |
| Cost of sales | 26.5 | 84.9 | % | 38.9 | 81.2 | % |
| Gross profit | 4.7 | 15.2 | % | 9.0 | 18.8 | % |
| Selling, general and administrative expenses | 4.0 | 12.8 | % | 5.8 | 12.1 | % |
| Income from continuing operations | 0.7 | 2.2 | % | 3.2 | 6.7 | % |

South America net sales decreased \$16.7 million from the first quarter of fiscal 2012 to the first quarter of fiscal 2013, due to the continued weakness in the commercial vehicle market following the pre-buy ahead of the January 1, 2012 change in emission standards, aftermarket sales declines due to local economic conditions and an unfavorable impact of foreign currency exchange rate changes of \$7.1 million. Gross margin decreased from 18.8 percent during the first quarter of fiscal 2012 to 15.2 percent in the first quarter of fiscal 2013, due to the lower sales volume. SG&A expenses decreased \$1.8 million from the first quarter of fiscal 2012 to the first quarter of fiscal 2013, partially due to a favorable impact of foreign currency exchange rate changes of \$0.9 million. Income from continuing operations decreased \$2.5 million, based on the lower gross profit from lower sales volume, partially offset by the decrease in SG&A expenses.

Index

Commercial Products

| For the three months ended June 30 (dollars in millions) | 2012 | | | 2011 | | |
|---|------|------------|---|------|------------|---|
| | \$'s | % of sales | % | \$'s | % of sales | % |
| Net sales | 30.1 | 100.0 | % | 34.1 | 100.0 | % |
| Cost of sales | 22.2 | 73.8 | % | 24.6 | 72.1 | % |
| Gross profit | 7.9 | 26.2 | % | 9.5 | 27.9 | % |
| Selling, general and administrative expenses | 6.9 | 22.9 | % | 6.1 | 17.9 | % |
| Income from continuing operations | 1.0 | 3.3 | % | 3.4 | 10.0 | % |

Commercial Products net sales decreased \$4.0 million from the first quarter of fiscal 2012 to the first quarter of fiscal 2013, primarily due to weak overall economic conditions in the United Kingdom, a slowdown in construction activity ahead of the Olympics in London and a \$0.4 million unfavorable impact of foreign currency exchange rate changes. Gross margin decreased 170 basis points to 26.2 percent during the first quarter of fiscal 2013 from 27.9 percent during the first quarter of fiscal 2012, from the lower sales volume. SG&A expenses increased \$0.8 million due to investment in new products and future growth. Income from continuing operations declined \$2.4 million to \$1.0 million in the first quarter of fiscal 2013 from \$3.4 million in the first quarter of fiscal 2012, due to the lower gross profit on the lower sales volume.

Liquidity and Capital Resources

Our primary sources of liquidity are cash flow from operating activities and borrowings under lines of credit provided by banks in the United States and abroad. See Note 12 of the Notes to the Condensed Consolidated Financial Statements for further information regarding our debt agreements.

Debt Covenants

Our debt agreements require us to maintain compliance with various covenants. Under its primary U.S.-based debt agreements the Company is subject to an adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) to interest expense (interest expense coverage ratio) covenant and a debt to adjusted EBITDA (leverage ratio) covenant. Adjusted EBITDA is defined as earnings from continuing operations before interest expense and provision for income taxes, adjusted to exclude unusual, non-recurring or extraordinary non-cash charges and up to \$40.0 million of cash restructuring and repositioning charges, not to exceed \$20.0 million in any fiscal year, and further adjusted to add back depreciation and amortization. Adjusted EBITDA does not represent, and should not be considered, an alternative to earnings from continuing operations as determined by generally accepted accounting principles (GAAP), and our calculation may not be comparable to similarly titled measures reported by other companies.

The Company is required to maintain the interest expense coverage ratio and leverage ratio covenants based on the following ratios:

| | Interest Expense Coverage Ratio Covenant (Not Permitted to Be Less Than): | Leverage Ratio Covenant (Not Permitted to Be Greater Than): |
|--|---|---|
| Fiscal quarter ending on or before August 12, 2014 | 3.00 to 1.0 | 3.25 to 1.0 |
| All fiscal quarters ending thereafter | 3.00 to 1.0 | 3.00 to 1.0 |

Index

Our adjusted EBITDA for the four consecutive quarters ended June 30, 2012 was \$112.7 million. The following table presents a calculation of adjusted EBITDA:

(dollars in thousands)

| | Quarter Ended September 30, 2011 | Quarter Ended December 31, 2011 | Quarter Ended March 31, 2012 | Quarter Ended June 30, 2012 | Total |
|--|--|---------------------------------------|---------------------------------------|--------------------------------------|-----------|
| Earnings (loss) from continuing operations | \$ 1,000 | \$ 8,768 | \$ 15,646 | \$(1,055) | \$24,359 |
| Net earnings attributable to noncontrolling interest | (38) | (110) | (204) | (301) | (653) |
| Consolidated interest expense | 3,297 | 2,893 | 3,303 | 3,039 | 12,532 |
| Provision for (benefit from) income taxes | 1,677 | 3,923 | (711) | 2,053 | 6,942 |
| Depreciation and amortization expense | 14,202 | 14,214 | 14,322 | 14,049 | 56,787 |
| Non-cash charges (income) (a) | 3,134 | 3,478 | (86) | 299 | 6,825 |
| Restructuring and repositioning (income) charges (b) | (52) | 499 | 671 | 4,761 | 5,879 |
| Adjusted EBITDA | \$ 23,220 | \$ 33,665 | \$ 32,941 | \$22,845 | \$112,671 |

(a) Non-cash charges are comprised of long-lived asset impairments, non-cash restructuring and repositioning charges, exchange gains or losses on inter-company loans and non-cash charges that are unusual, non-recurring or extraordinary, as follows:

(dollars in thousands)

| | Quarter Ended September 30, 2011 | Quarter Ended December 31, 2011 | Quarter Ended March 31, 2012 | Quarter Ended June 30, 2012 | Total |
|---|--|---------------------------------------|---------------------------------------|--------------------------------------|---------|
| Long-lived asset impairments | \$ - | \$ - | \$ 330 | \$- | \$330 |
| Loss on disposal of assets | - | 2,161 | - | - | 2,161 |
| Non-cash restructuring and repositioning income | - | - | (304) | - | (304) |
| Exchange losses (gains) on inter-company loans | 3,134 | 1,317 | (112) | 299 | 4,638 |
| Non-cash charges | \$ 3,134 | \$ 3,478 | \$ (86) | \$299 | \$6,825 |

(b) Restructuring and repositioning (income) charges represent cash restructuring and repositioning costs incurred in conjunction with the restructuring activities announced on or after January 31, 2008. See Note 10 of the Notes to Condensed Consolidated Financial Statements for further discussion on these activities.

Our interest expense coverage ratio for the four fiscal quarters ended June 30, 2012 was 8.77, which exceeded the minimum requirement of 3.00. The following table presents a calculation of our interest expense coverage ratio:

Four
Quarters
Ended

June 30,
2012

| | |
|-------------------------------------|-----------|
| Consolidated interest expense | \$12,532 |
| Plus: Other items (a) | 321 |
| Total consolidated interest expense | \$12,853 |
| Adjusted EBITDA | \$112,671 |
| Interest expense coverage ratio | 8.77 |

(a) Other items include costs associated with the sale of receivables.

Index

Our leverage ratio for the four fiscal quarters ended June 30, 2012 was 1.87, which was below the maximum ratio of 3.25 allowed in our primary debt agreements. The following table presents a calculation of our leverage ratio:

| | Four Quarters Ended June 30, 2012 |
|---|---|
| Debt per balance sheet | \$ 183,656 |
| Plus: Indebtedness attributed to sales of accounts receivable | 22,530 |
| Net derivative liabilities | 3,802 |
| Standby letters of credit | 835 |
| Total consolidated debt | \$ 210,823 |
| Adjusted EBITDA | \$ 112,671 |
| Leverage ratio | 1.87 |

We expect to remain in compliance with the interest expense coverage ratio and leverage ratio covenants through the remainder of fiscal 2013 and beyond.

Off-Balance Sheet Arrangements

None.

New Accounting Pronouncements

In June 2011, the 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. This amendment shall be applied retrospectively and is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. This amendment was adopted for the first quarter of fiscal 2013 in the separate condensed consolidated statements of comprehensive income (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 amendments are effective for goodwill impairment tests performed for fiscal years beginning after December 15, 2011. We are assessing this new guidance and currently do not anticipate any impact on the consolidated financial statements from the adoption of this amendment.

Contractual Obligations

There have been no material changes to our contractual obligations outside the ordinary course of business from those disclosed in our Annual Report on Form 10-K for the fiscal year ended March 31, 2012. We are currently unable to determine the impact on our contractual obligations from the ultimate timing of settlement of the gross liability for

uncertain tax positions, which was \$3.2 million as of June 30, 2012.

Outlook

For the remainder of fiscal 2013, we expect weak economic conditions in several key geographic markets, including Europe, South America, and Asia. Also, we expect approximately \$80 million of planned program reductions due to the wind down of our BMW business in Europe and Asia, and of certain automotive and military programs in North America. These factors, as well as unfavorable foreign exchange impacts, result in an outlook of a 5 to 10 percent year-over-year decrease in net sales compared with our fiscal 2012 results. We began to implement a restructuring program designed to align the cost structure and manufacturing base in Europe with a strategic focus on the commercial vehicle market. We expect the impact of the sales volume declines in fiscal 2013 will result in operating income in a range of 3.5 to 4.0 percent of sales, excluding the impact of the European restructuring. Further, we expect diluted earnings per share to be in the range of \$0.60 to \$0.70, excluding the impact of the European restructuring. This outlook is unchanged from that reported at the end of fiscal 2012.

Index

Forward-Looking Statements

This report contains statements, including information about future financial performance, accompanied by phrases such as “believes,” “estimates,” “expects,” “plans,” “anticipates,” “intends,” and other similar “forward-looking” statements, as defined in the Private Securities Litigation Reform Act of 1995. Modine’s actual results, performance or achievements may differ materially from those expressed or implied in these statements, because of certain risks and uncertainties, including, but not limited to, those described under “Risk Factors” in Item 1A. in Part I. of the Company’s Annual Report on Form 10-K for the year ended March 31, 2012. Other risks and uncertainties include, but are not limited to, the following:

Operational Risks:

- The efficient deployment of resources to meet increasing demand for the Company’s products;
- The impact of operational inefficiencies as a result of program launches and product transfers;
- Modine’s ability to maintain current programs and compete effectively for new business, including its ability to offset or otherwise address increasing pricing pressures from its competitors and price reduction pressures from its customers;
- Costs and other effects of the remediation of environmental contamination;
- Modine’s ability to obtain profitable business at its facilities in the low cost countries of China, Hungary, Mexico and India and to meet quality standards with products produced at these facilities;
- Modine’s ability to successfully implement restructuring plans and drive cost reductions and increased profitability and return on assets as a result;
- Unanticipated delays or modifications initiated by major customers with respect to product launches, product applications or requirements;
- Unanticipated product or manufacturing difficulties, including unanticipated launch challenges and warranty claims;
- The possibility that other or more significant issues may be identified in connection with the Company’s remediation of its value added tax (VAT) application errors in the Original Equipment – Europe segment;
- Increasingly complex and restrictive government regulations in various jurisdictions in which we operate;
- Unanticipated problems with suppliers meeting Modine’s time, quality and price demands;
- Work stoppages or interference at Modine’s facilities or those of its major customers and/or suppliers; and
- Costs and other effects of unanticipated litigation or claims, and the increasing pressures associated with rising healthcare and insurance costs.

Index

Market Risks:

- Economic, social and political conditions, changes and challenges in the markets where Modine operates and competes, including currency exchange rate fluctuations (particularly the value of the euro and Brazilian real relative to the U.S. dollar), tariffs, inflation, changes in interest rates, recession, restrictions associated with importing and exporting and foreign ownership, and, in particular, the recent slowing of certain markets in China and Brazil and the economic uncertainties in the European Union;
- The impact on Modine of increases in commodity prices, particularly Modine's exposure to the changing prices of aluminum, copper, steel and stainless steel (nickel);
- Modine's ability or inability to successfully hedge its commodity risk and/or pass increasing commodity prices on to customers as well as the inherent lag in timing of such pass-through pricing; and
- The impact of environmental laws and regulations on Modine's business and the business of Modine's customers, including Modine's ability to take advantage of opportunities to supply alternative new technologies to meet environmental emissions standards.

Financial Risks:

- Modine's ability to fund its liquidity requirements and meet its long-term commitments in the event of any renewed disruption in the credit markets; and
- Modine's ability to realize future tax benefits.

In addition to the risks set forth above, Modine is subject to other risks and uncertainties identified by the Company in public filings with the U.S. Securities and Exchange Commission. Modine does not assume any obligation to update any forward-looking statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The Company's market risk disclosures have not materially changed since the 2012 Form 10-K was filed. The Company's quantitative and qualitative disclosures about market risk are incorporated by reference from Part II, Item 7A of the Company's Annual Report on Form 10-K for the year ended March 31, 2012.

Item 4. Controls and Procedures.

Evaluation Regarding Disclosure Controls and Procedures

As of the end of the period covered by this quarterly report on Form 10-Q, the Company carried out an evaluation, at the direction of the General Counsel and under the supervision of the Company's President and Chief Executive Officer and Vice President, Finance and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures as defined in Securities Exchange Act Rules 13a-15(e) and 15d-15(e), with the participation of the Company's management. Based upon that evaluation and the identification of a material weakness in the Company's internal control over financial reporting as described in Part II, Item 9A of the Company's fiscal 2012 Form 10-K, the President and Chief Executive Officer and Vice President, Finance and Chief Financial Officer concluded that the design and operation of the Company's disclosure controls and procedures are not effective as of June 30, 2012.

As more fully set forth in Part II, Item 9A, "Controls and Procedures," of the fiscal 2012 Form 10-K, management concluded that the Company's internal control over financial reporting was not effective as of March 31, 2012 because of the existence at that date of a material weakness in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements would not be prevented or detected on a timely basis.

Index

The Company is developing and implementing a plan, including additional control procedures, to remediate the material weakness. These remediation efforts, outlined below, are intended both to address the identified material weakness and to enhance the overall financial control environment:

Misapplication of value added tax (VAT) deficiency in the Original Equipment – Europe segment. The following remediation plans are being implemented to address the value added tax deficiency:

- Appoint a global process owner who is responsible for overseeing the Company’s compliance with VAT regulations, including directing the establishment of internal VAT policies and procedures;
- Develop policies and procedures necessary to properly comply with the VAT regulations, with specific focus on cross-border transactions that could impact multiple taxing jurisdictions;
- Develop a training module and train a cross-functional team of personnel in finance, sales, purchasing, and other applicable Company departments on the newly developed VAT policies;
- Improve existing internal controls over VAT to include specific consideration of tooling sales and fixed asset transfers prior to invoice issuance in accordance with applicable VAT regulations;
- Implement monitoring controls to evaluate compliance with the internal policies and applicable VAT regulations;
- Engage additional resources (both internal and external) with technical expertise in VAT regulations, who will assist with the development of related internal policies and procedures, execute the transactions in accordance with internal policies and VAT regulations, and/or monitor compliance with internal policies and VAT regulations; and
- Implement system changes that will identify the country of origin for all transactions to aid in the application of VAT for the appropriate taxing jurisdiction.

Changes In Internal Control Over Financial Reporting

During the first quarter of fiscal 2013 there was no change in the Company’s internal control over financial reporting that materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II. OTHER INFORMATION

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

ISSUER OF PURCHASES OF EQUITY SECURITIES

The following describes the Company’s purchases of Common Stock during the first quarter of fiscal 2013:

| Period | (a) Total Number of Shares (or Units) Purchased | (b) Average Price Paid Per Share (or Unit) | (c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | (d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or |
|--------|--|--|---|---|
| | | | | |

| | | | | | Programs |
|--------------------------|--------|-----|---------|---|----------|
| April 1 – April 30, 2012 | — | — | — | — | — |
| May 1 – May 31, 2012 | — | — | — | — | — |
| June 1 – June 30, 2012 | 17,870 | (1) | \$ 6.24 | — | — |
| Total | 17,870 | (1) | \$ 6.24 | — | — |

(1) Consists of shares delivered back to the Company by employees to satisfy tax withholding obligations that arise upon the vesting of the stock awards. These shares are held as treasury shares.

Index

Item 6. Exhibits.

(a) Exhibits:

| Exhibit No. | Description | Incorporated Herein By Referenced To | Filed Herewith |
|-------------|---|--|----------------|
| 3.1 | Bylaws, as amended | Exhibit 3.1 to Registrant's Current Report on Form 8-K dated July 19, 2012 | |
| 4.1 | Third Amendment to Amended and Restated Credit Agreement (the "Third Credit Amendment") dated as of August of 6, 2012, with JPMorgan Chase Bank, N.A. ("JPMorgan"), as Administrative Agent, LC Issuer, Swing Line Lender and as a Lender, and U.S. Bank, N.A. and Wells Fargo Bank, N.A. as Syndication Agents and as Lenders, BMO Harris Bank N.A., formerly known as M&I Marshall & Ilsley Bank, as Documentation Agent and as Lender and Associated Bank, N.A. and Comerica Bank (collectively, the "Lenders"). The Third Amendment amends Modine's existing four-year, \$145 million multi-currency revolving credit facility dated as of August 12, 2010 (the "Original Credit Agreement"). | Exhibit 4.1 to Registrant's Current Report on Form 8-K dated August 6, 2012 ("August 6, 2012 8-K") | |
| 4.2 | Second Ammendment to Note Purchase and Private Shelf Agreement (the "Third Note Purchase Amendment") dated as of August 6, 2012, with Prudential Investment Management, Inc., The Prudential Insurance Company of America and Prudential Retirement Insurance and Annuity Company (collectively the "Noteholders") pursuant to which the Compnay and the Note Holders amended their Note Purchase and Private Shelf Agreement dated August 12, 2010 (the "Original Note Purchase Agreement"). | Exhibit 4.2 to August 6, 2012 8-K | |
| <u>10.1</u> | Employment Agreement, dated December 19, 2011, between Modine Holding GmbH and Holger Schwab, effective as of July 1, 2012 | | X |
| <u>31.1</u> | Rule 13a-14(a)/15d-14(a) Certification of Thomas A. Burke, President and Chief Executive Officer. | | X |
| <u>31.2</u> | Rule 13a-14(a)/15d-14(a) Certification of Michael B. Lucareli, Vice President, Finance and Chief Financial Officer. | | X |
| <u>32.1</u> | Section 1350 Certification of Thomas A. Burke, President and Chief Executive Officer. | | X |

| | | |
|-------------|---|---|
| <u>32.2</u> | Section 1350 Certification of Michael B. Lucareli, Vice President, Finance and Chief Financial Officer. | X |
| 101.INS | Instance Document | X |
| 101.SCH | XBRL Taxonomy Extention Schema Document | X |
| 101.CAL | XBRL Taxonomy Extention Calculation Linkbase Document | X |
| 101.DEF | XBRL Taxonomy Extention Definition Linkbase Document | X |
| 101.LAB | XBRL Taxonomy Extention Label Linkbase Document | X |
| 101.PRE | XBRL Taxonomy Extention Presentation Linkbase Document | X |

Index

SIGNATURE

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

MODINE MANUFACTURING COMPANY
(Registrant)

By: /s/ Michael B. Lucareli
Michael B. Lucareli, Vice President, Finance and Chief Financial Officer*

Date: August 7, 2012

* Executing as both the principal financial officer and a duly authorized officer of the Company