HEIDRICK & STRUGGLES INTERNATIONAL INC
Form DEF 14A
April 26, 2017
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SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material under Rule 14a-12

Heidrick & Struggles International, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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NOTICE OF

ANNUAL MEETING OF STOCKHOLDERS

AND

PROXY STATEMENT

DATE:	May 25, 2017
TIME:	9:00 a.m. Eastern Daylight Time
PLACE:	Law Offices of Simpson Thacher & Bartlett LLP
	425 Lexington Avenue
	New York, NY 10017-3954

April 26, 2017

I am pleased to invite you to attend the 2017 Annual Meeting of Stockholders of Heidrick & Struggles International, Inc. Your vote is very important to us. Whether or not you plan to attend the meeting in person, we hope that your shares are represented and voted at the Annual Meeting.

Earlier this month, we announced that Chief Executive Officer Tracy Wolstencroft would take a three-month medical leave of absence. We wish him a swift recovery, and we look forward to his return.

The Board of Directors has asked me to serve as acting Chief Executive Officer and lead our firm s Executive Committee in Tracy s absence. I will also continue in my role leading Heidrick & Struggles global Executive Search business as Managing Partner Executive Search. As noted in our announcement earlier this month, I have previously served as head of Global Practices and led the firm s Leadership Consulting business. We will continue to accelerate our strategy of delivering premium leadership advisory solutions and insights to top organizations globally. We have a strong team in place to continue our positive momentum.

I want to take this opportunity to thank three of our long-serving Board members who will not be standing for re-election this year John Fazio, Jill Kanin-Lovers, and Paul Unruh. We acknowledge and appreciate that each of them provided more than 12 years of outstanding service and contributions to Heidrick & Struggles Board.

Thank you for your investment in and continued support of our company. We are optimistic about our future and proud to be part of an organization that has talented and dedicated people thoroughly committed to the success of our clients, our company and your investment. We look forward to welcoming you to our Annual Meeting.

Sincerely,

Krishnan Rajagopalan

Acting President and Chief Executive Officer

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HEIDRICK & STRUGGLES INTERNATIONAL, INC.

233 South Wacker Drive, Suite 4900

Chicago, Illinois 60606-6303

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

Time and Date:	May 25, 2017 at 9:00 a.m. Eastern Daylight Time
Place:	Law Offices of Simpson Thacher & Bartlett LLP located at 425 Lexington Avenue, New York, NY 10017-3954
Items of Business:	Election to our Board of Directors of the seven director nominees named in the attached Proxy Statement.
	Ratification of the appointment of KPMG LLP as our independent registered public accounting firm for the 2017 fiscal year.
	An advisory vote to approve executive compensation (say on pay).
	An advisory vote on the frequency of future advisory votes on executive compensation.
	Transaction of such other business as may properly come before our 2017 Annual Meeting of Stockholders.
Record Date:	The record date for the determination of the stockholders entitled to vote at our Annual Meeting, or any adjournments or postponements thereof, was the close of business on March 31, 2017.
How you can Vote:	VIA THE INTERNET Visit the website listed on your Proxy Card.
	BY TELEPHONE Call the telephone number listed on your Proxy Card.
	BY MAIL Sign, date and return your Proxy Card in the enclosed envelope.
	IN PERSON By attending the meeting.

If you plan to attend the Annual Meeting, please bring proof of your ownership of Heidrick & Struggles common stock as of March 31, 2017 and valid picture identification.

Enclosed please find our Proxy Statement, Proxy Card and a copy of our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Sincerely,

Stephen W. Beard

Secretary

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to Be Held on May 25, 2017

The Proxy Statement and the Company Annual Report are available at: http://www.heidrick.com/proxy.

YOUR VOTE IS IMPORTANT. Whether or not you attend the meeting, we encourage you to consider the matters presented in the Proxy Statement and vote as soon as possible through any of the methods referenced above.

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PROXY SUMMARY

Annual Meeting of Stockholders

When: May 25, 2017, 9:00 a.m., Eastern Daylight Time

Where: Simpson Thacher & Bartlett LLP, 425 Lexington Avenue, New York, New York

You are entitled to vote at the meeting if you were a holder of record of our common stock at the close of business on March 31, 2017. Please see page 51 for instructions on how to vote your shares. If you wish to attend the meeting in person, you will be required to present valid picture identification, such as a driver s license or passport, along with proof of stock ownership.

Voting Recommendations of the Board

Item	Description	Board Recommendation	Page
1	**Election of Directors** Elizabeth L. Axelrod Lyle Logan Richard I. Beattie Willem Mesdag Clare M. Chapman Tracy R. Wolstencroft Gary E. Knell	For Each Nominee	42
2	**Ratification of Independent Public Accounting Firm**	For	45
3	**Advisory Vote to approve Executive Compensation**	For	46
4	**Advisory Vote on the frequency of future advisory votes on executive compensation**	For annual vote	46

Performance Highlights

- Consolidated Net Revenue of $582.3 million, a 9.6% increase over 2015
- Operating Income of $35.2 million, a 3.4% increase over 2015
- Paid a quarterly dividend of $0.13 per share during each quarter of fiscal 2016 as a way of returning value to stockholders
- Confirmed 7% more executive searches in 2016
- Acquired three companies: two that bolstered our Leadership Consulting capabilities; one in Executive Search that elevated our brand in Europe, specifically the United Kingdom

Key Features of Our Executive Compensation Program

Pay-for-performance philosophy (p. 14)

Approximately 76.5% of target CEO pay in 2016 was variable and tied to performance (p.21)

Mandatory deferral of 15% of annual incentive awards for NEOs (p.23)

Directors and executive officers must meet stock ownership requirements (p.26)

No pledging or hedging of Heidrick stock by officers or directors (p.16)

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CORPORATE GOVERNANCE AND BOARD MATTERS

Our Board is elected by the stockholders to oversee the business and affairs of the Company. The Board plays a critical role in planning the Company s strategy and overseeing the long-term success of the Company. Our Board seeks to maintain an effective and sound governance structure that appropriately balances and aligns the interests of the Company s most important stakeholders, including our stockholders, clients and employees. As a result, the Company maintains a variety of corporate governance practices that the Board believes promote sound governance and the operation of the Company in an atmosphere of candor and collaboration with its stakeholders.

Our stockholders can access our key governance documents including our Corporate Governance Guidelines, Code of Business Conduct and Ethics and charters of each committee of the Board on our website at www.heidrick.com.

Highlights of our corporate governance program and practices are noted below:

Board Structure

- All of our Directors are independent, except for the Chief Executive Officer
- Independent Chair of the Board
- Independent Audit and Finance, Human Resources and Compensation, and Nominating and Board Governance Committees
- Annual Board and Committee Self-Evaluations

Stockholder Rights

- Annual election of directors
- Majority voting for directors in uncontested elections
- No poison pill

Changes to our Board

For the past several years, our Board has consisted of between nine and eleven members. As part of its annual self-evaluation process, the Board from time to time has considered the appropriate size of the Board and the number of members that best serve the Board s role of overseeing the business and affairs of the Company. In the first quarter of 2017, the current members of the Board considered whether a smaller Board would allow the Board to react and respond more quickly to changes and challenges facing the Company s business. After careful deliberation, the Board determined to reduce its size from the current ten members to seven, effective after the conclusion of this year s Annual Meeting. In connection with its determination, the Board will amend the Bylaws to reduce the Board s size. After many years of outstanding service and contributions to our Board, Ms. Kanin-Lovers and Messrs. Fazio and Unruh will not be standing for re-election at this year s Annual Meeting. The Company and management acknowledge and appreciate the long-term directors who are stepping down and their contributions over the years. The Board carefully considered the skills, expertise, and diversity of the directors who will be standing for re-election at the Annual Meeting and concluded that the mix of skills and experience will allow them to provide continued outstanding service to the Board, the Company, and its stockholders.

Our Board believes that regular refreshment of the Board is critical for us to gain fresh perspectives and new ideas, at the same time that we continue to deliver on our purpose of serving our clients. We also believe that Board succession planning is critical to the Company s success. The Nominating and Board Governance Committee continues to focus on maintaining a balance between directors of short, medium, and long tenure.

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The Board of Directors

The current members of the Board of Directors are:

Elizabeth L. Axelrod	Gary E. Knell
Richard I. Beattie	Lyle Logan
Clare M. Chapman	Willem Mesdag
John A. Fazio	V. Paul Unruh
Jill Kanin-Lovers	Tracy R. Wolstencroft

The Board met seven times during 2016. Each current director attended at least 75 percent of all of the meetings of the Board and Committee on which he or she served. All of the Company s directors who were directors at that time attended the 2016 Annual Meeting of Stockholders in person.

Board Leadership and Structure

The Board does not have a fixed policy regarding the separation of the offices of Chairman of the Board (Chairman) and Chief Executive Officer and believes that it should maintain the flexibility to select the Chairman and its Board leadership structure, from time to time, based on the criteria that it deems to be in the best interests of the Company and its stockholders.

At this time, the position of Chairman is held by Richard I. Beattie and the position of Acting President and Chief Executive Officer is held by Krishnan Rajagopalan. Mr. Rajagopalan, Executive Vice President and Managing Partner Executive Search has been serving as the acting Chief Executive Officer during Mr. Tracy Wolstencroft s three-month medical leave of absence. The Board has determined that, under current circumstances, the separation of the offices of Chairman and Chief Executive Officer will enhance oversight of management and Board function. This separation is designed to allow the Chief Executive Officer the ability to focus on his responsibilities of running the Company, enhancing shareholder value and expanding and strengthening the Company s business. Concurrently, Mr. Beattie, as Chairman can focus on leadership for the Board as it provides advice to and independent oversight of management. The Chairman also is responsible for setting the agendas and presiding over meetings of the Board (including executive sessions of the independent directors) and providing feedback and counsel to the Chief Executive Officer. The Board currently believes that this leadership structure is in the best interests of the Company s stockholders at this time.

Board Committees

Our Board has three standing committees, the Audit and Finance Committee, Human Resources and Compensation Committee and Nominating and Board Governance Committee. The Board has determined that each of the members of our standing committees is independent under the provisions of our Corporate Governance Guidelines, Director Independence Standards, and the Nasdaq Stock Market listing standards (Nasdaq Rules). It is anticipated that after the Annual Meeting, Mr. Mesdag will serve as Chair of the Audit and Finance Committee; Ms. Chapman will serve as Chair of the Human Resources and Compensation Committee; and Mr. Logan will serve as the Chair of the Nominating and Board Governance Committee.

Audit and Finance Committee

John A. Fazio (Chair)	Willem Mesdag
Jill Kanin-Lovers	V. Paul Unruh
Lyle Logan	

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The Audit and Finance Committee met eight times during 2016. Among other things, the Audit and Finance Committee appoints an independent registered public accounting firm annually to audit the Company s books and records; meets with and reviews the activities and the reports of the Company s independent registered public accounting firm; and reports the results of the review to the Board. The Audit and Finance Committee also periodically reviews the adequacy of the Company s internal controls, pre-approves all services to be provided by the Company s independent registered public accounting firm, oversees management s risk policies and discusses the Company s key risk exposures with management. These and other aspects of the Audit and Finance Committee s authority are more particularly described in the Audit and Finance Committee Charter.

Each member of the Audit and Finance Committee is able to read and understand fundamental financial statements (as required under Nasdaq Rules) and meets the heightened standards of independence for audit committee members pursuant to the rules and regulations of the SEC (SEC Rules). Messrs. Fazio, Logan, Mesdag, and Unruh each qualify as an audit committee financial expert within the meaning of the SEC Rules and are presumed to be financially sophisticated for purposes of the Nasdaq Rules.

Nominating and Board Governance Committee

Richard I. Beattie	Gary E. Knell (Chair)
Clare M. Chapman	Lyle Logan

The Nominating and Board Governance Committee makes recommendations to the Board concerning candidates for nomination to the Board, the membership on committees of the Board, compensation of the Board and other corporate governance matters. The Nominating and Board Governance Committee also reviews and approves related party transactions. The Committee met four times in 2016. All of the members of the Nominating and Board Governance Committee are independent within the meaning of the listing standards of Nasdaq and the Company s Corporate Governance Guidelines.

Human Resources and Compensation Committee

Elizabeth L. Axelrod	Jill Kanin-Lovers (Chair)
Clare M. Chapman	V. Paul Unruh

The Human Resources and Compensation Committee reviews and approves employment and compensation matters involving the Company s executive officers, as well as those of other key employees that the Human Resources and Compensation Committee deems material. Specifically, the Human Resources and Compensation Committee s responsibilities include:

- Reviewing and approving the Chief Executive Officer s compensation and evaluating the Chief Executive Officer s performance against pre-established metrics;
- Reviewing and approving individual executive officer compensation recommendations made by the Chief Executive Officer for his direct reports;
- Reviewing and approving terms of employment, severance or other compensation-related agreements to be entered into, or amended, for any executive officer or key employee;
- Adopting, administering and approving equity-related incentives and awards under the Company s equity compensation plans; and

Reviewing the Company s incentive and employee benefit and retirement plans, including any equity compensation plans and recommending to the Board (and stockholders where necessary) any amendments or material changes to the plans.

Outside advisors and the Company s Human Resources Department support the Human Resources and Compensation Committee in its duties and the Committee may delegate authority to fulfill certain administrative duties regarding the compensation programs to members of senior management as it deems appropriate. The Human Resources and Compensation Committee has authority under its charter to retain advisors, consultants and agents as it deems necessary to assist in the fulfillment of its responsibilities. In 2016, the Committee met six times.

Each member of the Human Resources and Compensation Committee meets the qualifications for compensation committee members pursuant to the Nasdaq Rules and is a non-employee director within the meaning of SEC Rule 16b-3, and an outside director within the meaning of Section 162(m) of the Internal Revenue Code.

Compensation Committee Interlocks and Insider Participation

No member of the Human Resources and Compensation Committee was, during 2016, an officer or employee of the Company, was formerly an officer of the Company, or had any relationship requiring disclosure by the Company as a related party transaction under Item 404 of Regulation S-K. During 2016, none of the Company s executive officers served on the board of directors or the compensation committee of any other entity, any officers of which served either on the Company s board of directors or its Human Resources and Compensation Committee.

The Board s Role in Risk Oversight

Risk is inherent with every business and management is responsible for the day-to-day management of the risks the Company faces, while the Board, as a whole and through its committees, has responsibility for the oversight of risk management. In its risk oversight role, the Board has the responsibility to satisfy itself that the risk management processes and policies designed and implemented by management are adequate and functioning as designed. The Board performs its risk oversight function primarily through its committees as well as reports directly from management.

Enterprise Risk. Our management has implemented an Enterprise Risk Management assessment process to identify, assess, prioritize and manage a broad set of risks across our business and operations. The assessment process includes a thorough survey of senior leaders and a select group of directors to identify the material risks to the Company. Specific emphasis is placed on identifying those risks that could have the highest impact to our Company and operations, and the highest likelihood of occurrence for those risks. Our survey process also takes into account input from our internal audit function that reports regularly to our Audit and Finance Committee. Our Audit and Finance Committee and Board each received an annual report containing an overview of top risks identified by the survey, along with plans for managing and, where appropriate, mitigating them. The material elements of oversight of the risks identified by the survey are delegated to the committees of the Board, and all risks are reviewed within those committees and discussed with the entire Board in the ordinary course.

Compensation Risk. The Company periodically completes an inventory of its executive and non-executive compensation programs globally, with particular emphasis on incentive compensation plans and programs. Based on this inventory, the Company evaluates the primary components of its compensation plans and practices to identify whether those components, either alone or in combination, properly balance compensation opportunities and risk. Based on the Company s periodic assessments, the Company has determined that none of its compensation policies and practices is reasonably likely to have a material adverse effect on the Company. The Company believes that the Company s overall cash versus equity pay mix, variable versus fixed pay elements, balance of shorter-term versus longer-term performance focus and revenue-focused versus profit-focused performance measures, stock ownership guidelines, and use of claw-backs work together to provide its employees and executives with incentives to deliver outstanding performance to build long-term stockholder value, while taking only necessary and prudent risks.

Director Nomination Process

In evaluating, identifying and recommending nominees for the Board, our Nominating and Board Governance Committee considers, among other qualifications that it deems appropriate, the following:

- The potential candidate s principal employment, occupation or association involving an active leadership role.
- The potential candidate s expertise or experience relevant to the Company s business that would not be otherwise readily available to the Board.
- The potential candidate s ability to bring diversity to the Board, including whether the potential candidate brings complementary skills and viewpoints.
- The potential candidate s time commitments, particularly the number of other boards on which the potential candidate may serve.
- The potential candidate s independence and absence of conflicts of interest as determined by our Director Independence Standards, the Nasdaq Rules and other applicable laws, regulations and rules.
- The potential candidate s financial literacy and expertise.
- The potential candidate s personal qualities including strength of character, maturity of thought process and judgment, values and ability to work collegially.

We do not set specific, minimum qualifications that nominees must meet in order to be recommended to the Board. Each nominee is evaluated based on his or her individual merits, taking into account the needs of the Company and the composition of the Board.

The Nominating and Board Governance Committee discusses and evaluates possible candidates in detail and the Company s consultants are sometimes employed to help identify potential candidates. When determining whether to recommend a director for re-election, the Nominating and Board Governance Committee considers the director s past participation in and contributions to Board activities.

Board Diversity

Our Board believes that diversity is an important attribute of a well-functioning board. The Nominating and Board Governance Committee considers diversity (among other factors it deems appropriate) in light of the overall needs and composition of the Board and the best interests of the Company and its stockholders. In considering nominee diversity, the Board evaluates skills, experience, and background that would complement the existing Board.

Over time, the Board has nominated and currently consists of directors that generally reflect the diverse and expansive global footprint of the Company s business operations, including a wide range of experiences, as well as diversity of age, gender, race and national origin. Diversity is an important factor that the Nominating and Board Governance Committee will continue to consider when evaluating candidates for nomination to the full Board.

Director Independence

Our Board determines the independence of all non-employee directors in accordance with the independence requirements of our Corporate Governance Guidelines, Director Independence Standards, and the Nasdaq Rules. Accordingly, each year the Board affirmatively determines whether each non-employee director has a relationship that would interfere with the exercise of independent judgment in carrying out the

responsibilities of a director. Annually, each non-employee director is required to complete a questionnaire that provides information about relationships that might affect the determination of independence. Management then provides

the Board with relevant facts and circumstances of any relationship bearing on the independence of a director or nominee that are outside the relationships prohibited by Nasdaq Rules.

Based on the review and recommendation by the Nominating and Board Governance Committee, the Board analyzed the independence of each of the Company s directors who served at any time during fiscal 2016 and each of the Company s current director nominees, and determined that the following directors meet the standards of independence under our Corporate Governance Guidelines and the Nasdaq Rules: Mark Foster (who resigned effective November 1, 2016), John A. Fazio, Jill-Kanin Lovers, and V. Paul Unruh (who are not standing for election at the 2017 Annual Meeting), Elizabeth L. Axelrod, Richard I. Beattie, Clare M. Chapman, Gary E. Knell, Jr., Lyle Logan, and Willem Mesdag. Our Board also determined that Tracy R. Wolstencroft, the Company s current President and Chief Executive Officer is not independent under the standards of our Corporate Governance Guidelines and Nasdaq Rules.

As highly accomplished individuals in their respective industries, fields and communities, our directors are affiliated with numerous corporations, educational institutions, and charities, as well as civic organizations and professional associations, many of which have business, charitable or other relationships with each other or our Company. The Board considered each of these relationships in light of our independence standards and determined that none of these relationships conflict with the interests of the Company, or would impair any director s independence or judgment.

In making this determination the Board considered material relationships among the directors and the Company, including the circumstances resulting from the concurrent service to the National Geographic Society (Society) of the Company s President and Chief Executive Officer, Tracy R. Wolstencroft, and Chair of the Board s Nominating and Board Governance Committee, Gary E. Knell. Mr. Knell serves on the board of trustees of the Society, and he became president and CEO of the Society on January 6, 2014. Mr. Wolstencroft also serves on the board of trustees of the Society, but does not serve, and has not served, on the compensation committee of the Society. The Board determined that these circumstances do not present either a conflict of interest or a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director on the part of either Mr. Wolstencroft or Mr. Knell.

Certain Relationships and Related Party Transactions

Various Company policies and procedures, including the Code of Business Conduct & Ethics (Code) (applicable to all executive officers and non-employee directors) and annual questionnaires completed by all Company directors and executive officers, require disclosure of transactions or relationships that may constitute conflicts of interest or otherwise require disclosure under applicable SEC and Nasdaq Rules. Pursuant to its charter, the Nominating and Board Governance Committee of the Board in consultation with the Audit and Finance Committee reviews and approves related party transactions. Although the Company s processes vary with the particular transaction or relationship, when such a transaction or relationship is identified, the Nominating and Board Governance Committee evaluates the transaction or relationship and approves or ratifies it (without the vote of any interested person) only if it is judged to be fair and in the best interests of the Company. In addition, it is the practice of the Nominating and Board Governance Committee, although not part of a written policy, to review each transaction specifically disclosed as a potential related party transaction in connection with its review of the proxy statement for the Annual Meeting of Stockholders, to the extent any such transaction has not previously been reviewed, applying the same standard.

There were no related party transactions in 2016 that required approval under the Company s policies and procedures or the rules and regulations of the SEC.

Code of Business Conduct

As discussed above, the Board has adopted a Code of Business Conduct & Ethics that applies to all of the Company s employees, officers and directors, as well as independent contractors working on behalf of the

Company. Our Code meets the requirements of a code of ethics as defined by Item 406 of Regulation S-K, and also meets the requirements of a code of business conduct and ethics under Nasdaq Rules. All employees generally are required to certify that they have reviewed and are familiar with the Code annually.

Ethics Line

The Board also has established the Heidrick & Struggles EthicsLine (EthicsLine), a service that provides a mechanism for reporting to the Company alleged breaches of any legal or regulatory obligations, financial fraud, including accounting, internal controls and auditing, or any alleged violation of the Code or corporate policies. The EthicsLine is a telephonic reporting hotline (toll free in the U.S.) available to all Company employees, contractors, vendors, stockholders, clients or other interested parties. The EthicsLine is administered by a third party that is separate and independent of Heidrick and specializes in running whistleblower hotline programs for companies throughout the U.S. Calls are not recorded and callers may remain anonymous. The EthicsLine is operational 24 hours a day, seven days a week and may be reached at ***1-800-735-0589*** or, if calling from outside the United States, at ***1-704-731-7242.***

Stockholder Communications

Communication with the Board. Stockholders may communicate directly with the Board. All communications should be directed to: Secretary, Heidrick & Struggles International, Inc., 233 South Wacker Drive, Suite 4900, Chicago, Illinois 60606-6303. Any such communication should prominently indicate on the outside of the envelope that it is intended for the Board or a particular director. All appropriate communication intended for the Board or a particular director and received by the Secretary will be forwarded to a specified party following its clearance through normal security procedures.

Stockholder Proposals 2018 Annual Meeting

If you wish to submit a proposal for inclusion in our 2018 proxy statement, you must follow the procedures set forth in Rule 14a-8 of the Securities Exchange Act of 1934. To be eligible for inclusion, we must receive your proposal at the address below no later than Wednesday, December 27, 2017.

Also, under Heidrick s Bylaws, other proposals and director nominations by stockholders that are not included in the Proxy Statement may be eligible for presentation at the meeting only if they are received by the Company in the form of a written notice, directed to the attention of Heidrick s Secretary at the address below, no earlier than February 26, 2018 and no later than March 26, 2018. The notice must contain the information required by the Bylaws and must otherwise comply with the requirements specified in the Bylaws.

Where to Send All Proposals and Nominations:

Corporate Secretary

Heidrick & Struggles International, Inc.

233 S. Wacker Drive, Suite 4900

Chicago, Illinois 60606-6303

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DIRECTOR COMPENSATION

We provide compensation to non-employee directors that is competitive with other similarly sized publicly traded companies in order to attract and retain qualified directors. The compensation of directors, including all restricted stock units, for fiscal 2016 is set forth in the table below.

Name	Fees Earned or Paid in Cash ($)(1)	Stock Awards ($)(2)	Total ($)
Elizabeth Axelrod	$ 56,573(3)	$ 112,495(13)	$ 169,068
Richard I. Beattie	$ 137,500(4)	$ 112,495(14)	$ 249,995
Clare Chapman	$ 53,341(5)	$ 112,495(14)	$ 165,836
John A. Fazio	$ 102,500(6)	$ 112,495(14)	$ 214,995
Mark Foster	$ 55,417(7)	$ 112,495(13)	$ 167,912
Jill Kanin-Lovers	$ 102,500(8)	$ 112,495(13)	$ 214,995
Gary E. Knell	$ 72,500(9)	$ 112,495(14)	$ 184,995
Lyle Logan	$ 72,917(10)	$ 112,495(13)	$ 185,412
Willem Mesdag	$ 65,625(11)	$ 112,495(14)	$ 178,120
V. Paul Unruh	$ 72,500(12)	$ 112,495(13)	$ 184,995

(1) Reflects cash compensation earned by each director in 2016 and includes any amounts deferred at the director s election under our Non-Employee Directors Voluntary Deferred Compensation Plan (VDC), described below.

(2) Reflects the grant date fair value for financial reporting purposes in accordance with ASC Topic 718 for Common Stock or RSUs granted under the 2012 GlobalShare Plan which is described on page 35.

(3) Ms. Axelrod was appointed to the Board on February 5, 2016. Her cash compensation was prorated from that date.

(4) Mr. Beattie earned an additional cash retainer of $75,000 as our Non-Executive Chair of the Board.

(5) Ms. Chapman was appointed to the Board on February 23, 2016. Her cash compensation was prorated from that date.

(6) Mr. Fazio earned an additional cash retainer of $30,000 as Chair of the Audit and Finance Committee and $10,000 as a member of that Committee.

(7) Mr. Foster earned an additional cash retainer of $3,333 as Chair of the ad hoc Strategy Committee. He was also a member of the Human Resources and Compensation Committee. Mr. Foster resigned from the Board effective November 1, 2016. His cash compensation was prorated through that date.

(8) Ms. Kanin-Lovers earned an additional cash retainer of $30,000 as Chair of the Human Resources and Compensation Committee. She also earned an additional cash retainer of $10,000 as a member of the Audit and Finance Committee.

(9) Mr. Knell earned an additional cash retainer of $10,000 as Chair of the Nominating and Board Governance Committee. All of Mr. Knell s fees were deferred pursuant to our VDC Plan.

(10) Mr. Logan earned an additional cash retainer of $10,000 as a member of the Audit and Finance Committee. He was also paid $417 for his service to the Audit and Finance Committee in the fourth quarter of 2015, which was inadvertently not paid in 2015.

(11) Mr. Mesdag was appointed to the Board on February 5, 2016. His cash compensation was prorated from that date. Mr. Mesdag earned an additional cash retainer of $9,052, the prorated portion of his cash retainer as a member of the Audit and Finance Committee.

(12) Mr. Unruh earned an additional cash retainer of $10,000 as a member of the Audit and Finance Committee.

(13) The amount reflects an award of stock granted on May 26, 2016 (the date of the 2016 Annual Meeting of Stockholders). The award was equal to the annual equity retainer of $112,500 divided by the closing stock price on the date of grant of $18.28 rounded to nearest whole share, resulting in 6,154 shares.

(14) Reflects an award of RSUs granted on May 26, 2016 with the same value as the award of stock described in footnote 13.

Directors who are also employees or officers do not receive any additional compensation for their service on the Board. The non-employee director compensation program provides for an annual equity award of restricted stock units with a value of approximately $112,500 to be awarded on the date of each annual meeting of stockholders. The number of units subject to such award is determined by dividing $112,500 by the closing price of the Company s common stock on the date of such annual meeting of stockholders (rounded to the nearest whole share). Non-employee directors may elect to receive payment of the annual equity retainer in shares of Common Stock in lieu of the restricted stock units described above. Additionally, non-employee directors receive a cash retainer of $62,500 each year, payable quarterly in arrears. In addition, each member of the Audit and Finance Committee receives an annual cash retainer of $10,000; the Chair of the Audit and Finance Committee receives an annual cash retainer of $30,000; the Chair of the Human Resources and Compensation Committee receives an annual cash retainer of $30,000; and the Chair of the Nominating and Board Governance Committee receives an annual cash retainer of $10,000. The Chair of the Board receives an annual cash retainer of $75,000. Directors may elect to defer up to one hundred percent of their cash compensation per year pursuant to our Non-Employee Directors Voluntary Deferred Compensation Plan. All directors are reimbursed for their out-of-pocket expenses incurred in connection with their duties as directors.

The Company s stock ownership guidelines for directors require each director to own three times their annual cash retainer in Company stock within three years of joining the Board. As of March 31, 2017, each of our directors has either satisfied the stock ownership guidelines or is on track to do so in compliance with the guidelines.

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COMPENSATION DISCUSSION AND ANALYSIS

Heidrick & Struggles International, Inc. is a leadership advisory firm providing executive search, culture shaping and leadership consulting services. We assist organizations in achieving their long-term business objectives by helping them to improve the effectiveness of their leadership teams. We provide our services to a broad range of clients through the expertise of our experienced consultants located in major cities around the world. In recent years, we have expanded our service capabilities in response to our clients request for comprehensive leadership advisory services. The Human Resources and Compensation Committee (HRCC) of the Board of Directors seeks to ensure that our executive compensation programs attract, retain and reward the best talent, while at the same time maintain a strong link between pay and performance and align the interests of our executives and stockholders. Our executive compensation philosophy emphasizes and rewards both Company and individual performance, which we believe promotes sustained long-term performance by rewarding not only the achievement of financial and operational goals, but also the accomplishment of individual strategic objectives that enable growth.

This *Compensation Discussion and Analysis* describes the philosophy and objectives of our executive compensation programs for our named executive officers. For 2016 our named executive officers were:

Tracy R. Wolstencroft, President and Chief Executive Officer

Krishnan Rajagopalan, Executive Vice President and Managing Partner, Executive Search

Colin Price, Executive Vice President and Managing Partner, Leadership Consulting

Richard W. Pehlke, Executive Vice President and Chief Financial Officer

Stephen W. Beard, Executive Vice President, General Counsel, Chief Administrative Officer and Secretary

2016 Year in Review

2016 was an important year of strategic, operational and financial accomplishments. During 2016, we continued to deliver on our strategy to further expand our impact with clients in the boardroom and C-suite, providing deeper service as a trusted and valued advisor on executive talent, leadership and culture. Our 2016 financial results reflect this progress, as well as the first returns on investments we made to grow all three of our businesses Executive Search, Leadership Consulting and Culture Shaping.

The most significant of these investments brought scale to Leadership Consulting so that this service offering could become a more meaningful part of our overall business. During 2016, we acquired three companies two that bolstered our Leadership Consulting capabilities and one in Executive Search that further elevated our brand positioning in the United Kingdom.

We made meaningful progress in attracting, developing and retaining the very best talent in the industry, and ended 2016 with 335 Executive Search partner and principal consultants, 22 Leadership Consulting partners, and 17 Culture Shaping partner and principal consultants. These are strong indicators that Heidrick & Struggles is an attractive destination for the most talented professionals in our field. We confirmed seven percent more searches in 2016, continuing to deliver on our purpose, which is: We help our clients change the world, one leadership team at a time. The important work we are executing around the world at some of the most well-known and respected organizations is elevating and strengthening the power of Heidrick & Struggles brand.

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Our efforts achieved the positive results detailed below. Along with our dedicated and experienced consultants and staff located in major cities around the world, our named executive officers Messrs. Wolstencroft, Rajagopalan, Price, Pehlke, and Beard each led and played an important role in the achievement of these results for the Company and its stockholders.

2016 -Financial and Operational Results	
Consolidated Net Revenue (revenue before reimbursements)	$582.3 million, a 9.6% increase from $531.1 million in 2015.
Operating Income	$35.2 million, a 3.4% increase from $34.1 million in 2015.
Operating Margin (operating income as a percentage of net revenue)	6.0% compared to 6.4% in 2015.
Adjusted EBITDA[1]	$61.2 million, a 10% increase from $55.8 million in 2015.
Adjusted EBITDA Margin[1]	10.5% in 2016 and 2015.
General Operations	Maintained a sound financial and operating structure, including a strong liquidity and cash flow position to support our business plan. Strengthened and grew our core search business through an improvement in attracting, hiring, developing and retaining its search, leadership consulting and culture shaping consultants.

[1] Adjusted EBITDA refers to earnings before interest, taxes, depreciation, intangible amortization, stock-based compensation expense, compensation expense associated with Senn Delaney retention awards, earn-out accretion, and other non-operating income (expense). Adjusted EBITDA margin refers to Adjusted EBITDA as a percentage of net revenue. Adjusted EBITDA and Adjusted EBITDA margin are non-GAAP financial measures. See the reconciliation attached as Annex A.

Principal Components of 2016 Executive Compensation

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2016 Performance Based Compensation Highlights

Our HRCC continued to utilize a performance-based compensation structure for 2016 for our named executive officers consisting of both short and long-term incentive programs. Our HRCC considered both quantitative and qualitative individual, financial and operational factors when determining named executive officer compensation for the year. Those considerations, along with the operation of the Company s compensation policies, resulted in the following key compensation highlights for 2016:

Compensation Element	Performance Based Compensation Highlights
Short-Term Management Incentive Plan or MIP awards	Our Management Incentive Plan or MIP (described on page 22) is designed to reward achievement of specific performance goals over a one-year period. In 2016 the HRCC approved changes to the MIP to provide greater linkage between financial and individual performance and to better align the MIP with competitive market practice. The new plan places 70% weighting on Company financial performance against pre-established financial goals. The financial goals are established annually and may contain a mixture of business unit goals and enterprise-wide financial goals. Individual performance accounts for 30% of the weighting for each named executive officer. Award payouts under the plan can range from 0% to 150% based upon performance versus annual goals. (The previous plan placed 75% weight on Company performance and 25% was based on individual performance.) The changes to the MIP allow the HRCC to make more significant differentiations based on the individual performance of the named executive officers. The changes also allow the HRCC to better link goals tied to business unit performance employing metrics based both on business unit performance and the Company s consolidated financial performance.
	The annual cash bonus target opportunity under our MIP for Mr. Wolstencroft is 125% of his base salary; 150% of base salary for Messrs. Rajagopalan and Price; and 100% of base salary for Messrs. Pehlke and Beard. The bonus opportunity is subject to each named executive officer attaining certain performance goals established annually by our HRCC.
	For the 2016 performance year, the HRCC determined that the Company s financial performance did not meet 2016 targets. Therefore, the HRCC reduced the financial component to a payout level of 60% versus the full 70% weighted target for all of the named executive officers. This resulted in a payout of 90 percent of the Company-performance component of the award. With respect to Messrs. Rajagopalan, Price and Beard, the HRCC determined that the performance of their individual goals during 2016 exceeded the weighted target of 30% and warranted an award calculation of 44% of target for the individual component of their 2016 MIP awards. For Mr. Wolstencroft, the individual component was also assessed above target at 37%; for Mr. Pehlke, the individual assessment was at target or 30%. Mathematically, this scoring resulted in MIP payouts of 104% of target for Messrs. Rajagopalan, Price and Beard; 97% for Mr. Wolstencroft; and 90% for Mr. Pehlke.

Compensation Element	Performance Based Compensation Highlights
Long-Term Incentives or LTI awards	As part of our annual long term incentive program and regular practice, for our named executive officers, our 2016 Long-Term Incentives or LTI awards (delivered as both Performance Stock Units PSUs and Restricted Stock Units RSUs) were granted in March 2016 at above target to all of the named executive officers, other than Mr. Price, based on the Company s strong performance in 2015. RSUs for 2016 were awarded to Mr. Price on a pro rata basis for the fourth quarter of 2015 in alignment with the acquisition of Co Company. Mr. Price became a named executive officer on January 1, 2016. Named executive officers can earn between 0% and 200% of the target number of PSUs based on Company performance against pre-established financial goals.
Outstanding PSUs	Our PSUs issued in 2014 and vesting in full in 2017 paid out at 114.5% of target based on calculation of the three-year average of operating income relative to the Company s target goals for 2014 through 2016.
Employment Agreements	The Company enters into employment agreements with executive officers as new executives join the Company or current officers take on new or expanded executive roles. Our employment agreements with executive officers do not contain guaranteed bonus payments, and all equity award provisions consisted entirely of unvested RSUs and PSUs as required by our regular long term incentive programs. Other terms and conditions of employment contracts with executive officers are consistent with our compensation philosophy and program objectives. See, *Employment Agreements* on page 27.

Overall Compensation Philosophy

Our HRCC strives to establish compensation programs for our executives and employees that are market competitive with firms in the executive search, leadership consulting and management consulting space, both public and private, with whom we compete for executive talent. At the heart of our compensation programs is a pay-for-performance philosophy. We expect our executive officers to initiate and carry out sustainable growth strategies and create long-term value and growth for the Company and its stockholders. We link various aspects of our business strategies with our compensation program design. Company performance is a primary factor in most elements of our executive incentive compensation program design. When measuring Company performance, we may consider both qualitative and quantitative factors and achievements relating to our business strategies and objectives. In assessing the individual performance of named executive officers, our HRCC may consider, among other things, the officer s accomplishments of priorities, contributions to the Company s strategic initiatives and execution of leadership objectives.

Our HRCC regularly reviews our compensation programs for our executives and employees to ensure that the programs continue to meet the needs of the business and align the long-term interests of our executives with those of our stockholders. Our compensation programs may change from time to time based on the review of the HRCC.

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Executive Compensation Program Principles

Our HRCC uses the following principles to implement our executive compensation philosophy:

Compensation Principle	Compensation Program Feature
Reward performance, long-term growth and sustained profitability through variable pay elements.	A substantial portion of our named executive officers compensation is variable (approximately 76.5% for our CEO and an average of 66.7% for our other named executive officers) and composed of annual and long-term incentive awards that are only earned upon achievement of financial and non-financial objectives that either influence or contribute to stockholder value creation.
	This weighting toward variable pay requires sustained financial performance to deliver significant value by the Company and encourages our named executive officers to deliver continued growth over an extended period of time. Equity awards, coupled with executive stock ownership guidelines and our mandatory deferral of a portion of any MIP bonuses earned, further assure the alignment of interests between our named executive officers and our stockholders.
Attract, retain and motivate the most talented executives.	Our executive compensation must enable us to attract, motivate and retain not only highly talented executives, but also search, leadership and culture shaping consultants from both public and private employers with whom we compete for top talent critical to our long-term success.
Provide modest benefits and limited perquisites.	We provide modest standard employee benefits, limited financial planning (maximum of $1,080 per year or $3,150 for the first year expenses are incurred), annual physicals to our named executive officers, and business club memberships. All business club memberships are offered to executives on the same scale and terms as those for our executive search consultants.
	We provide no Company contributions to retirement or pension plans for executives beyond our broad-based 401(k) plan. We believe the financial opportunities provided to our named executive officers through our executive compensation program minimize the need for extra benefits or perquisites.

Applying these principles results in pay packages where a significant portion of compensation is put at risk, in the form of performance-based annual and long-term incentives. We believe our executive pay packages support our commitment to sound corporate governance and reflect common best practices , including:

Best Practice	Heidrick s Implementation and Result

Prudent Approach to Increases in Base Salaries.	In recent years we have not increased base salaries for our named executive officers unless their roles and duties expanded or they were newly hired or promoted. We did not increase base salaries for our named executive officers in 2016.
Annual Incentives Based on Performance.	Consistent with our pay-for-performance philosophy, our MIP rewards both Company and individual performance, with a heavier weighting on Company performance.

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Best Practice	Heidrick s Implementation and Result
Mandatory Deferral of Portion of Earned Annual Incentive Award.	Ensuring that our annual incentives continue to provide retention value, we defer 15 percent of our named executive officers MIP bonuses, to be paid out in equal annual amounts over a three-year period assuming the executive officer remains employed by the Company.
No Repricing or Replacing Outstanding Stock Options.	It has been our practice not to reprice or replace outstanding stock options, and we did not reprice or replace any stock options during 2016. None of our named executive officers have stock options.
Compensation is Subject to a Claw-Back Policy.	Our Company has a Claw-back Policy that applies to the named executive officers and is intended to comply with the requirements of the Sarbanes-Oxley Act of 2002 and the Dodd-Frank Wall Street Reform and Consumer Protection Act.
No Evergreen Provisions in Employment Agreements.	None of our employment agreements with the named executive officers have evergreen provisions that automatically renew the term of the agreement. We do not plan on adopting any new employment agreements that contain evergreen provisions unless we find a compelling business reason for doing so.
No Excise Tax Gross-Ups.	We do not have excise tax gross-up provisions in employment agreements with our named executive officers or in our Change in Control (CIC) Severance Plan.
No Single-Trigger Equity Vesting Upon a CIC.	All of the equity awards we have granted since 2011 contain a double trigger CIC vesting provision, meaning that vesting is accelerated only if there is both a CIC and a termination of employment within two years following the CIC.
No Excessive Perquisites.	We provide modest limited perquisites to our named executive officers consisting of physicals, financial planning and business club memberships. All business club memberships are offered to executives on the same scale and terms as those for our executive search consultants.
No Hedging By Our Named Executive Officers.	Our Board and HRCC adopted a policy prohibiting such hedging in February 2013.
No Pledging By Our Named Executive Officers.	Our Board and HRCC adopted a policy prohibiting such pledging in February 2013.
No Guaranteed Bonuses.	We believe that bonuses should reflect actual Company and individual performance. As a result, our employment agreements for executive officers do not contain guaranteed bonus payments, except in limited circumstances typically related to a newly hired executive. We did not guarantee bonus payments for any of our named executive officers for 2016.
No Common Performance Metrics Used for Annual and Long-Term Incentives.	We do not use the same performance metrics for our annual and long-term incentive plans.
Maintain Executive Stock Ownership Guidelines.	We maintain stock ownership guidelines applicable to our named executive officers and directors. For our CEO, it is five times base salary. For our other named executive officers, it is two times base salary.

Stockholder Feedback and Say-on-Pay Vote Results

At our 2016 Annual Meeting of Stockholders, we held our annual non-binding stockholder advisory vote to approve executive compensation (say-on-pay). Our stockholders approved our fiscal 2015 executive compensation, with nearly 97 percent of voting stockholders casting their vote in favor of the say-on-pay resolution. The HRCC took this support level as an indication that stockholders were supportive of our pay design and decisions in fiscal 2015.

We had regular and active discussions with our major stockholders during 2016 on various topics throughout the year, and, during those conversations we did not hear of any specific issues relating to the design of our compensation program. Although we did not make any changes to our compensation programs as a result of the 2016 say-on-pay vote or our shareholder outreach efforts during 2016, the HRCC did make changes to the MIP as discussed above. Our HRCC is dedicated to continuous improvement of the existing executive compensation program to reflect an appropriate alignment of pay and performance, and will continue to seek and review stockholder perspectives when designing and implementing the Company s executive compensation program.

Setting Executive Compensation

Oversight of Compensation Programs. Our HRCC is responsible for overseeing our executive compensation programs. See pages 4-5 of this proxy statement for more information on the role and responsibilities of our HRCC concerning executive compensation and related corporate governance, and page 5 of this proxy statement for a discussion of the Company s assessment of risk related to its compensation programs.

Role of our Human Resources and Compensation Committee. Our HRCC engages in a rigorous process in determining the total compensation of our named executive officers. This process involves setting Company performance and strategic and operational goals for the named executive officers near the beginning of each fiscal year and evaluating the performance of the named executive officers against those pre-established goals. Our HRCC determines and approves the compensation of the named executive officers based on this evaluation. In evaluating named executive officer compensation, our HRCC, as discussed below, has retained the services of Pay Governance LLC and considers recommendations from the Chief Executive Officer with respect to goals and compensation of the other named executive officers, but our Chief Executive Officer does not provide such input as to his own compensation. Our HRCC assesses the information it receives in accordance with its business judgment.

Role of Executive Officers in Compensation Decisions. Our HRCC approves all compensation decisions for our named executive officers. The Chief Executive Officer annually reviews the performance of each of the named executive officers other than himself. Following the performance reviews, the Chief Executive Officer presents compensation recommendations to our HRCC for consideration. Our HRCC, with input from the full Board, reviews the Chief Executive Officer s performance. Our HRCC has full discretion to approve, modify or reject any recommended compensation adjustments or awards made to the named executive officers.

Role of Independent Compensation Consultant The HRCC has retained Pay Governance LLC as its independent compensation consultant. Pay Governance reports directly to the HRCC and does no other work for management. During 2016, Pay Governance representatives generally participated in all of the HRCC s meetings and provided guidance to the HRCC with respect to executive compensation; comparative peer group data; director compensation; annual incentive compensation; and consultant pay programs. In supporting the HRCC, Pay Governance provides the HRCC with an independent assessment of management s recommendations for compensation; reviews and confirms the peer group used by the Company to prepare market compensation data; and provides ad hoc support to the HRCC, including discussing executive compensation and related corporate governance trends.

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Our HRCC determined that Pay Governance was independent and without conflicts of interest for 2016. This determination was reached after reviewing the six independence factors set out in the Nasdaq Rules: (i) whether Pay Governance provides any other services to the Company; (ii) the amount of fees paid relative to the total revenue of the firm; (iii) policies in place to prevent conflicts of interest; (iv) any personal or business relationships with members of our HRCC; (v) ownership of Company stock; and (vi) any personal or business relationships with named executive officers.

Use of a Peer Group. Our HRCC evaluates our executive compensation programs in comparison to those of a select peer group, which in 2016 consisted of 15 similarly-sized public professional services companies. Our HRCC uses the peer group to compare total direct compensation and the mix of compensation elements for each named executive officer against positions at peer group companies with similar responsibilities. Our HRCC also uses the peer group to review executive pay programs and practices at those companies.

For 2016 the peer group consisted of the following companies:

The Advisory Board Company	Huron Consulting Group, Inc.
CBIZ Inc.	ICF International Inc.
CDI Corp.	Kforce, Inc.
CIBER, Inc.	Korn Ferry International
The Corporate Executive Board Company	Navigant Consulting, Inc.
CRA International, Inc.	On Assignment Inc.
FTI Consulting, Inc.	Resources Connection, Inc.
Hudson Global, Inc.	

For 2017, the Company has removed On Assignment Inc. from the peer group due to the fact that its revenue size significantly exceeds the top end of the revenue target. The Company has replaced On Assignment Inc. with Barrett Business Group, which provides staffing and recruiting services as well as human capital management services.

In setting compensation, the HRCC considers the peer group companies with which we directly compete for executive talent and stockholder investment. Our HRCC also relies on its general knowledge of executive compensation levels and practices.

Most of the Company s executive search and leadership advisory competitors, from which executive talent is often recruited, are privately held and therefore not included in the above list of our public peer group companies as information on their compensation practices is difficult to obtain.

We do not set a specific, relative percentile positioning for total direct compensation, or the elements of total direct compensation, as a target for named executive officer pay levels. Rather, we review the total direct compensation range for each position and the mix of elements to ensure that compensation is adequate to attract and retain key named executive officers. To ensure that compensation is linked to performance, our named executive officer compensation program is designed to deliver at least 65% of total direct compensation through variable pay. Our named executive officer compensation program is also designed to ensure that a significant proportion of the named executive officer s compensation is delivered in equity and thus aligned with the interests of our stockholders.

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Named Executive Officer Compensation Components

Alignment with our executive compensation philosophy is achieved through the executive compensation components for our named executive officers outlined below. Messrs. Wolstencroft, Rajagopalan, Price, Pehlke, and Beard each participated in these programs during 2016.

Compensation Element	Compensation Objectives and Principles	Relation to Performance	2016 Actions/Results
Base Salary *Fixed annual cash; paid on a monthly basis*	Compensate named executive officers for services rendered during the year in the form of fixed cash compensation.	Increases in base salary reflect market positioning, economic conditions and our HRCC s assessment of Company and individual performance over the prior year.	We did not increase the base salaries of any of our named executive officers in 2016.
	Base salary levels are set to reflect the named executive officers role and responsibilities, value to the Company, experience and performance, internal equity and market competitiveness.		
Short Term Annual Incentives *Variable Cash; paid starting in March of the following year*	Motivate and reward named executive officers for achieving specific performance goals over a one-year period.	70% of the target annual incentive is based on Company performance against pre-established financial goals. The remaining 30% of the target annual incentive is based on achievement of individual performance goals and objectives that are intended to position the Company for success. Actual payouts may range from 0% to 150% of target based upon achievement of Company financial goals and individual performance.	The Company financial performance component of each MIP award was reduced by 10% to 60%. With respect to Messrs. Wolstencroft, Rajagopalan, Price and Beard, the HRCC determined that their performance of their individual goals during the year warranted an individual award calculation (weighted at 30%) in excess of 30% of the award. This resulted in awards of 104% of target for Messrs. Rajagopalan, Price, and Beard; 97% of target for Mr. Wolstencroft s 2016 MIP award; and 90% for Mr. Pehlke.
Includes MIP awards consisting of cash, paid 85% in March of the year following its grant and 15% on a deferred basis ratably over 3 years beginning the following year subject to the officer s continued service to the Company	Payment is not guaranteed and levels vary according to Company and individual performance.		

Compensation Element	Compensation Objectives and Principles	Relation to Performance	2016 Actions/Results
Long-Term Incentives (LTI) *Variable Equity; paid in March of the following year*	Align named executive officers interests with those of the Company s stockholders and drive long-term value creation.	Named executive officers can earn between 0% and 200% of the target number of PSUs based on Company performance against pre-established financial goals	PSUs issued in 2014 and vesting in full in 2017 paid out at 114.5% of target based on calculation of the three-year average of operating income relative to the Company s target goals for 2014 through 2016.
Half of the executive s LTI value is delivered as Performance Stock Units (PSUs) with a three-year performance period	Pay for performance.	(e.g. Operating Income) for the three-year performance period.	
	Reward named executive officers for long-term growth.		
Half of the executive s LTI value is delivered as Restricted Stock Units (RSUs)	Align named executive officers interests with those of the Company s stockholders and drive long-term value creation.	The HRCC may consider Company performance when determining the size of the LTI grants for a given year.	50% of named executive officers LTI value was in RSUs for 2016, with the exception of Mr. Price. In 2016, Mr. Price was awarded an RSU for the fourth quarter of 2015, prior to his becoming a named executive officer of the Company.
	Attract, retain and reward named executive officers for Company performance.		

CEO Compensation

Under the direction of our CEO, the Company achieved significant strategic and financial accomplishments in 2016. The following table illustrates the three components and corresponding amounts of Mr. Wolstencroft s total compensation for 2016.

Mr. Wolstencroft s short-term cash bonus opportunity (displayed in the following table as *Annual Incentive Earned*) is variable, meaning the final payout amount is based solely on the achievement of specific performance goals over a one-year period that include both Company performance metrics (weighted at 70%) and individual performance factors (weighted at 30%). The HRCC determined that Mr. Wolstencroft s individual performance during 2016 warranted an award in excess of the target. This resulted in a calculation of 97% for the overall payout of his 2016 award.

Half of Mr. Wolstencroft s long-term equity incentive opportunity (displayed in the following table as *LTI Award Granted*) also is variable, meaning the number of shares actually paid to our CEO (if any) depends upon and is subject to the achievement of certain performance measures over a three-year vesting period, and is based on a graduated scale ranging from 0 to 200% of the initial target amount. The other half of the award consists of time-vesting RSUs that will vest in three equal installments. (See *Long Term Incentives* on pages 23-25).

The Board and the HRCC view these compensation measures as prudent investments for the Company s future. They are consistent with market practices for executives in the business consulting industry and the companies with which we compete for clients and executive talent.

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As reported in the Summary Compensation Table on page 29, Mr. Wolstencroft s total compensation increased approximately one and a half percent on a year over year basis. There was no increase in Mr. Wolstencroft s base compensation and his 2016 MIP Award was granted slightly below target at 97% reflecting the HRCC s decision to reduce the Company financial performance component of the award by 10 percent for all of the named executive officers based on the metrics that the HRCC considered.

Compensation Mix Variable vs. Fixed

Our HRCC believes that our named executive officers should be rewarded for the achievement of financial and non-financial objectives that either influence or contribute to stockholder value creation. Consistent with our pay for performance philosophy, our HRCC established elements of fixed and variable compensation for the named executive officers who served in fiscal 2016.

Key principles considered by our HRCC for determining the mix and level of fixed and variable pay for our named executive officers were our ability to attract, retain and motivate the most talented executives available in light of competitive market practices, our position among companies with which we compete for executive talent, alignment of interests with those of our stockholders, our goals for pay for performance, and the market level of total cash and non-cash compensation we pay to our named executive officers.

Base Salary

Our HRCC has established base salaries for our named executive officers that, in its judgment, are competitive. For each named executive officer, base salaries are reviewed against levels for positions with similar responsibilities at the peer group companies, using the comparative data prepared by our HRCC s compensation consultant. Our HRCC then considers individual performance, internal pay equity, functional expertise, experience, and scope of responsibilities in approving any changes to the base salary. For 2016, the Company did not increase the base salary for any of our named executive officers.

Annual Incentives

Our *Management Incentive Plan* or *MIP* is the short-term cash incentive vehicle through which we reward our named executive officers with an annual cash bonus for achieving specific performance goals over a one-year period. Under our MIP, determination of the payout level (if any) for each named executive officer s award is based upon the achievement of a combination of Company performance metrics (weighted at 70%) and individual performance factors (weighted at 30%). Our HRCC has discretion to modify any payouts (upwards or downwards) under the MIP as appropriate to ensure plan objectives are met, taking into consideration a variety of Company specific or environmental factors. Our MIP awards are subject to the Company s Claw-back Policy.

In 2016, the MIP for Messrs. Wolstencroft, Pehlke and Beard included three Company performance metrics to determine the pay-out level (if any) of awards: HSII consolidated net revenue; HSII operating income; and HSII EBITDA. For Messrs. Price and Rajagopalan the three performance metrics used to determine the pay-out level (if any) of awards were business unit net revenue, business unit operating income, and HSII operating income. For Mr. Price the applicable business unit is Leadership Consulting; for Mr. Rajagopalan it is Executive Search.

The Company s 2016 performance on the three metrics of consolidated net revenue, operating income, and EBITDA was below target, but exceeded 2015 results. This resulted in the HRCC reducing the Company financial performance component of the MIP by 10 percent for each of the named executive officers. The HRCC also considered the Company s growth in 2016 over 2015. Target and Actual Performance Levels for 2016, the 2016 Increase Over 2015 and 2015 Actual Performance Levels were:

MIP Performance Metric	2016 Target Performance Levels	2016 Actual Performance Levels	2016 Percentage Increase Over 2015	2015 Actual Performance Levels
HSII Consolidated Net Revenue	$ 586 million	$ 582.3 million	9.6%	$ 531.1 million
HSII Operating Income	$ 42 million	$ 35.2 million	3.4%	$ 34.1 million
HSII EBITDA	$ 68 million	$ 61.2 million	10%	$ 55.8 million

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The business unit net revenue and business unit operating income metrics for Messrs. Rajagopalan and Price are not disclosed due to the competitive nature of those metrics.

Payout amounts under our MIP were set for each metric based on Minimum , Target and Maximum performance levels and corresponding bonus payment levels based on the Company s business plan and other operational and environmental factors. Target performance is the level at which a participant will earn 100% of his or her target award. Depending upon the relationship of the Company s actual financial performance and the individual s annual evaluation, final payouts under our MIP may be as little as zero and as high as 150% of Target for Messrs. Wolstencroft, Rajagopalan, Price, Pehlke, and Beard.

The HRCC sets Company and individual performance goals for the named executive officers during the first quarter. These goals consist of both quantitative and qualitative performance objectives. Our HRCC considers the reviews conducted by the Chief Executive Officer of the other named executive officers, and conducts its own review of the Chief Executive Officer s performance against those pre-established performance objectives, as well as Company performance milestones achieved during the year. With respect to our Chief Financial Officer, our HRCC also considers input from our Audit Committee Chair.

As discussed under the section heading *2016 Year in Review* on page 11, along with our committed consultants and staff around the world, Messrs. Wolstencroft, Rajagopalan, Price, Pehlke, and Beard were instrumental to the operational results, business accomplishments, and increase in financial momentum and revenue growth for the Company. Their efforts created notable value for the Company and its stockholders, and consequently the HRCC determined that the performances of Messrs. Rajagopalan, Price, and Beard warranted an award calculation of 104% of target for their overall payout of their 2016 MIP awards; 97% for Mr. Wolstencroft; and 90% for Mr. Pehlke.

The 2016 bonus paid to each named executive officer under our MIP is set forth below. Of these amounts, 85% was paid in March 2017 and the remaining 15% will be paid in equal annual installments over the three years beginning in 2018. This does not include the additional cash bonus awarded to Mr. Rajagopalan discussed in Special 2016 Compensation Components Krishnan Rajagopalan on page 25.

Long-Term Incentives

Our LTI program for named executive officers is designed to:

- Align named executive officers interests with those of our stockholders;
- Motivate named executive officers to enhance our revenues and profitability;

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Facilitate ownership of Company stock and the achievement of stock ownership guidelines; and

Attract and retain top talent.

Although our *2012 GlobalShare Plan* allows us to issue a variety of equity based awards, our current LTI awards issued to our named executive officers consist of:

Performance Stock Units (PSUs) are target-based equity grants that generally vest three years from the grant date if certain performance goals are achieved and the executive officer remains employed by the Company. Each PSU represents a right to receive shares of our Common Stock upon vesting, however the number of shares actually paid to the executive depends upon and is subject to the achievement of certain performance measures over the vesting period, and is based on a graduated scale ranging from 0 to 200% of the initial target amount. At the low and high end of this range, if the Company s actual three-year average operating income performance is less than 75% of our annual operating plan goals, then the PSU pay-out will be 0%, however if the three-year average performance is at or above 125% of our annual operating plan goals, then the PSU pay-out will be at 200% of the initial target amount. Our PSU awards are subject to the Company s Claw-back Policy.

Restricted Stock Units (RSUs) are equity grants that are service-based, will vest in three equal installments (specifically on the first, second and third anniversaries of the date of grant), and are generally subject to the executive s continued employment with the Company. Each RSU represents a right to receive one share of our Common Stock upon vesting.

When issuing annual LTI awards, we equally divide the value of our LTI grants among PSUs and RSUs and calculate the number of RSUs or PSUs awarded to the named executive officer by dividing the total dollar value of LTI compensation granted to the officer by the closing price of our Common Stock on the grant date (usually in March of the grant year). All outstanding RSUs and PSUs are credited with dividend equivalents that are payable in cash when the related units vest. The primary purpose of crediting dividend equivalents on LTI awards is to align the participant with the value of being a stockholder over the course of the vesting period, but only to the extent the award vests.

In March 2016 we issued LTI awards to Messrs. Wolstencroft, Rajagopalan, Pehlke, and Beard with half of their LTI awards issued as PSUs and the other half issued as RSUs. For Mr. Price, 100 percent of his LTI award was issued as RSUs. Mr. Wolstencroft s LTI opportunity was equal to 200 percent of base salary; Messrs. Rajagopalan, Pehlke and Beard s LTI opportunity was equal to 100 percent of base salary; for Mr. Price it was 50 percent of base salary, but was further pro-rated to represent one-fourth of the year in alignment with the fourth quarter acquisition of Co Company. The LTI awards granted in March 2016 were granted above target as a result of the Company s strong performance in 2015. See the *2016 Grants of Plan-Based Awards Table* on page 30 for more details on the equity grants that our HRCC approved. The following is a summary of the LTI awards issued in 2016.

Named Executive Officer	**Actual LTI Value***	**# 2016-2018 PSUs**	**# RSUs**
Tracy R. Wolstencroft	$ 1,912,496	40,297	40,297
Krishnan Rajagopalan	$ 1,299,976	27,391	27,391
Colin Price	$ 44,399	0	1,871
Richard W. Pehlke	$ 599,990	12,642	12,642
Stephen W. Beard	$ 562,496	11,852	11,852

* LTI Value is allocated as follows: 50 percent to PSUs and 50 percent to RSUs. This allocation was not applicable to Mr. Price for the LTI awards made in March 2016 and he only received RSUs.

The LTI targets for all of our outstanding PSUs are discussed in more detail below, and were based on our HRCC s review of publicly disclosed data for our 2016 peer group for each position and internal pay equity considerations, as well as the Chief Executive Officer s recommendations and a review of individual performance and potential.

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2016-2018 Performance Stock Units. Our 2016 PSUs issued to Messrs. Wolstencroft, Rajagopalan, Pehlke, and Beard vest over a three-year period, are subject to target goals for the Company s average operating income over the 2016 through 2018 fiscal years, and will be paid in 2019. The number of shares eventually earned and paid to our named executive officers (if any) will be based on a graduated scale ranging from 0 to 200% of the initial target amount, depending on the Company s three-year actual average operating income relative to our annual operating plan goals for that period. The Company did not achieve the operating income goals for 2016.

Based on the Company s 2017 operating plan, our HRCC established future operating income goals in the beginning of 2017. After the end of the three-year period, the target number of PSUs may be adjusted based on the average operating income (expressed as a percentage of the Company s target operating income goals) for each annual performance period as follows:

Average Percentage of Operating Income Goals	Percentage of Target PSUs Vesting
125% or More	200% (Maximum)
100%	100% (Target)
75%	50% (Threshold)
Less than 75%	0%

We set performance goals for our PSUs using a three-year average performance approach because:

Alignment between operating goals and executive performance, as well as named executive officer accountability, is maximized;

This approach better enables us to focus on the necessary strategic goals;

Final awards are based on average performance over a three-year period, which provides greater focus on sustained long-term results.

2015-2017 Performance Stock Units. Our 2015 PSUs issued to Messrs. Wolstencroft, Rajagopalan, Pehlke, and Beard will vest over a three-year period, will be subject to target goals for the Company s average operating income over the 2015 through 2017 fiscal years, and will be paid in 2018. The number of shares eventually earned and paid to our named executive officers (if any) will be based on a graduated scale ranging from 0 to 200% of the initial target amount, depending on the Company s three-year actual average operating income relative to our annual operating plan goals for that period. The Company achieved the operating income goals for 2015, but not 2016. Depending on results for 2017, the award may vest at 100% or above or below target for the three-year performance period. After the end of the three-year period, the target number of PSUs may be adjusted based on the average operating income (expressed as a percentage of the Company s target operating income goals) for each annual performance period as noted above in the discussion of *2016-2018 Performance Stock Units.*

2014-2016 Performance Stock Units. In March 2014, we granted PSUs to Messrs. Wolstencroft, Pehlke, and Beard, who were named executive officers at the time. The 2014 PSUs vested over a three-year period and were subject to target goals for the Company s average operating income over the 2014 though 2016 fiscal years, and were paid in 2017 at 114.5% of the initial target amount. The Company exceeded its operating income goals for 2014 and 2015, but not 2016. This resulted in the pay-out in excess of the initial target amount. 2014 PSUs were not issued to Messrs. Rajagopalan and Price as they were not named executive officers at the time of grant.

Special 2016 Compensation Components Krishnan Rajagopalan

For 2016, Krishnan Rajagopalan, Executive Vice President and Managing Partner, Executive Search, received a discretionary cash bonus in the amount of $500,000. This award reflects the special contributions he made during

the year to business development and the expansion of the global executive search business and the significant amount of time he spent in the market leading teams of consultants on searches. As an executive officer, he does not participate in the search consultant compensation plan.

Stock Ownership Guidelines. To enhance the alignment of named executive officers interests with that of stockholders, we maintain stock ownership guidelines. Each new executive officer has five years from the date he or she first becomes subject to the guidelines to achieve a stock ownership level equal to a multiple of base salary. The stock ownership guidelines for our named executive officers are as follows:

- Chief Executive Officer: five times base salary
- Other Named Executive Officers: two times base salary

In determining compliance with these guidelines, we include both direct stock ownership and RSU grants, but do not consider PSUs. Each of the named executive officers subject to the policy either satisfied the stock ownership guidelines or is on track to do so within the requisite five-year period.

Perquisites and Other Personal Benefits

We provide our named executive officers with the same benefits that are provided to all employees generally, including medical, dental and vision benefits, group term life insurance and participation in our 401(k) plan. The named executive officers are also reimbursed for expenses incurred for an annual physical examination, for financial planning services (maximum reimbursement for financial planning is $1,080 per year or $3,150 if expenses are incurred for the first time), and business club memberships. All business club memberships are offered to executives on the same scale and terms as those for our executive search consultants.

Other Executive Compensation Arrangements

We have adopted other executive compensation arrangements, including our Change in Control Severance Plan (CIC Plan), designed to retain executives in a period of uncertainty; our Management Severance Pay Plan (Severance Plan), designed to provide financial assistance to executives following termination of employment; and employment agreements with each named executive officer. The material terms and conditions of these plans and agreements are summarized below.

Double-Trigger CIC Plan. We maintain a CIC Plan for certain of our executives, including the named executive officers. The CIC Plan provides severance benefits to the executive if his or her employment is terminated by us without cause , or if he or she terminates employment with us for good reason (each term as defined in the CIC Plan), within two years after a change in control of the Company (or within six months prior to a change in control of the Company if such termination is effected prior to, but in anticipation of, the change in control). The severance benefits payable to the named executive officers under the CIC Plan, as well as other material terms and conditions, are described in detail under the section entitled *Contingent Payments* on page 36.

We believe that the protection and benefits provided by the CIC Plan motivate our executives to act in the best interests of our stockholders by removing the distraction of post-change of control uncertainties faced by the executive officers with regard to their continued employment and compensation. Change in control protection for executives is also prevalent in the competitive environment in which we operate. The CIC Plan also contains restrictive covenants that prohibit the executives from competing and soliciting clients and employees for a certain period of time following a termination of employment.

Severance Plan. The Severance Plan provides severance benefits to select employees, including the named executive officers. Benefits are paid to an eligible employee who is involuntarily terminated by us for other than cause (as defined in the Severance Plan). Benefits are not available if the termination is due to voluntary

resignation, leave of absence, retirement, death or disability. If the termination is due to the employee s transfer to an unaffiliated business, the sale of the stock or assets of the Company or the outsourcing of a division, department, business unit or function, severance benefits will be provided only if the employee has not been offered employment with the successor entity. The severance benefits payable to the named executive officers under the Severance Plan, as well as other material terms and conditions, are described in detail under the section entitled *Contingent Payments* on page 36.

Employment Agreements

Below is a summary of the material terms and conditions of the employment agreements we have in place with our named executive officers as of December 31, 2016.

Tracy R. Wolstencroft. In February 2014, the Company entered into an employment agreement with our President and Chief Executive Officer, Tracy R. Wolstencroft, under which he receives:

- An annual base salary of $850,000 per year subject to annual review but no decrease.

- An annual cash bonus target opportunity under our MIP equal to 125% of his base salary, subject to the attainment of certain performance goals established annually by the HRCC.

- An annual equity award target opportunity equal to 200% of his base salary, issued as a combination of PSUs and RSUs, subject to the attainment of certain performance goals established annually by the HRCC.

Mr. Wolstencroft participates in the MIP at the Tier I level, the CIC Plan and Severance Plan at the Tier I level and our equity programs and our benefit plans at the same level as other senior executives. The agreement provides for severance payable upon termination without cause or resignation for good reason, as well as customary restrictive covenants in favor of the Company. The agreement also contains one-year post-termination non-solicitation and non-competition restrictions.

Krishnan Rajagopalan. In April 2015, the Company entered into an employment agreement with Mr. Rajagopalan in connection with his service as Head of Global Practices. Under this agreement the Company will pay Mr. Rajagopalan a base salary of $650,000 per year. Mr. Rajagopalan participates in the MIP at Tier I with a target bonus opportunity equal to 150% of base salary for the fiscal year; the CIC Plan and Severance Plan at the Tier I level; our equity programs; and our benefit plans at the same level as other senior executives. The agreement also contains one-year post-termination non-solicitation and non-competition restrictions.

Colin Price. In January 2017, the Company entered into an employment agreement with Mr. Price in connection with his services as Managing Partner-Leadership Consulting. The agreement covers the period from January 1, 2016. Under this agreement, the Company will pay Mr. Price a base salary of $387,435 (£350,000) per year. Mr. Price participates in the MIP at Tier 1 with a target bonus opportunity equal to 150% of base salary for the fiscal year; the CIC Plan and Severance Plan at Tier 1 level; our equity programs; and our benefit plans at the same level as other executives. The agreement also contains one-year post-termination non-solicitation and non-competition restrictions.

Richard W. Pehlke. On August 15, 2011, Mr. Pehlke was appointed as our Executive Vice President and Chief Financial Officer. Mr. Pehlke s letter agreement provides that he is eligible to receive an annual base salary of $400,000 for 2016, participation in the MIP at Tier I with a target bonus opportunity equal to 100% of base salary for the fiscal year, participation in the CIC Plan and Severance Plan at the Tier I level, participation in our equity programs, and participation in our benefit plans at the same level as other senior executives. The agreement also contains one-year post-termination non-solicitation and non-competition restrictions.

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Stephen W. Beard. On February 11, 2011, we entered into an employment agreement with Mr. Beard, our Executive Vice President, General Counsel, Secretary and Chief Administrative Officer. This agreement was amended and restated on May 18, 2011. Under this agreement Mr. Beard s annual base salary for 2016 was $375,000. His salary is subject to annual review (but no decrease), participation in the MIP at Tier I with a target bonus opportunity equal to 100% of base salary for the fiscal year, participation in the CIC Plan and Severance Plan at the Tier I level, participation in our equity programs, and participation in our benefit plans at the same level as other senior executives. The agreement also contains one-year post-termination non-solicitation and non-competition restrictions.

Claw-back Policy

We have a Claw-back Policy which is intended to comply with the SEC s rules regarding the recoupment of executive compensation (*i.e*., claw-backs) under the Dodd-Frank Wall Street Reform and Consumer Protection Act, as well as the Sarbanes-Oxley Act of 2002 requirements. This policy will be applied to all applicable incentive compensation for our named executive officers and will enable the Company to take the steps necessary to recoup executive compensation when warranted.

Deductibility of Executive Compensation

Section 162(m) of the Code limits the deduction that a publicly held corporation is allowed for compensation paid to the chief executive officer and the other three most highly compensated executive officers other than the chief financial officer. Amounts in excess of $1 million paid to a covered executive, other than performance-based compensation, cannot be deducted. We consider ways to maximize the deductibility of executive compensation but reserve the right to compensate executive officers in a manner commensurate with performance and the competitive environment for executive talent. As a result, some portion of executive compensation paid to an executive officer whose compensation is subject to the deduction limits described above may not be deductible in the United States. We have taken appropriate steps, including obtaining stockholder approval, with the intention of enabling stock options and performance-based awards made pursuant to the 2012 GlobalShare Plan and annual incentives under the MIP to be fully deductible where consistent with our compensation strategy.

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COMPENSATION OF EXECUTIVE OFFICERS

SUMMARY COMPENSATION TABLE

The table below summarizes the total compensation paid or earned by each of the named executive officers for the last three fiscal years, and only reflects information for those years in which the officer was determined to be a named executive of the Company.

Name & Principal Position	Year	Salary ($) (1)	Bonus ($) (2)	Stock Awards ($) (3) (4)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($) (5)	All Other Compensation ($) (6)	Total ($)
Tracy R. Wolstencroft	2016	850,000		1,912,496		1,030,625		3,793,121
President & Chief Executive Officer	2015	850,000		1,700,000		1,187,344		3,737,344
	2014	779,167		5,692,500		1,005,612		7,477,279
Krishnan Rajagopalan	2016	650,000	500,000	1,299,976		1,014,000		3,463,976
EVP, Executive Search	2015	650,000	20,000	162,502		726,375		1,558,877
Colin Price	2016	387,435(7)		44,399		604,258		1,036,002
EVP, Leadership Consulting								
Richard W. Pehlke	2016	400,000		599,990		360,000		1,359,990
Chief Financial Officer	2015	400,000		399,988		447,000	13,234	1,260,222
	2014	400,000		375,000		428,000		1,203,000
Stephen W. Beard	2016	375,000		562,496		390,000	11,330	1,338,826
General Counsel, Chief	2015	375,000		374,978		419,063	13,034	1,182,075
Administrative Officer and Secretary	2014	375,000		350,006		401,250		1,126,256

(1) Amounts reflect base salary paid in the year pursuant to employment agreements. For Mr. Wolstencroft, the 2014 *Salary* amount reflects payment of his salary from his initial date of employment with the Company on February 3, 2014. For Mr. Rajagopalan, the *Salary* amount for 2015 excludes $56,250 for October through December of 2014 under his contract as Head of Global Practices that was not put into effect until April 2015. Mr. Price became a named executive officer in 2016.

(2) For Mr. Rajagopalan, the 2016 *Bonus* reflect the payment of a discretionary cash bonus. For Mr. Rajagopalan, the 2015 *Bonus* reflects the payment of the CEO Special Award, a discretionary cash bonus, paid in April 2015.

(3) This column reflects the grant date fair value of RSUs and PSUs calculated in accordance with ASC Topic 718. The fair values of the RSUs and the target number of PSUs were based on the closing price of the common stock on the grant date.

(4) Amounts reflect annual Long-Term Incentive equity awards granted under our GlobalShare Plan in a combination of PSUs and RSUs. For Mr. Wolstencroft, the 2014 *Stock Award* amount reflects: (i) a recruiting award issued on February 3, 2014 consisting of 125,000 time vesting RSUs that will vest in three equal annual installments and 125,000 PRSUs that will vest after the 2nd grant date anniversary contingent upon specified stock price increases; and (ii) annual Long-Term Incentive equity awards granted under our GlobalShare Plan in a combination of PSUs and RSUs. The 125,000 PRSUs issued to Mr. Wolstencroft have vested in full because he has achieved all of the specified stock price increases from $15.97 and the waiting period through the 2nd anniversary of the grant date has passed.

(5) The *Non-Equity Incentive Plan Compensation* amounts in this column reflect our annual Short-Term Incentive MIP awards for 2016. The performance goals for the awards were established by the HRCC on February 8, 2016, final evaluation of those performance goals was determined on March 8, 2017 and awards were initially paid in March 2017. With respect to each award, 85% was paid in full March 2017

and the remaining 15% was mandatorily deferred and will be paid in cash ratably over three years. These awards are discussed in further detail on page 22.

(6) This column reflects all other compensation paid to the executive, including perquisites that have an aggregate value of $10,000 or more. For Mr. Pehlke, the amount for 2015 includes business club fees, parking and an annual physical examination. For Mr. Beard, (i) the amount for 2016 includes business club fees and parking; (ii) the amount for 2015 includes business club fees, parking and an annual examination.

(7) Mr. Price s compensation is paid in British sterling. The exchange rate used to express his compensation in U.S. dollars is 1.10670 (i.e. 1 British pound is equal to 1.10670 U.S. dollars).

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2016 GRANTS OF PLAN-BASED AWARDS TABLE

The table below sets forth certain information with respect to awards that were granted during the fiscal year ended December 31, 2016 for each named executive officer.

			Estimated Possible Payouts Under Non-Equity Incentive Plan Awards (3)			Estimated Future Payouts Under Equity Incentive Plan Awards (4)						
Name & Principal Position	**Grant Date**	**Date of HRCC Action**	**Threshold ($)**	**Target ($)**	**Maximum ($)**	**Threshold (#)**	**Target (#)**	**Maximum (#)**	**All Other Stock Awards: Number of Shares of Stock or Units (#) (5)**	**All Other Option Awards: Number of Securities Underlying Options (#)**	**Exercise or Base Price of Option Awards ($/Sh)**	**Grant Date Fair Value of Stock and Option Awards ($) (6)**
Tracy R. Wolstencroft	9-Mar-16(1)		531,250	1,062,500	1,593,750							956,248
President and Chief	9-Mar-16(2)	8-Feb-16				0	40,927	80,594	40,297			956,248
Executive Officer												
Krishnan Rajagopalan	9-Mar-16(1)	8-Feb-16	487,500	975,000	1,425,000							649,988
Executive Vice President,	9-Mar-16(2)					0	27,391	54,782	27,391			649,988
Executive Search												
Colin Price	9-Mar-16(1)	8-Feb-16	290,509	581,018	871,526							0
Executive Vice President,	9-Mar-16(2)					0	0	0	1,871(7)			44,399
Leadership Consulting												
Richard W. Pehlke	9-Mar-16(1)	8-Feb-16	200,000	400,000	600,000							299,995
Chief Financial Officer	9-Mar-16(2)					0	12,642	25,284	12,642			299,995
Stephen W. Beard	9-Mar-16(1)	8-Feb-16	187,500	375,000	562,500							281,248
General Counsel, Chief	9-Mar-16(2)					0	11,852	23,704	11,852			281,248
Administrative Officer & Secretary												

(1) The amounts in this row reflect (i) a *Non-Equity Incentive Plan Award* representing our annual Short-Term Incentive MIP awards for 2016 as established by the HRCC on February 8, 2016.

(2) The amounts in this row include awards granted on March 9, 2016 consisting of: (i) an *Equity Incentive Plan Award* representing an annual Long-Term Incentive PSU award issued under our *2012 GlobalShare Plan* that will vest (if at all) after a three-year performance period; and (ii) an *All Other Stock Award* representing an annual Long-Term Incentive RSU award issued under our *2012 GlobalShare Plan* that will vest in three equal installments on each grant date anniversary subject to his continued employment with the Company.

(3) With respect to our *Non-Equity Incentive Plan Awards* representing our annual Short-Term Incentive MIP awards, the performance goals were established by the HRCC on February 8, 2016, the final evaluation of those performance goals was determined on March 8, 2017 and the initial payments for those awards were made in March 2017. The amounts in the table reflect the range of potential MIP award payouts which may be as little as zero and as high as 150 % of Target. If the performance goals based on Company financial performance are not met at the threshold level (which would provide a payment equal to 50% of target), the amount (if any) payable under the MIP with respect to that component is at the discretion of our HRCC. The amounts actually paid under the MIP for 2016 appear in the *Non-Equity Incentive Plan Compensation* column of the *Summary Compensation Table* on page 29.

(4) With respect to our *Equity Incentive Plan Awards* representing our annual Long-Term Incentive PSU award issued under our *2012 GlobalShare Plan*, the awards are target-based equity grants that vest three years from the grant date, and are subject to the achievement of certain performance measures. The PSUs are stated at their target number of shares. Upon vesting, the recipients will receive anywhere from 0% to 200% of the target number of shares based on actual company performance over the performance period. The unvested PSUs are credited with dividend equivalents which are payable in cash to the extent the shares subject to the PSUs vest.

(5) With respect to our *All Other Stock Awards* representing our annual Long-Term Incentive RSU award issued under our *2012 GlobalShare Plan*, the awards are service-based equity awards that vest in three equal installments (the first, second and third anniversaries of the date of grant), generally subject to the executive s continued employment with the Company. All unvested RSUs are credited with dividend equivalents which are payable in cash to the extent the shares subject to the RSUs vest.

(6) Reflects the grant date fair value of RSUs and PSUs calculated in accordance with ASC Topic 718. The fair value of the RSUs is based on the closing price of the common stock on the grant date. The fair value of the target number of PSUs was estimated based on our closing stock price on the grant date; the ultimate number and value of PSUs earned over the performance period from January 1, 2016 through December 31, 2018 will depend on our average percentage of Operating Income achieved relative to target Operating Income goals and the price of our stock at vesting.

(7) With respect to Mr. Price, 100 percent of his LTI award was issued as RSUs. The award was prorated to represent one-fourth of the year in alignment with the acquisition of Co Company in the fourth quarter of 2015. Mr. Price become a named executive officer in January 2016. His target compensation includes a mix of RSUs and PSUs.

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2016 OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END TABLE

The table below includes certain information with respect to restricted stock units and performance stock units previously awarded to the named executive officers that were outstanding as of December 31, 2016. The market value of each award was determined using our closing stock price on December 30, 2016 (the last trading day of 2016), $24.15. No stock options were outstanding as of December 31, 2016.

Name and Principal Position	Number of Shares or Units of Stock that Have Not Vested (#)	Market Value of Shares or Units of Stock that Have Not Vested ($) (1)	Equity Incentive Plan Awards; Number of Unearned Shares, Units, or Other Rights that Have Not Vested (#)	Equity Incentive Plan Awards; Market or Payout Value of Unearned Shares, Units or Other Rights that Have Not Vested ($) (2)
Tracy R. Wolstencroft	125,000(3)	$ $ 21,359		

Earnings per share of common stock – basic:						
Continuing operations	$ 0.31	$ 0.01	$ 0.32	$ 0.70	$ (0.04)	$ 0.66
Earnings from discontinued operations	-	-	-	0.01	-	0.01
Net earnings – basic	$ 0.31	$ 0.01	$ 0.32	$ 0.71	$ (0.04)	$ 0.67
Earnings per share of common stock – diluted:						
Continuing operations	$ 0.31	$ 0.01	$ 0.32	$ 0.69	$ (0.04)	$ 0.65
Earnings from discontinued operations	-	-	-	0.01	-	0.01
Net earnings – diluted	$ 0.31	$ 0.01	$ 0.32	$ 0.70	$ (0.04)	$ 0.66

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

March 31, 2008

	As Reported	Adjustments	After Change in Accounting Principle
ASSETS			
Current assets:			
Cash and cash equivalents	$ 38,313	$ 282	$ 38,595
Short term investments	2,909	-	2,909
Trade receivables	287,383	7,552	294,935
Inventories	123,395	2,104	125,499
Assets held for sale	6,871	-	6,871
Deferred income taxes and other current assets	63,281	1,201	64,482
Total current assets	522,152	11,139	533,291
Noncurrent assets:			
Property, plant and equipment – net	533,807	6,729	540,536
Investment in affiliates	23,150	542	23,692
Goodwill	44,935	(103)	44,832
Intangible assets – net	10,605	(120)	10,485
Assets held for sale	5,522	-	5,522
Other noncurrent assets	9,687	238	9,925
Total noncurrent assets	627,706	7,286	634,992
Total assets	$ 1,149,858	$ 18,425	$ 1,168,283
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term debt	$ 11	$ 4,341	$ 4,352
Long-term debt – current portion	292	(44)	248
Accounts payable	199,593	(6,365)	193,228
Accrued compensation and employee benefits	65,167	3,718	68,885
Income taxes	11,583	4,979	16,562
Liabilities of business held for sale	3,093	-	3,093
Accrued expenses and other current liabilities	55,661	(3,115)	52,546
Total current liabilities	335,400	3,514	338,914
Noncurrent liabilities:			
Long-term debt	226,198	815	227,013
Deferred income taxes	22,843	791	23,634
Pensions	35,095	(953)	34,142
Postretirement benefits	26,669	-	26,669
Liabilities of business held for sale	166	-	166
Other noncurrent liabilities	35,579	(952)	34,627
Total noncurrent liabilities	346,550	(299)	346,251
Total liabilities	681,950	3,215	685,165
Shareholders' equity:			
Preferred stock	-	-	-

Common stock	20,492	-	20,492
Additional paid-in capital	69,346	-	69,346
Retained earnings	342,490	3,476	345,966
Accumulated other comprehensive income	49,324	11,734	61,058
Treasury stock	(13,303)	-	(13,303)
Deferred compensation trust	(441)	-	(441)
Total shareholders' equity	467,908	15,210	483,118
Total liabilities and shareholders' equity	$ 1,149,858	$ 18,425	$ 1,168,283

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

	Six months ended September 30, 2007		
	As Reported	Adjustments	After Change in Accounting Principle
Cash flows from operating activities:			
Net earnings	$ 22,712	$ (1,353)	$ 21,359
Adjustments to reconcile net earnings with net cash provided by operating activities:			
Depreciation and amortization	38,423	240	38,663
Other – net	(18,522)	-	(18,522)
Net changes in operating assets and liabilities	(28,370)	9,553	(18,817)
Net cash provided by operating activities	14,243	8,440	22,683
Cash flows from investing activities:			
Expenditures for property, plant and equipment	(34,348)	(2,046)	(36,394)
Proceeds from dispositions of assets	8,435	-	8,435
Settlement of derivative contracts	194	-	194
Other – net	241	-	241
Net cash used for investing activities	(25,478)	(2,046)	(27,524)
Cash flows from financing activities:			
Short-term debt	8,037	(8,747)	(710)
Additions to long-term debt	65,012	35	65,047
Reductions of long-term debt	(38,118)	(1,931)	(40,049)
Book overdrafts	7,071	-	7,071
Proceeds from exercise of stock options	664	-	664
Repurchase of common stock, treasury and retirement	(5,962)	-	(5,962)
Cash dividends paid	(11,337)	-	(11,337)
Other – net	101	-	101
Net cash provided by financing activities	25,468	(10,643)	14,825
Effect of exchange rate changes on cash	757	1,386	2,143
Net increase in cash and cash equivalents	14,990	(2,863)	12,127
Cash and cash equivalents at beginning of period	21,227	4,980	26,207
Cash and cash equivalents at end of period	$ 36,217	$ 2,117	$ 38,334

In addition, Modine changed the reporting month end of its domestic operations from the 26th day of the month to the last day of the month for each month except March. The Company's fiscal year-end will remain March 31st. The Company has not retrospectively applied this change in accounting principle since it is impracticable to do so as period end closing data as of the end of each month for prior periods is not available. Management believes the impact to the results of operations, consolidated balance sheets and cash flows to be immaterial for all prior periods.

Trade receivables and allowance for doubtful accounts: Trade receivables are recorded at the invoiced amount and do not bear interest if paid according to the original terms. The allowance for doubtful accounts is Modine's best estimate of the uncollectible amount contained in the existing trade receivables balance. The allowance is based on historical write-off experience and specific customer economic data. The allowance for doubtful accounts is reviewed periodically and adjusted as necessary. Utilizing age and size based criteria, certain individual accounts are reviewed for collectibility, while all other accounts are reviewed on a pooled basis. Receivables are charged off against the allowance when it is probable and to the extent that funds will not be collected. On September 25, 2008, the Company entered into an Accounts Receivable Purchase Agreement whereby one specific customer's accounts receivable may be sold without recourse to a third-party financial institution on a revolving basis. During the three months ended September 30, 2008, the Company sold $5,914 of accounts receivable to provide additional financing capacity. In compliance with SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" (SFAS 140), sales of accounts receivable are reflected as a reduction of accounts receivable in the consolidated balance sheets and the proceeds are included in the cash flows from operating activities in the condensed consolidated statements of cash flows. During the three and six months ended September 30, 2008, a $68 loss on the sale of accounts receivable was recorded in the consolidated statements of operations. This loss represented implicit interest on the transactions.

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Accounting standards changes and new accounting pronouncements: In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, "Fair Value Measurements," which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and establishes a hierarchy that categorizes and prioritizes the sources to be used to estimate fair value. SFAS No. 157 also expands financial statement disclosures about fair value measurements. On February 12, 2008, the FASB issued FASB Staff Position (FSP) 157-2 which delays the effective date of SFAS No. 157 for one year, for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Company adopted SFAS No. 157 and FSP 157-2 as of April 1, 2008 which did not have a material impact on the financial statements. See Note 18 for further discussion.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – including an Amendment of SFAS No. 115", which permits an entity to measure many financial assets and financial liabilities at fair value that are not currently required to be measured at fair value. Entities that elect the fair value option will report unrealized gains and losses in earnings at each subsequent reporting date. The fair value option may be elected on an instrument-by-instrument basis, with a few exceptions. SFAS No. 159 amends previous guidance to extend the use of the fair value option to available-for-sale and held-to-maturity securities. The Statement also establishes presentation and disclosure requirements to help financial statement users understand the effect of the election. The Company adopted SFAS No. 159 as of April 1, 2008 and has not elected to measure any financial assets or financial liabilities at fair value which were not previously required to be measured at fair value.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" (SFAS No. 141(R)) which replaces SFAS No. 141, "Business Combination". SFAS No. 141(R) retained the underlying concepts of SFAS No. 141 in that all business combinations are still required to be accounted for at fair value under the acquisition method of accounting, but SFAS No. 141(R) changed the method of applying the acquisition method in a number of significant aspects. For all business combinations, the entity that acquires the business will record 100 percent of all assets and liabilities of the acquired business, including goodwill, generally at their fair values. Certain contingent assets and liabilities acquired will be recognized at their fair values on the acquisition date and changes in fair value of certain arrangements will be recognized in earnings until settled. Acquisition-related transactions and restructuring costs will be expensed rather than treated as an acquisition cost and included in the amount recorded for assets acquired. SFAS No. 141(R) is effective for the Company on a prospective basis for all business combinations for which the acquisition date is on or after April 1, 2009, with the exception of the accounting for valuation allowances on deferred taxes and acquired tax contingencies. SFAS No. 141(R) amends SFAS No. 109, "Accounting for Income Taxes," such that adjustments made to valuation allowances on deferred taxes and acquired tax contingencies associated with acquisitions that close prior to the effective date of SFAS No. 141(R) would also apply the provisions of SFAS No. 141(R). Early adoption is not allowed. Management is currently assessing the potential impact of this standard on the Company's consolidated financial statements; however, the adoption will not have an impact on previous acquisitions.

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In December 2007, the FASB issued SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statements, an amendment of ARB 51." SFAS No. 160 amends Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to establish new standards that will govern the accounting for and reporting of (1) non-controlling interest in partially owned consolidated subsidiaries and (2) the loss of control of subsidiaries. The Company's consolidated subsidiaries are wholly owned and as such no minority interests are currently reported in its consolidated financial statements. Other current ownership interests are reported under the equity method of accounting under investments in affiliates. SFAS No. 160 is effective for the Company on a prospective basis on or after April 1, 2009 except for the presentation and disclosure requirements, which will be applied retrospectively. Early adoption is not allowed. Based upon the Company's current portfolio of investments in affiliates, the Company does not anticipate that adoption of this standard will have a material impact on the consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133." SFAS No. 161 requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. SFAS No. 161 is effective for the Company during the fourth quarter of fiscal 2009. Early adoption is encouraged. SFAS No. 161 encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Company is currently evaluating the impact this statement will have on the financial statement disclosures.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles." SFAS No. 162 mandates that GAAP hierarchy reside in the accounting literature as opposed to the audit literature. This has the practical impact of elevating FASB Statements of Financial Accounting Concepts in the GAAP hierarchy. SFAS No. 162 will become effective 60 days following U.S. Securities and Exchange Commission approval. The Company does not anticipate that adoption of this standard will have an impact on the consolidated financial statements.

In June 2008, the FASB issued FASB Staff Position EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities" (FSP 03-6-1). FSP 03-6-1 requires unvested share-based payment awards that contain non-forfeitable rights to dividends to be treated as participating securities and included in the computation of basic earnings per share. FSP 03-6-1 is effective for the Company during the first quarter of fiscal 2010, and requires all prior-period earnings per share data to be adjusted retrospectively. Early adoption is not allowed. While the Company does have unvested retention stock awards that earn non-forfeitable dividends, the adoption of FSP 03-6-1 is not expected to have a material impact on earnings per share.

Note 3: Employee Benefit Plans

Modine's contributions to the defined contribution employee benefit plans for the three months ended September 30, 2008 and 2007 were $1,650 and $1,895, respectively. Modine's contributions to the defined contribution employee benefit plans for the six months ended September 30, 2008 and 2007 were $3,497 and $3,734, respectively.

In September 2008, the Company announced that effective January 1, 2009, the Modine Manufacturing Company Group Insurance Plan – Retiree Medical Plan is being modified to eliminate coverage for retired participants that are Medicare eligible. This plan amendment resulted in a $14,283 reduction of the post-retirement benefit obligation, which has been reflected as a component of other comprehensive (loss) income, net of income taxes of $5,305, and will be amortized to earnings over the future service life of active participants.

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During the three and six months ended September 30, 2008, the Company recorded a settlement charge of $280 related to a settlement payment made from the Modine Manufacturing Company Supplemental Executive Retirement Plan.

In September 2007, the Company announced that effective January 1, 2008, the Modine Manufacturing Company Pension Plan for Non-Union Hourly-Paid Factory and Salaried Employees (Salaried Employee Component) and the Modine Manufacturing Company Supplemental Executive Retirement Plan were modified so that no increases in annual earnings after December 31, 2007 would be included in calculating the average annual earnings portion under the pension plan formula. The Company recorded a pension curtailment gain of $4,214 during the three and six months ended September 30, 2007 to reflect this modification.

Costs for Modine's pension and postretirement benefit plans for the three and six months ended September 30, 2008 and 2007 include the following components:

	Three months ended September 30				Six months ended September 30			
	Pension		Postretirement		Pension		Postretirement	
	2008	2007	2008	2007	2008	2007	2008	2007
Service cost	$ 559	$ 681	$ 29	$ 83	$ 1,259	$ 1,468	$ 92	$ 166
Interest cost	3,647	3,384	304	447	7,139	7,230	768	894
Expected return on plan assets	(3,973)	(4,401)	-	-	(8,508)	(9,100)	-	-
Amortization of:								
Unrecognized net loss (gain)	114	326	(28)	122	967	1,858	66	244
Unrecognized prior service cost	109	104	(195)	-	183	80	(189)	-
Unrecognized net asset	-	(5)	-	-	-	(12)	-	-
Adjustment for curtailment/settlement	280	(4,214)	-	-	280	(4,214)	-	-
Net periodic benefit cost (income)	$ 736	$ (4,125)	$ 110	$ 652	$ 1,320	$ (2,690)	$ 737	$ 1,304

Note 4: Stock-Based Compensation

Stock-based compensation consists of stock options and restricted and unrestricted stock granted for retention and performance. 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 $2,054 and $2,320 for the three months ended September 30, 2008 and 2007, respectively. Modine recognized stock-based compensation cost of $2,794 and $3,674 for the six months ended September 30, 2008 and 2007, respectively. The performance component of the long-term incentive plan includes earnings per share and total shareholder return measures based upon a cumulative three year period. A new performance period begins each fiscal year so multiple performance periods, with separate goals, are operating simultaneously. Based upon management’s assessment of probable attainment, $458 of compensation expense was

reversed relative to the earnings per share component of the fiscal 2007-08 plan in the first quarter of fiscal 2008-09.

The following tables present, by type, the fair market value of stock-based compensation awards granted during the three and six months ended September 30, 2008 and 2007:

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	Three months ended September 30,			
	2008		2007	
Type of award	Shares	Fair Value Per Award	Shares	Fair Value Per Award
Common stock options	-	$ -	-	$ -
Restricted common stock - retention	13.5	$ 14.06	11.2	$ 28.50
Restricted common stock - performance based upon total shareholder return compared to the S&P 500	-	$ -	-	$ -
Restricted common stock - performance based upon earnings per share growth	-	$ -	149.6	$ 23.25

	Six months ended September 30,			
	2008		2007	
Type of award	Shares	Fair Value Per Award	Shares	Fair Value Per Award
Common stock options	-	$ -	0.3	$ 5.30
Restricted common stock - retention	17.1	$ 14.64	11.2	$ 28.50
Restricted common stock - performance based upon total shareholder return compared to the S&P 500	101.8	$ 19.49	79.9	$ 23.60
Restricted common stock – performance based upon earnings per share growth	209.2	$ 16.66	149.6	$ 23.25

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

	Three and six months ended September 30,		
	2008	2007	
	Performance Awards	Options	Performance Awards
Expected life of awards in years	3	5	3
Risk-free interest rate	2.68%	4.58%	4.57%
Expected volatility of the Company's stock	36.00%	28.51%	29.60%
Expected dividend yield on the Company's stock	2.50%	3.32%	2.88%
Expected forfeiture rate	1.50%	1.50%	1.50%

As of September 30, 2008, 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:

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Type of award		Unrecognized Compenstion Costs	Weighted Average Remaining Service Period in Years
Common stock options	$	73	2.3
Restricted common stock - retention		2,634	2.1
Restricted common stock - performance		5,438	2.2
Total	$	8,145	2.2

Note 5: Other (Expense) Income – Net

Other (expense) income – net was comprised of the following:

	Three months ended September 30				Six months ended September 30			
		2008		2007		2008		2007
Equity earnings of non-consolidated affiliates	$	624	$	587	$	1,513	$	1,276
Interest income		613		373		1,125		649
Foreign currency transactions		(2,519)		249		(2,063)		2,345
Other non-operating income - net		272		91		587		279
Total other (expense) income - net	$	(1,010)	$	1,300	$	1,162	$	4,549

Foreign currency transactions for the three and six months ended September 30, 2008 and 2007 were primarily comprised of foreign currency transaction gains (losses) on inter-company loans denominated in a foreign currency in Brazil.

Note 6: Income Taxes

For the three months ended September 30, 2008 and 2007, the Company's effective income tax rate attributable to (loss) earnings from continuing operations before income taxes was -15.7 percent and -81.8 percent, respectively. During the second quarter of fiscal 2009, the Company recorded a valuation allowance of $4,629 primarily against the net South Korean and U.S. deferred tax assets as it is more likely than not that these assets will not be realized based on historical performance. During the second quarter of fiscal 2008, the Company recorded a $2,735 benefit related to the impact of a favorable retroactive income tax law change in Germany which reduced the German income tax rate by 10 percentage points. The change in the effective tax rate from the prior year primarily relates to the impact of the above-referenced valuation allowance charge and the impact of the German tax law change.

For the six months ended September 30, 2008 and 2007, the Company's effective income tax rate attributable to (loss) earnings from continuing operations before income taxes was 225.6 percent and -3.1 percent, respectively. The increase in the effective tax rate from the prior year primarily relates to the absence of the prior year favorable impact of foreign tax law changes and an increased valuation allowance charge of $9,956 primarily against the net South

Korean and U.S. deferred tax assets offset by favorable foreign tax rate differentials.

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Accounting Principles Board Opinion No. 28, "Interim Financial Reporting," requires 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. Circumstances may arise which make it difficult for the Company to determine a reasonable estimate of its annual effective tax rate for the fiscal year. This is particularly true when small variations in the projected earnings or losses could result in a significant fluctuation in the estimated annual effective tax rate. In accordance with FASB Interpretation No. 18, "Accounting for Income Taxes in Interim Periods," the Company has determined that a reliable estimate of its annual income tax rate cannot be made, and that the impact of the Company's operations in the U.S. and South Korea should be removed from the effective tax rate methodology and recorded discretely based upon year-to-date results. The effective tax rate methodology continues to be used for the majority of the Company's other foreign operations.

The following is a reconciliation of the effective tax rate for the three and six months ended September 30, 2008:

	Three months ended September 30, 2008			
	Domestic	Foreign	Total	%
(Loss) earnings from continuing operations before income taxes	$ (26,899)	$ 10,215	$ (16,684)	
(Benefit from) provision for income taxes at federal statutory rate	$ (9,415)	$ 3,575	$ (5,840)	(35.0%)
Differential in foreign tax rates and state taxes	(181)	(1,301)	(1,482)	(8.9)
Valuation allowance	4,573	56	4,629	27.7
Other, net	(77)	150	73	0.5
(Benefit from) provision for income taxes	$ (5,100)	$ 2,480	$ (2,620)	(15.7%)

	Six months ended September 30, 2008			
	Domestic	Foreign	Total	%
(Loss) earnings from continuing operations before income taxes	$ (44,049)	$ 41,807	$ (2,242)	
(Benefit from) provision for income taxes at federal statutory rate	$ (15,417)	$ 14,632	$ (785)	(35.0%)
Differential in foreign tax rates and state taxes	(706)	(3,537)	(4,243)	(189.3)
Valuation allowance	9,328	628	9,956	444.1
Other, net	(155)	286	131	5.8
(Benefit from) provision for income taxes	$ (6,950)	$ 12,009	$ 5,059	225.6%

The Company is currently under routine examination by taxing authorities in the U.S. and certain foreign countries. The examinations are in various stages of audit by the applicable taxing authorities. Based on the outcome of these examinations, it is reasonably possible that the related unrecognized tax benefits for tax positions taken

regarding previously filed tax returns will materially change from those recorded as liabilities for uncertain tax positions in our financial statements. These examinations may be resolved within the next twelve months, but at this time it is not possible to estimate the amount of impact of any such changes to the previously recorded uncertain tax positions.

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As further discussed in Note 13, the Company completed the sale of its Electronics Cooling business during the first quarter of fiscal 2009. Both the gain on sale and earnings from discontinued operations has been shown separately in the consolidated statements of operations. As a result, the gain on sale has been presented net of income tax (benefit) expense of ($814) and $769 for the three and six months ended September 30, 2008, respectively. In addition, the earnings from discontinued operations for the three and six months ended September 30, 2008 have been presented net of income tax (benefit) expense of ($2) and $76, respectively, and the earnings from discontinued operations for the three and six months ended September 30, 2007 have been presented net of income tax expense of $119 and $168, respectively.

Note 7: Earnings Per Share

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

	Three months ended September 30		Six months ended September 30	
	2008	2007	2008	2007
Numerator:				
(Loss) earnings from continuing operations	$ (14,064)	$ 10,226	$ (7,301)	$ 20,973
(Loss) earnings from discontinued operations	(10)	132	165	386
Gain on sale of discontinued operations	848	-	1,697	-
Net (loss) earnings	$ (13,226)	$ 10,358	$ (5,439)	$ 21,359
Denominator:				
Weighted average shares outstanding – basic	32,065	32,099	32,052	32,105
Effect of dilutive securities	-	195	-	126
Weighted average shares outstanding – diluted	32,065	32,294	32,052	32,231
Net (loss) earnings per share of common stock – basic:				
Continuing operations	$ (0.44)	$ 0.32	$ (0.23)	$ 0.66
(Loss) earnings from discontinued operations	-	-	0.01	0.01
Gain on sale of discontinued operations	0.03	-	0.05	-
Net (loss) earnings – basic	$ (0.41)	$ 0.32	$ (0.17)	$ 0.67
Net (loss) earnings per share of common stock – diluted:				
Continuing operations	$ (0.44)	$ 0.32	$ (0.23)	$ 0.65
(Loss) earnings from discontinued operations	-	-	0.01	0.01
Gain on sale of discontinued operations	0.03	-	0.05	-
Net (loss) earnings – diluted	$ (0.41)	$ 0.32	$ (0.17)	$ 0.66

For the three and six months ended September 30, 2008, the calculation of diluted earnings per share excludes all potentially dilutive shares which includes, 2,621 stock options, 164 restricted stock awards and 401 performance awards as these shares were anti-dilutive. For the three months ended September 30, 2007, the calculation of diluted earnings per share excluded 1,593 stock options and 12 restricted awards as these awards were anti-dilutive. For the six months ended September 30, 2007, 1,615 stock options and 145 restricted stock awards were excluded from the

calculation of dilutive earnings per share as these awards were anti-dilutive.

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Note 8: Comprehensive (Loss) Income

Comprehensive (loss) income, which represents net (loss) earnings adjusted by the change in accumulated other comprehensive income was as follows:

	Three months ended September 30		Six months ended September 30	
	2008	2007	2008	2007
Net (loss) earnings	$ (13,226)	$ 10,358	$ (5,439)	$ 21,359
Foreign currency translation	(53,169)	17,830	(50,344)	24,861
Cash flow hedges	(6,063)	(827)	(6,206)	(2,227)
Change in SFAS No. 158 benefit plan adjustment	3,616	18,947	4,256	19,921
Post-retirement plan amendment	8,978	-	8,978	-
Total comprehensive (loss) income	$ (59,864)	$ 46,308	$ (48,755)	$ 63,914

Note 9: Inventories

The amounts of raw materials, work in process and finished goods cannot be determined exactly except by physical inventories. Based on partial interim physical inventories and percentage relationships at the time of complete physical inventories, management believes the amounts shown below are reasonable estimates of raw materials, work in process and finished goods.

	September 30, 2008	March 31, 2008
Raw materials and work in process	$ 97,359	$ 96,973
Finished goods	32,680	28,526
Total inventories	$ 130,039	$ 125,499

Note 10: Property, Plant and Equipment

Property, plant and equipment consisted of the following:

	September 30, 2008	March 31, 2008
Gross property, plant and equipment	$ 1,138,917	$ 1,188,563
Less accumulated depreciation	(639,317)	(648,027)
Net property, plant and equipment	$ 499,600	$ 540,536

An impairment charge of $3,031 was recorded during the three months ended September 30, 2008. The impairment charge included $2,661 related to assets in the Original Equipment – North America segment for a program which was not able to support its asset base and for assets no longer in use. If future capital expenditures are required for the program, which was not able to support its asset base, additional impairment charges may be required in the future. Also included in the impairment charge was $370 related to certain assets in the Commercial Products segment for the cancellation of a product in its development stage.

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Note 11: Acquisitions

During fiscal 2007, the Company acquired the remaining 50 percent of the stock of Radiadores Visconde Ltda. which it did not already own, for $11,096, net of cash acquired, and the incurrence of a $2,000 note which is payable in 24 months, subject to the sellers' indemnification obligations under the agreement, for a total net purchase price of $13,096. The acquisition was financed using cash generated from operations and borrowing on the Company's revolving credit agreement. The purchase agreement also included a $4,000 performance payment contingent on the cumulative earnings before interest, taxes, depreciation and amortization of the business over a 24 month period. The purchase price allocation resulted in the fair market values of the assets and liabilities acquired exceeding the purchase price. Accordingly, the $4,000 contingent performance payment was recorded as a liability in the purchase price allocation, reducing the amount by which the fair market values of the assets and liabilities acquired exceeded the purchase price, and increasing the total net purchase price to $17,096. During the first quarter of fiscal 2009, the 24 month performance period expired, and the contingency was not met. As a result, this liability was reversed with reductions of $5,529 to property, plant and equipment, $532 to intangible assets and $2,061 to deferred income tax liability. The $2,000 note payable remains recorded as a liability at September 30, 2008 as the sellers' indemnification obligations are being reviewed by the Company and negotiated with the seller.

Note 12: Restructuring, Plant Closures and Other Related Costs

During fiscal 2008, the Company announced the closure of three U.S. manufacturing plants that included facilities in Camdenton, Missouri; Pemberville, Ohio; and Logansport, Indiana, along with the Tübingen, Germany facility. These measures are aimed at realigning the Company's manufacturing operations, improving profitability and strengthening global competitiveness. These closures are anticipated to be completed by the end of fiscal 2011. The Company completed the closure of its Jackson, Mississippi facility in the first quarter of fiscal 2009. The Clinton, Tennessee facility is scheduled for closure later in fiscal 2009.

In September 2008, the Company announced a workforce reduction that affected approximately 20 employees, including approximately 15 percent of the managerial workforce in the Company's Racine, Wisconsin, headquarters.

The Company has incurred $8,357 of termination charges, $2,526 of pension curtailment charges and $9,792 of other closure costs related to these closures and the workforce reduction. Further additional costs which are anticipated to be incurred through fiscal 2010 are approximately $17,000, consisting of $3,000 of employee-related costs and $14,000 of other costs such as equipment moving costs, accelerated depreciation and miscellaneous facility closing costs. Total additional cash expenditures of approximately $17,000 are anticipated to be incurred related to these closures.

Changes in the accrued restructuring liability for the three and six months ended September 30, 2008 and 2007 were comprised of the following related to the above-described restructuring activities:

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	Three months ended September 30	
	2008	2007
Restructuring liability:		
Balance, July 1	$ 4,542	$ 1,897
Additions	2,462	81
Adjustments	(276)	(160)
Payments	(445)	(33)
Balance, September 30	$ 6,283	$ 1,785

	Six months ended September 30	
	2008	2007
Restructuring liability:		
Balance, April 1	$ 5,161	$ 2,313
Additions	2,649	290
Adjustments	(515)	(609)
Payments	(1,012)	(209)
Balance, September 30	$ 6,283	$ 1,785

The following is the summary of restructuring and other repositioning costs recorded related to the announced programs during the three and six months ended September 30, 2008 and 2007:

	Three months ended September 30		Six months ended September 30	
	2008	2007	2008	2007
Restructuring charges (income):				
Employee severance and related benefits	$ 2,186	$ (79)	$ 2,134	$ (319)
Non-cash employee related benefits	685	-	685	-
Total restructuring charges (income)	2,871	(79)	2,819	(319)
Other repositioning costs:				
Consulting fees	1,242	-	2,499	-
Miscellaneous other closure costs	1,116	722	2,575	1,172
Total other repositioning costs	2,358	722	5,074	1,172
Total restructuring and other repositioning costs	$ 5,229	$ 643	$ 7,893	$ 853

The total restructuring and other repositioning costs of $5,229 and $7,893 were recorded in the consolidated statements of operations for the three and six months ended September 30, 2008, respectively, as follows: $1,116 and $2,575 were recorded as a component of cost of sales; $1,242 and $2,499 were recorded as a component of selling, general and administrative expenses; and $2,871 and $2,819 were recorded as restructuring expense. The total restructuring and other repositioning costs of $643 and $853 were recorded in the consolidated statements of operations for the three and six months ended September 30, 2007, respectively, as follows: $722 and $1,172 were recorded as a component of cost of sales and $79 and $319 were recorded as restructuring income. The Company accrues severance in accordance with its written plan and procedures. Restructuring income relates to reversals of

severance liabilities due to employee terminations prior to completion of required retention periods.

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Note 13: Discontinued Operations and Assets Held for Sale

During the first quarter of fiscal 2008, the Company announced it would explore strategic alternatives for its Electronics Cooling business. In accordance with the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," it was determined that the Electronics Cooling business should be presented as held for sale and as a discontinued operation in the consolidated financial statements. The balance sheet amounts of the Electronics Cooling business have been reclassified to assets and liabilities of business held for sale on the consolidated balance sheet, and the operating results have been separately presented as a discontinued operation in the consolidated statements of operations for all periods presented. During the first quarter of fiscal 2009, the Company sold substantially all of the assets of its Electronics Cooling business for $13,250, $2,510 of which is in the form of seller financing with subordinated, promissory notes delivered by the buyer, with the remaining sales proceeds of $10,740 received in cash. Transition expenses of $437 were paid by the Company during the first quarter of fiscal 2009. The Company recorded a gain on the sale, net of income taxes, of $848 and $1,697 for the three and six months ended September 30, 2008, respectively.

The major classes of assets and liabilities held for sale at March 31, 2008 included in the consolidated balance sheet were as follows:

	March 31, 2008
Assets held for sale:	
Receivables - net	$ 4,371
Inventories	2,500
Total current assets held for sale	6,871
Property, plant and equipment - net	2,735
Goodwill	2,781
Other noncurrent assets	6
Total noncurrent assets held for sale	5,522
Total assets held for sale	$ 12,393
Liabilities of business held for sale:	
Accounts payable	$ 1,284
Accrued expenses and other current liabilities	1,809
Total current liabilities of business held for sale	3,093
Other noncurrent liabilities	166
Total liabilities of business held for sale	$ 3,259

In addition, the Electronics Cooling business had cash of $1,156 at March 31, 2008, that was included in cash and cash equivalents on the consolidated balance sheet, and the cash balance was not included in the sales transaction.

The following results of the Electronics Cooling business have been presented as (loss) earnings from discontinued operations in the consolidated statements of operations:

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	Three months ended September 30		Six months ended September 30	
	2008	2007	2008	2007
Net sales	$ -	$ 6,842	$ 2,320	$ 14,386
Cost of sales and other expenses	12	6,591	2,079	13,832
(Loss) earnings before income taxes	(12)	251	241	554
(Benefit from) provision for income taxes	(2)	119	76	168
(Loss) earnings from discontinued operations	$ (10)	$ 132	$ 165	$ 386

Note 14: Goodwill and Intangible Assets

Changes in the carrying amount of goodwill during the first six months of fiscal 2009, by segment and in the aggregate, are summarized in the following table:

	OE - Asia	OE - Europe	South America	Commercial Products	Total
Balance, March 31, 2008	$ 522	$ 10,518	$ 14,066	$ 19,726	$ 44,832
Fluctuations in foreign currency	(3)	(1,140)	(1,096)	(1,883)	(4,122)
Adjustment	-	-	-	(300)	(300)
Balance, September 30, 2008	$ 519	$ 9,378	$ 12,970	$ 17,543	$ 40,410

The $300 adjustment to goodwill in the Commercial Products segment relates to an income tax benefit recorded during fiscal 2009 in this segment's Airedale business. This benefit related to periods prior to the May 3, 2005 acquisition of this business, which resulted in a reduction to goodwill.

Intangible assets are comprised of the following:

	September 30, 2008			March 31, 2008		
	Gross Carrying Value	Accumulated Amortization	Net Intangible Assets	Gross Carrying Value	Accumulated Amortization	Net Intangible Assets
Amortized intangible assets:						
Patents and product technology	$ 3,952	$ (3,824)	$ 128	$ 3,952	$ (3,696)	$ 256
Trademarks	9,774	(2,227)	7,547	10,605	(2,062)	8,543
Other intangibles	398	(216)	182	511	(196)	315

Total amortized intangible assets		14,124		(6,267)		7,857		15,068		(5,954)	9,114
Unamortized intangible assets:											
Tradename		873		-		873		1,371		-	1,371
Total intangible assets	$	14,997	$	(6,267)	$	8,730	$	16,439	$	(5,954)	$ 10,485

Amortization expense was $244 and $124 for the three months ended September 30, 2008 and 2007, respectively, and $516 and $430 for the six months ended September 30, 2008 and 2007, respectively.

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Total estimated annual amortization expense expected for the remainder of fiscal year 2009 through 2014 and beyond is as follows:

Fiscal Year	Estimated Amortization Expense
Remainder of 2009	$501
2010	1,015
2011	746
2012	746
2013	667
2014 & Beyond	4,182

Note 15: Indebtedness

The Company has $75,000, 4.91 percent Senior Notes issued in a private placement, maturing on September 29, 2015, and $50,000, 5.68 percent Series A Senior Notes and $25,000, 5.68 percent Series B Senior Notes issued in a second private placement, maturing on December 7, 2017 and December 7, 2018, respectively. On July 18, 2008, the Company entered into a three-year, $175,000 Amended and Restated Credit Agreement with seven financial institutions led by JPMorgan Chase Bank, N.A. The credit agreement amended and restated the Company's existing five-year, $200,000 revolving credit facility, which had been due to expire in October 2009. The new facility will expire in July 2011. The Company incurred $804 of fees to its creditors which will be amortized as a component of interest expense over the term of the facility. At September 30, 2008, $95,000 was outstanding under the revolving credit facility. Provisions contained in the Company's revolving credit facility and Senior Note agreements require the Company to maintain specified financial ratios and place certain limitations on dividend payments and the acquisition of Modine common stock. See Note 1 for further discussion of these covenant requirements.

At September 30, 2008, the Company had $80,000 available for future borrowings under the revolving credit facility. An additional $75,000 is available on the revolving credit facility, subject to lenders' approval. In addition to this revolving credit facility, unused lines of credit also exist in Europe, South Korea and Brazil, totaling $29,938 at September 30, 2008. In the aggregate, total available lines of credit of $184,938 exist at September 30, 2008. The availability of these funds is subject to the Company's ability to remain in compliance with the financial ratios and limitations in the respective debt agreements.

Note 16: Financial Instruments

Concentrations of Credit Risk: 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 September 30, 2008 and March 31, 2008, approximately 49 percent and 51 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. 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 21 for further discussion on market, credit and counterparty risks.

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Inter-Company Loans Denominated in Foreign Currencies: The Company has certain foreign-denominated long-term inter-company loans that are sensitive to foreign exchange rates. At September 30, 2008, the Company had a 11,295,000 won ($9,358 U.S. equivalent), 8-yr loan with its wholly owned subsidiary Modine Korea, LLC that matures on August 31, 2012. On March 28, 2008, the Company entered into a purchased option contract that expires March 31, 2009 to hedge the foreign exchange exposure on the entire outstanding amount of the Modine Korea, LLC loan. The derivative instrument is not being treated as a hedge, and accordingly, transaction gains or losses on the derivative instrument are being recorded in other (expense) income – net in the consolidated statement of operations and acts to offset any currency movement on the outstanding loan receivable. During the first two quarters of fiscal 2009, Modine Korea, LLC paid 12,800,000 won ($11,443 U.S. equivalent) on this inter-company loan and the Company correspondingly adjusted the purchased option contract to reflect the payments.

At September 30, 2008, the Company also had two inter-company loans totaling $17,541 with its wholly owned subsidiary, Modine Brazil with various maturity dates through May 2011. On March 31, 2008, the Company entered into a purchased option contract that expires on April 1, 2009 to hedge the foreign exchange exposure on the larger ($15,000) of the two inter-company loans. The smaller inter-company loan ($2,541) will be repaid by February 2009 and its foreign exchange exposure will be managed by natural hedges and offsets that exist in the Company's operations. The derivative instrument is not being treated as a hedge and, accordingly, transaction gains or losses on the derivative are being recorded in other (expense) income – net in the consolidated statement of operations and acts to offset any currency movement on the outstanding loan receivable.

The Company also has other inter-company loans outstanding at September 30, 2008 as follows:

- $5,326 loan to its wholly owned subsidiary, Modine Thermal Systems India, that matures on April 30, 2013;
- $9,150 between two loans to its wholly owned subsidiary, Modine Thermal Systems Co (Changzhou, China), with various maturity dates through June 2012; and
- $1,572 loan to its wholly owned subsidiary, Modine Thermal Systems Shanghai, that matures on January 19, 2009.

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.

Note 17: Foreign Exchange Contracts/Derivatives/Hedges

Modine uses derivative financial instruments in a limited way as a tool to manage certain financial risks. Their use is restricted primarily to hedging assets and obligations already held by Modine, and they are used to protect cash flows rather than generate income or engage in speculative activity. Leveraged derivatives are prohibited by Company policy.

Commodity derivatives: The Company enters into futures contracts related to certain of the Company's forecasted purchases of aluminum and natural gas. The Company's strategy in entering into these contracts is to reduce its exposure to changing prices for future purchases of these commodities. These contracts have been designated as cash flow hedges by the Company. Accordingly, unrealized gains and losses on these contracts are deferred as a component of other comprehensive (loss) income, and recognized as a component of earnings at the same time that the underlying purchases of aluminum and natural gas impact earnings. During the three months ended September 30, 2008 and 2007, $632 of income and $1,128 of expense, respectively, were recorded in the consolidated statements of operations related to the settlement of certain futures contracts. During the six months ended September 30, 2008 and

2007, $1,289 and $194 of income, respectively, were recorded in the consolidated statements of operations related to the settlement of certain futures contracts. At September 30, 2008, $4,951 of unrealized after-tax losses remain deferred in accumulated other comprehensive income, and will be realized as a component of cost of sales over the next 81 months.

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The Company also enters into futures contracts related to certain of the Company's forecasted purchases of copper and nickel. The Company's strategy in entering into these contracts is to reduce its exposure to changing purchase prices for future purchases of these commodities. The Company has not designated these contracts as hedges, therefore gains and losses on these contracts are recorded directly in the consolidated statements of operations. During the three months ended September 30, 2008 and 2007, $1,586 of expense and $474 income, respectively, were recorded in cost of sales related to these futures contracts. During the six months ended September 30, 2008 and 2007, $1,879 of expense and $474 of income, respectively, were recorded in cost of sales related to these futures contracts.

Interest rate derivatives: On August 5, 2005, the Company entered into a one-month forward ten-year treasury interest rate lock in anticipation of a private placement borrowing which occurred on September 29, 2005. The contract was settled on September 1, 2005 with a loss of $1,794. On October 25, 2006, the Company entered into two forward starting swaps in anticipation of the $75,000 private placement debt offering that occurred on December 7, 2006. On November 14, 2006, the fixed interest rate on the private placement borrowing was locked and, accordingly, the Company terminated and settled the forward starting swaps at a loss of $1,812. These interest rate derivatives were treated as cash flow hedges of forecasted transactions. Accordingly, the losses are reflected as a component of accumulated other comprehensive income and are being amortized to interest expense over the respective lives of the borrowings.

During the three months ended September 30, 2008 and 2007, $118 and $52 of expense, respectively, was recorded in the consolidated statements of operations related to the amortization of the interest rate derivative losses. During the six months ended September 30, 2008 and 2007, $170 and $174 of expense, respectively, was recorded in the consolidated statements of operations related to the amortization of the interest rate derivative losses. At September 30, 2008, $1,627 of unrealized after-tax losses remain deferred in accumulated other comprehensive income.

Foreign exchange contracts: The Company enters into foreign exchange contracts from time to time to hedge the foreign exchange exposure on inter-company loans denominated in foreign currencies. Refer to Note 16 for further discussion on these contracts.

Note 18: Fair Value Measurements

The Company adopted SFAS No. 157, "Fair Value Measurements", as of April 1, 2008, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and establishes a hierarchy that categorizes and prioritizes the sources to be used to estimate fair value. SFAS No. 157 also expands financial statement disclosures about fair value measurements. SFAS No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. SFAS No. 157 also specifies a fair value obtained from independent sources, while unobservable inputs (lowest level) reflect internally developed market assumptions. In accordance with SFAS No. 157, fair value measurements are classified under the following hierarchy:

- Level 1 – Quoted prices for identical instruments in active markets.

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- 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 used quoted market prices to determine fair value and classified such measurements with 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.

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.

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 AAA.

The Company measures fair values assuming that the unit of account is an individual derivative transaction and that 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 are the market values directly from active markets (such as NYSE) and are classified within Level 1 of the valuation hierarchy.

At September 30, 2008, the assets and liabilities that are measured at fair value on a recurring basis are classified as follows:

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	Level 1	Level 2	Level 3	Total Assets / Liabilities at Fair Value
Assets:				
Trading securities (short term investments)	$ 2,140	$ -	$ -	$ 2,140
Derivative financial instruments	-	2,415	-	2,415
Total assets	$ 2,140	$ 2,415	$ -	$ 4,555
Liabilities:				
Derivative financial instruments	$ -	$ 5,548	$ -	$ 5,548
Deferred compensation obligation	2,357	-	-	2,357
Total liabilitites	$ 2,357	$ 5,548	$ -	$ 7,905

Note 19: Product Warranties and Other Commitments

Product warranties: Modine provides product warranties for its assorted product lines with warranty periods generally ranging from one to ten years, with the majority falling within a two to four year time period. The Company accrues for estimated future warranty costs in the period in which the sale is recorded, and warranty expense estimates are forecasted based on the best information available using analytical and statistical analysis of both historical and current claim data. These expenses are adjusted when it becomes probable that expected claims will differ from initial estimates recorded at the time of the sale.

Changes in the warranty liability were as follows:

	Three months ended September 30	
	2008	2007
Balance, July 1	$ 13,515	$ 13,305
Accruals for warranties issued in current period	1,835	1,376
(Reversals) accruals related to pre-existing warranties	(166)	135
Settlements made	(2,330)	(2,256)
Effect of exchange rate changes	(1,393)	436
Balance, September 30	$ 11,461	$ 12,996

	Six months ended September 30	
	2008	2007
Balance, April 1	$ 15,790	$ 14,152
Accruals for warranties issued in current period	3,801	2,755
(Reversals) accruals related to pre-existing warranties	(540)	348
Settlements made	(6,207)	(4,822)
Effect of exchange rate changes	(1,383)	563
Balance, September 30	$ 11,461	$ 12,996

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Commitments: At September 30, 2008, the Company had capital expenditure commitments of $59,578. Significant commitments include tooling and equipment expenditures for new and renewal platforms with new and current customers in Europe, Asia and North America, along with the expansion of new facilities in Europe and Asia.

Note 20: Segment Information

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

	Three months ended September 30		Six months ended September 30	
	2008	2007	2008	2007
Sales :				
Original Equipment - Asia	$ 45,146	$ 60,365	$ 110,785	$ 130,258
Original Equipment - Europe	169,858	169,373	386,986	346,174
Original Equipment - North America	125,931	119,744	259,126	247,894
South America	44,772	34,318	86,118	63,712
Commercial Products	53,186	48,894	102,070	94,427
Fuel Cell	1,669	868	2,813	1,307
Segment sales	440,562	433,562	947,898	883,772
Corporate and administrative	885	839	1,734	2,140
Eliminations	(8,184)	(5,744)	(16,650)	(13,019)
Sales from continuing operations	$ 433,263	$ 428,657	$ 932,982	$ 872,893
Operating earnings (loss):				
Original Equipment - Asia	$ (4,064)	$ (1,162)	$ (4,818)	$ (783)
Original Equipment - Europe	9,630	18,166	36,486	39,793
Original Equipment - North America	(8,738)	(4,197)	(12,935)	(3,154)
South America	6,418	3,711	10,608	6,305
Commercial Products	4,835	3,654	8,708	5,819
Fuel Cell	(357)	(201)	(1,294)	(852)
Segment earnings	7,724	19,971	36,755	47,128
Corporate and administrative	(20,262)	(12,731)	(33,932)	(25,694)
Eliminations	(26)	15	9	55
Other items not allocated to segments	(4,120)	(1,630)	(5,074)	(1,156)
(Loss) earnings from continuing operations before income taxes	$ (16,684)	$ 5,625	$ (2,242)	$ 20,333

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	September 30, 2008	March 31, 2008
Assets:		
Original Equipment - Asia	$ 126,074	$ 159,718
Original Equipment - Europe	440,084	489,512
Original Equipment - North America	216,399	213,707
South America	95,320	99,289
Commercial Products	99,576	96,120
Fuel Cell	2,014	1,737
Corporate and administrative	105,520	118,316
Assets held for sale	-	12,393
Eliminations	(9,581)	(22,509)
Total assets	$ 1,075,406	$ 1,168,283

Note 21: Contingencies and Litigation

Market risks: The Company sells a broad range of products that provide thermal solutions to a diverse group of customers operating primarily in the automotive, truck, heavy equipment and commercial heating and air conditioning markets. The recent adverse events in the global financial markets have created a significant downturn in the Company's vehicular markets and to a lesser extent in its commercial heating and air conditioning markets. The current economic uncertainty makes it difficult to predict future conditions within these markets. A sustained economic downturn in any of these markets could have a material adverse effect on the future results of operations or the Company's liquidity. See Note 1 for further discussion of liquidity risk. The Company is responding to these market conditions through its continued implementation of its four-point recovery plan as follows:

- Manufacturing realignment – aligning the manufacturing footprint to maximize asset utilization and improve the Company's cost competitive position;
- Portfolio rationalization – identifying products or businesses which should be divested or exited as they do not meet required financial metrics;
- Selling, general and administrative (SG&A) expense reduction – reducing SG&A expenses and SG&A expenses as a percentage of sales through diligent cost containment actions; and
- Capital allocation discipline – allocating capital spending to operating segments and business programs that will provide the highest return on investment.

Credit risks: The recent adverse events in the global financial markets have increased credit risks on investments to which Modine is exposed or where Modine has an interest. The Company manages credit risks through its focus on the following:

- Cash and investments – cash deposits and short-term investments are reviewed 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 good 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.

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Counterparty risks: The recent adverse events in the global financial markets have also increased counterparty risks. The Company manages counterparty risks through its focus on the following:

- Customers – performing thorough reviews of customer credit reports and accounts receivable aging reports by an internal credit committee;
- Suppliers – implementation of 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.

Environmental: At present, the United States Environmental Protection Agency (USEPA) has designated the Company as a potentially responsible party (PRP) for remediation of three sites with which the Company had involvement. These sites include Alburn Incinerator, Inc./Lake Calumet Cluster (Illinois), a scrap metal site, Chemetco (Illinois), and LWD, Inc. (Kentucky). These sites are not Company owned but allegedly contain materials attributable to Modine from past operations. Remediation of these sites is in various stages of administrative or judicial proceedings and includes recovery of past governmental costs and for future investigations and remedial actions. Settlement costs anticipated for remedial activities at these sites are not expected to be material and have not been accrued based upon Modine’s relatively small portion of contributed materials.

The Company has also recorded other environmental cleanup and remediation expense accruals for certain facilities located in the United States, Brazil, and The Netherlands. These expenditures 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.

Personal injury actions: The Company, along with Rohm and Haas Company and Morton International, was named as a defendant in twenty-four separate personal injury actions that were filed in the Philadelphia Court of Common Pleas (“PCCP”), and in an alleged class action matter filed in the United States District Court, Eastern District of Pennsylvania. The PCCP cases involved allegations of personal injury from exposure to solvents that were allegedly released to groundwater and air for an undetermined period of time. The federal court action sought damages for medical monitoring and property value diminution for a class of residents of a community that were allegedly at risk for personal injuries as a result of exposure to this same allegedly contaminated groundwater and air. The Company mediated these cases in December, 2007 and settled both the PCCP cases and the class action. The Company has been dismissed from the twenty-four PCCP cases with prejudice. In August 2008, the federal court gave final approval to the settlement of the class action and the Company was dismissed with prejudice from that case.

Other litigation: In June 2004, the Servicio de Administracion Tributaria in Nuevo Laredo, Mexico, where the Company operates a plant in its Commercial Products segment, notified the Company of a tax assessment based primarily on the administrative authority’s belief that the Company (i) imported goods not covered by the Maquila program and (ii) that it imported goods under a different tariff classification than the ones approved. The Company filed a Nullity Tax Action with the Federal Tax Court (Tribunal Federal de Justicia Fiscal y Adminstrativa) in Monterrey, Mexico, and received a favorable ruling from the Federal Tax Court in the second quarter of fiscal 2008. The ruling of the Federal Tax Court has been appealed by the Servicio de Administracion Tributaria. The appeal was decided favorably to the Company during the second quarter of fiscal 2009.

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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 Environmental Protection Agency, other governmental agencies and others in which claims, such as personal injury, property damage, intellectual property or antitrust and trade regulation issues, are asserted against Modine.

If a loss arising from environmental and other litigation matters is probable and can reasonably be estimated, the Company records the amount of the estimated loss, or the minimum estimated liability when the loss is estimated using a range and no point within the range is more likely than another. The undiscounted reserves for these matters totaled $2,187 and $4,320 at September 30, 2008 and March 31, 2008, respectively. The decline in the reserves was primarily based on payments made during the three months ended September 30, 2008. No additional reserves were recorded during the three and six months ended September 30, 2008. The Company recorded additional reserves of $300, net of insurance recoveries, for the three and six months ended September 30, 2007. Many of these matters are covered by various insurance policies; however, the Company does not record any insurance recoveries until these are realized or realizable. 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. If an unfavorable outcome were to occur, there exists the possibility of a material adverse impact on the results of operations for the period in which the outcome occurs.

Note 22: Subsequent Events

On October 7, 2008, the Company entered into an Intellectual Property License and Technology Transfer Agreement ("license agreement") with Bloom Energy, a leading developer of fuel cell-based distributed energy systems, under which Bloom Energy will license certain Modine-developed thermal management technology. Under this agreement, Bloom Energy paid an up-front fee of $12,000 to the Company for the technology rights to produce thermal management systems using Modine's technology. In conjunction with the licensing agreement, the parties also entered into a Supply and Support Agreement, where the Company will provide products and services to Bloom Energy through December 2009. The Company received an advance payment of $689 for the future services to be provided to Bloom Energy under these agreements, and the Company will receive further payments as it supplies product to Bloom Energy over the term of these agreements. The total up-front compensation received of $12,689 will be recognized as revenue over the 15-month term of these agreements as technology, products and services are provided to Bloom Energy. The majority of this revenue will be recognized during fiscal 2009.

On October 21, 2008, the Company announced strategic plans to scale back its focus on the global vehicular heating, ventilation and air conditioning (HVAC) market through the intended divestiture of the South Korean-based vehicular HVAC business. The South Korean business is reported as part of the Original Equipment – Asia segment. As of September 30, 2008, this business continues to be classified as held for use in accordance with the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". The Company will begin to formalize its plans around this intended divestiture during the third quarter of fiscal 2009, and will assess whether this business should be classified as held for sale and as a discontinued operation in accordance with SFAS No. 144. Given the continued underperformance of the South Korean business and the unprecedented market conditions being experienced in the Company's industry segments and others, Modine's ability to recover its investment in the South

Korean business on a held for sale basis may be challenging and could result in a material impairment charge or loss on sale in a future quarter.

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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 ar 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 September 30, 2008 refers to the second quarter of fiscal 2009. Prior to April 1, 2008, the majority of our subsidiaries outside the United States reported operating results with a one-month lag. This reporting lag was eliminated during the first quarter of fiscal 2009. Fiscal 2008 information was revised to reflect this change for comparability. See Note 2 of the Notes to Condensed Consolidated Financial Statements in Item 1. of Part I. of this report.

Second Quarter Overview: Net sales in the second quarter of fiscal 2009 were $433.3 million, representing a $4.6 million, or 1.1 percent, increase from the second quarter of fiscal 2008. Favorable exchange rate changes positively impacted current quarter net sales by $13.1 million, which was partially offset by an $8.5 million sales decline in our businesses. In conjunction with the sales decline, gross profit decreased from 14.4 percent in the second quarter of fiscal 2008 to 12.7 percent in the second quarter of fiscal 2009, and we recorded a pre-tax loss from continuing operations of $16.7 million during the current year in comparison to pre-tax earnings from continuing operations of $5.6 million in the prior year. These factors contributed to a current quarter net loss of $13.2 million, or a diluted loss per share of $0.41, in comparison to net earnings of $10.4 million, or diluted earnings per share of $0.32 in the prior year quarter. The decline in current year results compared to the prior year is related to the following adverse factors:

- The recent dramatic events in the global financial markets have created a significant downturn in our vehicular markets, especially within Europe and North America. While the current economic uncertainty makes it difficult to predict future conditions within these vehicular markets, we do expect that the significant downturn will have an adverse impact on our sales volumes throughout the remainder of fiscal 2009 and into fiscal 2010;
- Sales volumes were also adversely impacted by strike-related activities at a key customer in Asia, as well as the slower-than-anticipated recovery in the North American truck market subsequent to the January 1, 2007 emissions law changes;
- The declining sales revenues and resulting underabsorption of fixed costs in our manufacturing facilities, as well as a shift in product mix toward lower margin business in Europe, as a high margin program is winding down, contributed to the decline in gross margin;
- The decline in gross margin was further impacted by operating inefficiencies experienced in our North American business as we continue to realign our manufacturing operations through plant closures and new program launches. We anticipate that these inefficiencies will continue through the remainder of fiscal 2009 and into fiscal 2010 as we continue to execute on our plant closure activities in North America;
- Restructuring and repositioning charges totaled $5.2 million in the second quarter of fiscal 2009, representing a $4.6 million increase from the prior year quarter;
- Impairment charges of $3.0 million were recorded in the current quarter related to programs and assets which were either discontinued/disposed of or unable to support their asset bases;
- Foreign exchange losses of $3.2 million were recorded on inter-company loans based on the recent substantial strengthening of the U.S. dollar to the Brazilian real and South Korean won during the second quarter of fiscal 2009; and
- Tax valuation allowance charges of $4.6 million were recorded against net deferred tax assets in the U.S. and South Korea as we continue to assess that it is more likely than not that these assets will not be realized in the future based on a review of our historical performance in these tax jurisdictions.

In response to the near-term adverse conditions facing the Company and recent business performance, we continue to execute on the strategies of our four-point recovery plan, which is designed to help us return to profitability and achieve our long-term financial goals through the following four actions:

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- Manufacturing realignment;
- Portfolio rationalization;
- Selling, general and administrative (SG&A) expense reduction; and
- Capital allocation discipline.

We are proceeding with the following actions through the four-point recovery plan designed to position us to attain a more competitive cost base and more effectively capitalize on growth opportunities in our thermal management markets:

- The closure of three manufacturing facilities in North America and one in Europe, which are proceeding on track and expected to result in annualized savings in a range of $16 million to $20 million when these plants are closed by the end of fiscal 2011;
- The intended divestiture of our South Korean-based vehicular heating, ventilation and air conditioning (HVAC) business, which has annual sales of approximately $200 million and near breakeven pre-tax results;
- Realignment of our North American region organizational structure resulting in early retirements and a reduction in our workforce at the Racine, Wisconsin, headquarters, which is anticipated to result in an estimated $3 million in annualized savings;
- Elimination of post-retirement medical benefits for Medicare eligible participants resulting in an estimated $3 million in annualized savings;
- The licensing of our specific fuel cell technology to Bloom Energy for a one-time payment of $12 million;
- The ramp-up of production at our newly opened manufacturing plants in China, Hungary and Mexico and the preparation for start of production in our new India facility in January 2009; and
- Investment in a new facility in Austria, which is expected to open in mid-calendar year 2009 and replace a facility where demand has outgrown our existing capacity, to support continued growth in refrigerant components and systems.

Year-To-Date Overview: Net sales in the first six months of fiscal 2009 were $933.0 million, representing a $60.1 million, or 6.9 percent, increase, from the first six months of fiscal 2008. The favorable impact of foreign currency exchange rate changes was the most significant factor contributing to this increase, as well as strong sales growth in our South American and Commercial Products businesses. Results from continuing operations decreased $28.3 million from earnings of $21.0 million in the first six months of fiscal 2008 to a loss of $7.3 million in the first six months of fiscal 2009. The adverse factors impacting the second quarter of fiscal 2009 discussed above had the most significant effect on this year-over-year reduction in results from continuing operations.

CONSOLIDATED RESULTS OF OPERATIONS – CONTINUING OPERATIONS

The following table presents consolidated results from continuing operations on a comparative basis for the three and six months ended September 30, 2008 and 2007:

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	Three months ended September 30				Six months ended September 30			
	2008		2007		2008		2007	
(dollars in millions)	$'s	% of sales	$'s	% of sales	$'s	% of sales	$'s	% of sales
Net sales	433.3	100.0%	428.7	100.0%	933.0	100.0%	872.9	100.0%
Cost of sales	378.3	87.3%	366.7	85.5%	799.7	85.7%	740.8	84.9%
Gross profit	54.9	12.7%	61.9	14.4%	133.2	14.3%	132.1	15.1%
Selling, general and administrative expenses	61.6	14.2%	54.8	12.8%	124.4	13.3%	111.0	12.7%
Restructuring expense (income)	2.9	0.7%	(0.1)	0.0%	2.8	0.3%	(0.3)	0.0%
Impairment of long-lived assets	3.0	0.7%	-	0.0%	3.2	0.3%	-	0.0%
(Loss) income from operations	(12.6)	-2.9%	7.3	1.7%	2.8	0.3%	21.5	2.5%
Interest expense	3.1	0.7%	2.9	0.7%	6.2	0.7%	5.7	0.7%
Other expense (income) - net	1.0	0.2%	(1.3)	-0.3%	(1.2)	-0.1%	(4.5)	-0.5%
(Loss) earnings from continuing operations before income taxes	(16.7)	-3.9%	5.6	1.3%	(2.2)	-0.2%	20.3	2.3%
(Benefit from) provision for income taxes	(2.6)	-0.6%	(4.6)	-1.1%	5.1	0.5%	(0.6)	-0.1%
(Loss) earnings from continuing operations	(14.1)	-3.3%	10.2	2.4%	(7.3)	-0.8%	21.0	2.4%

Comparison of Three Months Ended September 30, 2008 and 2007

Second quarter net sales of $433.3 million were $4.6 million higher than the $428.7 million reported in the second quarter of fiscal 2008. The increase in revenues was driven by $13.1 million of favorable foreign currency exchange rate changes, partially offset by a reduction of $8.5 million, primarily in our European business based on the recent downturn in the vehicular markets and within our Asian business based on the customer strike-related activity within this region.

During the second quarter of fiscal 2009, gross margin decreased 170 basis points from 14.4 percent for last year's second quarter to 12.7 percent in the second quarter of this year. The decrease in gross margin is related to underabsorption of fixed costs in our manufacturing facilities as sales volumes decreased, and is also related to a shift in our product mix toward lower margin products in Europe. In addition, the manufacturing realignment currently in progress in North America, including the process of closing manufacturing plants and the consolidation and launch of product lines, resulted in operating inefficiencies during the second quarter of fiscal 2009 which caused margin pressure.

SG&A expenses increased $6.8 million from the second quarter of fiscal 2008 to the second quarter of fiscal 2009. During the second quarter of fiscal 2008, we announced an amendment to freeze the salaried portion of our pension plan, and we sold a corporate aircraft. These events reduced the prior year SG&A recorded within Corporate and administrative of our segment reporting in the consolidated results of operations by approximately $8.0 million, and no similar actions impacted SG&A in the current year which contributed to the year-over-year increase in SG&A

expenses. In addition, the impact of foreign currency exchange rate changes resulted in a $1.0 million increase in SG&A on a year-over-year basis. Partially offsetting these increases in SG&A expenses was a $2.2 million decrease in costs due to improvements made through the on-going implementation of actions under our four-point recovery plan.

Restructuring expense (income) is primarily comprised of severance costs incurred under our four-point recovery plan. During the second quarter of fiscal 2009, we recorded restructuring expenses of $2.9 million, which represents severance charges incurred in conjunction with the early retirements and reduction in workforce in our Racine, Wisconsin, headquarters. The $0.1 million of restructuring income in the second quarter of fiscal 2008 represents reversals of previously established severance accruals upon employee terminations prior to the completion of required retention periods.

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During the second quarter of fiscal 2009, we recorded impairment charges of $3.0 million against certain long-lived assets in our North American and Commercial Products businesses. These charges related to certain program assets which were not able to support their asset bases, as well as impairment charges for certain assets that are no longer in use.

Results from operations decreased $19.9 million from the reported income from operations of $7.3 million in the second quarter of fiscal 2008 to the reported loss from operations of $12.6 million in the second quarter of fiscal 2009. The reduction in gross margin, increase in SG&A expenses and restructuring and impairment charges were the primary factors contributing to this decline in results from operations.

Other expense (income) decreased $2.3 million from $1.3 million of income recorded in the second quarter of fiscal 2008 to $1.0 million of expense recorded in the second quarter of fiscal 2009. The reduction in other expense (income) was primarily related to foreign currency transaction losses recorded in the second quarter of fiscal 2009 on the inter-company loans with Modine do Brasil Sistemas Tesmicos, Ltda. (Modine Brazil) based on the substantial weakening of the Brazilian real to the U.S. dollar during the second quarter of fiscal 2009.

During the second quarter of fiscal 2009, we recorded a $2.6 million benefit from income taxes, which represents an effective tax rate of -15.7 percent. This compares to a $4.6 million benefit from income taxes recorded during the second quarter of fiscal 2008, which represents an effective tax rate of -81.8 percent. During the second quarter of fiscal 2009, we recorded a valuation allowance of $4.6 million against the net deferred tax assets in the U.S. and South Korea as we continue to assess that it is more likely than not that these assets will not be realized in the future. This valuation allowance had the most significant impact on reducing the tax benefit realized on the current quarter's pre-tax loss below the 35 percent statutory rate. During the second quarter of fiscal 2008, Germany passed legislation which reduced the tax rate by 10 percentage points. This reduced income tax rate in Germany contributed significantly to the income tax benefit recognized in the prior year.

Results from continuing operations decreased $24.3 million from the second quarter of fiscal 2008 to the second quarter of fiscal 2009. In addition, diluted (loss) earnings per share from continuing operations decreased from earnings of $0.32 per share in the prior year to a loss of $0.44 per share in the current year. These decreases were primarily related to the significant decline in results from operations in the second quarter of fiscal 2009.

Comparison of Six Months Ended September 30, 2008 and 2007

Fiscal 2009 year-to-date net sales of $933.0 million were $60.1 million higher than the $872.9 million reported in the same period last year. The increase in revenues was driven by a $44.4 million favorable impact from foreign currency exchange rate changes, as well as sales growth in our South American and Commercial Products businesses based on continued strength within these businesses.

Fiscal 2009 year-to-date gross margin decreased to 14.3 percent from 15.1 percent reported in the same period last year. The decrease in gross margin is primarily related to a shift in our product mix toward lower margin products in Europe and continued operating inefficiencies in our North American operations during the first six months of fiscal 2009.

Fiscal 2009 year-to-date SG&A expenses increased $13.4 million from the same period last year. The income generated from the second quarter fiscal 2008 amendment to freeze the salaried portion of our pension plan and sale of a corporate aircraft reduced SG&A expenses recorded within Corporate and administrative of our segment reporting in the consolidated results of operations by $8.0 million in the prior year, and no similar actions impacted SG&A in the current year. In addition, the impact of foreign currency exchange rate changes resulted in a $3.5 million increase in SG&A on a year-over-year basis. Incremental consulting fees of $2.5 million were also incurred during the first six

months of fiscal 2009 related to the on-going restructuring activities in North America, which also contributed to the year-over-year increase in SG&A expenses.

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Restructuring expenses of $2.8 million were recorded during the first six months of fiscal 2009 related to early retirements and reduction in workforce severance costs incurred under our four-point recovery plan. During the same period last year, $0.3 million of restructuring income was recorded related to reversals of previously established severance accruals upon employee terminations prior to the completion of required retention periods.

During the first six months of fiscal 2009, we recorded impairment charges of $3.2 million against certain long-lived assets in our North American and Commercial Products businesses. These charges related to certain program assets which were not able to support their asset bases, as well as impairment charges for certain assets that are being disposed of.

Fiscal 2009 year-to-date interest expense increased $0.5 million over the same period last year, based on increased borrowings in fiscal 2009 as we fund capital expenditures.

Fiscal 2009 year-to-date other income decreased $3.3 million over the same period last year. Incremental foreign currency transaction losses were recorded in fiscal 2009 on the inter-company loans with Modine Brazil based on the substantial weakening of the Brazilian real to the U.S. dollar.

During the first six months of fiscal 2009, we recorded a $5.1 million provision for income taxes, which represents an effective tax rate of 225.6 percent. This compares to a $0.6 million benefit from income taxes recorded during the first six months of fiscal 2008, which represents an effective tax rate of -3.1 percent. During the first six months of fiscal 2009, we recorded valuation allowance charges of $10.0 million against the net deferred tax assets in the U.S. and South Korea as we continue to assess that it is more likely than not that these assets will not be realized in the future. This valuation allowance, partially offset by foreign tax rate differentials, had the most significant impact on the current year effective tax rate. During the first six months of fiscal 2008, Germany passed legislation which reduced the tax rate by 10 percentage points. This reduced income tax rate in Germany, combined with the changing mix of earnings toward lower tax rate foreign jurisdictions, contributed significantly to the income tax benefit recognized in the prior year.

Results from continuing operations decreased $28.3 million from the first six months of fiscal 2008 to the first six months of fiscal 2009. In addition, diluted earnings per share from continuing operations decreased from earnings of $0.65 per share in the prior year to a loss of $0.23 per share in the current year. The decrease in operating income and current year provision for income taxes were the primary drivers of these decreases.

DISCONTINUED OPERATIONS

During the first quarter of fiscal 2008, we announced our intention to explore strategic alternatives for our Electronics Cooling business and presented it as held for sale and as a discontinued operation in the consolidated financial statements for all periods presented. The Electronics Cooling business was sold during the first quarter of fiscal 2009 for $13.3 million, resulting in a gain on sale of $1.7 million for the first six months of fiscal 2009.

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SEGMENT RESULTS OF OPERATIONS

Original Equipment - Asia

	Three months ended September 30				Six months ended September 30			
	2008		2007		2008		2007	
(dollars in millions)	$'s	% of sales	$'s	% of sales	$'s	% of sales	$'s	% of sales
Net sales	45.1	100.0%	60.4	100.0%	110.8	100.0%	130.3	100.0%
Cost of sales	43.0	95.3%	54.3	89.9%	102.7	92.7%	118.2	90.7%
Gross profit	2.2	4.9%	6.1	10.1%	8.1	7.3%	12.1	9.3%
Selling, general and administrative expenses	6.3	14.0%	7.3	12.1%	12.9	11.6%	12.8	9.8%
Loss from continuing operations	(4.1)	-9.1%	(1.2)	-2.0%	(4.8)	-4.3%	(0.8)	-0.6%

Comparison of Three Months Ended September 30, 2008 and 2007

Original Equipment – Asia net sales decreased $15.3 million from the second quarter of fiscal 2008 to the second quarter of fiscal 2009, primarily as a result of reduced customer demand during a strike at a key customer's facility. This strike has since been resolved. Fluctuations in foreign currency exchange rates, primarily the devaluing of the South Korean won to the U.S. dollar, further impacted the year-over-year decline in net sales by $5.9 million. Gross margin declined substantially from 10.1 percent during the second quarter of fiscal 2008 to 4.9 percent during the second quarter of fiscal 2009. The declining sales volumes and resulting underabsorption of our fixed manufacturing costs primarily drove this decrease. The loss from continuing operations grew by $2.9 million over the periods presented, based largely on the decreased sales volumes and declining gross margin.

Comparison of Six Months Ended September 30, 2008 and 2007

Original Equipment – Asia fiscal 2009 year-to-date net sales decreased $19.5 million from the same period last year, based largely on the strike-related activity described above as well as $11.3 million unfavorable impact of foreign currency exchange rate changes. Gross margin decreased from 9.3 percent during the first six months of fiscal 2008 to 7.3 percent during the first six months of fiscal 2009, primarily as a result of the weak sales volumes. SG&A expenses remained consistent over the comparable six month periods at $12.9 million during the first six months of fiscal 2009 and $12.8 million during the first six months of fiscal 2008.

Intended Divestiture of South Korean Business

During October 2008, we announced strategic plans to scale back our focus on the global vehicular HVAC market through the intended divestiture of the South Korean-based vehicular HVAC business. This business represents a significant portion of our Original Equipment – Asia segment, with annual revenues of approximately $200 million. The South Korean business continues to be reported in this segment at September 30, 2008, and we will begin to formalize our plans around this intended divestiture during the third quarter of fiscal 2009. Depending on the progress made toward finalizing our divestiture plans, we may be required to classify this business as held for sale and as a discontinued operation at some point during fiscal 2009. If this were to occur, the South Korean business would be removed from our Original Equipment – Asia segment and presented separately as a discontinued operation for all periods presented. Given the continued underperformance of this business and the recent unprecedented market conditions impacting our industry segments and others, our ability to recover our investment in the South Korean

business on a held for sale basis may be challenging and could result in a material impairment charge or loss on sale in a future quarter.

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Original Equipment - Europe

	Three months ended September 30				Six months ended September 30			
	2008		2007		2008		2007	
(dollars in millions)	$'s	% of sales	$'s	% of sales	$'s	% of sales	$'s	% of sales
Net sales	169.9	100.0%	169.4	100.0%	387.0	100.0%	346.2	100.0%
Cost of sales	146.6	86.3%	138.0	81.5%	322.0	83.2%	280.0	80.9%
Gross profit	23.3	13.7%	31.3	18.5%	65.0	16.8%	66.2	19.1%
Selling, general and administrative expenses	13.7	8.1%	13.2	7.8%	28.5	7.4%	26.4	7.6%
Income from continuing operations	9.6	5.7%	18.2	10.7%	36.5	9.4%	39.8	11.5%

Comparison of Three Months Ended September 30, 2008 and 2007

Original Equipment – Europe net sales remained consistent at $169.9 million during the second quarter of fiscal 2009 compared to $169.4 million during the second quarter of fiscal 2008. However, the quarterly composition of net sales was favorably impacted by $14.2 million of foreign currency exchange rate changes, offset by a $13.7 million decline in the underlying sales volumes within this segment. Europe's automotive vehicular markets are being substantially affected by the recent adverse events in the global financial markets and resulting economic downturn. This downward pressure on net sales is anticipated to continue to be felt within this segment over the next several quarters and into fiscal 2010. In addition, recent substantial strengthening of the U.S. dollar to the euro is expected to create further downward pressure on European revenues. Gross margin declined from 18.5 percent during the second quarter of fiscal 2008 to 13.7 percent during the second quarter of fiscal 2009, related to the reduced underlying sales volumes and resulting underabsorption of fixed manufacturing costs, as well as a change in mix of our sales toward lower margin products as a high margin program is nearing the end of its program life. SG&A expenses increased $0.5 million from the second quarter of fiscal 2008 to the second quarter of fiscal 2009, primarily related to the impact of foreign currency exchange rate changes. Income from continuing operations decreased $8.6 million over the periods presented, primarily as a result of the declining revenues and gross margin.

Comparison of Six Months Ended September 30, 2008 and 2007

Original Equipment – Europe fiscal 2009 year-to-date net sales increased $40.8 million from the same period last year, based primarily on the favorable impact of foreign currency exchange rate changes. Strong sales volumes which existed during the first quarter of fiscal 2009 in powertrain cooling products, engine related products and condenser products have been offset by declining sales volumes during the second quarter of fiscal 2009 based on reduced automotive sales volumes with the recent global economic downturn. Gross margin decreased from 19.1 percent during the first six months of fiscal 2008 to 16.8 percent during the first six months of fiscal 2009, which was largely impacted by the changing mix of products toward lower margin business. SG&A expenses increased $2.1 million primarily due to the impact of foreign currency exchange rate changes. Income from continuing operations decreased $3.3 million from the first six months of fiscal 2008 to the first six months of fiscal 2009 based on the declining gross margin and increased SG&A expenses.

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Original Equipment - North America

	Three months ended September 30				Six months ended September 30			
	2008		2007		2008		2007	
(dollars in millions)	$'s	% of sales	$'s	% of sales	$'s	% of sales	$'s	% of sales
Net sales	125.9	100.0%	119.7	100.0%	259.1	100.0%	247.9	100.0%
Cost of sales	120.7	95.9%	114.2	95.4%	246.0	94.9%	231.0	93.2%
Gross profit	5.2	4.1%	5.5	4.6%	13.1	5.1%	16.9	6.8%
Selling, general and administrative expenses	11.4	9.1%	9.8	8.2%	23.4	9.0%	20.4	8.2%
Restructuring income	(0.1)	-0.1%	(0.1)	-0.1%	(0.2)	-0.1%	(0.3)	-0.1%
Impairment of long-lived assets	2.7	2.1%	-	0.0%	2.8	1.1%	-	0.0%
Loss from continuing operations	(8.7)	-6.9%	(4.2)	-3.5%	(12.9)	-5.0%	(3.2)	-1.3%

Comparison of Three Months Ended September 30, 2008 and 2007

Original Equipment – North America net sales increased $6.2 million from the second quarter of fiscal 2008 to the second quarter of fiscal 2009. Net sales within this segment continue to be depressed with the slower-than-anticipated recovery of the North American truck market subsequent to the January 1, 2007 emission requirement changes. Heavy duty truck build rates fell dramatically subsequent to the emission law changes, and have continued to remain low over the last year. In addition, medium duty truck build rates have also remained low on a year-over-year basis. Gross margin decreased from 4.6 percent during the second quarter of fiscal 2008 to 4.1 percent during the second quarter of fiscal 2009. This decline was primarily related to the following two factors: (1) the continued low sales volumes have resulted in an underabsorption of fixed overhead costs and a lower gross margin as we have excess capacity in many of our North American facilities; and (2) the manufacturing realignment currently in progress in North America, including the process of closing three manufacturing facilities, transferring and consolidating product lines, and launching new product lines has resulted in operating inefficiencies which has impacted our gross margin. SG&A expenses increased $1.6 million year-over-year, primarily related to incremental consulting fees incurred in connection with the manufacturing realignment. The majority of the impairment charges recorded during the second quarter of fiscal 2009 relate to assets within this segment for a program which is unable to support its asset base, as well as for assets which are no longer in use. During the second quarter of fiscal 2009, this segment incurred a loss from continuing operations of $8.7 million, which has increased $4.5 million from the loss from continuing operations of $4.2 million incurred in the second quarter of fiscal 2008, based on the declining gross margin and impairment charges.

Comparison of Six Months Ended September 30, 2008 and 2007

Original Equipment – North America fiscal 2009 year-to-date net sales increased $11.2 million from the same period last year. The sales volumes continue to be depressed on a year-over-year basis as commercial vehicle volumes have not recovered as anticipated subsequent to the January 1, 2007 emission law changes. Gross margin decreased from 6.8 percent during the first six months of fiscal 2008 to 5.1 percent during the first six months of fiscal 2009, primarily related to the underabsorption of fixed overhead costs in our manufacturing facilities due to the significantly low sales volumes and excess capacity, as well as operating inefficiencies incurred in conjunction with our manufacturing realignment activities. SG&A expenses increased $3.0 million year-over-year, primarily related to incremental consulting fees incurred in connection with the manufacturing realignment. During the first six months of fiscal 2009,

this segment incurred a loss from continuing operations of $12.9 million, which has increased $9.7 million from the loss from continuing operations of $3.2 million incurred in the first six months of fiscal 2008, based primarily on the declining gross margin and impairment charges.

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South America

	Three months ended September 30				Six months ended September 30			
	2008		2007		2008		2007	
(dollars in millions)	$'s	% of sales	$'s	% of sales	$'s	% of sales	$'s	% of sales
Net sales	44.8	100.0%	34.3	100.0%	86.1	100.0%	63.7	100.0%
Cost of sales	34.1	76.1%	27.2	79.3%	66.2	76.9%	50.4	79.1%
Gross profit	10.6	23.7%	7.1	20.7%	19.9	23.1%	13.3	20.9%
Selling, general and administrative expenses	4.2	9.4%	3.4	9.9%	9.4	10.9%	7.0	11.0%
Income from continuing operations	6.4	14.3%	3.7	10.8%	10.6	12.3%	6.3	9.9%

Comparison of Three Months Ended September 30, 2008 and 2007

South America net sales increased $10.5 million from the second quarter of fiscal 2008 to the second quarter of fiscal 2009, driven by robust agricultural and commercial vehicle sales in Brazil, which are markets in which we have a leading position. In addition, $5.8 million of favorable foreign currency exchange rate changes also contributed to the increase in sales. Gross margin improved from 20.7 percent during the second quarter of fiscal 2008 to 23.7 percent during the second quarter of fiscal 2009, primarily related to better absorption of fixed overhead costs with the higher sales volumes, as well as performance improvements within our manufacturing facility. Income from continuing operations improved $2.7 million over the periods presented, based on the positive impact of the increased sales volumes and operating improvements.

Comparison of Six Months Ended September 30, 2008 and 2007

South America fiscal 2009 year-to-date net sales increased $22.4 million from the same period last year, based on continued strength in the Brazilian agricultural and commercial vehicle markets, along with strength in the overall Brazilian economy. In addition, foreign currency exchange rate changes favorably impacted sales by $12.6 million. Gross margin increased from 20.9 percent during the first six months of fiscal 2008 to 23.1 percent during the first six months of fiscal 2009, based on improved fixed cost absorption and performance improvements in our manufacturing facility. SG&A expenses increased $2.4 million based largely on the impact of foreign currency exchange rate changes. Income from continuing operations improved $4.3 million from the first six months of fiscal 2008 to the first six months of fiscal 2009 based on the positive impact of the increased sales volumes and improved gross margin.

Commercial Products

	Three months ended September 30				Six months ended September 30			
	2008		2007		2008		2007	
(dollars in millions)	$'s	% of sales	$'s	% of sales	$'s	% of sales	$'s	% of sales
Net sales	53.2	100.0%	48.9	100.0%	102.1	100.0%	94.4	100.0%
Cost of sales	40.3	75.8%	37.9	77.5%	78.4	76.8%	74.0	78.4%
Gross profit	12.9	24.2%	11.0	22.5%	23.7	23.2%	20.4	21.6%
Selling, general and administrative expenses	7.7	14.5%	7.3	14.9%	14.6	14.3%	14.6	15.5%
	0.4	0.8%	-	0.0%	0.4	0.4%	-	0.0%

Impairment of long-lived assets								
Income from continuing operations	4.8	9.0%	3.7	7.6%	8.7	8.5%	5.8	6.1%

Comparison of Three Months Ended September 30, 2008 and 2007

Commercial Products net sales increased $4.3 million from the second quarter of fiscal 2008 to the second quarter of fiscal 2009, primarily driven by strength in air conditioning sales in the United Kingdom and the success of new energy efficient product launches. Gross margin improved from 22.5 percent during the second quarter of fiscal 2008 to 24.2 percent during the second quarter of fiscal 2009, primarily related to better absorption of fixed overhead costs with the higher sales volumes and performance improvements within the manufacturing operations. A long-lived asset impairment charge of $0.4 million was recorded in the second quarter of fiscal 2009 related to a cancelled product in its development stage. Income from continuing operations improved $1.1 million over the periods presented, based on the improvement in gross margin.

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Comparison of Six Months Ended September 30, 2008 and 2007

Commercial Products fiscal 2009 year-to-date net sales increased $7.7 million from the same period last year, based primarily on continuing strength in air conditioning sales in the United Kingdom and the success of new product launches. Gross margin increased from 21.6 percent during the first six months of fiscal 2008 to 23.2 percent during the first six months of fiscal 2009, based on better fixed cost absorption and manufacturing performance improvements. Income from continuing operations improved $2.9 million over the periods presented, based on the improvement in sales volumes and gross margin.

Fuel Cell

	Three months ended September 30				Six months ended September 30			
	2008		2007		2008		2007	
(dollars in millions)	$'s	% of sales	$'s	% of sales	$'s	% of sales	$'s	% of sales
Net sales	1.7	100.0%	0.9	100.0%	2.8	100.0%	1.3	100.0%
Cost of sales	1.0	58.8%	0.4	44.4%	2.0	71.4%	0.8	61.5%
Gross profit	0.7	41.2%	0.5	55.6%	0.8	28.6%	0.5	38.5%
Selling, general and administrative expenses	1.1	64.7%	0.7	77.8%	2.1	75.0%	1.4	107.7%
Loss from continuing operations	(0.4)	-23.5%	(0.2)	-22.2%	(1.3)	-46.4%	(0.9)	-69.2%

Our fuel cell segment remains in the start-up phase, and gross profit from product sales are not yet sufficient to offset SG&A expenses, which are largely comprised of research and development costs. Our fuel cell business has focused a significant amount of effort in the development of thermal management products for stand-alone power generation applications. During October 2008, we entered into a license agreement with Bloom Energy, a leading developer of fuel cell-based distributed energy systems, under which Bloom Energy will license our thermal management technology for an up-front fee of $12 million. In addition to licensing this technology to Bloom Energy, we will also provide certain transition services to Bloom Energy, including the sale of products, through December 2009. We received an advance payment of $0.7 million for these transition services, and will receive additional compensation for the supply of products to Bloom Energy over the next year. The total up-front compensation received of $12.7 million will be recognized as revenue over the 15-month term of these agreements as technology, products and services are provided to Bloom Energy, with the majority of this revenue to be recognized during fiscal 2009. This agreement will enable us to focus more broadly on fuel cell technology development to meet growing demand for alternative energy solutions.

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.

Cash provided by operating activities for the six months ended September 30, 2008 was $40.3 million compared to $22.7 million for the same period in fiscal 2008. While operating results decreased year-over-year, we were able to achieve a more than offsetting decrease in our working capital balances, especially accounts receivable including the impact of factoring receivables, which contributed to this year-over-year increase in operating cash flows. Days sales outstanding decreased from 55 days in the second quarter of fiscal 2008 to 51 days in the second quarter of fiscal 2009. Further improvements are needed to reduce our inventory balances and improve our inventory turns, which decreased from 12.1 times at the end of the second quarter of fiscal 2008 to 11.1 times at the end of the second quarter

of fiscal 2009.

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At September 30, 2008, the Company had capital expenditure commitments of $59.6 million. Significant capital expenditure commitments include tooling and equipment expenditures for new and renewal platforms with new and current customers in Europe, Asia and North America. Capital expenditure commitments also include facility construction costs for our new facility in Austria, where demand for refrigerant components and systems has outgrown our existing capacity. This facility is expected to open in mid-calendar year 2009. We anticipate our capital spending, net of potential dispositions, in fiscal 2009 to be near our current depreciation levels.

Outstanding unsecured debt increased $24.1 million to $255.7 million at September 30, 2008 from the March 31, 2008 balance of $231.6 million. The increase in debt was primarily to fund capital expenditures during the first six months of fiscal 2009. Total debt-to-capital ratio (total debt plus shareholders' equity) at September 30, 2008 was 37.3 percent compared with 32.4 percent at the end of fiscal 2008. Meanwhile, our cash balances increased $24.1 million from $38.6 million at March 31, 2008 to $62.7 million at September 30, 2008. We expect our cash balance to decrease by the end of fiscal 2009, and are focusing on decreasing our outstanding debt balance with our available cash holdings.

We have $80.0 million available for future borrowings under our revolving credit facility at September 30, 2008. An additional $75.0 million is available on this revolving credit facility, subject to lenders' approval. In addition to this revolving credit facility, unused lines of credit also exist in Europe, South Korea and Brazil, totaling $29.9 million at September 30, 2008. In the aggregate, total available lines of credit of $184.9 million exist at September 30, 2008. The availability of these funds is subject to our ability to remain in compliance with the financial ratios and limitations in the respective debt agreements. We do not anticipate that we will incur significant additional borrowings under our available lines of credit based on our future financial projections.

We expect that our internally generated operating cash flows and existing cash balances, together with access to available external borrowings, will be sufficient to satisfy future operating costs, capital expenditures and strategic business opportunities. However, this expectation could be affected by future funding requirements that may exist for our non-contributory defined benefit pension plans. The funding policy for these plans is to contribute the annual minimum amount necessary to provide for benefits in accordance with applicable laws and regulations. The value of the assets held by these plans have recently declined due to the general decline in the financial markets around the world. This decline in asset value will cause a decrease in the funded status of these plans, which could require additional funding contributions to be made, absent changes to the funding laws and regulations. If significant additional funding contributions are necessary, this could have an adverse impact on our liquidity position.

Debt Covenants

Certain of our unsecured debt agreements require us to maintain specified financial ratios and place certain limitations on dividend payments and the acquisition of our common stock. Our Amended and Restated Credit Agreement contains the following two most restrictive ratios:

- Interest Expense Coverage Ratio: The ratio of our Consolidated EBIT to Consolidated Interest Expense, for the most recently ended four fiscal quarters, as such terms are defined in the Amended and Restated Credit Agreement. Consolidated EBIT represents (loss) earnings from continuing operations before interest expense and (benefit from) provision for income taxes, and further adjusted to exclude unusual, non-recurring or extraordinary non-cash charges and cash restructuring and repositioning charges related to our restructuring program announced on or about January 31, 2008 not to exceed $25 million in the aggregate on or prior to March 31, 2010. Consolidated Interest Expense represents interest expense plus receivables transaction financing costs. The interest expense coverage ratio is not permitted to be less than a 1.75 to 1.0 ratio for the second and third quarters of fiscal 2009, increasing to a ratio of 2.25 to 1.0 for the fourth quarter of fiscal 2009 and the first quarter of fiscal 2010, and increasing to a ratio of 2.50 to 1.0 for fiscal quarters ending on or after September 30, 2009. As of September 30, 2008, we were in compliance with the interest expense coverage ratio with a ratio of 2.36 to 1.0.

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- Leverage Ratio: The ratio of our Consolidated Total Debt outstanding at quarter-end to Consolidated Adjusted EBITDA for the most recently ended four fiscal quarters, as such terms are defined in the Amended and Restated Credit Agreement. Consolidated Total Debt includes all short-term and long-term indebtedness, plus outstanding letters of credit. Consolidated Adjusted EBITDA represents Consolidated EBIT plus depreciation and amortization expense. The leverage ratio is not permitted to be greater than a 3.0 to 1.0 ratio, and as of September 30, 2008, our leverage ratio was in compliance with this requirement with a ratio of 2.28 to 1.0.

To the extent that we fail to maintain either of these ratios within the limits set forth in the Amended and Restated Credit Agreement, our ability to access amounts available under this agreement would be limited, our liquidity would be adversely affected and our obligations under this agreement could be accelerated. In addition, any such failure would constitute an event of default under the $150 million of fixed rate notes outstanding, and could lead to an acceleration of our obligations under those notes.

Consolidated EBIT, Consolidated Interest Expense, Consolidated Total Debt and Consolidated Adjusted EBITDA do not represent, and should not be considered, an alternative to short-term and long-term debt, loss (earnings) from continuing operations or interest expense, as determined by generally accepted accounting principles (GAAP), and our calculations thereof may not be comparable to similarly titled measures reported by other companies. We have presented, in the tables below, a calculation of Consolidated EBIT, Consolidated Interest Expense, Consolidated Total Debt and Consolidated Adjusted EBITDA, in each case, as defined in the Amended and Restated Credit Agreement. The calculations set forth below for Consolidated EBIT, Consolidated Interest Expense and Consolidated Adjusted EBITDA are, in each case, for the four most recently completed fiscal quarters ended September 30, 2008.

The following table presents a calculation of Consolidated EBIT to Consolidated Interest Expense (interest expense coverage ratio):

(dollars in thousands)	Quarter Ended December 31, 2007	Quarter Ended March 31, 2008	Quarter Ended June 30, 2008	Quarter Ended September 30, 2008	Total
(Loss) earnings from continuing operations	$ (54,959)	$ (34,562)	$ 6,763	$ (14,064)	$ (96,822)
Consolidated Interest Expense (a)	3,475	4,039	3,126	3,178	13,818
(Benefit from) provision for income taxes	31,083	12,466	7,679	(2,620)	48,608
Non-cash charges (b)	31,455	19,039	425	5,042	55,961
Cash restructuring and repositioning charges (c)	-	4,960	2,108	4,039	11,107
Consolidated EBIT	$ 11,054	$ 5,942	$ 20,101	$ (4,425)	$ 32,672
Consolidated Interest Expense (a)	$ 3,475	$ 4,039	$ 3,126	$ 3,178	$ 13,818
Consolidated EBIT to Consolidated Interest Expense					2.36

(a) Consolidated Interest Expense is calculated as GAAP interest expense for all quarters, plus the loss on sale of accounts receivable under the Accounts Receivable Purchase Agreement of $68 for the quarter ended September 30, 2008.

(b) Non-cash charges are comprised of impairment of goodwill and long-lived assets, non-cash restructuring and repositioning charges and provisions for uncollectible notes receivables, as follows:

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(dollars in thousands)	Quarter Ended December 31, 2007	Quarter Ended March 31, 2008	Quarter Ended June 30, 2008	Quarter Ended September 30, 2008	Total
Impairment of goodwill and long-lived assets	$ 31,455	$ 15,965	$ 134	$ 3,031	$ 50,585
Non-cash restructuring and repositioning charges	-	3,074	291	1,011	4,376
Provision for uncollectible notes receivables	-	-	-	1,000	1,000
Non-cash charges	$ 31,455	$ 19,039	$ 425	$ 5,042	$ 55,961

(c) Restructuring charges represent cash restructuring and repositioning costs incurred in conjunction with our restructuring activities announced on or after January 31, 2008. Refer to Note 12 in Part I., Item 1. of this report for further discussion of these restructuring activities.

The following table presents a calculation of Consolidated Total Debt to Consolidated Adjusted EBITDA (leverage ratio):

(dollars in thousands)	September 30, 2008
Short-term debt	$ 839
Long-term debt - current portion	284
Long-term debt	254,620
Letters of credit	2,200
Consolidated Total Debt	$ 257,943

	Quarter Ended December 31, 2007	Quarter Ended March 31, 2008	Quarter Ended June 30, 2008	Quarter Ended September 30, 2008	Total
Consolidated EBIT	$ 11,054	$ 5,942	$ 20,101	$ (4,425)	$ 32,672
Depreciation and amortization expense (d)	20,367	21,983	19,296	18,792	80,438
Consolidated Adjusted EBITDA	$ 31,421	$ 27,925	$ 39,397	$ 14,367	$ 113,110
Consolidated Total Debt to Consolidated Adjusted EBITDA					2.28

(d) Depreciation and amortization expense represents total depreciation and amortization reported as a component of cash flows from operating activities in the consolidated statements of cash flows less accelerated depreciation which has been included in non-cash charges described in footnote (b) above.

We closely evaluate our expected ability to remain in compliance with the interest expense coverage ratio based on the future increases in the required ratio, as well as the sensitivity of this covenant to changes in financial results. Recent adverse trends have put additional pressure on our ability to remain in compliance with the interest expense coverage ratio, including the following trends:

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Significant decline in the global financial markets and ensuing economic uncertainty has contributed to declining revenues in our European commercial vehicle and automotive markets, and in our North American commercial vehicle market;

- Slower-than-anticipated recovery in the North American commercial vehicle market subsequent to the January 1, 2007 emission requirement changes; and
- Continued manufacturing inefficiencies in our Original Equipment – North America segment related to new program launches and product line transfers.

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These downward trends are expected to continue to adversely affect our financial results in the third and fourth quarters of fiscal 2009. Depending on the severity, duration and timing of the impact of these trends, we may need to work with our lenders to seek to obtain a waiver or amendment of the interest expense coverage ratio covenant in the near future. In contemplation of this possibility, we are developing a contingency plan that we would implement in the event that we are not able to obtain a waiver or amendment of the interest expense coverage ratio covenant with our lenders. We believe that we will be able to maintain compliance with the interest expense coverage ratio covenant by either working with our lenders or through the implementation of the contingency plan. If we are unable to meet the on-going financial covenant requirements, reach suitable resolution with the lenders or implement our contingency plan, our ability to access available lines of credit would be limited, our liquidity would be adversely affected and our debt obligations could be accelerated, which could have a material adverse effect on our future results of operations and financial position.

Off-Balance Sheet Arrangements

None.

Critical Accounting Policies

The following is an updated discussion of certain critical accounting policies previously included in our Annual Report on Form 10-K for the year ended March 31, 2008. All other accounting policies previously disclosed remain applicable for fiscal 2009.

Consolidation principles: The consolidated financial statements include the accounts of the Company and our majority-owned or Modine-controlled subsidiaries. Material intercompany transactions and balances are eliminated in consolidation. Prior to April 1, 2008, the operations of most subsidiaries outside the United States were included in the annual and interim consolidated financial statements on a one-month lag in order to facilitate a timely consolidation.

Starting April 1, 2008, the reporting year-end of these foreign operations was changed from February 28 to March 31. This one-month reporting lag was eliminated as it is no longer required to achieve a timely consolidation due to improvements in the Company's information technology systems. In accordance with Emerging Issues Task Force (EITF) Issue No. 06-9, "Reporting a Change in (or the Elimination of) a Previously Existing Difference between the Fiscal Year-End of a Parent Company and That of a Consolidated Entity or between the Reporting Period of an Investor and That of an Equity Method Investee," the elimination of this previously existing reporting lag is considered a change in accounting principle in accordance with Statement of Financial Accounting Standards (SFAS) No. 154, "Accounting Changes and Error Corrections – A Replacement of Accounting Principles Board Opinion No. 20 and SFAS No. 3." Changes in accounting principles are to be reported through retrospective application of the new principle to all prior financial statement periods presented. Accordingly, our financial statements for periods prior to fiscal 2009 have been changed to reflect the period-specific effects of applying this accounting principle. This change resulted in an increase in retained earnings at March 31, 2008 of $3,476 which includes a cumulative effect of an accounting change of $6,154, net of income tax effect.

In addition, Modine changed the reporting month end of our domestic operations from the 26th day of the month to the last day of the month for each month except March. The Company's fiscal year-end will remain March 31st. We have not retrospectively applied this change in accounting principle since it is impracticable to do so as period end closing data as of the end of each month for prior periods is not available. Management believes the impact to the results of operations, consolidated balance sheets and cash flows to be immaterial for all prior periods.

Impairment of Goodwill and Intangible Assets: Impairment tests are conducted at least annually unless business events or other conditions exist which would require a more frequent evaluation. The Company considers factors such as operating losses, declining outlooks and market capitalization when evaluating the necessity for an impairment analysis. The annual review of goodwill and other intangible assets with indefinite lives for impairment is conducted in the third quarter. The recoverability of goodwill and other intangible assets with indefinite lives is determined by estimating the future discounted cash flows of the reporting unit to which the goodwill and other intangible assets with indefinite lives relates. The rate used in determining discounted cash flows is a rate corresponding to our cost of capital, adjusted for risk where appropriate. In determining the estimated future cash flows, current and future levels of income are considered as well as business trends and market conditions. To the extent that book value exceeds the fair value, an impairment is recognized. Currently no goodwill impairments were required for the three and six months ended September 30, 2008.

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Impairment of Long-Lived and Amortized Intangible Assets: The Company performs impairment evaluations of its long-lived assets, including property, plant and equipment and intangible assets with finite lives, whenever business conditions or events indicate that those assets may be impaired. The Company considers factors such as operating losses, declining outlooks and market capitalization when evaluating the necessity for an impairment analysis. When the estimated future undiscounted cash flows to be generated by the assets are less than the carrying value of the long-lived assets, the assets are written down to fair market value and a charge is recorded to current operations. The Company recorded asset impairment charges of $3.0 million and $3.2 million for the three and six months ended September 30, 2008, respectively.

New Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" (SFAS No. 141(R)) which replaces SFAS No. 141, "Business Combination". SFAS No. 141(R) retained the underlying concepts of SFAS No. 141 in that all business combinations are still required to be accounted for at fair value under the acquisition method of accounting, but SFAS No. 141(R) changed the method of applying the acquisition method in a number of significant aspects. For all business combinations, the entity that acquires the business will record 100 percent of all assets and liabilities of the acquired business, including goodwill, generally at their fair values. Certain contingent assets and liabilities acquired will be recognized at their fair values on the acquisition date and changes in fair value of certain arrangements will be recognized in earnings until settled. Acquisition-related transactions and restructuring costs will be expensed rather than treated as an acquisition cost and included in the amount recorded for assets acquired. SFAS No. 141(R) is effective for us on a prospective basis for all business combinations for which the acquisition date is on or after April 1, 2009, with the exception of the accounting for valuation allowances on deferred taxes and acquired tax contingencies. SFAS No. 141(R) amends SFAS No. 109, "Accounting for Income Taxes," such that adjustments made to valuation allowances on deferred taxes and acquired tax contingencies associated with acquisitions that close prior to the effective date of SFAS No. 141(R) would also apply the provisions of SFAS No. 141(R). Early adoption is not allowed. We are currently assessing the potential impact of this standard on our consolidated financial statements; however, the adoption will not have an impact on previous acquisitions.

In December 2007, the FASB issued SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statements, an amendment of ARB 51." SFAS No. 160 amends Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to establish new standards that will govern the accounting for and reporting of (1) non-controlling interest in partially owned consolidated subsidiaries and (2) the loss of control of subsidiaries. Our consolidated subsidiaries are wholly owned and as such no minority interests are currently reported in our consolidated financial statements. Other current ownership interests are reported under the equity method of accounting under investments in affiliates. SFAS No. 160 is effective for us on a prospective basis on or after April 1, 2009 except for the presentation and disclosure requirements, which will be applied retrospectively. Early adoption is not allowed. Based upon our current portfolio of investments in affiliates, we do not anticipate that adoption of this standard will have a material impact on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities an Amendment of FASB Statement No. 133." SFAS No. 161 requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. SFAS No. 161 is effective for us during the fourth quarter of fiscal 2009. Early adoption is encouraged. SFAS No. 161 encourages, but does not require, comparative disclosures for earlier periods at initial adoption. We are currently evaluating the impact this statement will have on our financial statement disclosures.

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In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles." SFAS No. 162 mandates the GAAP hierarchy reside in the accounting literature as opposed to the audit literature. This has the practical impact of elevating FASB Statements of Financial Accounting Concepts in the GAAP hierarchy. SFAS No. 162 will become effective 60 days following U.S. Securities and Exchange Commission approval. We do not anticipate that adoption of this standard will have an impact on our consolidated financial statements.

In June 2008, the FASB issued FASB Staff Position EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities" (FSP 03-6-1). FSP 03-6-1 requires unvested share-based payment awards that contain non-forfeitable rights to dividends to be treated as participating securities and included in the computation of basic earnings per share. FSP 03-6-1 is effective for us during the first quarter of fiscal 2010, and requires all prior-period earnings per share data to be adjusted retrospectively. Early adoption is not allowed. While we do have unvested retention stock awards that earn non-forfeitable dividends, the adoption of FSP 03-6-1 is not expected to have a material impact on earnings per share.

Contractual Obligations

On July 18, 2008, the Company entered into a three-year, $175.0 million Amended and Restated Credit Agreement with seven financial institutions led by JPMorgan Chase Bank, N.A. The credit agreement amended and restated the Company's existing five-year, $200.0 million revolving credit facility, which had been due to expire in October 2009. The new facility will expire in July 2011. At September 30, 2008, $95.0 million was outstanding under the revolving credit facility.

There have been no other 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, 2008. 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 $10.0 million as of September 30, 2008.

Forward-Looking Statements

This report contains statements, including information about future financial performance, accompanied by phrases such as "believes," "estimates," "expects," "plans," "anticipates," "will," "intends," and other similar "forward-looking" statem 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. of Part II. of this report. Other risks and uncertainties include, but are not limited to, the following:

- Modine's ability to either successfully obtain a waiver of or amendment to its debt agreements or implement a contingency plan to remain in compliance with the interest expense coverage ratio financial covenant, if needed;

- The impact the current economic uncertainty and credit market turmoil could have on Modine, its customers and its suppliers;

- The secondary effects on Modine's future cash flows and liquidity that may result from Modine's customers and lenders dealing with the economic crisis and its consequences;

- Modine's ability to limit capital spending and/or consummate planned divestitures;

- Modine's ability to recover the book value of the South Korean business, if divested;

- Modine’s ability to successfully implement restructuring plans and drive cost reductions as a result;

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- Modine's ability to maintain adequate liquidity to carry out restructuring plans while investing for future growth;
- Modine's ability to satisfactorily service its customers during the implementation and execution of any restructuring plans and/or new product launches;
- Modine's ability to avoid or limit inefficiencies in the transitioning of products from production facilities to be closed to other existing or new production facilities;
- Modine's ability to successfully execute its four-point recovery plan;
- Modine's ability to further cut costs to increase its gross margin and to maintain and grow its business;
- Impairment of assets resulting from business downturns;
- Modine's ability to realize future tax benefits;
- Customers' actual production demand for new products and technologies, including market acceptance of a particular vehicle model or engine;
- Modine's ability to increase its gross margin by producing products in low cost countries;
- Modine's ability to maintain customer relationships while rationalizing business;
- 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 cost-downs from its customers;
- Modine's ability to obtain profitable business at its new facilities in China, Hungary, Mexico, India and Austria and to produce quality products at these facilities from business obtained;
- The effect of the weather on the Commercial Products business, which directly impacts sales;
- Unanticipated problems with suppliers meeting Modine's time and price demands;
- 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;
- Economic, social and political conditions, changes and challenges in the markets where Modine operates and competes (including currency exchange rate fluctuations, tariffs, inflation, changes in interest rates, recession, and restrictions associated with importing and exporting and foreign ownership);
- Changes in the anticipated sales mix;
- Modine's association with a particular industry, such as the automobile industry, which could have an adverse effect on Modine's stock price;
- The cyclical nature of the vehicular industry;
- Work stoppages or interference at Modine or Modine's major customers;

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- Unanticipated product or manufacturing difficulties, including unanticipated warranty claims;
- Unanticipated delays or modifications initiated by major customers with respect to product applications or requirements;
- Costs and other effects of unanticipated litigation or claims, and the increasing pressures associated with rising health care and insurance costs; and
- 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.

In the normal course of business, Modine is subject to market exposure from changes in foreign exchange rates, interest rates, credit risk, economic risk, commodity price risk and hedging and foreign exchange contract risk. The recent adverse events in the global financial markets have increased the Company’s exposure to certain of these risks.

Foreign Currency Risk Management

Modine is subject to the risk of changes in foreign currency exchange rates due to its operations in foreign countries. Modine has manufacturing facilities in Brazil, China, Mexico, South Africa, South Korea, India and throughout Europe. It also has equity investments in companies located in France, Japan, and China. Modine sells and distributes its products throughout the world. As a result, the Company's financial results could be significantly affected by factors such as changes in foreign currency exchange rates or weak economic conditions in the foreign markets in which the Company manufactures, distributes and sells its products. The Company's operating results are principally exposed to changes in exchange rates between the dollar and the European currencies, primarily the euro, changes between the dollar and the South Korean won and changes between the dollar and the Brazilian real. Changes in foreign currency exchange rates for the Company's foreign subsidiaries reporting in local currencies are generally reported as a component of shareholders' equity. Recent substantial strengthening of the U.S. dollar to other foreign currencies, especially the euro, won and real, has led to a devaluing of the Company’s foreign financial results. This devaluation is evident in the Company’s currency translation adjustment account, where the Company recorded an unfavorable currency translation adjustment for the three and six months ended September 30, 2008 of $53.2 million and $50.3 million, respectively. In fiscal 2008, the Company experienced a general weakening of the U.S. dollar to these foreign currencies, which resulted in a favorable currency translation adjustment of $54.5 million. At September 30, 2008 and March 31, 2008, the Company's foreign subsidiaries had net current assets (defined as current assets less current liabilities) subject to foreign currency translation risk of $165.2 million and $156.9 million, respectively. The potential decrease in the net current assets from a hypothetical 10 percent adverse change in quoted foreign currency exchange rates would be approximately $16.5 million and $15.7 million, respectively. This sensitivity analysis presented assumes a parallel shift in foreign currency exchange rates, similar to what has recently been experienced with the U.S. dollar in comparison to many other foreign currencies.

The Company has certain foreign-denominated, long-term debt obligations that are sensitive to foreign currency exchange rates. The following table presents the future principal cash flows and weighted average interest rates by expected maturity dates. 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. The carrying value of the debt approximates fair value.

As of September 30, 2008 the foreign-denominated, long-term debt matures as follows:

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Long-term debt in ($000's)	Expected Maturity Date F2009	F2010	F2011	F2012	F2013	Thereafter	Total
Fixed rate (won)	$ 141	$ 152	$ 169	$ 187	$ 205	$ 1,352	$ 2,206
Average interest rate	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	-

In addition to the external borrowing, the Company has from time to time had foreign-denominated, long-term inter-company loans that are sensitive to foreign exchange rates. At September 30, 2008, the Company has an 11.3 billion won, ($9.4 million U.S. equivalent), 8-year loan with its wholly owned subsidiary, Modine Korea, LLC, that matures on August 31, 2012. On March 28, 2008, the Company entered into a purchased option contract that expires March 31, 2009 to hedge the foreign exchange exposure on the entire outstanding amount of the Modine Korea, LLC loan. The derivative instrument is not treated as a hedge, and accordingly, transaction gains or losses on the derivative are being recorded in other (expense) income – net in the consolidated statement of operations and acts to offset any currency movement on the outstanding loan receivable. During the first two quarters of fiscal 2009, Modine Korea, LLC paid 12.8 billion won ($11.4 million U.S. equivalent) on this inter-company loan and the Company correspondingly adjusted the zero cost collar to reflect the payments.

At September 30, 2008, the Company also had two inter-company loans totaling $17.5 million with its wholly owned subsidiary, Modine Brazil with various maturity dates through May 2011. On March 31, 2008, the Company entered into a purchased option contract that expires on April 1, 2009 to hedge the foreign exchange exposure on the larger ($15.0 million) of the two inter-company loans. The smaller inter-company loan ($2.5 million) will be repaid by February 2009 and its foreign exchange exposure will be managed by natural hedges and offsets that exist in the Company's operations. The derivative instrument is not treated as a hedge and, accordingly, transaction gains or losses on the derivative are being recorded in other (expense) income – net in the consolidated statement of operations and acts to offset any currency movement on the outstanding loan receivable.

The Company also has other inter-company loans outstanding at September 30, 2008 as follows:

- $5.3 million loan to its wholly owned subsidiary, Modine Thermal Systems India, that matures on April 30, 2013;
- $9.1 million between two loans to its wholly owned subsidiary, Modine Thermal Systems Co (Changzhou, China), with various maturity dates through June 2012; and
- $1.6 million loan to its wholly owned subsidiary, Modine Thermal Systems Shanghai, that matures on January 19, 2009.

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.

Interest Rate Risk Management

Modine's interest rate risk policies are designed to reduce the potential volatility of earnings that could arise from changes in interest rates. The Company generally utilizes a mixture of debt maturities together with both fixed-rate and floating-rate debt to manage its exposure to interest rate variations related to its borrowings. The Company has, from time-to-time, entered into interest rate derivatives to manage variability in interest rates. These interest rate derivatives have been treated as cash flow hedges of forecasted transactions and, accordingly, derivative gains or losses are reflected as a component of accumulated other comprehensive income and are amortized to interest expense over the respective lives of the borrowings. During the three and six months ended September 30, 2008, expense of $0.1 million and $0.2 million, respectively, was recorded in the consolidated statement of operations related to the amortization of interest rate derivative losses. At September 30, 2008, $1.6 million of net unrealized losses remain

deferred in accumulated other comprehensive income. The following table presents the future principal cash flows and weighted average interest rates by expected maturity dates (including the foreign denominated long-term obligations included in the previous table). The fair value of the long-term debt is estimated by discounting the future cash flows at rates offered to the Company for similar debt instruments of comparable maturities. The book value of the debt approximates fair value, with the exception of the $150.0 million fixed rate notes, which have a fair value of approximately $154.5 million at September 30, 2008.

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As of September 30, 2008, long-term debt matures as follows:

	Expected Maturity Date						
Long-term debt in ($000's)	F2009	F2010	F2011	F2012	F2013	Thereafter	Total
Fixed rate (won)	$ 141	$ 152	$ 169	$ 187	$ 205	$ 1,352	$ 2,206
Average interest rate	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	-
Fixed rate (U.S. dollars)	-	-	-	-	-	$ 150,000	$ 150,000
Average interest rate	-	-	-	-	-	5.65%	-
Variable rate (U.S. dollars)	-	-	$ 95,000	-	-	-	$ 95,000
Average interest rate	-	-	6.01%	-	-	-	-

Credit Risk Management

Credit risk is the possibility of loss from a customer’s failure to make payments according to contract terms. The Company's principal credit risk consists of outstanding trade receivables. Prior to granting credit, each customer is evaluated, taking into consideration the borrower's financial condition, past payment experience and credit information. After credit is granted, the Company actively monitors the customer's financial condition and developing business news by performing thorough reviews of customer credit reports and accounts receivable aging reports by an internal credit committee. Approximately 49 percent of the trade receivables balance at September 30, 2008 was concentrated in the Company's top ten customers. Modine’s history of incurring credit losses from customers has not been material, and the Company does not expect that trend to change based on its mix of customers. However, the current economic uncertainty, especially within the global automotive and commercial vehicle markets, makes it difficult to predict future financial conditions of significant customers within these markets. Deterioration in the financial condition of a significant customer could have a material adverse effect on the Company’s results of operations and liquidity.

The recent adverse events in the global financial markets have also increased credit risks on investments to which Modine is exposed or where Modine has an interest. The Company manages these credit risks through its focus on the following:

- Cash and investments – Cash deposits and short-term investments are reviewed to ensure banks have acceptable credit ratings to the Company and that all short-term investments are maintained in secured or guaranteed instruments. The Company’s holdings in cash and investments are considered stable and secure at September 30, 2008;
- Pension assets – The Company has retained outside advisors to assist in the management of the assets in the Company’s defined benefit plans. In making investment decisions, the Company has been guided by an established risk management protocol under which the focus is on protection of plan assets against downside risk. The Company monitors investments in its pension plans to ensure that these plans provide good diversification, investment teams and portfolio managers are adhering to the Company’s investment policies and directives, and exposure to high risk securities and other similar assets is limited. The Company believes it has good investment policies and controls and proactive investment advisors. Despite our efforts to protect against downside risk, the assets within these plans have decreased based upon declining market valuations and volatility, which could impact funding requirements for the pension plan in fiscal 2010; and

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- Insurance – The Company monitors its insurance providers to ensure they have acceptable financial ratings, and no concerns have been identified through this review.

Economic Risk Management

Economic risk is the possibility of loss resulting from economic instability in certain areas of the world or significant downturns in markets that the Company supplies. The Company sells a broad range of products that provide thermal solutions to a diverse group of customers operating primarily in the automotive, truck, heavy equipment and commercial heating and air conditioning markets. The recent adverse events in the global financial markets have created a significant downturn in the Company's vehicular markets and to a lesser extent in its commercial heating and air conditioning markets. The current economic uncertainty makes it difficult to predict future conditions within these markets. A sustained economic downturn in any of these markets could have a material adverse effect on the future results of operations or the Company's liquidity and potentially result in the impairment of related assets. Refer to Note 1 of the Notes to the Condensed Consolidated Financial Statements in Item 1. of Part I. of this report, and to the section titled "Liquidity and Capital Resources" in Item 2. of Part I. of this report for further discussion of the impact of the current economic conditions on the Company's liquidity.

The Company is responding to these market conditions through its continued implementation of its four-point recovery plan as follows:

- Manufacturing realignment – aligning the manufacturing footprint to maximize asset utilization and improve the Company's cost competitive position;
- Portfolio rationalization – identifying products or businesses which should be divested or exited as they do not meet required financial metrics;
- SG&A expense reduction – reducing SG&A expenses and SG&A expenses as a percentage of sales through diligent cost containment actions; and
- Capital allocation discipline – allocating capital spending to operating segments and business programs that will provide the highest return on investment.

The Company continues to monitor economic conditions in the U.S. and elsewhere. As Modine expands its global presence, we also encounter risks imposed by potential trade restrictions, including tariffs, embargoes and the like. We continue to pursue non-speculative opportunities to mitigate these economic risks, and capitalize, when possible, on changing market conditions.

The Company pursues new market opportunities after careful consideration of the potential associated risks and benefits. Successes in new markets are dependent upon the Company's ability to commercialize its investments. Current examples of new and emerging markets for Modine include those related to exhaust gas recirculation, CO2 and fuel cell technology. Modine's investment in these areas is subject to the risks associated with business integration, technological success, customers' and market acceptance, and Modine's ability to meet the demands of its customers as these markets emerge.

The Company purchases parts from suppliers that use the Company's tooling to create the part. In most instances, the Company does not have duplicate tooling for the manufacture of its purchased parts. As a result, the Company is exposed to the risk of a supplier of such parts being unable to provide the quantity or quality of parts that the Company requires. Even in situations where suppliers are manufacturing parts without the use of Company tooling, the Company faces the challenge of obtaining high-quality parts from suppliers, or maintaining a stable supply of parts from these suppliers. The Company has implemented a supplier risk management program that utilizes industry sources to identify and mitigate high risk supplier situations.

In addition to the above risks on the supply side, the Company is also exposed to risks associated with demands by its customers for decreases in the price of the Company's products. The Company attempts to offset this risk with firm agreements with its customers whenever possible but these agreements generally carry annual price down provisions as well.

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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, or a reduction in the Company's participation in any one or more markets. However, the risks associated with any market downturn or reduction are still present.

Commodity Price Risk Management

The Company is dependent upon the supply of certain raw materials and supplies in the production process and has, from time to time, entered into firm purchase commitments for copper, aluminum, nickel, and natural gas. The Company utilizes an aluminum and natural gas hedging strategy by entering into fixed price contracts to help offset changing commodity prices. The Company enters into forward swap contracts for certain forecasted nickel purchases. The Company does maintain agreements with certain customers to pass through certain material price fluctuations in order to mitigate the commodity price risk. The majority of these agreements contain provisions in which the pass through of the price fluctuations can lag behind the actual fluctuations by a quarter or longer.

Hedging and Foreign Currency Exchange Contract Risk Management

The Company uses derivative financial instruments in a limited way as a tool to manage certain financial risks. Their use is restricted primarily to hedging assets and obligations already held by Modine, and they are used to protect cash flows rather than generate income or engage in speculative activity. Leveraged derivatives are prohibited by Company policy.

Foreign exchange contracts: Modine maintains a foreign exchange risk management strategy that uses derivative financial instruments in a limited way to mitigate foreign currency exchange risk. Modine periodically enters into foreign currency exchange contracts to hedge specific foreign currency denominated transactions. Generally, these contracts have terms of 90 or fewer days. The effect of this practice is to minimize the impact of foreign exchange rate movements on Modine’s earnings. Modine’s foreign currency exchange contracts do not subject it to significant risk due to exchange rate movements because gains and losses on these contracts offset gains and losses on the assets and liabilities being hedged.

As of September 30, 2008, the Company had no outstanding forward foreign exchange contracts, with the exception of the purchased option contracts to hedge the foreign exchange exposure on the entire amount of the Modine Korea, LLC loan and the $15.0 million intercompany loan with Modine Brazil, which are discussed under the section entitled “Foreign Currency Risk Management”. Non-U.S. dollar financing transactions through intercompany loans or local borrowings in the corresponding currency generally are effective as hedges of long-term investments.

The Company has a number of investments in wholly owned foreign subsidiaries and non-consolidated foreign joint ventures. The net assets of these subsidiaries are exposed to currency exchange rate volatility. From time to time, the Company uses non-derivative financial instruments to hedge, or offset, this exposure.

Commodity derivatives: As further noted above under the section entitled “Commodity Price Risk Management”, the Company utilizes futures contracts related to certain of the Company’s forecasted purchases of aluminum and natural gas. The Company’s strategy in entering into these contracts is to reduce its exposure to changing purchase prices for future purchase of these commodities. These contracts have been designated as cash flow hedges by the Company. Accordingly, unrealized gains and losses on these contracts are deferred as a component of accumulated other comprehensive income, and recognized as a component of earnings at the same time that the underlying purchases of aluminum and natural gas impact earnings. During the three and six months ended September 30, 2008, $0.6 million and $1.3 million of income, respectively, were recorded in the consolidated statements of operations at the same time the underlying transactions impacted earnings. At September 30, 2008, $5.0 million of unrealized after-tax losses remain deferred in accumulated other comprehensive income, and will be realized as a component of

net earnings over the next 81 months.

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During the six months ended September 30, 2008, the Company entered into futures contracts related to certain of the Company’s forecasted purchases of copper and nickel. The Company’s strategy in entering into these contracts is to reduce its exposure to changing purchase prices for future purchases of these commodities. The Company has not designated these contracts as hedges, therefore gains and losses on these contracts are recorded directly in the consolidated statements of operations. During the three and six months ended September 30, 2008, $1.6 million and $1.9 million of expense were recorded in cost of sales related to these futures contracts.

Interest rate derivatives: As further noted above under the section entitled “Interest Rate Risk Management”, the Company has, from time to time, entered into interest rate derivates to manage the variability in interest rates. These interest rate derivatives have been treated as cash flow hedges of forecasted transactions and, accordingly, derivative gains or losses are reflected as a component of accumulated other comprehensive income and are amortized to interest expense over the respective lives of the borrowings.

Counterparty risks: The Company manages counterparty risks by ensuring that counterparties to derivative instruments have credit ratings acceptable to the Company. At September 30, 2008, all counterparties had a sufficient long-term credit rating.

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 Executive Vice President – Corporate Strategy 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 the fiscal 2008 Form 10-K, the President and Chief Executive Officer and Executive Vice President – Corporate Strategy and Chief Financial Officer concluded that the design and operation of the Company’s disclosure controls and procedures are not effective as of September 30, 2008. Notwithstanding this material weakness, our management, including our President and Chief Executive Officer and Executive Vice President – Corporate Strategy and Chief Financial Officer has concluded that our condensed consolidated financial statements for the periods covered by and included in this Quarterly Report on Form 10-Q are fairly presented in all material respects in accordance with accounting principles generally accepted in the United States of America (GAAP) for each of the periods presented herein.

As more fully set forth in Item 9A, “Controls and Procedures,” of the fiscal 2008 Form 10-K, management concluded that the Company’s internal controls over financial reporting were not effective as of March 31, 2008 because of the existence at that date of a material weakness in internal control over financial reporting. A material weakness is a deficiency, or a combination of deficiencies, 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 will not be prevented or detected on a timely basis. The material weakness is described below (reproduced from Item 9A of the fiscal 2008 Form 10-K).

Management identified a material weakness in its internal control over financial reporting as of March 31, 2008 due to ineffective controls over reconciliations within the Original Equipment – Europe segment, affecting accounts receivable, accounts payable and value added tax liability. Specifically, controls were not operating effectively to ensure that account reconciliations were completely and accurately prepared and reviewed and there was a lack of sufficient oversight or review of trial balances at the plant level. This control deficiency resulted in adjustments of our accounts receivable, accounts payable and value added tax liability in the Company’s consolidated financial statements

for the year ended March 31, 2008. Additionally, this control deficiency could result in misstatements of the aforementioned accounts that would result in a material misstatement of the consolidated financial statements that would not be prevented or detected. Accordingly, our management has determined that this control deficiency constitutes a material weakness.

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The Company continues to take steps to remediate the material weakness noted in the annual report on Form 10-K for the fiscal year ended March 31, 2008. The Company has developed a standardized work-plan for the financial accounting group in Europe, which includes required actions and monitoring activities. This work-plan was fully implemented and executed upon during the second quarter of fiscal 2009. The Company plans to continue to execute this work-plan in Europe during the third quarter of fiscal 2009.

Changes In Internal Control Over Financial Reporting

During the second quarter of fiscal 2009 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 1. Legal Proceedings.

The following should be read in conjunction with Item 3. "Legal Proceedings" in Part I. of the Company's Annual Report on Form 10-K for the year ended March 31, 2008 and Item 1. "Legal Proceedings" in Part II. of the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2008. Certain information required hereunder is incorporated by reference from Note 21 of the Notes to Condensed Consolidated Financial Statements in Item 1. of Part I. of this report.

Item 1A. Risk Factors.

The risks described below could materially and adversely affect our business, financial condition and results of operations and the actual outcome of matters as to which forward-looking statements are made in this Form 10-Q. The risk factors described below are not the only ones we face. Our business, financial condition and results of operations may also be affected by additional factors that are not currently known to us or that we currently consider immaterial or that are not specific to us, such as general economic conditions. Any adverse effects related to the risks discussed below may, and likely will, adversely affect many aspects of our business.

Given the continued deterioration of our business both as a result of internal and external factors as described in this Form 10-Q, we are presenting in this Form 10-Q new risk factors. In addition, we have made material additions and revisions to the risk factors described under "Risk Factors" in Item 1A. of Part I. of the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2008. The revised and updated risk factors set forth below replace and supersede in their entirety the risk factors provided in the Company's previous filings.

New Risk Factors

We may violate our bank and note holder covenants.

Our unsecured credit agreement and note purchase agreements require us to satisfy quarter-end financial ratios, including an interest expense coverage ratio and a leverage ratio. The recent trends impacting our performance, including the slower-than-anticipated recovery in the North American truck market, the operating inefficiencies in the Original Equipment – North America segment, and the overall decline in the credit markets and ensuing economic uncertainty which has contributed to declining revenues, especially within the Original Equipment – Europe segment, have put additional pressure on the Company's ability to remain in compliance with the interest expense coverage ratio. These downward trends are expected to continue to adversely affect our financial results in the third and fourth quarters of fiscal 2009. Depending on the severity, duration and timing of the impact of these trends, we may need to

work with our lenders to seek to obtain a waiver of, or amend the interest expense coverage ratio covenant in the near future. In contemplation of this possibility, the Company is developing a contingency plan that it would implement in the event that it is not able to obtain a waiver or amendment of the interest expense coverage ratio covenant with its lenders.

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If we default under our credit agreement and note purchase agreements, either through failing to meet financial covenants or in some other way, and are unable to reach suitable accommodations with our lenders or by failure to successfully implement a contingency plan, our ability to access available lines of credit would be limited, our liquidity would be adversely affected and our debt obligations could be accelerated.

We intend to divest our South Korean business which will have consequences to our results of operations.

Depending on the success of the intended divestiture of the South Korean-based vehicular HVAC business, it may become classified as held for sale and as a discontinued operation at some point during fiscal 2009. If this were to occur, the financial results of the South Korean business would be excluded from continuing operations. Given the continued underperformance of the South Korean business and the unprecedented market conditions being experienced in the Company's industry segments and others, our ability to recover our investment in the South Korean business on a "held for sale" basis may be challenging and could result in a material impairment charge or loss on sale in a future period. Our South Korean business continues to underperform expectations and financial targets due largely to a combination of on-going customer pricing pressures, deteriorating product mix, lack of customer base diversification, and our unfavorable manufacturing cost structure.

Over the last several fiscal years, we have experienced a declining gross margin, and we may not succeed in achieving historical or projected gross margin levels.

Our gross margin has declined over the last several fiscal years. These declines were a result of a number of factors including economic, financial and credit market turmoil, sluggish North American commercial vehicle production volumes and, more recently, a marked decline in European automotive production volumes. These economic and end-market conditions, combined with continued operating inefficiencies in our Original Equipment – North America segment and a shift in sales mix toward lower margin products in our Original Equipment – Europe segment, contributed to a 170 basis point decline in the company's gross margin in comparison to the prior year. We cannot assure you that our gross margin will improve or return to prior historical levels or the timing of returning to prior historical levels, and that any further reduction in customer demand for the products that we supply would not have a further adverse effect on our gross margin. A lack of improvement in our future gross margin levels would harm our financial condition and adversely affect our business.

Recent market trends may require additional funding for our pension plans.

The Company has several non-contributory defined benefit pension plans that cover most of its domestic employees hired on or before December 31, 2003. The funding policy for these plans is to contribute annually at a minimum, the amount necessary on an actuarial basis to provide for benefits in accordance with applicable laws and regulations. The assets held by these plans have recently declined in value due to the decrease in market valuations. This decline in asset value will cause a decrease in the funded status of these plans, which could require additional funding contributions to be required, absent changes to the funding laws and regulations. If significant additional funding contributions are necessary, this could have an adverse impact on the Company's liquidity position.

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Revised and Updated Risk Factors from our Form 10-K for the Fiscal Year Ended March 31, 2008

Our OEM business, which accounts for approximately 90 percent of our business currently, is dependent upon the health of the markets we serve.

Current global economic and financial market conditions, including severe disruptions in the credit markets and the potential for a significant and prolonged global economic recession, may materially and adversely affect our results of operations and financial condition. These conditions may also materially impact our customers, suppliers and other parties with which we do business. Economic and financial market conditions that adversely affect our customers may cause them to terminate existing purchase orders or to reduce the volume of products they purchase from us in the future. Our customers' sales and production levels are affected by general economic conditions, including access to credit, the price of fuel, employment levels and trends, interest rates, labor relations issues, regulatory requirements, trade agreements and other factors. Any significant decline in production levels for current and future customers would reduce our sales and harm our results of operations and financial condition. We are highly susceptible to downward trends in the markets we serve.

The slowdown in the U.S. economy has reduced the demand for commercial trucks, and production levels of automobiles in Europe have decreased dramatically. The global truck markets are subject to tightening emission standards that drive cyclical demand patterns. The global construction, agriculture and industrial markets are also impacted by emission regulations and timelines driving the need for advanced product development. Continuing declines in any of these markets would have an adverse effect on our business.

The current financial condition of the automotive industry in Europe and the United States could have a negative impact on our ability to finance our operations and disrupt the supply of components to our OEM customers.

Several of our key customers face significant business challenges due to increased competitive conditions and recent changes in consumer demand. In operating our business, we depend on the ability of our customers to timely pay the amounts we have billed them for tools and products. Any disruption in our customers' ability to pay us in a timely manner because of financial difficulty or otherwise would have a negative impact on our ability to finance our operations.

In addition, because of the challenging conditions within the global automotive industry, many automotive suppliers have filed for bankruptcy. The bankruptcy courts handling these cases could invalidate or seek to amend existing agreements between the bankrupt companies and their labor unions. The bankruptcy or insolvency of other vehicular suppliers or work stoppages or slowdowns due to labor unrest that may affect these suppliers or our OEM customers could lead to supply disruptions that could have an adverse effect on our business.

Even if such suppliers are not in bankruptcy, many are facing severe financial challenges. As a result, they could seek to impose restrictive payment terms on us or cease to supply us which would have a negative impact on our ability to finance our operations. Because of the expense of dual sourcing, many of our suppliers are single source and hold the tooling for the products we purchase from them. The process to qualify a new supplier and produce tooling is expensive, time consuming and dependent upon customer approval and qualification.

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The Company could be adversely affected if we experience shortages of components or materials from our suppliers.

In an effort to manage and reduce the cost of purchased goods and services, the Company, like many suppliers and automakers, has been consolidating its supply base. As a result, the Company is dependent on limited sources of supply for certain components used in the manufacture of our products. The Company selects its suppliers based on total value (including price, delivery and quality), taking into consideration their production capacities, financial condition and ability to meet demand. However, there can be no assurance that strong demand, capacity limitations or other problems experienced by the Company's suppliers will not result in occasional shortages or delays in their supply of product to us. If we were to experience a significant or prolonged shortage of critical components or materials from any of our suppliers and could not procure the components or materials from other sources, the Company would be unable to meet its production schedules for some of its key products and would miss product delivery dates which would adversely affect our sales, margins and customer relations.

We may be unable to complete and successfully implement our restructuring plan to reduce costs and increase efficiencies in our business and, therefore, we may not achieve the cost savings or timing for completion that we initially projected.

We are implementing a number of cost savings programs, such as the closure of three plants in North America and one in Europe. Successful implementation of these and other initiatives, including the expansion in low cost countries, is critical to our future competitiveness and our ability to improve our profitability.

We had also anticipated that the restructuring efforts would take 18 to 24 months from the time they were announced at the end of January 2008. We now expect to complete the closing of the three plants in North America and the one plant in Germany by March 31, 2011. We have and may continue to experience inefficiencies in the movement of product lines from plants being closed to plants that are remaining open.

We may need to undertake further restructuring actions.

We have initiated certain restructuring actions to realign and resize our production capacity and cost structure to meet current and projected operational and market requirements. We may need to take further actions to reduce the Company's cost structure and the charges related to these actions may have a material adverse effect on our results of operations and financial condition.

We may experience negative or unforeseen tax consequences.

We periodically review, as we did in fiscal 2008 with regard to our North American and South Korean operations, the probability of the realization of our deferred tax assets based on forecasts of taxable income in both the U.S. and numerous foreign jurisdictions. In our review, we use historical results, projected future operating results based upon approved business plans, eligible carryforward periods, tax planning opportunities and other relevant considerations. Adverse changes in the profitability and financial outlook in both the U.S. and numerous foreign jurisdictions may require changes in the valuation allowances to reduce our deferred tax assets or increase tax accruals. Such changes could result in material non-cash expenses in the period in which the changes are made and could have a material adverse impact on our results of operations or financial condition.

The Company is currently under examination in the U.S. and in certain foreign countries by the local taxing authorities. Based on the outcome of these examinations, a risk exists that the taxing authorities may disallow certain tax positions taken on previously filed tax returns. Any disallowed tax positions may be in excess of the liability for uncertain tax positions which we have currently recorded in our consolidated financial statements, which could have a material adverse impact on our results of operations or financial condition.

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Events beyond our control may impair our operations and financial condition.

As of September 30, 2008, our total consolidated debt was $255.7 million. This debt level could have important consequences for the Company, including increasing our vulnerability to general adverse economic, credit market and industry conditions; requiring a substantial portion of our cash flows from operations to be used for the payment of interest rather than to fund working capital, capital expenditures, strategic business actions and general corporate requirements; limiting our ability to obtain additional financing or refinance our existing debt agreements; and limiting our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate.

The agreements governing our debt include covenants that restrict, among other things, our ability to incur additional debt; pay dividends on or repurchase our equity; make investments; and consolidate, merge or transfer all or substantially all of our assets. Our ability to comply with these covenants may be adversely affected by events beyond our control, including prevailing economic, financial and industry conditions. These covenants may also require that we take action to reduce our debt or to act in a manner contrary to our short-term or long-term business objectives. There can be no assurance that we will meet our covenants in the future or that the lenders will waive a failure to meet those tests.

If we were to lose business with a major OEM customer, our revenue and profit could be adversely affected.

Deterioration of a business relationship with a major OEM customer could cause the Company’s revenue and profitability to suffer. We principally compete for new business both at the beginning of the development of new models and upon the redesign of existing models by our major customers. New model development generally begins two to five years prior to the marketing of such models to the public. The failure to obtain new business on new models or to retain or increase business on redesigned existing models could adversely affect our business and financial results. In addition, as a result of the relatively long lead times required for many of our complex structural components, it may be difficult in the short-term for us to obtain new sales to replace any unexpected decline in the sale of existing products. We may incur significant expense in preparing to meet anticipated customer requirements which may not be recovered. The loss of a major OEM customer, the loss of business with respect to one or more of the vehicle models that use our products, or a significant decline in the production levels of such vehicles could have an adverse effect on our business, results of operations and financial condition.

The sales of our products are dependent on the success of the particular platform in which our products are placed.

We are awarded business by an OEM customer generally two to three years prior to the launch of a vehicle platform. We incur significant costs to produce our products for a platform in the form of tooling, plant capacity expansion, research and development, and product testing and evaluation, among others. If the actual sales volumes for those platforms are not what we anticipate, our results of operations could be adversely affected because the tooling to produce the products is generally specific to a particular program. The discontinuation, loss of business with respect to, or a lack of commercial success of, a particular vehicle model for which the Company is a significant supplier would reduce the Company’s sales and could adversely affect our financial condition.

Our OEM customers continually seek and obtain price reductions from us. These price reductions adversely affect our results of operations and financial condition.

A challenge that we and other suppliers to vehicular OEMs face is continued price reduction pressure from our customers. Downward pricing pressure has been a characteristic of the automotive industry in recent years and it is migrating to all our vehicular OEM markets. Virtually all such OEMs have aggressive price reduction initiatives that they impose upon their suppliers, and such actions are expected to continue in the future. In the face of lower prices to customers, the Company must reduce its operating costs in order to maintain profitability. The Company has taken

and continues to take steps to reduce its operating costs to offset customer price reductions; however, price reductions are adversely affecting our profit margins and are expected to do so in the future. If the Company is unable to offset customer price reductions through improved operating efficiencies, new manufacturing processes, sourcing alternatives, technology enhancements and other cost reduction initiatives, our results of operations and financial condition could be adversely affected.

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The continual pressure to absorb costs adversely affects our profitability.

We continue to be pressured to absorb costs related to product design, engineering and tooling, as well as other items previously paid for directly by OEMs. In particular, some OEMs have requested that we pay to obtain new business. In addition, they are also requesting that we pay for design, engineering and tooling costs that are incurred prior to the start of production and recover these costs through amortization in the piece price of the applicable component. Some of these costs cannot be capitalized, which adversely affects our profitability until the programs for which they have been incurred are launched. If the program is not launched, we may not be able to recover the design, engineering and tooling costs from our customers, further adversely affecting our profitability.

Our lack of manufacturing facilities in low cost countries adversely affects our profitability.

The competitive environment in the OEM markets we serve has been intensifying as our customers seek to take advantage of lower operating costs in China, other countries in Asia and parts of Eastern Europe. As a result, we are facing increased competition from suppliers that have manufacturing operations in low cost countries. While we continue to expand our manufacturing footprint with a view to taking advantage of manufacturing opportunities in low cost countries, we cannot guarantee that we will be able to fully realize such opportunities. Additionally, the establishment of manufacturing operations in emerging market countries carries its own risks, including those relating to political and economic instability; trade, customs and tax risks; currency exchange rates; currency controls; insufficient infrastructure; and other risks associated with conducting business internationally. The loss of any significant production contract to competitors in low cost countries or significant costs and risks incurred to enter or carry on business in these countries could have an adverse effect on our profitability.

As a global company, we are subject to currency fluctuations and any significant movement between the U.S. dollar, the euro, South Korean won and Brazilian real, in particular, could have an adverse effect on our profitability.

Although our financial results are reported in U.S. dollars, a significant portion of our sales and operating costs are realized in euros, the South Korean won, the Brazilian real and other currencies. Our profitability is affected by movements of the U.S. dollar against the euro, the won, the real and other currencies in which we generate revenues and incur expenses. To the extent that we are unable to match revenues received in foreign currencies with costs paid in the same currency, exchange rate fluctuations in any such currency could have an adverse effect on our revenues and financial results. During times of a strengthening U.S. dollar, our reported sales and earnings from our international operations will be reduced because the applicable local currency will be translated into fewer U.S. dollars. Significant long-term fluctuations in relative currency values, in particular a significant change in the relative values of the U.S. dollar, euro, won or real, could have an adverse effect on our profitability and financial condition or our on-going ability to remain in compliance with our bank and note holder covenants.

We receive new business and keep the business we have because of our technological innovation.

If we were to compete only on cost, our sales would decline substantially. We compete on vehicle platforms that are small- to medium-sized in the industry where our technology is valued. For instance, in the automotive market we do not bid on large vehicle platforms with commoditized products because the margins are too small. If we cannot differentiate ourselves from our competitors with our technology, our products may become commodities and our sales and earnings would be adversely affected.

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Developments or assertions by or against the Company relating to intellectual property rights could adversely affect our business.

The Company owns significant intellectual property, including a large number of patents, trademarks, copyrights and trade secrets, and is involved in numerous licensing arrangements. The Company's intellectual property plays an important role in maintaining our competitive position in a number of the markets we serve. Developments or assertions by or against the Company relating to intellectual property rights could adversely affect the business. Significant technological developments by others also could adversely affect our business and results of operations.

We may incur material losses and costs as a result of product liability and warranty claims and litigation.

We are exposed to warranty and product liability claims in the event that our products fail to perform as expected, and we may be required to participate in a recall of such products. Our largest customers have recently extended their warranty protection for their vehicles. Other OEMs have also similarly extended their warranty programs. This trend will put additional pressure on the supply base to improve quality systems. This trend may also result in higher cost recovery claims by OEMs from suppliers whose products incur a higher rate of warranty claims. Historically, we have experienced relatively low warranty charges from our customers due to our contractual arrangements and improvements in the quality, warranty, reliability and durability performance of our products. If our customers demand higher warranty-related cost recoveries, or if our products fail to perform as expected, it could have a material adverse impact on our results of operations or financial condition.

We are also involved in various legal proceedings incidental to our business. Although we believe that none of these matters are likely to have a material adverse effect on our results of operations or financial condition, there can be no assurance as to the ultimate outcome of any such legal proceeding or any future legal proceedings.

Our business is subject to costs associated with environmental, health and safety regulations.

Our operations are subject to various federal, state, local and foreign laws and regulations governing, among other things, emissions to air, discharge to waters and the generation, handling, storage, transportation, treatment and disposal of waste and other materials. We believe that our operations and facilities have been and are being operated in compliance, in all material respects, with such laws and regulations, many of which provide for substantial fines and sanctions for violations. The operation of our manufacturing facilities entails risks in these areas, however, and there can be no assurance that we will not incur material costs or liabilities relating to such matters. In addition, potentially significant expenditures could be required in order to comply with evolving environmental, health and safety laws, regulations or other pertinent requirements that may be adopted or imposed in the future.

We are also expanding our business in China and India where environmental, health and safety regulations are in their infancy. As a result, we cannot determine how these laws will be implemented and the impact of such regulation on the Company.

Risks related to internal control deficiencies.

Management identified a material weakness in our internal control over financial reporting during fiscal 2008. Effective internal control is necessary for appropriate financial reporting. Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process, under the supervision of the Company's Chief Executive Officer and Chief Financial Officer, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external reporting purposes in accordance with generally accepted accounting principles. As

disclosed in Item 9A. "Controls and Procedures", of our Annual Report on Form 10-K, management identified a material weakness in reconciliations within the Original Equipment – Europe segment. We are currently implementing remediation plans to correct this material weakness, and a risk exists that financial reporting errors could occur before we are able to fully remediate this material weakness or if we experience other internal control deficiencies.

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

In compliance with Item 703 of Regulation S-K, the Company provides the following summary of its purchases of common stock during its second quarter of fiscal 2009.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid Per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
July 1 – July 31, 2008	1,988 (1)	$14.06 (2)	——	—— (3)
August 1 – August 31, 2008	129 (1)	$18.77 (2)	——	—— (3)
September 1 – September 30, 2008	—— (1)	——	——	—— (3)
Total	2,117 (1)	$14.35 (2)	——	—— (3)

(1) Consists of shares delivered back to the Company by employees and/or directors to satisfy tax withholding obligations that arise upon the vesting of the stock awards. The Company, pursuant to its equity compensation plans, gives participants the opportunity to turn back to the Company the number of shares from the award sufficient to satisfy the person’s tax withholding obligations that arise upon the termination of restrictions. These shares are held as treasury shares.

(2) The stated price does not include any commission paid.

(3) There are no shares remaining that may be repurchased under the two publicly announced share repurchase programs, other than pursuant to the indefinite buy-back authority under the anti-dilution portion of one program. The Company does not know at this time the number of shares that will be purchased under this portion of the program. In addition, the Company cannot determine the number of shares that will be turned back to the Company by holders of restricted awards or by the directors upon award of unrestricted shares. The participants also have the option of paying the tax-withholding obligation described above by cash or check, or by selling shares on the open market. The number of shares subject to outstanding restricted stock awards is 192,804 with a value of $2,791,802 at September 30, 2008. Generally, the tax withholding obligation on such shares is approximately 40 percent of the value of the shares when they vest. The restrictions applicable to the stock awards generally lapse 20 percent per year over five years for stock awards granted prior to April 1, 2005 and generally lapse 25 percent per year over four years for stock awards granted after April 1, 2005; provided, however, that certain stock awards vest immediately upon grant.

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Item 4. Submission of Matters to a Vote of Security Holders.

The Company, a Wisconsin corporation, held its Annual Meeting of Shareholders on July 17, 2008. Information on the matters voted upon and the votes cast with respect to each matter was previously reported in the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008.

Item 6. Exhibits.

(a) Exhibits:

Exhibit No.	Description	Incorporated Herein By Referenced To	Filed Herewith
10.1	Amended and Restated Credit Agreement among the Registrant, the Foreign Subsidiary Borrowers, if any, the Lenders, and JPMorgan Chase Bank, N.A. as Agent, as LC Issuer and Swing Line Lender dated as of July 18, 2008	Exhibit 10.1 to Registrant's Current Report on Form 8-K dated July 17, 2008 ("July 17, 2008 Form 8-K")	
10.2	2008 Incentive Compensation Plan	Exhibit 10.2 to July 17, 2008 Form 8-K	
10.3	Form of Amendment No. 1 to Employment Agreement entered into as of July 1, 2008 with Thomas A. Burke, Bradley C. Richardson and Anthony C. DeVuono	Exhibit 10.1 to Registrant's Current Report on Form 8-K dated July 1, 2008	
18.1	Preferability letter from PricewaterhouseCoopers LLP regarding a change in accounting principle dated August 11, 2008	Exhibit 18.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008	
31.1	Certification of Thomas A. Burke, President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.		X
31.2	Certification of Bradley C. Richardson, Executive Vice President – Corporate Strategy and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.		X
32.1	Certification of Thomas A. Burke, President and Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.		X
32.2			X

Certification of Bradley C. Richardson,
Executive Vice President – Corporate
Strategy and Chief Financial Officer,
pursuant to Section 906 of the
Sarbanes-Oxley Act of 2002.

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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/ Bradley C. Richardson
Bradley C. Richardson, Executive Vice President – Corporate
Strategy and Chief Financial Officer *

Date: November 10, 2008

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