

MODINE MANUFACTURING CO
Form 10-Q
February 17, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2008

or

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

For the transition period from _____ to _____

Commission file number 1-1373

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

WISCONSIN
(State or other jurisdiction of incorporation or organization)

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

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

53403
(Zip Code)

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

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

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

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Large Accelerated Filer R

Accelerated Filer £

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

Smaller Reporting Company £

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

The number of shares outstanding of the registrant's common stock, \$0.625 par value, was 32,798,926 at February 9, 2009.

MODINE MANUFACTURING COMPANY
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

MODINE MANUFACTURING COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS
For the three and nine months ended December 31, 2008 and 2007
(In thousands, except per share amounts)
(Unaudited)

	Three months ended December 31		Nine months ended December 31	
	2008	2007	2008	2007
Net sales	\$365,201	\$480,579	\$1,298,183	\$1,353,472
Cost of sales	323,288	410,941	1,123,031	1,151,695
Gross profit	41,913	69,638	175,152	201,777
Selling, general and administrative expenses	47,032	61,365	171,455	172,334
Restructuring expense (income)	25,311	(3)	28,130	(322)
Impairment of goodwill and long-lived assets	27,342	31,455	30,507	31,455
Loss from operations	(57,772)	(23,179)	(54,940)	(1,690)
Interest expense	4,216	3,475	10,452	9,180
Other expense (income) – net	1,656	(2,778)	494	(7,327)
Loss from continuing operations before income taxes	(63,644)	(23,876)	(65,886)	(3,543)
(Benefit from) provision for income taxes	(7,166)	31,083	(2,107)	30,443
Loss from continuing operations	(56,478)	(54,959)	(63,779)	(33,986)
Earnings from discontinued operations (net of income taxes)	52	149	217	535
Gain on sale of discontinued operations (net of income taxes)	369	-	2,066	-
Net loss	\$(56,057)	\$(54,810)	\$(61,496)	\$(33,451)
Loss per share of common stock – basic:				
Continuing operations	\$(1.76)	\$(1.72)	\$(1.99)	\$(1.06)
Earnings from discontinued operations	-	0.01	0.01	0.02
Gain on sale of discontinued operations	0.01	-	0.06	-
Net loss – basic	\$(1.75)	\$(1.71)	\$(1.92)	\$(1.04)
Loss per share of common stock – diluted:				
Continuing operations	\$(1.76)	\$(1.72)	\$(1.99)	\$(1.06)
Earnings from discontinued operations	-	0.01	0.01	0.02
Gain on sale of discontinued operations	0.01	-	0.06	-
Net loss – diluted	\$(1.75)	\$(1.71)	\$(1.92)	\$(1.04)
Dividends per share	\$0.100	\$0.175	\$0.300	\$0.525

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

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MODINE MANUFACTURING COMPANY
CONSOLIDATED BALANCE SHEETS
December 31, 2008 and March 31, 2008
(In thousands, except per share amounts)
(Unaudited)

	December 31, 2008	March 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 72,854	\$ 38,595
Short term investments	1,666	2,909
Trade receivables, less allowance for doubtful accounts of \$1,918 and \$2,218	170,827	294,935
Inventories	118,682	125,499
Assets held for sale	-	6,871
Deferred income taxes and other current assets	74,040	64,482
Total current assets	438,069	533,291
Noncurrent assets:		
Property, plant and equipment – net	484,309	540,536
Investment in affiliates	20,459	23,692
Goodwill	25,876	44,832
Intangible assets – net	7,335	10,485
Assets held for sale	-	5,522
Other noncurrent assets	13,178	9,925
Total noncurrent assets	551,157	634,992
Total assets	\$ 989,226	\$ 1,168,283
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	\$ 6,732	\$ 4,352
Long-term debt – current portion	249	248
Accounts payable	147,325	193,228
Accrued compensation and employee benefits	85,511	68,885
Income taxes	2,822	16,562
Liabilities of business held for sale	-	3,093
Accrued expenses and other current liabilities	60,684	52,546
Total current liabilities	303,323	338,914
Noncurrent liabilities:		
Long-term debt	253,598	227,013
Deferred income taxes	15,587	23,634
Pensions	29,074	33,962
Postretirement benefits	7,695	26,669
Liabilities of business held for sale	-	166
Other noncurrent liabilities	32,293	34,807
Total noncurrent liabilities	338,247	346,251
Total liabilities	641,570	685,165
Commitments and contingencies (See Note 21)		
Shareholders' equity:		
Preferred stock, \$0.025 par value, authorized 16,000 shares, issued - none	-	-
	20,501	20,492

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Common stock, \$0.625 par value, authorized 80,000 shares, issued 32,802 and 32,788 shares		
Additional paid-in capital	72,620	69,346
Retained earnings	274,786	345,966
Accumulated other comprehensive (loss) income	(6,119)	61,058
Treasury stock at cost: 534 and 495 shares	(13,863)	(13,303)
Deferred compensation trust	(269)	(441)
Total shareholders' equity	347,656	483,118
Total liabilities and shareholders' equity	\$ 989,226	\$ 1,168,283

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

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MODINE MANUFACTURING COMPANY
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 For the nine months ended December 31, 2008 and 2007
 (In thousands)
 (Unaudited)

	Nine months ended December 31	
	2008	2007
Cash flows from operating activities:		
Net loss	\$(61,496)	\$(33,451)
Adjustments to reconcile net loss with net cash provided by operating activities:		
Depreciation and amortization	55,875	59,030
Impairment of goodwill and long-lived assets	30,507	31,455
Deferred income taxes	(23,732)	19,754
Other – net	8,267	(9,322)
Net changes in operating assets and liabilities, excluding dispositions	70,843	(6,965)
Net cash provided by operating activities	80,264	60,501
Cash flows from investing activities:		
Expenditures for property, plant and equipment	(79,538)	(58,984)
Proceeds from dispositions of assets	15,174	8,734
Settlement of derivative contracts	(263)	(1,286)
Other – net	3,225	63
Net cash used for investing activities	(61,402)	(51,473)
Cash flows from financing activities:		
Short-term debt – net	2,600	(5,209)
Additions to long-term debt	62,580	98,884
Reductions of long-term debt	(34,261)	(41,679)
Book overdrafts	(856)	(5,283)
Proceeds from exercise of stock options	18	686
Repurchase of common stock, treasury and retirement	(560)	(7,396)
Cash dividends paid	(9,678)	(16,972)
Net cash provided by financing activities	19,843	23,031
Effect of exchange rate changes on cash	(4,446)	3,318
Net increase in cash and cash equivalents	34,259	35,377
Cash and cash equivalents at beginning of period	38,595	26,207
Cash and cash equivalents at end of period	\$72,854	\$61,584

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

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

Note 1: Overview

The accompanying condensed consolidated financial statements were prepared in conformity with generally accepted accounting principles (GAAP) in the United States and such principles were applied on a basis consistent with the preparation of the consolidated financial statements in Modine Manufacturing Company's (Modine or the Company) Annual Report on Form 10-K for the year ended March 31, 2008 filed with the Securities and Exchange Commission. The financial statements include all normal recurring adjustments that are, in the opinion of management, necessary for a fair statement of results for the interim periods. Results for the first nine months of fiscal 2009 are not necessarily indicative of the results to be expected for the full year.

The March 31, 2008 consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. In addition, certain notes and other information have been condensed or omitted from these interim financial statements. Therefore, such statements should be read in conjunction with the consolidated financial statements and related notes contained in Modine's Annual Report on Form 10-K for the year ended March 31, 2008.

Loss from continuing operations: During the three months ended December 31, 2008, the Company reported a loss from continuing operations of \$56,478. The loss in the current quarter is the result of the following factors:

- Sales volumes declined significantly as a result of the weakening global economy. The instability in the global financial and economic markets has created a significant downturn in the Company's vehicular markets, particularly within Europe;
- The underabsorption of fixed costs in the Company's manufacturing facilities as the result of declining sales volumes, as well as a shift in product mix toward lower margin business in the Original Equipment – Europe segment, contributed to a decline in gross margin;
- Impairment charges of \$27,342 were recorded in the third quarter of fiscal 2009 primarily within the Original Equipment – Europe and Original Equipment – North America segments. The Original Equipment – Europe segment reported a significant decline in its current fiscal year results as compared to the prior year. Original Equipment – Europe's net sales decreased \$76,836, or 40.5 percent from the three months ended December 31, 2007 to the three months ended December 31, 2008. In addition, Original Equipment – Europe reported a loss from operations of \$43,351 for the three months ended December 31, 2008 as compared to income from operations of \$20,971 reported for the three months ended December 31, 2007. In addition to this current fiscal year reduction in performance in the Original Equipment – Europe segment, the Company reduced its outlook for this business in the third quarter of fiscal 2009. Due to the combination of the decreased fiscal 2009 net sales and profitability and the reduced outlook for this business, the Company recognized a goodwill impairment charge of \$9,005 during the third quarter of fiscal 2009. This represents an impairment for the full amount of goodwill recorded with the Original Equipment – Europe segment. In addition the Company performed an impairment review of the segment's long-lived assets during the third quarter of fiscal 2009, which resulted in an impairment charge of \$10,562 for certain manufacturing facilities with projected cash flows unable to support their asset base. The Company also performed an impairment review of the Original Equipment – North America long-lived assets during the third quarter of fiscal 2009 due to the continued underperformance of this segment, which resulted in an impairment charge of \$7,775 for a facility with projected cash flows unable to support its asset base, for assets related to a cancelled program and a program which was not able to support its asset base;

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Restructuring and repositioning charges totaling \$27,201 were recorded in the third quarter of fiscal 2009 primarily relating to a workforce reduction affecting 25 percent of the workforce in the Company's Racine, Wisconsin headquarters and a planned workforce reduction throughout the European facilities including the European headquarters in Bonlanden, Germany;

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MODINE MANUFACTURING COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share amounts)
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- The licensing of Modine-specific fuel cell technology to Bloom Energy and transition services for an up-front fee of \$12,689. The transition services will include the sale of products through December 2009. The total up-front compensation received will be recognized as revenue over the 15-month term of these agreements as technology, products and services are provided to Bloom Energy, with \$8,673 of revenue recognized related to the licensing during the third quarter of fiscal 2009; and
- Tax valuation allowance charges of \$6,961 were recorded against net deferred tax assets in the U.S. and South Korea as the Company continues to assess that it is more likely than not that these assets will not be realized in the future.

During the three months ended December 31, 2007, the Company reported a loss from continuing operations of \$54,959. The Company recorded asset impairment charges of \$31,455 within the Original Equipment – North America and Original Equipment – Europe segments. A goodwill impairment charge of \$23,769 was recorded in the Original Equipment – North America segment due to a declining outlook in this segment and a long-lived asset impairment charge of \$3,011 was recorded related to assets in the Original Equipment – North America segment for a program which was not able to support its asset base in the third quarter of fiscal 2008. In addition, a long-lived asset impairment charge of \$4,675 was recorded within the Original Equipment – Europe segment related to assets in the Tübingen, Germany manufacturing facility based on the Company's intention to close this facility. The Company made a determination during the third quarter of fiscal 2008 that it was more likely than not that the U.S. deferred tax assets would not be realized and recorded a valuation allowance of \$40,435 against the net U.S. deferred tax assets.

In response to the near-term adverse conditions facing the Company and recent business performance, the Company continues to execute on the strategies of its four-point recovery plan, which include manufacturing realignment, portfolio rationalization, selling, general and administrative expense (SG&A) reduction, and capital allocation discipline. The Company also has intensified its focus on maximizing cash flow. The Company has initiated the following actions through the four-point recovery plan designed to attain a more competitive cost base, improve the Company's longer term competitiveness and more effectively capitalize on growth opportunities in its thermal management markets:

- The closure of three manufacturing facilities in North America and one in Europe, which are expected to be closed by the end of fiscal 2011;
- Reduction in SG&A through the realignment of the regional and corporate headquarters' organizational structure, including the reduction in workforce described above;
- A targeted reduction of direct costs in the Company's manufacturing facilities proportional to recent volume declines;
- A 20 percent reduction of indirect costs in the Company's manufacturing facilities in North America, with a similar planned reduction in the Company's European manufacturing facilities;
- Tightened controls on capital spending which allocates capital spending to the segments and programs that will provide the highest return on the Company's investment. Capital spending will be limited to \$65,000 in fiscal 2010, which is significantly below the Company's recent historical rates;
 - A more rigid working capital focus through the active management of accounts receivables and inventory;
- The intended divestiture of the Company's South Korean-based vehicular heating, ventilation and air conditioning (HVAC) business;
 - Elimination of post-retirement medical benefits for Medicare eligible participants; and

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MODINE MANUFACTURING COMPANY
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (In thousands, except per share amounts)
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- The ramp-up of production at the newly constructed manufacturing plants in Austria, China, Hungary, India and Mexico. The Company has sufficient liquidity available to ramp-up production within these facilities.

Liquidity: The Company's debt agreements require it to maintain specified financial ratios and place certain limitations on dividend payments and the acquisition of Modine common stock. The most restrictive limitations are quarter-end debt to earnings before interest, taxes, depreciation and amortization (EBITDA) of not more than a 3.0 to 1.0 ratio (leverage ratio) and earnings before interest and taxes (EBIT) to interest expense of not less than a 1.75 to 1.0 ratio for the third quarter of fiscal 2009 (interest expense coverage ratio), as such terms are used in the debt agreements. As a result of the significant downturn in the Company's vehicular markets and resulting loss reported for the three months ended December 31, 2008, the Company was not in compliance with the interest expense coverage and leverage ratio covenants at December 31, 2008, which constituted defaults under the debt agreements.

On February 17, 2009, the Company entered into amendment and waiver agreements with its primary lenders and holders of notes which waived the interest expense coverage and leverage ratio defaults which existed at December 31, 2008. In addition, various amendments were made to the existing debt agreements, including the following:

- The Company is providing to its primary lenders and holders of notes a blanket lien on all domestic assets, certain of the Company's domestic subsidiaries are guaranteeing the Company's outstanding borrowings, and 65% of the Company's and debt guarantors' stock in foreign subsidiaries is pledged;
- The existing quarterly leverage ratio and interest expense coverage ratio covenants are temporarily replaced by a minimum adjusted EBITDA level for the fourth quarter of fiscal 2009 and each quarter during fiscal 2010, with amended leverage and interest expense coverage ratio covenants becoming effective for the fourth quarter of fiscal 2010; and
- Various other restrictive covenants are added, including a limit on capital expenditures, restriction on dividend payments and acquisitions, limitation on other indebtedness outside the existing revolving credit facility and Senior Notes, and limitation on cash balances held by the Company.

See Note 15 for further discussion of these amendments.

The Company agreed to an increase in interest rates of 300 basis points for the revolving credit facility, and an increase in interest rates averaging 473 basis points for the Senior Notes. The Company incurred fees of \$3,054 to its creditors in conjunction with these amendments. These fees will be capitalized and amortized over the life of the applicable agreements.

The following presents the minimum adjusted EBITDA level requirements which the Company will be required to comply with beginning in the fourth quarter of fiscal 2009:

For the quarter ended March 31, 2009	\$(25,000)
For the two consecutive quarters ended June 30, 2009	(22,000)
For the three consecutive quarters ended September 30, 2009	(14,000)
For the four consecutive quarters ended December 31, 2009	1,750
For the four consecutive quarters ended March 31, 2010	35,000

The Company will closely evaluate its on-going ability to remain in compliance with these quarterly minimum adjusted EBITDA levels. Recent adverse trends in the global financial and economic markets have contributed to a rapid decline in revenues in the Company's vehicular markets. These downward trends are expected to continue to adversely affect the Company's financial results in the fourth quarter of fiscal 2009 and throughout fiscal 2010. These trends make it increasingly difficult for the Company to project its operating results and may influence its ability to remain in compliance with the minimum adjusted EBITDA levels over the next year. In contemplation of the uncertainty that exists around the severity and duration of the global recession, the minimum adjusted EBITDA level requirements were established with a range of approximately \$10,000 to \$20,000 of cumulative cushion at each quarter end to allow for variability in our projected results. The Company believes that this cushion is sufficient and that it will be able to maintain compliance with the minimum adjusted EBITDA levels through the end of fiscal 2010. If the Company is unable to meet the financial covenants, its ability to access available lines of credit could be limited, its liquidity could be adversely affected and its debt obligations could be accelerated. These could have a material adverse effect on the future results of operations, financial position and liquidity of the Company.

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

The Company believes that its internally generated operating cash flows, working capital management efforts, asset disposition opportunities and existing cash balances, together with access to available external borrowings, will be sufficient to satisfy future operating costs and capital expenditures.

Note 2: Significant Accounting Policies and Change in Accounting Principles

Consolidation principles: The consolidated financial statements include the accounts of Modine Manufacturing Company and its 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, the Company's 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. The impact of this change in accounting principle to eliminate the one-month reporting lag for foreign subsidiaries is summarized below for the Company's results of operations for the three and nine months ended December 31, 2007, the cash flows for the nine months ended December 31, 2007, and the consolidated balance sheet as of the end of fiscal 2008:

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

	Three months ended December 31, 2007			Nine months ended December 31, 2007		
	As Reported	Adjustments	After Change in Accounting Principle	As Reported	Adjustments	After Change in Accounting Principle
Net sales	\$495,301	\$ (14,722)	\$480,579	\$1,370,868	\$ (17,396)	\$1,353,472
Cost of sales	418,290	(7,349)	410,941	1,160,171	(8,476)	1,151,695
Gross profit	77,011	(7,373)	69,638	210,697	(8,920)	201,777
Selling, general and administrative expenses	60,579	786	61,365	171,091	1,243	172,334
Restructuring income	(3)	-	(3)	(322)	-	(322)
Impairment of goodwill and long-lived assets	31,455	-	31,455	31,455	-	31,455
(Loss) income from operations	(15,020)	(8,159)	(23,179)	8,473	(10,163)	(1,690)
Interest expense	3,440	35	3,475	9,194	(14)	9,180
Other income – net	(2,785)	7	(2,778)	(7,061)	(266)	(7,327)
(Loss) earnings from continuing operations before income taxes	(15,675)	(8,201)	(23,876)	6,340	(9,883)	(3,543)
Provision for income taxes	31,824	(741)	31,083	31,513	(1,070)	30,443
Loss from continuing operations	(47,499)	(7,460)	(54,959)	(25,173)	(8,813)	(33,986)
Earnings from discontinued operations (net of income taxes)	149	-	149	535	-	535
Net loss	\$(47,350)	\$ (7,460)	\$(54,810)	\$(24,638)	\$ (8,813)	\$(33,451)
Loss per share of common stock – basic:						
Continuing operations	\$(1.49)	\$ (0.23)	\$(1.72)	\$(0.79)	\$ (0.27)	\$(1.06)
Earnings from discontinued operations	0.01	-	0.01	0.02	-	0.02
Net loss – basic	\$(1.48)	\$ (0.23)	\$(1.71)	\$(0.77)	\$ (0.27)	\$(1.04)
Loss per share of common stock – diluted:						
Continuing operations	\$(1.49)	\$ (0.23)	\$(1.72)	\$(0.79)	\$ (0.27)	\$(1.06)
Earnings from discontinued operations	0.01	-	0.01	0.02	-	0.02
Net loss – diluted	\$(1.48)	\$ (0.23)	\$(1.71)	\$(0.77)	\$ (0.27)	\$(1.04)

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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	(1,133)	33,962
Postretirement benefits	26,669	-	26,669
Liabilities of business held for sale	166	-	166
Other noncurrent liabilities	35,579	(772)	34,807
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

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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)

	Nine months ended December 31, 2007		
	As Reported	Adjustments	After Change in Accounting Principle
Cash flows from operating activities:			
Net loss	\$(24,638)	\$ (8,813)	\$ (33,451)
Adjustments to reconcile net loss with net cash provided by operating activities:			
Depreciation and amortization	58,445	585	59,030
Impairment of goodwill and long-lived assets	31,455	-	31,455
Deferred income taxes	19,754	-	19,754
Other – net	(9,322)	-	(9,322)
Net changes in operating assets and liabilities	(29,896)	22,931	(6,965)
Net cash provided by operating activities	45,798	14,703	60,501
Cash flows from investing activities:			
Expenditures for property, plant and equipment	(58,112)	(872)	(58,984)
Proceeds from dispositions of assets	8,734	-	8,734
Settlement of derivative contracts	(1,286)	-	(1,286)
Other – net	63	-	63
Net cash used for investing activities	(50,601)	(872)	(51,473)
Cash flows from financing activities:			
Short-term debt	7,951	(13,160)	(5,209)
Additions to long-term debt	98,884	-	98,884
Reductions of long-term debt	(41,672)	(7)	(41,679)
Book overdrafts	(5,283)	-	(5,283)
Proceeds from exercise of stock options	686	-	686
Repurchase of common stock, treasury and retirement	(7,396)	-	(7,396)
Cash dividends paid	(16,972)	-	(16,972)
Net cash provided by financing activities	36,198	(13,167)	23,031
Effect of exchange rate changes on cash	3,104	214	3,318
Net increase in cash and cash equivalents	34,499	878	35,377
Cash and cash equivalents at beginning of period	21,227	4,980	26,207
Cash and cash equivalents at end of period	\$55,726	\$ 5,858	\$ 61,584

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 of these changes on 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 and nine months ended December 31, 2008, the Company sold \$6,692 and \$12,606 of accounts receivable, respectively, to accelerate cash receipts. In accordance with SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", 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 nine months ended December 31, 2008, a loss on the sale of accounts receivable of \$56 and \$124, respectively, 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). On October 10, 2008, the FASB issued FSP 157-3 which clarifies the application of SFAS No. 157 in a market that is not active. The company adopted SFAS No. 157, FSP 157-2 and FSP 157-3 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 interests 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. The adoption of FSP 03-6-1 will have an impact on earnings per share of \$0.01 for the three and nine months ended December 31, 2008.

Note 3: Employee Benefit Plans

Costs (income) from Modine's contributions to the defined contribution employee benefit plans for the three months ended December 31, 2008 and 2007 were (\$194) and \$1,908, respectively. Costs from Modine's contributions to the defined contribution employee benefit plans for the nine months ended December 31, 2008 and 2007 were \$3,303 and \$5,642, respectively. During the three months ended December 31, 2008, the Company's anticipated contribution percentage for the defined contribution plan was decreased, resulting in income for the period.

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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.

During the nine months ended December 31, 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 nine months ended December 31, 2007 to reflect this modification.

Costs for Modine's pension and postretirement benefit plans for the three and nine months ended December 31, 2008 and 2007 include the following components:

	Three months ended December 31				Nine months ended December 31			
	Pension		Postretirement		Pension		Postretirement	
	2008	2007	2008	2007	2008	2007	2008	2007
Service cost	\$620	\$708	\$22	\$41	\$1,879	\$2,176	\$114	\$207
Interest cost	3,549	3,458	179	460	10,688	10,688	947	1,354
Expected return on plan assets	(4,254)	(4,575)	-	-	(12,762)	(13,675)	-	-
Amortization of:								
Unrecognized net loss	481	431	38	139	1,448	2,289	104	383
Unrecognized prior service cost	92	123	(595)	-	275	203	(784)	-
Unrecognized net asset	-	(4)	-	-	-	(16)	-	-
Adjustment for curtailment/settlement	-	-	-	-	280	(4,214)	-	-
Net periodic benefit cost (income)	\$488	\$141	\$(356)	\$640	\$1,808	\$(2,549)	\$381	\$1,944

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 \$472 and \$1,541 for the three months ended December 31, 2008 and 2007, respectively. Modine recognized stock-based compensation cost of \$3,266 and \$5,215 for the nine months ended

December 31, 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 2008 plan in the first quarter of fiscal 2009. In addition, \$856 of compensation expense was reversed relative to the earnings per share component of the fiscal 2009 plan in the third quarter of fiscal 2009.

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The following tables present, by type, the fair market value of stock-based compensation awards granted during the three and nine months ended December 31, 2008 and 2007:

Type of award	Three months ended December 31,			
	2008		2007	
	Shares	Fair Value Per Award	Shares	Fair Value Per Award
Common stock options	-	\$-	-	\$-
Unrestricted common stock - performance	-	\$-	6.6	\$27.69
Restricted common stock - retention	-	\$-	-	\$-
Restricted common stock - performance base upon total shareholder return compared to the S&P 500	-	\$-	-	\$-
Restricted common stock - performance based upon earnings per share growth	-	\$-	-	\$-

Type of award	Nine months ended December 31,			
	2008		2007	
	Shares	Fair Value Per Award	Shares	Fair Value Per Award
Common stock options	-	\$-	0.3	\$5.30
Unrestricted common stock - performance	-	\$-	6.6	\$27.69
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	-	\$-	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 nine months ended December 31,					
	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	%

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As of December 31, 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:

Type of award	Unrecognized Compensation Costs	Weighted Average Remaining Service Period in Years
Common stock options	\$ 63	2.1
Restricted common stock - retention	1,851	2.0
Restricted common stock - performance	1,941	1.9
Total	\$ 3,855	1.9

Note 5: Other (Expense) Income – Net

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

	Three months ended		Nine months ended	
	December 31		December 31	
	2008	2007	2008	2007
Equity earnings of non-consolidated affiliates	\$698	\$1,363	\$2,211	\$2,639
Interest income	535	661	1,660	1,310
Foreign currency transactions	(2,622)	358	(4,685)	2,703
Other non-operating (expense) income - net	(267)	396	320	675
Total other (expense) income - net	\$(1,656)	\$2,778	\$(494)	\$7,327

Foreign currency transactions for the three and nine months ended December 31, 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 December 31, 2008 and 2007, the Company's effective income tax rate attributable to loss from continuing operations before income taxes was -11.3 percent and 130.2 percent, respectively. During the third quarter of fiscal 2009, the Company recorded a valuation allowance of \$6,961 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 third quarter of fiscal 2008, the Company recorded a \$40,435 valuation allowance related to its net U.S. deferred tax assets. The change in the effective tax rate from the prior year primarily stems from a \$32,451 decrease in the valuation allowance against net deferred tax assets, which were initially recorded during the third quarter of fiscal 2008, offset by foreign tax rate differentials and goodwill impairments.

For the nine months ended December 31, 2008 and 2007, the Company's effective income tax rate attributable to loss from continuing operations before income taxes was -3.2 percent and 859.2 percent, respectively. The decrease in the

effective tax rate from the prior year primarily relates to the \$23,122 decrease in the valuation allowance against the net U.S. deferred tax assets that was initially recorded during the third quarter of fiscal 2008, offset by the absence of a favorable impact of foreign tax law changes and 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 nine months ended December 31, 2008:

	Three months ended December 31, 2008			
	Domestic	Foreign	Total	%
Loss from continuing operations before income taxes	\$(14,974)	\$(48,670)	\$(63,644)	
Benefit from income taxes at federal statutory rate	\$(5,241)	\$(17,034)	\$(22,275)	(35.0)
Differential in foreign tax rates and state taxes	(880)	4,971	4,091	6.4
Valuation allowance	7,984	(1,023)	6,961	10.9
Goodwill	-	2,390	2,390	3.8
Other, net	1,555	112	1,667	2.6
Provision for (benefit from) income taxes	\$3,418	\$(10,584)	\$(7,166)	(11.3)
	Nine months ended December 31, 2008			
	Domestic	Foreign	Total	%
Loss from continuing operations before income taxes	\$(59,023)	\$(6,863)	\$(65,886)	
Benefit from income taxes at federal statutory rate	\$(20,658)	\$(2,402)	\$(23,060)	(35.0)
Differential in foreign tax rates and state taxes	(1,586)	1,434	(152)	(0.2)
Valuation allowance	17,313	(395)	16,918	25.7
Goodwill	-	2,390	2,390	3.6
Other, net	1,399	398	1,797	2.7
(Benefit from) provision for income taxes	\$(3,532)	\$1,425	\$(2,107)	(3.2)

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. During the third quarter of fiscal 2009, the Company concluded the German tax

audit of its 2000-2005 income tax returns. As a result, unrecognized tax benefits were reduced by \$576. Additional 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 (\$369) and \$400 for the three and nine months ended December 31, 2008, respectively. In addition, the earnings from discontinued operations for the three and nine months ended December 31, 2008 have been presented net of income tax (benefit) expense of (\$1) and \$75, respectively, and the earnings from discontinued operations for the three and nine months ended December 31, 2007 have been presented net of income tax expense of \$136 and \$303, respectively.

Note 7: Earnings Per Share

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

	Three months ended December 31		Nine months ended December 31	
	2008	2007	2008	2007
Numerator:				
Loss from continuing operations	\$(56,478)	\$(54,959)	\$(63,779)	\$(33,986)
Earnings from discontinued operations	52	149	217	535
Gain on sale of discontinued operations	369	-	2,066	-
Net loss	\$(56,057)	\$(54,810)	\$(61,496)	\$(33,451)
Denominator:				
Weighted average shares outstanding – basic	32,093	31,936	32,066	32,049
Effect of dilutive securities	-	-	-	-
Weighted average shares outstanding – diluted	32,093	31,936	32,066	32,049
Net loss per share of common stock – basic:				
Continuing operations	\$(1.76)	\$(1.72)	\$(1.99)	\$(1.06)
Earnings from discontinued operations	-	0.01	0.01	0.02
Gain on sale of discontinued operations	0.01	-	0.06	-
Net loss – basic	\$(1.75)	\$(1.71)	\$(1.92)	\$(1.04)
Net loss per share of common stock – diluted:				
Continuing operations	\$(1.76)	\$(1.72)	\$(1.99)	\$(1.06)
Earnings from discontinued operations	-	0.01	0.01	0.02
Gain on sale of discontinued operations	0.01	-	0.06	-
Net loss – diluted	\$(1.75)	\$(1.71)	\$(1.92)	\$(1.04)

For the three and nine months ended December 31, 2008, the calculation of diluted earnings per share excludes all potentially dilutive shares which includes 2,617 and 2,616 stock options, respectively, and 133 restricted stock awards as these shares were anti-dilutive. For the three and nine months ended December 31, 2007, the calculation of diluted earnings per share excludes all potentially dilutive shares which includes 2,385 stock options, 243 restricted stock awards and 150 performance awards as these shares were anti-dilutive.

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Note 8: Comprehensive (Loss) Income

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

	Three months ended		Nine months ended	
	December 31		December 31	
	2008	2007	2008	2007
Net loss	\$(56,057)	\$(54,810)	\$(61,496)	\$(33,451)
Foreign currency translation	(20,415)	11,653	(70,759)	36,514
Cash flow hedges	(7,374)	862	(13,580)	(1,365)
Net investment hedging error	-	5,626	-	5,626
Change in SFAS No. 158 benefit plan adjustment	3,928	396	8,184	20,317
Post-retirement plan amendment	-	-	8,978	-
Total comprehensive (loss) income	\$(79,918)	\$(36,273)	\$(128,673)	\$27,641

From time to time, the Company has managed its currency exposure related to the net assets of its European subsidiaries through euro-denominated borrowings entered into by the parent. During the third quarter of fiscal 2008, the Company recorded an adjustment to accumulated other comprehensive (loss) income of \$5,626 to properly reflect the income tax ramifications of net losses related to the foreign-currency-denominated debt recorded in the cumulative translation adjustment over the past several fiscal years. This adjustment was made in the third quarter of fiscal 2008 as it was deemed immaterial to the Company's financial position for that period and all previously reported periods. This adjustment had no impact on the Company's net (loss) earnings during the third quarter of fiscal 2008 or any period previously reported.

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.

	December 31, 2008	March 31, 2008
Raw materials and work in process	\$ 87,281	\$ 96,973
Finished goods	31,401	28,526
Total inventories	\$ 118,682	\$ 125,499

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Note 10: Property, Plant and Equipment

Property, plant and equipment consisted of the following:

	December 31, 2008	March 31, 2008
Gross property, plant and equipment	\$ 1,145,339	\$ 1,188,563
Less accumulated depreciation	(661,030)	(648,027)
Net property, plant and equipment	\$ 484,309	\$ 540,536

A long-lived asset impairment charge of \$18,337 was recorded during the three months ended December 31, 2008. The impairment charge included \$7,775 related to assets in the Original Equipment – North America segment for a facility with projected cash flows unable to support its asset base, for assets related to a cancelled program and a program which was not able to support its asset base. 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 \$10,562 related to certain manufacturing facilities in the Original Equipment – Europe segment with projected cash flows unable to support their asset bases.

A long-lived asset impairment charge of \$21,502 was recorded during the nine months ended December 31, 2008. The impairment charge included \$10,570 related to assets in the Original Equipment – North America segment for a facility with projected cash flows unable to support its asset base, a program which is unable to support its asset base and for assets no longer in use. The impairment charge included \$10,562 related to assets in the Original Equipment – Europe segment for certain manufacturing facilities with projected cash flows unable to support their asset bases. 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.

A long-lived asset impairment charge of \$7,686 was recorded during the three months ended December 26, 2007. The impairment charge included \$3,011 related to assets in the Original Equipment – North America segment for a program which was not able to support its asset base. Also included in the impairment charge was \$4,675 related to assets in the Tübingen, Germany manufacturing facility within the Original Equipment – Europe segment based on the Company's intention to close this facility.

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 December 31, 2008 as the sellers' indemnification obligations are being reviewed by the Company and negotiated with the sellers.

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Note 12: Restructuring, Plant Closures and Other Related Costs

During fiscal 2008, the Company announced the closure of three U.S. manufacturing plants and the closure of 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.

During the third quarter of fiscal 2009, the Company committed to a workforce reduction affecting approximately 140 employees, or approximately 25 percent of the workforce in the Company's Racine, Wisconsin headquarters. Modine also began procedures to significantly reduce the workforce throughout its European facilities including its European headquarters in Bonlanden, Germany.

The Company has incurred \$33,669 of termination charges, \$2,526 of pension curtailment charges and \$11,682 of other closure costs related to these plant closures and the workforce reductions. Further additional costs which are anticipated to be incurred through fiscal 2011 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. Future cash outlays of approximately \$43,000 are anticipated related to these closures and workforce reductions.

Changes in the accrued restructuring liability for the three and nine months ended December 31, 2008 and 2007 were comprised of the following related to the above-described restructuring activities:

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	Three months ended December 31	
	2008	2007
Restructuring liability:		
Balance, October 1	\$ 6,283	\$ 1,785
Additions	24,927	33
Adjustments	(4)	(36)
Effect of exchange rate changes	714	-
Payments	(620)	(137)
Balance, December 31	\$ 31,300	\$ 1,645

	Nine months ended December 31	
	2008	2007
Restructuring liability:		
Balance, April 1	\$ 5,161	\$ 2,313
Additions	27,576	323
Adjustments	(519)	(645)
Effect of exchange rate changes	714	-
Payments	(1,632)	(346)
Balance, December 31	\$ 31,300	\$ 1,645

The following is the summary of restructuring and other repositioning costs recorded related to the announced programs during the three and nine months ended December 31, 2008 and 2007:

	Three months ended		Nine months ended	
	December 31 2008	2007	December 31 2008	2007
Restructuring charges (income):				
Employee severance and related benefits	\$24,923	\$(3)	\$27,057	\$(322)
Non-cash employee related benefits	388	-	1,073	-
Total restructuring charges (income)	25,311	(3)	28,130	(322)
Other repositioning costs:				
Consulting fees	720	-	3,219	-
Miscellaneous other closure costs	1,170	1,249	3,745	2,421
Total other repositioning costs	1,890	1,249	6,964	2,421
Total restructuring and other repositioning costs	\$27,201	\$1,246	\$35,094	\$2,099

The total restructuring and other repositioning costs of \$27,201 and \$35,094 were recorded in the consolidated statements of operations for the three and nine months ended December 31, 2008, respectively, as follows: \$1,597 and \$4,172 were recorded as a component of cost of sales; \$293 and \$2,792 were recorded as a component of selling, general and administrative expenses; and \$25,311 and \$28,130 were recorded as restructuring expense. The total restructuring and other repositioning costs of \$1,246 and \$2,099 were recorded in the consolidated statements of operations for the three and nine months ended December 31, 2007, respectively, as follows: \$1,249 and \$2,421 were

recorded as a component of cost of sales and \$3 and \$322 were recorded as restructuring income. The Company accrues severance in accordance with its written plan, procedures and relevant statutory requirements. 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. During the third quarter of fiscal 2009, the Company paid \$101 based on the finalization of working capital received by the purchaser. The Company recorded a gain on the sale, net of income taxes, of \$369 and \$2,066 for the three and nine months ended December 31, 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 sale transaction.

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

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	Three months ended		Nine months ended	
	December 31		December 31	
	2008	2007	2008	2007
Net sales	\$-	\$6,916	\$2,320	\$21,302
Cost of sales and other (income) expenses	(51)	6,631	2,028	20,464
Earnings before income taxes	51	285	292	838
(Benefit from) provision for income taxes	(1)	136	75	303
Earnings from discontinued operations	\$52	\$149	\$217	\$535

Note 14: Goodwill and Intangible Assets

Changes in the carrying amount of goodwill during the first nine 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	(4)	(1,513)	(3,407)	(4,727)	(9,651)
SFAS No. 142 goodwill impairment	-	(9,005)	-	-	(9,005)
Adjustment	-	-	-	(300)	(300)
Balance, December 31, 2008	\$518	\$-	\$10,659	\$14,699	\$25,876

The Company conducted its annual assessment for goodwill impairment in the third quarter of fiscal 2009 by applying a fair value based test in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," and determined that the Original Equipment – Europe segment goodwill was fully impaired, necessitating a charge of \$9,005. The impairment was due to a recent declining outlook for the Original Equipment – Europe segment as a result of weak European sales volumes, lower gross margins related to new product launches and continued pricing pressures. The fair value of the Company's remaining reporting units exceeded their respective book values. A goodwill impairment charge of \$23,769 was recorded in the third quarter of fiscal 2008 in the Original Equipment – North America segment due to a declining outlook for this segment.

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:

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	December 31, 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	\$ (3,888)	\$64	\$3,952	\$ (3,696)	\$256
Trademarks	8,493	(2,076)	6,417	10,605	(2,062)	8,543
Other intangibles	353	(191)	162	511	(196)	315
Total amortized intangible assets	12,798	(6,155)	6,643	15,068	(5,954)	9,114
Unamortized intangible assets:						
Tradename	692	-	692	1,371	-	1,371
Total intangible assets	\$13,490	\$ (6,155)	\$7,335	\$16,439	\$ (5,954)	\$10,485

The Company conducted its annual impairment assessment of intangible assets with indefinite lives in the third quarter of fiscal 2009 in accordance with SFAS No. 142 and determined that no impairment charge was necessary.

Amortization expense was \$226 and \$270 for the three months ended December 31, 2008 and 2007, respectively, and \$742 and \$700 for the nine months ended December 31, 2008 and 2007, respectively.

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	\$ 225
2010	967
2011	644
2012	644
2013	579
2014 & Beyond	3,584

Note 15: Indebtedness

The Company has \$75,000, 5.26 percent Senior Notes issued in a private placement, maturing on September 29, 2015 ("2015 Notes"), and \$50,000, 6.03 percent Series A Senior Notes maturing on December 7, 2017 ("2017 Notes") and \$25,000, 6.03 percent Series B Senior Notes maturing on December 7, 2018 ("2018 Notes") issued in a second private placement. 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 in conjunction with the Amended and Restated Credit Agreement which will be amortized as a component of interest expense over the term of the facility. At December 31, 2008, \$94,000 was outstanding under the revolving credit facility.

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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 December 31, 2008, the Company was not in compliance with the interest expense coverage and leverage ratio covenants, which constituted defaults under the debt agreements.

On February 17, 2009, the Company entered into a First Amendment to Credit Agreement and Waiver with its primary lenders and a Waiver and Second Amendment to Note Purchase Agreement with the Senior Note holders. These agreements waived the defaults which existed at December 31, 2008. In addition, various amendments were made to the existing debt agreements as further discussed below:

- The Company is providing to its primary lenders and holders of notes a blanket lien on all domestic assets, certain of the Company's domestic subsidiaries are guaranteeing the Company's outstanding borrowings, and 65% of the Company's and domestic guarantors' stock in foreign subsidiaries is pledged;
- The existing quarterly leverage ratio and interest expense coverage ratio covenants are temporarily replaced by the following minimum adjusted EBITDA levels:

For the quarter ended March 31, 2009	\$(25,000)
For the two consecutive quarters ended June 30, 2009	(22,000)
For the three consecutive quarters ended September 30, 2009	(14,000)
For the four consecutive quarters ended December 31, 2009	1,750
For the four consecutive quarters ended March 31, 2010	35,000

Adjusted EBITDA is defined as the Company's (loss) earnings from continuing operations before interest expense and (benefit from) provision for income taxes, adjusted to exclude unusual, non-recurring or extraordinary non-cash charges and cash restructuring and repositioning charges not to exceed \$14,000, and further adjusted to add back depreciation and amortization expense.

- The interest expense coverage ratio and leverage ratio covenants will become effective during the fourth quarter of fiscal 2010 based on the following ratios:

	Interest Expense Coverage Ratio Covenant (Not Permitted to Be Less Than):	Leverage Ratio Covenant (Not Permitted to Be Greater Than):
Fiscal quarter ending March 31, 2010	1.50 to 1.0	7.25 to 1.0
Fiscal quarter ending June 30, 2010	2.00 to 1.0	5.50 to 1.0
Fiscal quarter ending September 30, 2010	2.50 to 1.0	4.75 to 1.0
Fiscal quarter ending December 31, 2010	3.00 to 1.0	3.75 to 1.0
Fiscal quarters ending March 31, 2011 and June 30, 2011	3.00 to 1.0	3.50 to 1.0
All fiscal quarters ending thereafter	3.00 to 1.0	3.00 to 1.0

In addition, the interest expense coverage ratio covenant calculation is also amended to be calculated as the ratio of adjusted EBITDA to interest expense;

- The Company will be required to make principal payments of \$4,688 quarterly beginning December 29, 2011 for the 2015 Notes, principal payments of \$3,125 quarterly beginning March 7, 2014 for the 2017 Notes, and principal payments of \$1,563 quarterly beginning March 7, 2014 for the 2018 Notes;

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- The maturity date for the 2018 Notes will be December 7, 2017;
- The Company will not be permitted to incur capital expenditures greater than \$30,000 for the fourth quarter of fiscal 2009, greater than \$65,000 for fiscal year 2010, and greater than \$70,000 for all fiscal years thereafter;
- The Company will be required to prepay the outstanding indebtedness on the revolving credit facility and senior notes with aggregate U.S. cash balances that exceed \$10,000 or aggregate foreign cash balances that exceed \$20,000;
- The Company will be permitted to incur up to 35,000 euros (\$48,888 U.S. equivalent) of additional indebtedness in its Original Equipment – Europe segment, and an additional aggregate \$10,000 of other indebtedness. The revolving credit facility aggregate commitment amount of \$175,000 will be reduced up to a maximum of \$15,000 for the amount by which the Original Equipment – Europe segment’s aggregate additional indebtedness, both outstanding and available lines of credit, exceeds 5,000 euros (\$6,984 U.S. equivalent);
- The Company will be required to prepay its outstanding revolving credit facility and senior note borrowings and the \$175,000 aggregate commitment for the revolving credit facility will be equally reduced by 100 percent of net proceeds from aggregate asset sales greater than \$25,000;
- The Company is required to deposit \$10,000 of cash collateral with JPMorgan Chase Bank, N.A. as security for unrealized losses on commodity derivatives where JPMorgan Chase Bank, N.A. is the counterparty. See Note 17 for further discussion of these commodity derivatives; and
- Various other amendments are added, including restrictions on dividend payments and acquisitions, the elimination of the previous \$75,000 accordion feature on the revolving credit facility, required prepayments and aggregate commitment reductions for certain capital stock transactions, and provisions for the hiring of financial advisors.

Under the First Amendment to Credit Agreement and Waiver, interest rates were increased 300 basis points for the revolving credit facility. Under the Waiver and Second Amendment to Note Purchase Agreement, interest rates were increased to 10.0 percent for the 2015 Notes, and to 10.75 percent for the 2017 Notes and 2018 Notes. If the Company obtains a credit rating of BBB flat or better, the interest rates will be immediately reduced by 2.50 percent for all senior notes. The Company incurred fees of \$3,054 to its creditors in conjunction with these amendments. These fees will be capitalized and amortized over the life of the applicable agreements.

The Company has \$81,000 available for future borrowings under the revolving credit facility. At December 31, 2008, the Company was in violation of certain financial covenants and was not permitted to borrow under the revolving credit facility until these violations were waived on February 17, 2009. In addition to this revolving credit facility, unused lines of credit also exist in Europe, South Korea and Brazil totaling \$23,395 at December 31, 2008. In the aggregate, total available lines of credit of \$104,395 exist at December 31, 2008. Furthermore, the Original Equipment – Europe segment is permitted to incur up to 35,000 euros (\$48,888 U.S. equivalent) of additional borrowings, although the \$81,000 availability under the revolving credit facility will be reduced by \$15,000 to the extent that aggregate additional indebtedness through borrowings and available lines of credit in the Original Equipment – Europe segment exceeds 5,000 euros (\$6,984 U.S. equivalents). 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.

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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 December 31, 2008 and March 31, 2008, approximately 46 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.

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 December 31, 2008, the Company had a 9,295,000 won (\$7,359 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 was scheduled to expire on 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 statements of operations and acts to offset any currency movement on the outstanding loan receivable. During the nine months ended December 31, 2008, Modine Korea, LLC paid 14,800,000 won (\$12,970 U.S. equivalent) on this inter-company loan and the Company correspondingly adjusted the purchased option contract to reflect the payments. The Company settled this derivative instrument on January 8, 2009 for cash proceeds of \$2,440.

At December 31, 2008, the Company also had an inter-company loan totaling