MODINE MANUFACTURING CO
Form 10-Q
August 11, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2008

or

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

For the transition period from ____________ to ____________

Commission file number 1-1373

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

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

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

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

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

Large Accelerated Filer þ Accelerated Filer o

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

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

The number of shares outstanding of the registrant's common stock, $0.625 par value, was 32,273,672 at August 5, 2008.

MODINE MANUFACTURING COMPANY
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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

MODINE MANUFACTURING COMPANY
CONSOLIDATED STATEMENTS OF EARNINGS
For the three months ended June 30, 2008 and 2007
(In thousands, except per share amounts)

(Unaudited)

	Three months ended June 30	
	2008	2007
Net sales	$ 499,719	$ 444,236
Cost of sales	421,419	373,881
Gross profit	78,300	70,355
Selling, general and administrative expenses	62,822	56,361
Restructuring income	(52)	(240)
Impairment of long-lived assets	134	-
Income from operations	15,396	14,234
Interest expense	3,126	2,775
Other income – net	(2,172)	(3,249)
Earnings from continuing operations before income taxes	14,442	14,708
Provision for income taxes	7,679	3,961
Earnings from continuing operations	6,763	10,747
Earnings from discontinued operations (net of income taxes)	175	254
Gain on sale of discontinued operations (net of income taxes)	849	-
Net earnings	$ 7,787	$ 11,001
Earnings per share of common stock – basic:		
Continuing operations	$ 0.21	$ 0.33
Earnings from discontinued operations	-	0.01
Gain on sale of discontinued operations	0.03	-
Net earnings – basic	$ 0.24	$ 0.34
Earnings per share of common stock – diluted:		
Continuing operations	$ 0.21	$ 0.33
Earnings from discontinued operations	-	0.01
Gain on sale of discontinued operations	0.03	-
Net earnings – diluted	$ 0.24	$ 0.34
Dividends per share	$ 0.100	$ 0.175

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
June 30, 2008 and March 31, 2008
(In thousands, except per share amounts)
(Unaudited)

	June 30, 2008	March 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 45,072	$ 38,595
Short term investments	2,373	2,909
Trade receivables, less allowance for doubtful accounts of $1,741 and $2,218	288,318	294,935
Inventories	136,694	125,499
Assets held for sale	-	6,871
Deferred income taxes and other current assets	72,254	64,482
Total current assets	544,711	533,291
Noncurrent assets:		
Property, plant and equipment – net	541,108	540,536
Investment in affiliates	21,764	23,692
Goodwill	46,196	44,832
Intangible assets – net	9,851	10,485
Assets held for sale	-	5,522
Other noncurrent assets	10,868	9,925
Total noncurrent assets	629,787	634,992
Total assets	$ 1,174,498	$ 1,168,283
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	$ 11	$ 4,352
Long-term debt – current portion	381	248
Accounts payable	201,822	193,228
Accrued compensation and employee benefits	71,510	68,885
Income taxes	10,732	16,562
Liabilities of business held for sale	-	3,093
Accrued expenses and other current liabilities	52,059	52,546
Total current liabilities	336,515	338,914
Noncurrent liabilities:		
Long-term debt	229,122	227,013
Deferred income taxes	23,735	23,634
Pensions	33,650	34,142
Postretirement benefits	26,370	26,669
Liabilities of business held for sale	-	166
Other noncurrent liabilities	33,699	34,627
Total noncurrent liabilities	346,576	346,251
Total liabilities	683,091	685,165
Commitments and contingencies (See Note 20)		
Shareholders' equity:		
Preferred stock, $0.025 par value, authorized 16,000 shares, issued - none	-	-
Common stock, $0.625 par value, authorized 80,000 shares, issued 32,788 shares, respectively	20,492	20,492

Additional paid-in capital	70,089	69,346
Retained earnings	350,529	345,966
Accumulated other comprehensive income	64,380	61,058
Treasury stock at cost: 526 and 495 shares	(13,788)	(13,303)
Deferred compensation trust	(295)	(441)
Total shareholders' equity	491,407	483,118
Total liabilities and shareholders' equity	$ 1,174,498	$ 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 three months ended June 30, 2008 and 2007
(In thousands)
(Unaudited)

	Three months ended June 30	
	2008	2007
Cash flows from operating activities:		
Net earnings	$ 7,787	$ 11,001
Adjustments to reconcile net earnings with net cash provided by (used for) operating activities:		
Depreciation and amortization	19,587	19,385
Other – net	(913)	(4,225)
Net changes in operating assets and liabilities, excluding dispositions	(11,343)	(32,979)
Net cash provided by (used for) operating activities	15,118	(6,818)
Cash flows from investing activities:		
Expenditures for property, plant and equipment	(24,149)	(14,423)
Proceeds from dispositions of assets	10,801	3,320
Settlement of derivative contracts	657	1,322
Other – net	2,968	232
Net cash used for investing activities	(9,723)	(9,549)
Cash flows from financing activities:		
Short-term debt – net	(4,215)	(4,601)
Additions to long-term debt	13,191	34,606
Reductions of long-term debt	(11,533)	(14,661)
Book overdrafts	7,243	(2,296)
Repurchase of common stock, treasury and retirement	(486)	(412)
Cash dividends paid	(3,224)	(5,671)
Other – net	5	25
Net cash provided by financing activities	981	6,990
Effect of exchange rate changes on cash	101	484
Net increase (decrease) in cash and cash equivalents	6,477	(8,893)
Cash and cash equivalents at beginning of period	38,595	26,207
Cash and cash equivalents at end of period	$ 45,072	$ 17,314

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 three 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.

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 debt-to-earnings before interest, taxes, depreciation and amortization (EBITDA) of not more than 3.0 to 1.0 ratio and earnings before interest and taxes (EBIT) to interest expense (interest expense coverage ratio) not less than a 2.0 to 1.0 ratio for the quarter ended June 30, 2008, decreasing to a ratio of 1.75 to 1.0 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 2.5 to 1.0 for fiscal quarters ending on or after September 30, 2009. At June 30, 2008, the Company was in compliance with the debt agreements. The Company anticipates remaining in compliance on a prospective basis with the limitations and financial ratios based on its current business projections. In addition, the Company believes that its internally generated operating cash flow and existing cash balances, together with access to available external borrowings, will be sufficient to satisfy future operating, capital expenditure and strategic business opportunity costs. If the Company is unable to meet the financial covenants and reach suitable resolution of such defaults with the lenders, it could have a material adverse effect on the future results of operations, financial position and liquidity of the Company.

Note 2: Significant Accounting Policies and Change in Accounting Principle

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, 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. 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 and cash flows for the first quarter of fiscal 2008 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 June 30, 2007		
	As Reported	Adjustments	After Change in Accounting Principle
Net sales	$ 444,073	$ 163	$ 444,236
Cost of sales	373,103	778	373,881
Gross profit	70,970	(615)	70,355
Selling, general and administrative expenses	54,962	1,399	56,361
Restructuring income	(240)	-	(240)
Income from operations	16,248	(2,014)	14,234
Interest expense	2,789	(14)	2,775
Other income – net	(4,129)	880	(3,249)
Earnings from continuing operations before income taxes	17,588	(2,880)	14,708
Provision for income taxes	5,192	(1,231)	3,961
Earnings from continuing operations	12,396	(1,649)	10,747
Earnings from discontinued operations (net of income taxes)	254	-	254
Net earnings	$ 12,650	$ (1,649)	$ 11,001
Earnings per share of common stock – basic:			
Continuing operations	$ 0.39	$ (0.06)	$ 0.33
Earnings from discontinued operations	-	0.01	0.01
Net earnings – basic	$ 0.39	$ (0.05)	$ 0.34
Earnings per share of common stock – diluted:			
Continuing operations	$ 0.39	$ (0.06)	$ 0.33
Earnings from discontinued operations	-	0.01	0.01
Net earnings – diluted	$ 0.39	$ (0.05)	$ 0.34

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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)

	Three months ended June 30, 2007		
	As Reported	Adjustments	After Change in Accounting Principle
Cash flows from operating activities:			
Net earnings	$ 12,650	$ (1,649)	$ 11,001
Adjustments to reconcile net earnings with net cash used for operating activities:			
Depreciation and amortization	19,225	160	19,385
Other – net	(4,225)	-	(4,225)
Net changes in operating assets and liabilities	(28,895)	(4,084)	(32,979)
Net cash used for operating activities	(1,245)	(5,573)	(6,818)
Cash flows from investing activities:			
Expenditures for property, plant and equipment	(13,974)	(449)	(14,423)
Proceeds from dispositions of assets	3,320	-	3,320
Settlement of derivative contracts	1,322	-	1,322
Other – net	232	-	232
Net cash used for investing activities	(9,100)	(449)	(9,549)
Cash flows from financing activities:			
Short-term debt	(454)	(4,147)	(4,601)
Additions to long-term debt	34,606	-	34,606
Reductions of long-term debt	(14,661)	-	(14,661)
Book overdrafts	(2,296)	-	(2,296)
Repurchase of common stock, treasury and retirement	(412)	-	(412)
Cash dividends paid	(5,671)	-	(5,671)
Other – net	25	-	25
Net cash provided by financing activities	11,137	(4,147)	6,990
Effect of exchange rate changes on cash	617	(133)	484
Net increase (decrease) in cash and cash equivalents	1,409	(10,302)	(8,893)
Cash and cash equivalents at beginning of period	21,227	4,980	26,207
Cash and cash equivalents at end of period	$ 22,636	$ (5,322)	$ 17,314

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.

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 17 for further discussion.

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

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" (SFAS No. 159), 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.

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.

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MODINE MANUFACTURING COMPANY
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(In thousands, except per share amounts)
(unaudited)

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 June 30, 2008 and 2007 were $1,847 and $1,839, respectively.

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

	Pension plans		Postretirement plans	
For the three months ended June 30,	2008	2007	2008	2007
Service cost	$ 700	$ 787	$ 63	$ 83
Interest cost	3,492	3,846	464	447
Expected return on plan assets	(4,535)	(4,699)	-	-
Amortization of:				
Unrecognized net loss	853	1,532	94	122
Unrecognized prior service cost (benefit)	74	(24)	6	-
Unrecognized net asset	-	(7)	-	-
Net periodic benefit cost	$ 584	$ 1,435	$ 627	$ 652

Note 4: Stock-Based Compensation

Stock-based compensation consists of st