MODINE MANUFACTURING CO
Form 10-Q
February 01, 2013

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 December 31, 2012

or

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

For the transition period from ____________ to ____________

Commission file number 1-1373

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

WISCONSIN	39-0482000
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1500 DeKoven Avenue, Racine, Wisconsin (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 þ No o

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

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

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

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

The number of shares outstanding of the registrant's common stock, $0.625 par value, was 47,198,088 at January 24, 2013.

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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, 2012 and 2011
(In millions, except per share amounts)
(Unaudited)

	Three months ended December 31,		Nine months ended December 31,	
	2012	2011	2012	2011
Net sales	$326.1	$373.3	$1,016.4	$1,188.4
Cost of sales	277.9	313.2	863.9	996.1
Gross profit	48.2	60.1	152.5	192.3
Selling, general and administrative expenses	42.3	40.7	126.8	140.4
Impairment charges	8.3	2.2	25.1	2.2
Restructuring and repositioning expenses	1.4	-	7.3	-
Operating (loss) income	(3.8)	17.2	(6.7)	49.7
Interest expense	(2.8)	(2.9)	(9.2)	(9.2)
Other expense – net	(0.3)	(1.6)	-	(7.6)
(Loss) earnings from continuing operations before income taxes	(6.9)	12.7	(15.9)	32.9
Provision for income taxes	(1.5)	(3.9)	(5.3)	(10.6)
(Loss) earnings from continuing operations	(8.4)	8.8	(21.2)	22.3
Earnings from discontinued operations, net of income taxes	-	0.3	-	0.7
Net (loss) earnings	(8.4)	9.1	(21.2)	23.0
Less: Net earnings attributable to noncontrolling interest	(0.3)	(0.1)	(0.9)	(0.1)
Net (loss) earnings attributable to Modine	$(8.7)	$9.0	$(22.1)	$22.9
(Loss) earnings per share from continuing operations attributable to Modine shareholders:				
Basic	$(0.19)	$0.18	$(0.47)	$0.47
Diluted	$(0.19)	$0.18	$(0.47)	$0.47
Net (loss) earnings per share attributable to Modine shareholders:				
Basic	$(0.19)	$0.19	$(0.47)	$0.49
Diluted	$(0.19)	$0.19	$(0.47)	$0.49
Weighted average shares outstanding:				
Basic	46.7	46.5	46.6	46.5
Diluted	46.7	46.8	46.6	46.9

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

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MODINE MANUFACTURING COMPANY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the three and nine months ended December 31, 2012 and 2011

(In millions)

(Unaudited)

	Three months ended December 31, 2012	Three months ended December 31, 2011	Nine months ended December 31, 2012	Nine months ended December 31, 2011
Net (loss) earnings	$(8.4)	$9.1	$(21.2)	$23.0
Other comprehensive income (loss), net of income taxes:				
Foreign currency translation	3.7	(9.9)	(10.2)	(33.2)
Cash flow hedges	0.7	-	2.4	(5.6)
Defined benefit plans	0.8	1.6	2.6	4.8
Total other comprehensive income (loss)	5.2	(8.3)	(5.2)	(34.0)
Comprehensive (loss) income	(3.2)	0.8	(26.4)	(11.0)
Comprehensive income attributable to noncontrolling interest	(0.3)	(0.1)	(0.9)	(0.1)
Comprehensive (loss) income attributable to Modine	$(3.5)	$0.7	$(27.3)	$(11.1)

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

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MODINE MANUFACTURING COMPANY
CONSOLIDATED BALANCE SHEETS
December 31, 2012 and March 31, 2012
(In millions, except per share amounts)
(Unaudited)

	December 31, 2012	March 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 32.9	$ 31.4
Trade accounts receivable	161.8	216.1
Inventories	121.4	120.8
Other current assets	59.3	59.2
Total current assets	375.4	427.5
Property, plant and equipment – net	359.4	412.1
Investment in affiliate	3.8	3.7
Intangible assets – net	8.7	5.8
Goodwill	29.5	29.9
Other noncurrent assets	22.8	14.5
Total assets	$ 799.6	$ 893.5
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	$ 26.2	$ 21.3
Long-term debt – current portion	0.9	1.1
Accounts payable	123.7	156.9
Accrued compensation and employee benefits	40.2	50.6
Other current liabilities	50.5	67.7
Total current liabilities	241.5	297.6
Long-term debt	137.6	141.9
Deferred income taxes	12.4	12.3
Pensions	84.6	94.1
Postretirement benefits	6.6	6.4
Other noncurrent liabilities	14.1	15.1
Total liabilities	496.8	567.4
Commitments and contingencies (see Note 16)		
Shareholders' equity:		
Preferred stock, $0.025 par value, authorized 16.0 shares, issued - none	-	-
Common stock, $0.625 par value, authorized		
80.0 shares, issued 47.8 and 47.4 shares	29.9	29.6
Additional paid-in capital	171.0	168.3
Retained earnings	209.7	231.8
Accumulated other comprehensive loss	(95.5)	(90.3)
Treasury stock at cost: 0.6 shares	(14.6)	(14.5)
Total Modine shareholders' equity	300.5	324.9
Noncontrolling interest	2.3	1.2
Total equity	302.8	326.1
Total liabilities and equity	$ 799.6	$ 893.5

The notes to 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, 2012 and 2011
(In millions)
(Unaudited)

	Nine months ended December 31,	
	2012	2011
Cash flows from operating activities:		
Net (loss) earnings	$ (21.2)	$ 23.0
Adjustments to reconcile net (loss) earnings to net cash provided by operating activities:		
Depreciation and amortization	41.8	43.4
Impairment charges	25.1	2.2
Other – net	9.2	15.0
Net changes in operating assets and liabilities	(13.5)	(65.3)
Net cash provided by operating activities	41.4	18.3
Cash flows from investing activities:		
Expenditures for property, plant and equipment	(33.6)	(45.3)
Acquisition – net of cash acquired	(4.9)	-
Other – net	(1.3)	0.2
Net cash used for investing activities	(39.8)	(45.1)
Cash flows from financing activities:		
Borrowings of debt	69.7	115.1
Repayments of debt	(69.4)	(94.7)
Other – net	(0.2)	0.9
Net cash provided by financing activities	0.1	21.3
Effect of exchange rate changes on cash	(0.2)	(1.3)
Net increase (decrease) in cash and cash equivalents	1.5	(6.8)
Cash and cash equivalents at beginning of period	31.4	32.9
Cash and cash equivalents at end of period	$ 32.9	$ 26.1

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

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

Note 1: General

The accompanying condensed consolidated financial statements were prepared in conformity with generally accepted accounting principles (GAAP) in the United States applied on a basis consistent with those principles used in the preparation of the annual consolidated financial statements of Modine Manufacturing Company (Modine or the Company) for the fiscal year ended March 31, 2012. The financial statements include all normal recurring adjustments that are, in the opinion of management, necessary for a fair statement of results for the interim periods. Results for the first nine months of fiscal 2013 are not necessarily indicative of the results to be expected for the full year. These financial statements should be read in conjunction with the consolidated financial statements and related notes in Modine's Annual Report on Form 10-K for the year ended March 31, 2012.

Revision of prior period financial statements: As described in Note 1 and Note 26 of the Notes to Consolidated Financial Statements in Modine's Annual Report on Form 10-K for the year ended March 31, 2012, the quarterly results for fiscal 2012 have been revised as a result of errors identified during fiscal 2012 that were not considered material individually or in the aggregate to previously issued financial statements but were considered significant to the quarters in which they were identified. For the three months ended December 31, 2011, cost of sales decreased $0.3, gross profit increased $0.3, selling, general and administrative expenses decreased $0.7, provision for income taxes increased $0.3 and earnings from continuing operations increased $0.7 as a result of the revisions. Diluted earnings per share from continuing operations and diluted net earnings per share increased $0.01 for the three months ended December 31, 2011 as a result of these revisions. For the nine months ended December 31, 2011, cost of sales decreased $1.1, gross profit increased $1.1, selling, general and administrative expenses decreased $0.5, provision for income taxes increased $1.0 and earnings from continuing operations increased $0.6 as a result of the revisions. Diluted earnings per share from continuing operations and diluted net earnings per share increased $0.01 for the nine months ended December 31, 2011 as a result of these revisions.

Out of period adjustment: During the first quarter of fiscal 2013, the Company identified an error related to certain commodity hedges that should have been deemed ineffective in the fourth quarter of fiscal 2012, which understated pre-tax earnings by $0.5 in the fourth quarter of fiscal 2012, and overstated pre-tax earnings by this same amount in the first quarter of fiscal 2013. This amount was not considered material to the financial statements of either the fourth quarter of fiscal 2012 or the first nine months of fiscal 2013.

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

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

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(In millions, except per share amounts)
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Note 2: Acquisitions

On July 25, 2012, the Company completed the acquisition of Geofinity Manufacturing of Surrey, British Columbia for cash consideration of $4.9, net of cash acquired. This acquisition, which is included in the Commercial Products segment, provides Modine with a product line of innovative geothermal heat pumps in both water-to-water and water-to-air models. Acquired assets and liabilities assumed were recorded at their respective fair values. The purchase price allocation resulted in acquired technology of $3.5, working capital net assets of $0.6 and goodwill of $0.8. Acquired technology consists of a fully developed product line, technical processes and intellectual property and is being amortized over ten years.

During fiscal 2007, the Company acquired the remaining 50 percent of Radiadores Visconde Ltda. The purchase agreement included a $2.0 note which was payable subject to the resolution of certain obligations of the sellers. During the second quarter of fiscal 2013, the Company and the sellers reached a final resolution under which the Company is not obligated to pay the note to the sellers. As a result, the Company recorded a $2.0 reduction to selling, general and administrative expenses in the South America segment during the second quarter of fiscal 2013.

Note 3: Fair Value Measurements

Fair value measurements are classified under the following hierarchy:

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

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

Trading securities: The Company’s trading securities, which are included within other noncurrent assets on the balance sheet, are investments maintained in a deferred compensation trust to fund future obligations under Modine’s non-qualified deferred compensation plan. The securities’ fair values are the market values from active markets and are classified within Level 1 of the valuation hierarchy.

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

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

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Deferred compensation obligations: The fair value of the Company's deferred compensation obligations are recorded at the fair value of the investments held by the deferred compensation trust. As described above, the fair values of the related trading securities are the market values from active markets and are classified within Level 1 of the valuation hierarchy.

The carrying values of cash and cash equivalents, trade receivables and accounts payable approximate fair value due to the short-term nature of these instruments. The fair value of the Company's debt is disclosed in Note 14.

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

	Level 1	Level 2	Level 3	Total
Assets:				
Trading securities	$ 2.1	$ -	$ -	$ 2.1
Total assets	$ 2.1	$ -	$ -	$ 2.1
Liabilities:				
Derivative financial instruments	$ -	$ 1.1	$ -	$ 1.1
Deferred compensation obligations	2.1	-	-	2.1
Total liabilities	$ 2.1	$ 1.1	$ -	$ 3.2

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

	Level 1	Level 2	Level 3	Total
Assets:				
Trading securities	$ 1.8	$ -	$ -	$ 1.8
Derivative financial instruments	-	0.4	-	0.4
Total assets	$ 1.8	$ 0.4	$ -	$ 2.2
Liabilities:				
Derivative financial instruments	$ -	$ 3.5	$ -	$ 3.5
Deferred compensation obligations	1.8	-	-	1.8
Total liabilities	$ 1.8	$ 3.5	$ -	$ 5.3

Assets held for sale: In addition to items that are recorded at fair value on a recurring basis, assets held for sale and certain other long-lived assets may be measured at fair value on a nonrecurring basis. These assets have been written down to fair value, based on Level 3 market-based valuation inputs. The carrying value of assets held for sale totaled $12.5 at December 31, 2012. See Note 6 for further discussion.

Note 4: Pension and Postretirement Benefit Plans

During the three months ended December 31, 2012 and 2011, the Company elected to contribute $2.8 and $2.2, respectively, to its U.S. pension plans. During the nine months ended December 31, 2012 and 2011, the Company elected to contribute $7.6 and $9.4, respectively, to its U.S. pension plans. Costs for Modine's pension and postretirement benefit plans included the following components:

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In millions, except per share amounts)
(unaudited)

	Three months ended December 31,				Nine months ended December 31,			
	Pension		Postretirement		Pension		Postretirement	
	2012	2011	2012	2011	2012	2011	2012	2011
Service cost	$0.1	$0.4	$-	$-	$0.5	$1.3	$-	$-
Interest cost	3.4	3.5	0.1	0.1	10.1	10.5	0.2	0.3
Expected return on plan assets	(4.0)	(3.8)	-	-	(12.1)	(11.5)	-	-
Amortization of:								
Unrecognized net loss	1.2	2.0	-	-	3.7	6.0	-	-
Unrecognized prior service credit	-	-	(0.4)	(0.4)	-	-	(1.1)	(1.2)
Net periodic benefit cost (income)	$0.7	$2.1	$(0.3)	$(0.3)	$2.2	$6.3	$(0.9)	$(0.9)

Note 5: Stock-Based Compensation

Stock-based compensation consists of stock options, restricted stock granted for retention and performance and discretionary unrestricted stock. Compensation cost is calculated based on the fair value of the instrument at the time of grant, and is recognized as expense over the vesting period of the stock-based award. Modine recognized stock-based compensation cost of $1.4 and $0.9 for the three months ended December 31, 2012 and 2011, respectively. Modine recognized stock-based compensation cost of $3.0 and $3.5 for the nine months ended December 31, 2012 and 2011, respectively. The performance component of awards granted under the Company's long-term incentive plan during the first quarter of fiscal 2013 is based on three-year average consolidated return on average capital employed (ROACE) (weighted at 50 percent), cumulative revenue over the three year performance period (weighted at 25 percent), and Europe ROACE at the end of the three year performance period (weighted at 25 percent). The Company currently considers the attainment of the consolidated ROACE and Europe ROACE components to be probable. ROACE is defined as operating income adjusted to exclude unusual, non-recurring or extraordinary non-cash charges and cash restructuring and repositioning charges, multiplied by 70 percent to account for an assumed 30 percent income tax rate, and further adjusted to exclude earnings (or losses) attributable to minority shareholders; divided by total debt plus shareholders' equity. Cumulative revenue is the Company's net sales over the performance period. Europe ROACE is defined as the Europe segment operating income, less research and development charges to the Company's corporate expenses, adjusted to exclude unusual, non-recurring or extraordinary non-cash charges and cash restructuring and repositioning charges, multiplied by 70 percent to account for an assumed 30 percent income tax rate; divided by Europe segment total assets, less cash and cash equivalents and Europe segment total liabilities, excluding debt.

The fair market value of stock-based compensation awards granted during the nine months ended December 31, 2012 and 2011 were as follows:

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

	Nine months ended December 31, 2012		2011	
	Shares	Fair Value Per Award	Shares	Fair Value Per Award
Stock options	0.2	$4.26	0.1	$10.45
Unrestricted stock	0.1	$7.14	-	$14.93
Restricted stock - retention	0.4	$5.80	0.1	$14.93
Restricted stock - performance based	0.4	$5.75	0.2	$14.93

The following assumptions were used in determining fair value for stock options:

	Nine months ended December 31, 2012	2011
Expected life of awards in years	6.3	6.3
Risk-free interest rate	0.9 %	1.9 %
Expected volatility of the Company's stock	87.4 %	79.6 %
Expected dividend yield on the Company's stock	0.0 %	0.0 %

As of December 31, 2012, the total remaining unrecognized compensation cost related to non-vested stock-based compensation awards, which will be amortized over the weighted average remaining service periods, was as follows:

	Unrecognized Compensation Cost	Weighted Average Remaining Service Period in Years
Stock options	$ 1.2	1.9
Restricted stock - retention	3.1	3.0
Restricted stock - performance based	1.5	2.0
Total	$ 5.8	2.5

Note 6: Impairment and Restructuring Charges

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

Since the commencement of the Europe segment restructuring, the Company has recorded $24.1 of asset impairment charges, $6.6 of employee severance costs and $0.7 of repositioning expenses that primarily relate to equipment transfer costs.

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

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

	Three months ended December 31, 2012	Three months ended December 31, 2011	Nine months ended December 31, 2012	Nine months ended December 31, 2011
Employee severance and related benefits	$1.0	$-	$6.6	$-
Repositioning costs	0.4	-	0.7	-
Total restructuring and repositioning expenses	$1.4	$-	$7.3	$-

Changes in accrued severance were as follows:

	Three months ended December 31, 2012	Nine months ended December 31, 2012
Beginning balance	$ 4.7	$ -
Additions	1.0	6.6
Payments	(0.9)	(1.9)
Effect of exchange rate changes	0.2	0.3
Balance, December 31, 2012	$ 5.0	$ 5.0

During the three and nine months ended December 31, 2012, the Company recorded asset impairment charges of $8.3 and $25.1, respectively. During the three and nine months ended December 31, 2011, the Company recorded a loss on disposal of assets of $2.2. The fiscal 2013 charges primarily relate to facilities held for sale in the Europe and North America segments to reduce their carrying value to estimated fair value, less cost to sell. At December 31, 2012 and March 31, 2012, assets held for sale of $12.5 and $2.5, respectively, were included in other noncurrent assets. These consist of facilities that the Company is marketing for sale. Upon designation as held for sale, the carrying value of the asset was measured at the lower of its carrying value or its estimated fair value, less cost to sell.

Note 7: Other Expense – Net

Other expense consisted of the following:

	Three months ended December 31, 2012	Three months ended December 31, 2011	Nine months ended December 31, 2012	Nine months ended December 31, 2011
Equity in earnings (loss) of non-consolidated affiliate	$-	$0.2	$0.1	$(0.2)
Interest income	0.1	0.2	0.5	0.6
Foreign currency transactions	(0.3)	(2.1)	(0.6)	(8.0)
Other non-operating (expense) income - net	(0.1)	0.1	-	-
Total other expense - net	$(0.3)	$(1.6)	$-	$(7.6)

Foreign currency transactions primarily consist of foreign currency transaction gains and losses on the re-measurement or settlement of foreign currency denominated assets and liabilities, including inter-company loans and transactions denominated in a foreign currency, along with unrealized gains and losses on foreign currency exchange contracts.

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

Note 8: Income Taxes

For the three months ended December 31, 2012 and 2011, the Company's effective income tax rate attributable to continuing operations was 21.7 percent and 30.7 percent, respectively. For the nine months ended December 31, 2012 and 2011, the Company's effective income tax rate attributable to continuing operations was 33.3 percent and 32.2 percent, respectively.

The most significant factors impacting changes in the effective tax rate for the three and nine months ended December 31, 2012 as compared to prior periods were increases in the valuation allowance for certain foreign jurisdictions, primarily from impairment charges in Germany, for which no benefit is recognized, and the changing mix of foreign and domestic earnings. During the three months ended December 31, 2012, the Company continued to record a full valuation allowance against its net deferred tax assets in the U.S. and certain foreign jurisdictions as it is more likely than not that these assets will not be realized based on historical performance. The Company will continue to provide a valuation allowance against its net deferred tax assets in each of the applicable jurisdictions until the need for a valuation allowance is eliminated. The need for a valuation allowance will be eliminated when the Company determines it is more likely than not that the deferred tax assets will be realized. It is possible that during calendar 2013, the U.S. taxing jurisdiction will no longer be in a cumulative three-year loss position, thereby removing significant negative evidence concerning the valuation allowance. The Company will continue to evaluate all positive and negative evidence to determine the propriety of the valuation allowance against the net deferred tax assets in each jurisdiction.

The Company adjusts its effective tax rate each quarter to be consistent with its estimated annual effective tax rate. Under this methodology, the Company applies an estimated annual income tax rate to its year-to-date ordinary earnings to derive its income tax provision each quarter. The tax impacts of certain significant, unusual or infrequently occurring items are recorded in the period in which they occur. For the nine months ended December 31, 2012, the U.S. taxing jurisdiction had year-to-date pre-tax earnings and is also forecasting pre-tax earnings for the full fiscal year. As a result, the U.S. taxing jurisdiction is included in the overall annual effective tax rate methodology. The impact of the Company's operations in Germany, Austria and certain other foreign locations continue to be excluded from the overall effective tax rate methodology and recorded discretely based upon year-to-date results as these operations anticipate net operating losses for the full year. The income tax provision or benefit for the Company's other foreign operations is recorded under the overall effective tax rate methodology.

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

Note 9: Earnings Per Share

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In millions, except per share amounts)
(unaudited)

	Three months ended December 31,		Nine months ended December 31,	
	2012	2011	2012	2011
Basic Earnings Per Share:				
(Loss) earnings from continuing operations	$(8.4)	$8.8	$(21.2)	$22.3
Less: Net earnings attributable to noncontrolling interest	(0.3)	(0.1)	(0.9)	(0.1)
(Loss) earnings from continuing operations attributable to Modine	(8.7)	8.7	(22.1)	22.2
Less: Undistributed earnings attributable to unvested shares	-	-	-	(0.1)
(Loss) earnings from continuing operations available to Modine shareholders	$(8.7)	$8.7	$(22.1)	$22.1
Earnings from discontinued operations	$-	$0.3	$-	$0.7
Less: Undistributed earnings attributable to unvested shares	-	-	-	-
Earnings from discontinued operations available to Modine shareholders	$-	$0.3	$-	$0.7
Net (loss) earnings available to Modine shareholders	$(8.7)	$9.0	$(22.1)	$22.8
Weighted average shares outstanding - basic	46.7	46.5	46.6	46.5
(Loss) earnings per share - continuing operations	$(0.19)	$0.18	$(0.47)	$0.47
Earnings per share - discontinued operations	-	0.01	-	0.02
Net (loss) earnings per share - basic	$(0.19)	$0.19	$(0.47)	$0.49

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	Three months ended December 31, 2012	Three months ended December 31, 2011	Nine months ended December 31, 2012	Nine months ended December 31, 2011
Diluted Earnings Per Share:				
(Loss) earnings from continuing operations	$(8.4)	$8.8	$(21.2)	$22.3
Less: Net earnings attributable to noncontrolling interest	(0.3)	(0.1)	(0.9)	(0.1)
(Loss) earnings from continuing operations attributable to Modine	(8.7)	8.7	(22.1)	22.2
Less: Undistributed earnings attributable to unvested shares	-	-	-	(0.1)
(Loss) earnings from continuing operations available to Modine shareholders	$(8.7)	$8.7	$(22.1)	$22.1
Earnings from discontinued operations	$-	$0.3	$-	$0.7
Less: Undistributed earnings attributable to unvested shares	-	-	-	-
Earnings from discontinued operations available to Modine shareholders	$-	$0.3	$-	$0.7
Net (loss) earnings available to Modine shareholders	$(8.7)	$9.0	$(22.1)	$22.8
Weighted average shares outstanding - basic	46.7	46.5	46.6	46.5
Effect of dilutive securities	-	0.3	-	0.4
Weighted average shares outstanding - diluted	46.7	46.8	46.6	46.9
(Loss) earnings per share - continuing operations	$(0.19)	$0.18	$(0.47)	$0.47
Earnings per share - discontinued operations	-	0.01	-	0.02
Net (loss) earnings per share - diluted	$(0.19)	$0.19	$(0.47)	$0.49

For each of the three and nine months ended December 31, 2012, the total number of potential dilutive securities was 0.3. However, these securities were not included in the computation of diluted net loss per share for the three and nine months ended December 31, 2012, since to do so would decrease the loss per share. For the three and nine months ended December 31, 2012, 1.2 shares issuable upon the exercise of stock options were anti-dilutive and excluded from the calculation of diluted earnings per share. In addition, for each of the three and nine months ended December 31, 2012, 0.2 restricted stock awards were anti-dilutive and were also excluded from the calculation of diluted earnings per share. For each of the three and nine months ended December 31, 2011, 1.4 shares issuable upon the exercise of stock options and 0.2 restricted stock awards were anti-dilutive and were excluded from the calculation of diluted earnings per share.

Note 10: Inventories

Inventories consisted of the following:

	December 31, 2012	March 31, 2012
Raw materials and work in process	$ 85.4	$ 88.6
Finished goods	36.0	32.2
Total inventories	$ 121.4	$ 120.8

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Note 11: Property, Plant and Equipment

Property, plant and equipment consisted of the following:

	December 31, 2012	March 31, 2012
Gross property, plant and equipment	$ 1,033.8	$ 1,092.7
Accumulated depreciation	(674.4)	(680.6)
Net property, plant and equipment	$ 359.4	$ 412.1

Note 12: Goodwill and Intangible Assets

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

	Asia	South America	Commercial Products	Total
Goodwill, March 31, 2012	$ 0.5	$ 13.5	$ 15.9	$ 29.9
Acquisition	-	-	0.8	0.8
Fluctuations in foreign currency	-	(1.5)	0.3	(1.2)
Goodwill, December 31, 2012	$ 0.5	$ 12.0	$ 17.0	$ 29.5

Intangible assets consisted of the following:

	December 31, 2012			March 31, 2012		
	Gross Carrying Value	Accumulated Amortization	Net Intangible Assets	Gross Carrying Value	Accumulated Amortization	Net Intangible Assets
Tradenames	$10.0	$ (4.7)	$5.3	$10.4	$ (4.6)	$5.8
Acquired technology	3.5	(0.1)	3.4	-	-	-
Total intangible assets	$13.5	$ (4.8)	$8.7	$10.4	$ (4.6)	$5.8

Amortization expense for the three months ended December 31, 2012 and 2011 was $0.2 and $0.1, respectively, and for each of the nine months ended December 31, 2012 and 2011 was $0.5. Estimated future amortization expense is as follows:

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Fiscal Year	Estimated Amortization Expense
Remainder of 2013	$ 0.2
2014	0.8
2015	1.1
2016	1.2
2017	1.3
2018 & Beyond	4.1

Note 13: Product Warranties

Changes in accrued warranty costs were as follows:

	Three months ended December 31,	
	2012	2011
Balance, October 1	$ 12.3	$ 12.8
Accruals for warranties issued	1.2	1.6
Accruals related to pre-existing warranties	0.3	0.3
Settlements	(1.6)	(1.3)
Effect of exchange rate changes	-	(0.2)
Balance, December 31	$ 12.2	$ 13.2

	Nine months ended December 31,	
	2012	2011
Balance, April 1	$ 11.4	$ 14.7
Accruals for warranties issued	4.0	5.0
Accruals (reversals) related to pre-existing warranties	1.5	(0.2)
Settlements	(4.4)	(5.7)
Effect of exchange rate changes	(0.3)	(0.6)
Balance, December 31	$ 12.2	$ 13.2

Note 14: Indebtedness

The Company’s long-term debt includes $125.0 of 6.83 percent Senior Notes that mature on August 12, 2020. As of December 31, 2012, the Company has a $145.0 domestic revolving credit facility, which expires in August 2014, with no borrowings outstanding. At March 31, 2012, the Company had $9.0 outstanding on this domestic revolving credit facility.

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The Company also maintains credit agreements for its foreign subsidiaries with outstanding short-term borrowings at December 31, 2012 and March 31, 2012 of $26.2 and $21.3, respectively. The foreign unused lines of credit in Europe, Brazil, China and India at December 31, 2012 total $52.0. At December 31, 2012, letters of credit totaled $6.0 and available borrowings under the Company's domestic revolving credit facility were $139.0. In aggregate, the Company had total available lines of credit of $191.0 at December 31, 2012.

Provisions contained in the Company's revolving credit facility, Senior Note agreements and various foreign credit agreements require the Company to maintain compliance with various covenants. The Company was in compliance with its covenants as of December 31, 2012.

The fair value of long-term debt is estimated by discounting the future cash flows at rates offered to the Company for similar debt instruments of comparable maturities. At December 31, 2012 and March 31, 2012, the carrying value of Modine's long-term debt approximated fair value, with the exception of the Senior Notes, which had a fair value of approximately $143.0 and $139.0, respectively. The fair value of the Senior Notes is categorized as Level 2 within the fair value hierarchy. Refer to Note 3 for the definition of a Level 2 fair value measurement.

Note 15: Derivatives and Hedging Activities

Modine uses derivative financial instruments from time to time as a tool to manage certain financial risks. Leveraged derivatives are prohibited by Company policy. Accounting for derivatives and hedging activities requires derivative financial instruments to be measured at fair value and recognized as assets or liabilities in the consolidated balance sheets. Accounting for the gain or loss resulting from the change in the fair value of the derivative financial instruments depends on whether it has been designated, and is effective, as a hedge and, if so, on the nature of the hedging activity.

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

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

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

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	Balance Sheet Location	December 31, 2012	March 31, 2012
Derivative instruments designated as cash flow hedges:			
Commodity derivatives	Other current assets	$ -	$ 0.2
Commodity derivatives	Other current liabilities	-	0.9
Derivative instruments not designated as hedges:			
Foreign exchange contracts	Other current assets	$ -	$ 0.2
Commodity derivatives	Other current liabilities	0.9	2.6
Commodity derivatives	Other noncurrent liabilities	0.2	-

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

			Three months ended December 31, 2012		Nine months ended December 31, 2012	
	Amount of Loss Recognized in AOCI	Statement of Operations Location	Loss Reclassified from AOCI into Continuing Operations	Total Loss (Gain) Recognized in Continuing Operations	Loss Reclassified from AOCI into Continuing Operations	Total Loss (Gain) Recognized in Continuing Operations
Commodity derivatives	$ 0.7	Cost of sales	$ 0.7	$ 1.1	$ 2.4	$ 3.8
Foreign exchange contracts	-	Other expense - net	-	(0.2)	-	(0.3)
Total	$ 0.7		$ 0.7	$ 0.9	$ 2.4	$ 3.5

			Three months ended December 31, 2011		Nine months ended December 31, 2011	
	Amount of Loss Recognized in AOCI	Statement of Operations Location	Loss Reclassified from AOCI into Continuing Operations	Total Loss (Gain) Recognized in Continuing Operations	Loss Reclassified from AOCI into Continuing Operations	Total Loss (Gain) Recognized in Continuing Operations
Commodity derivatives	$ 5.2	Cost of sales	$ 1.3	$ 1.3	$ 1.7	$ 1.7
Foreign exchange contracts	-	Other expense - net	-	(0.3)	-	(0.3)
Total	$ 5.2		$ 1.3	$ 1.0	$ 1.7	$ 1.4

Note 16: Contingencies and Litigation

Europe value added tax: During fiscal 2012, the Company determined that it was not properly applying value added tax (VAT) to various cross border transactions within the Europe segment. During the fourth quarter of fiscal 2012, the Company recorded costs of $10.7 to accrue for unpaid VAT and estimated interest and penalties that may be levied against the Company by taxing authorities. During the first nine months of fiscal 2013, the Company substantially completed the registration and filing process with the applicable taxing authorities, and the Company began making payments to the applicable jurisdictions in the third quarter of fiscal 2013. As a result, the accrual for estimated VAT exposures, including interest and penalties, was approximately $5.0 at December 31, 2012.

Environmental: The United States Environmental Protection Agency ("USEPA") has designated the Company as a potentially responsible party ("PRP") for remediation of six sites with which the Company had involvement. These sites include: Auburn Incinerator, Inc./Lake Calumet Cluster (Illinois), Cam-Or (Indiana), a scrap metal site known as Chemetco (Illinois), Circle Environmental of Dawson (two sites: Dawson, GA and Terrell County, GA), and LWD, Inc. (Kentucky). In addition, Modine is voluntarily participating in the care of an inactive landfill owned by the City of Trenton (Missouri). These sites are not Company-owned and allegedly contain materials attributable to Modine from past operations. The percentage of material allegedly attributable to Modine is relatively low. Remediation of these sites is in various stages of administrative or judicial proceedings and includes recovery of past governmental costs and the costs of future investigations and remedial actions. The Company accrues for costs anticipated for the remedial settlement of the sites listed above if they are probable and can be reasonably determined. Costs anticipated for the remedial settlement of the sites listed above that are not probable or cannot be reasonably determined at this time have not been accrued; however, the Company does not believe any potential costs would be material to the Company's financial position due to Modine's relatively small portion of contributed materials.

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The Company has recorded environmental investigation and remediation accruals for groundwater contamination at its manufacturing facility in Brazil and subsurface contamination at its former manufacturing facility in the Netherlands, along with other lesser environmental issues at certain facilities located in the United States. These accruals generally relate to facilities where past operations followed practices and procedures that were considered acceptable under then-existing regulations, or where the Company is a successor to the obligations of prior owners and current laws and regulations require investigative and/or remedial work to ensure sufficient environmental compliance. The accruals for these environmental matters totaled $5.7 and $6.9 at December 31, 2012 and March 31, 2012, respectively. During the nine months ended December 31, 2012 and 2011, additional reserves of $0.1 and $0.9, respectively, were recorded within selling, general and administrative expenses. As additional information becomes available, any potential liability related to these matters will be assessed and the estimated accrual will be revised, if necessary. Based on currently available information, Modine believes that the ultimate outcome of these matters, individually and in the aggregate, will not have a material adverse effect on its financial position or overall trends in results of operations. However, these matters are subject to inherent uncertainties, and unfavorable outcomes could occur, including significant monetary damages. During fiscal 2011, one of the adjacent businesses to the Company's operation in Brazil filed suit against Modine's Brazilian subsidiary seeking remediation and certain other damages as a result of the contamination. The Company is defending this suit and believes that the ultimate outcome of this matter will not be material.

Other litigation: In the normal course of business, the Company and its subsidiaries are named as defendants in various other lawsuits and enforcement proceedings by private parties, the Occupational Safety and Health Administration, USEPA, other governmental agencies and/or others in which claims are asserted against Modine. In the opinion of management, the liabilities, if any, which may ultimately result from such lawsuits are not expected to have a material adverse effect on the Company's consolidated financial statements.

Note 17: Segment Information

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

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	Three months ended December 31, 2012	Three months ended December 31, 2011	Nine months ended December 31, 2012	Nine months ended December 31, 2011
Net sales:				
North America	$128.2	$139.2	$425.2	$444.7
Europe	115.7	139.9	359.9	458.7
South America	31.7	42.2	97.1	138.2
Asia	13.2	20.9	42.8	62.1
Commercial Products	41.3	39.3	105.3	108.5
Segment total	330.1	381.5	1,030.3	1,212.2
Corporate and eliminations	(4.0)	(8.2)	(13.9)	(23.8)
Net sales	$326.1	$373.3	$1,016.4	$1,188.4

	Three months ended December 31, 2012	% of sales	Three months ended December 31, 2011	% of sales	Nine months ended December 31, 2012	% of sales	Nine months ended December 31, 2011	% of sales
Gross profit:								
North America	$17.3	13.5%	$19.1	13.7%	$59.4	14.0%	$62.7	14.1%
Europe	12.1	10.4%	18.7	13.4%	44.7	12.4%	64.4	14.0%
South America	5.6	17.5%	7.8	18.6%	16.1	16.5%	25.7	18.6%
Asia	-	0.2%	1.3	6.2%	0.5	1.1%	6.2	10.0%
Commercial Products	13.1	31.6%	13.0	33.0%	31.1	29.5%	32.7	30.2%
Segment total	48.1	14.6%	59.9	15.7%	151.8	14.7%	191.7	15.8%
Corporate and eliminations	0.1	-	0.2	-	0.7	-	0.6	-
Gross profit	$48.2	14.8%	$60.1	16.1%	$152.5	15.0%	$192.3	16.2%

	Three months ended December 31, 2012	Three months ended December 31, 2011	Nine months ended December 31, 2012	Nine months ended December 31, 2011
Operating income (loss):				
North America	$8.2	$10.6	$28.9	$32.4
Europe	(5.7)	6.8	(15.8)	26.8
South America	2.6	4.0	7.6	9.8
Asia	(2.5)	(1.5)	(7.1)	(1.4)
Commercial Products	4.7	5.8	8.3	12.1
Segment total	7.3	25.7	21.9	79.7
Corporate and eliminations	(11.1)	(8.5)	(28.6)	(30.0)
Operating (loss) income	$(3.8)	$17.2	$(6.7)	$49.7

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	December 31, 2012	March 31, 2012
Total assets:		
North America	$ 209.2	$ 232.9
Europe	320.3	370.8
South America	84.5	96.6
Asia	89.4	102.6
Commercial Products	80.4	68.9
Corporate and eliminations	15.8	21.7
Total assets	$ 799.6	$ 893.5

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

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

Third Quarter Highlights: Net sales in the third quarter of fiscal 2013 decreased from the third quarter of fiscal 2012 due to an overall decrease in sales volume within the commercial vehicle and off-highway markets, triggered primarily by the continued weakness in those markets, and the planned wind down of the non-strategic automotive module business in Europe. Gross profit and gross margin decreased due to reduced sales volume. Selling, general and administrative (SG&A) expenses increased $1.6 million in the third quarter of fiscal 2013 compared to the third quarter of fiscal 2012 primarily due to the reversal of a trade compliance reserve in the prior year. Impairment charges of $8.3 million were recorded within the Europe segment primarily to reduce the carrying value of a facility held for sale to its estimated fair value less cost to sell. In addition, restructuring and repositioning charges of $1.4 million relate to our restructuring program for the Europe segment. Our loss from continuing operations was $8.4 million during the third quarter of fiscal 2013 as compared to income from continuing operations of $8.8 million in the prior year.

Year-To-Date Highlights: Net sales in the first nine months of fiscal 2013 decreased 14 percent compared with the first nine months of fiscal 2012 due to an overall reduction in sales volume across all of our business segments, primarily due to market weakness. Gross profit decreased as a result of the decreased sales volume. SG&A expenses decreased year over year primarily due to a focus on cost containment. Impairment charges of $25.1 million were recorded largely to reduce the carrying value of facilities held for sale to their estimated fair value less cost to sell within the Europe and North America segments. Restructuring and repositioning charges in Europe totaled $7.3 million during the first nine months of fiscal 2013. Our Europe restructuring program is designed to align the cost structure of the segment with our strategic focus on the commercial vehicle, off-highway, and engine product markets. As we continue our Europe restructuring program, we expect to record additional restructuring and repositioning expenses in the fourth quarter of fiscal 2013 and beyond. We expect to begin to see the positive impact of this program in fiscal 2014. Loss from continuing operations was $21.2 million during the first nine months of fiscal 2013 compared with income from continuing operations of $22.3 million in the prior year.

CONSOLIDATED RESULTS OF OPERATIONS

The results for the three and nine months ended December 31, 2011 have been revised to reflect the correction of errors that were identified and corrected in the fourth quarter of fiscal 2012. In addition, the results for the nine months ended December 31, 2012 include an out-of-period adjustment in the first quarter related to certain commodity hedges. See Note 1 to the Notes to Condensed Consolidated Financial Statements for further discussion. The following table presents consolidated results from continuing operations on a comparative basis for the three and nine months ended December 31, 2012 and 2011:

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	Three months ended December 31,					Nine months ended December 31,			
	2012			2011		2012		2011	
(in millions)	$'s	% of sales		$'s	% of sales	$'s	% of sales	$'s	% of sales
Net sales	326.1	100.0	%	373.3					