MODINE MANUFACTURING CO
Form 10-Q
February 04, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2014

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	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 No

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

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

Large Accelerated Filer Accelerated Filer

Non-accelerated Filer (Do not check if 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

The number of shares outstanding of the registrant's common stock, $0.625 par value, was 47,874,690 at January 28, 2015.

MODINE MANUFACTURING COMPANY
TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

MODINE MANUFACTURING COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS
For the three and nine months ended December 31, 2014 and 2013
(In millions, except per share amounts)
(Unaudited)

	Three months ended December 31,		Nine months ended December 31,	
	2014	2013	2014	2013
Net sales	$363.6	$347.0	$1,133.4	$1,087.0
Cost of sales	304.2	290.2	949.6	911.1
Gross profit	59.4	56.8	183.8	175.9
Selling, general and administrative expenses	45.2	44.5	135.8	132.9
Restructuring expenses	1.9	9.4	3.7	10.5
Gain on sale of wind tunnel	(3.2)	-	(3.2)	-
Impairment charges	-	2.0	-	2.0
Operating income	15.5	0.9	47.5	30.5
Interest expense	(2.8)	(3.2)	(8.9)	(9.4)
Other expense – net	(0.6)	(0.3)	(0.3)	(0.8)
Earnings (loss) from continuing operations before income taxes	12.1	(2.6)	38.3	20.3
Provision for income taxes	(3.0)	(0.8)	(13.1)	(8.1)
Earnings (loss) from continuing operations	9.1	(3.4)	25.2	12.2
Earnings from discontinued operations, net of income taxes	0.6	-	0.6	-
Net earnings (loss)	9.7	(3.4)	25.8	12.2
Net earnings attributable to noncontrolling interest	(0.1)	(0.2)	(0.8)	(1.2)
Net earnings (loss) attributable to Modine	$9.6	$(3.6)	$25.0	$11.0
Earnings (loss) per share from continuing operations attributable to Modine shareholders:				
Basic	$0.19	$(0.08)	$0.51	$0.23
Diluted	$0.19	$(0.08)	$0.51	$0.23
Net earnings (loss) per share attributable to Modine shareholders:				
Basic	$0.20	$(0.08)	$0.52	$0.23
Diluted	$0.20	$(0.08)	$0.52	$0.23
Weighted average shares outstanding:				
Basic	47.2	46.9	47.2	46.8
Diluted	47.7	46.9	47.7	47.5

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

Table of Contents

MODINE MANUFACTURING COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the three and nine months ended December 31, 2014 and 2013
(In millions)
(Unaudited)

	Three months ended December 31,		Nine months ended December 31,	
	2014	2013	2014	2013
Net earnings (loss)	$9.7	$(3.4)	$25.8	$12.2
Other comprehensive (loss) income:				
Foreign currency translation	(15.2)	0.9	(38.0)	6.8
Defined benefit plans, net of income taxes of $0.5, $0, $1.4 and $0	0.8	1.3	2.6	3.8
Cash flow hedges, net of income taxes of $0	-	0.1	-	0.3
Total other comprehensive (loss) income	(14.4)	2.3	(35.4)	10.9
Comprehensive (loss) income	(4.7)	(1.1)	(9.6)	23.1
Comprehensive income attributable to noncontrolling interest	-	(0.2)	(0.7)	(1.2)
Comprehensive (loss) income attributable to Modine	$(4.7)	$(1.3)	$(10.3)	$21.9

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

Table of Contents

MODINE MANUFACTURING COMPANY
CONSOLIDATED BALANCE SHEETS
December 31, 2014 and March 31, 2014
(In millions, except per share amounts)
(Unaudited)

	December 31, 2014	March 31, 2014
ASSETS		
Cash and cash equivalents	$ 79.9	$ 87.2
Trade accounts receivable – net	176.0	221.1
Inventories	124.1	116.8
Deferred income taxes	13.8	13.0
Other current assets	81.0	60.7
Total current assets	474.8	498.8
Property, plant and equipment – net	336.8	359.6
Intangible assets – net	10.7	12.4
Goodwill	26.2	28.7
Deferred income taxes	92.3	98.6
Other noncurrent assets	23.9	34.2
Total assets	$ 964.7	$ 1,032.3
LIABILITIES AND SHAREHOLDERS' EQUITY		
Short-term debt	$ 23.0	$ 32.4
Long-term debt – current portion	0.5	0.8
Accounts payable	140.5	171.1
Accrued compensation and employee benefits	55.8	70.8
Other current liabilities	98.5	82.1
Total current liabilities	318.3	357.2
Long-term debt	130.1	131.2
Deferred income taxes	6.5	7.3
Pensions	68.8	81.0
Other noncurrent liabilities	18.1	27.0
Total liabilities	541.8	603.7
Commitments and contingencies (see Note 15)		
Shareholders' equity:		
Preferred stock, $0.025 par value, authorized 16.0 million shares, issued - none	-	-
Common stock, $0.625 par value, authorized 80.0 million shares, issued 48.6 million and 48.3 million shares	30.4	30.2
Additional paid-in capital	180.4	175.7
Retained earnings	363.0	338.0
Accumulated other comprehensive loss	(139.2)	(103.9)
Treasury stock, at cost, 0.7 million shares	(16.2)	(15.2)
Total Modine shareholders' equity	418.4	424.8
Noncontrolling interest	4.5	3.8
Total equity	422.9	428.6
Total liabilities and equity	$ 964.7	$ 1,032.3

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

Table of Contents

MODINE MANUFACTURING COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the nine months ended December 31, 2014 and 2013
(In millions)
(Unaudited)

	Nine months ended December 31,	
	2014	2013
Cash flows from operating activities:		
Net earnings	$25.8	$12.2
Adjustments to reconcile net earnings with net cash provided by operating activities:		
Depreciation and amortization	39.3	45.0
Insurance proceeds from Airedale fire	10.8	16.9
Gain on sale of wind tunnel	(3.2)	-
Impairment charges	-	2.0
Other – net	9.8	4.2
Net changes in operating assets and liabilities	(38.4)	6.4
Net cash provided by operating activities	44.1	86.7
Cash flows from investing activities:		
Expenditures for property, plant and equipment	(41.9)	(36.0)
Insurance proceeds from Airedale fire	12.2	7.4
Costs to replace building and equipment damaged in Airedale fire	(9.5)	(2.2)
Proceeds from dispositions of assets	7.5	2.7
Other – net	(4.0)	0.3
Net cash used for investing activities	(35.7)	(27.8)
Cash flows from financing activities:		
Borrowings of debt	30.0	128.0
Repayments of debt	(40.1)	(124.6)
Financing fees paid	(0.1)	(0.9)
Dividend paid to noncontrolling interest	-	(0.5)
Other – net	0.3	(0.6)
Net cash (used for) provided by financing activities	(9.9)	1.4
Effect of exchange rate changes on cash	(5.8)	2.2
Net (decrease) increase in cash and cash equivalents	(7.3)	62.5
Cash and cash equivalents – beginning of period	87.2	23.8
Cash and cash equivalents – end of period	$79.9	$86.3

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, 2014. 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 2015 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, 2014.

Discontinued operations: During fiscal 2009, the Company sold its Electronics Cooling business. The buyer financed a portion of the selling price by issuing promissory notes payable to Modine. During the third quarter of fiscal 2015, the Company received $1.5 million from the buyer, which represented the final payment on the promissory notes. The Company had previously recorded a reserve against a portion of the promissory notes due to collectability concerns. As a result, the Company recorded a gain of $0.9 million ($0.6 million after income taxes) during the third quarter of fiscal 2015.

Out of period adjustment: During the second quarter of fiscal 2014, the Company recorded a customer pricing adjustment that related to prior fiscal years. The impact of this error to the second quarter of fiscal 2014 decreased pre-tax earnings by $0.6 million ($0.5 million after-tax). The Company does not believe that the impact of this error is material to its financial statements for the nine months ended December 31, 2013.

New revenue recognition accounting guidance: In May 2014, the Financial Accounting Standards Board issued new guidance that outlines a comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The core principle of the new guidance is that companies are to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance also includes a cohesive set of disclosure requirements intended to provide users of financial statements with comprehensive information about revenue arising from contracts with customers. This new guidance is effective for the Company's first quarter of fiscal 2018 and early application is not permitted. The Company is currently evaluating the impact the new guidance will have on its consolidated financial statements.

Note 2: Airedale Facility Fire

On September 6, 2013, a fire caused significant destruction to the Company's Airedale manufacturing facility and offices in Rawdon (Leeds), United Kingdom. The Company reports Airedale's financial results within the Building HVAC segment (previously known as Commercial Products). There were no injuries caused by the fire. The Rawdon facility, which was leased, was used to manufacture cooling products and solutions for a variety of applications, including data centers, clean rooms, retail, leisure and process cooling. The fire caused the Company to temporarily suspend manufacturing at the Rawdon site; however, the Company transferred its operations to temporary facilities and has begun rebuilding the leased facility.

The Company maintains insurance coverage for damage to the leased facility, equipment, inventory, other assets, business interruption and lost profits, and recovery-related expenses caused by the fire. The Company believes that reimbursement from its insurance provider is probable for substantially all losses and costs directly attributable to the fire. During the first quarter of fiscal 2015, the Company recorded a $2.6 million recovery from business interruption insurance for fiscal 2014 lost profits. During the third quarter of fiscal 2015, the Company recorded a $2.0 million recovery from business interruption insurance for year-to-date lost profits in fiscal 2015. The Company recorded these recoveries for lost profits within selling, general and administrative ("SG&A") expenses. Since the date of the fire, the Company has received cumulative cash proceeds of $60.6 million from its insurance provider for covered losses. In addition, the Company has written-off inventory of $4.7 million and equipment with a net book value of $1.4 million and incurred costs directly attributable to the fire totaling $18.9 million. The Company has recorded these losses and costs, which totaled $25.0 million, in the same statement of operations line as the related insurance recovery.

The terms of the Rawdon lease agreement obligate the Company to rebuild the damaged facility. As of December 31, 2014, the Company has capitalized reconstruction costs of $12.9 million, and has recorded this asset on the consolidated balance sheet within other current assets. The Company estimates the total cost of reconstruction to be $56.9 million. As of December 31, 2014, the liability to rebuild the facility was $56.9 million, which was recorded within other current liabilities, and the total receivable from the Company's insurance provider was $25.9 million, which was recorded within other current assets. As of March 31, 2014, the liability to rebuild the facility was $45.0 million ($37.0 million within other current liabilities and $8.0 million within other noncurrent liabilities), and the receivable from the Company's insurance provider was $25.4 million ($18.4 million within other current assets and $7.0 million within other noncurrent assets). The Company increased its estimate of the cost to rebuild the Rawdon facility and the associated insurance receivable by $11.9 million during fiscal 2015, primarily due to an increase in costs to prepare the site's foundation for reconstruction.

Note 3: Fair Value Measurements

Fair value is defined as the price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. 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 are observable in active markets.
- Level 3 – Model-derived valuations in which one or more significant inputs are not observable.

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

The carrying values of cash and cash equivalents, trade accounts receivable, and accounts payable approximate fair value due to the short-term nature of these instruments. The Company holds trading securities in a deferred compensation trust to fund obligations under Modine's non-qualified deferred compensation plan. The securities' fair values, which are recorded as other noncurrent assets, are determined based on quoted prices from active markets and classified within Level 1 of the valuation hierarchy. The Company's deferred compensation obligations, which are recorded as other noncurrent liabilities, are recorded at the fair values of the investments held by the trust. The fair values of the Company's trading securities and deferred compensation obligations each totaled $2.9 million and $2.6 million at December 31, 2014 and March 31, 2014, respectively. The fair value of the Company's debt is disclosed in Note 14.

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

Note 4: Pensions

During the three months ended December 31, 2014 and 2013, the Company contributed $2.1 million and $2.8 million, respectively, to its U.S. pension plans. During the nine months ended December 31, 2014 and 2013, the Company contributed $5.9 million and $6.2 million, respectively, to its U.S. pension plans. Pension cost included the following components:

	Three months ended December 31,		Nine months ended December 31,	
	2014	2013	2014	2013
Service cost	$0.1	$0.2	$0.4	$0.5
Interest cost	3.3	3.2	9.8	9.7
Expected return on plan assets	(4.2)	(3.9)	(12.6)	(11.8)
Amortization of unrecognized net loss	1.4	1.6	4.2	4.7
Net periodic benefit cost	$0.6	$1.1	$1.8	$3.1

Note 5: Stock-Based Compensation

The Company's stock-based incentive programs consist of the following: (1) a long-term incentive compensation program for officers and executives that consists of restricted stock and stock option components granted for retention and performance, (2) a discretionary equity program for management and other key employees, and (3) stock options and/or stock awards for non-employee directors.

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. The Company recognized stock-based compensation cost of $0.9 million and $1.5 million for the three months ended December 31, 2014 and 2013, respectively. The Company recognized stock-based compensation cost of $3.6 million and $3.1 million for the nine months ended December 31, 2014 and 2013, respectively. The performance component of awards granted under the Company's long-term incentive plan during the first quarter of fiscal 2015 is based upon a target three-year average consolidated return on average capital employed and three-year average revenue growth.

The fair value of stock-based compensation awards granted during the nine months ended December 31, 2014 and 2013 were as follows:

	Nine months ended December 31,			
	2014		2013	
	Shares	Fair Value Per Award	Shares	Fair Value Per Award
Stock options	0.1	$10.21	0.2	$7.76

Restricted stock - retention	0.2	$14.94	0.3	$10.40
Restricted stock - performance based	0.2	$14.94	0.2	$10.40
Unrestricted stock	0.1	$14.83	0.1	$14.53

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

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

	Nine months ended December 31, 2014	Nine months ended December 31, 2013
Expected life of awards in years	6.3	6.3
Risk-free interest rate	2.1 %	1.3 %
Expected volatility of the Company's stock	76.1 %	88.7 %
Expected dividend yield on the Company's stock	0.0 %	0.0 %

As of December 31, 2014, unrecognized compensation cost related to non-vested stock-based compensation awards, which will be amortized over the remaining service periods, was as follows:

	Unrecognized Compensation Cost	Weighted Average Remaining Service Period in Years
Stock options	$ 2.0	2.9
Restricted stock - retention	5.2	2.7
Restricted stock - performance based	2.7	2.0
Total	$ 9.9	2.5

Note 6: Restructuring Activities

During fiscal 2013, the Company announced its intention to restructure its Europe segment. The Company’s restructuring actions and plans have included exiting certain non-core product lines based upon Modine’s global product strategy, reducing manufacturing costs, consolidating production facilities, implementing headcount reductions, and disposing of and selling certain underperforming or non-strategic assets. The restructuring activities are designed to align the cost structure of the segment with the segment’s strategic focus on the commercial vehicle, off-highway, automotive component, and engine products markets, while improving gross margin and return on average capital employed.

Since commencement of the Europe segment restructuring program, the Company has recorded $28.6 million of employee severance costs, primarily related to headcount reductions at two manufacturing facilities and the segment headquarters, $26.1 million of asset impairment charges, and $9.3 million of accelerated depreciation and other restructuring and repositioning expenses.

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

	Three months ended December	Nine months ended December

	31,		31,	
	2014	2013	2014	2013
Employee severance and related benefits	$-	$9.0	$-	$9.8
Accelerated depreciation	-	-	-	4.3
Other restructuring and repositioning expenses	0.6	0.4	1.7	0.7
Total	$0.6	$9.4	$1.7	$14.8

8

(In millions, except per share amounts)

During the three and nine months ended December 31, 2014, the Company recorded $0.6 million and $1.7 million, respectively, of Europe segment restructuring and repositioning expenses as restructuring expenses in the consolidated statement of operations. During the nine months ended December 31, 2013, the Company recorded $4.3 million of Europe segment restructuring and repositioning costs within cost of sales. During the three and nine months ended December 31, 2013, the Company recorded Europe segment restructuring and repositioning costs of $9.4 million and $10.5 million, respectively, as restructuring expenses in the consolidated statement of operations.

The Company accrues severance in accordance with its written plans, procedures, and relevant statutory requirements. Changes in accrued severance related to the Europe segment restructuring program were as follows:

	Three months ended December 31,	
	2014	2013
Beginning balance	$15.0	$10.7
Additions	-	9.0
Payments	(0.6)	(1.5)
Effect of exchange rate changes	(0.7)	0.3
Ending balance	$13.7	$18.5

	Nine months ended December 31,	
	2014	2013
Beginning balance	$18.3	$11.6
Additions	-	9.8
Payments	(2.5)	(3.7)
Effect of exchange rate changes	(2.1)	0.8
Ending balance	$13.7	$18.5

During the third quarter of fiscal 2015, the Company sold a wind tunnel within the Europe segment, which was previously reported as an asset held for sale, for cash proceeds of $5.8 million and recognized a gain of $3.2 million.

During the three months ended December 31, 2013, the Company recorded asset impairment charges of $2.0 million, primarily related to a manufacturing facility in Germany that the Company plans to close.

During the three and nine months ended December 31, 2014, the Company recorded $0.7 million and $1.2 million, respectively, of restructuring expenses in its South America segment due to employee severance-related costs. The headcount reductions were in response to the economic slowdown in Brazil and reflect the Company's objective to maintain profitability in the segment despite lower sales volume.

During the fourth quarter of fiscal 2014, the Company approved a plan to close its McHenry, Illinois manufacturing facility, reflecting its focus on operating scale manufacturing facilities to improve overall competitiveness and profitability. The Company has begun to transfer the facility's current production to other existing North America segment manufacturing facilities. During the three and nine months ended December 31, 2014, the Company recorded $0.6 million and $0.8 million, respectively, of restructuring expenses related to the planned closure, primarily for equipment transfer costs.

Table of Contents

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

Note 7: Other Income and Expense

Other income and expense consisted of the following:

	Three months ended December 31,		Nine months ended December 31,	
	2014	2013	2014	2013
Equity in earnings of non-consolidated affiliate	$0.2	$0.1	$0.6	$0.5
Interest income	0.1	0.1	0.4	0.3
Foreign currency transactions	(0.9)	(0.6)	(1.3)	(1.7)
Other non-operating income - net	-	0.1	-	0.1
Total other expense - net	$(0.6)	$(0.3)	$(0.3)	$(0.8)

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 intercompany transactions denominated in a foreign currency, along with unrealized gains and losses on foreign currency exchange contracts.

Note 8: Income Taxes

For the three months ended December 31, 2014 and 2013, the Company’s effective income tax rate was 24.8 percent and (30.8) percent, respectively. For the nine months ended December 31, 2014 and 2013, the Company’s effective income tax rate was 34.2 percent and 39.9 percent, respectively.

The most significant factors impacting changes in the effective tax rate for the three and nine months ended December 31, 2014, as compared with the prior-year periods, were increases in the valuation allowance relating to certain foreign jurisdictions for which no income tax benefit is recognized, the changing mix of foreign and domestic earnings, and a $2.5 million benefit in fiscal 2014 from a foreign tax law change. At December 31, 2014, the Company continued to record a full valuation allowance against its net deferred tax assets in certain foreign jurisdictions ($44.2 million) and a valuation allowance against certain U.S. deferred tax assets ($15.4 million), as it is more likely than not that these assets will not be realized based on historical financial results. 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 is eliminated when the Company determines it is more likely than not the deferred tax assets will be realized.

Accounting policies for interim reporting require the Company to adjust its effective tax rate each quarter to be consistent with the estimated annual effective tax rate. Under this methodology, the Company applies its 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. The impact of the Company’s operations in certain foreign locations are excluded from the overall effective tax rate methodology and recorded discretely based upon year-to-date results because the Company anticipates net operating losses for the full fiscal year in these jurisdictions.

The Company does not anticipate a significant change in unrecognized tax benefits during the next twelve months.

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

Note 9: Earnings Per Share

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

	Three months ended December 31,		Nine months ended December 31,	
	2014	2013	2014	2013
Earnings (loss) from continuing operations	$9.1	$(3.4)	$25.2	$12.2
Less: Net earnings attributable to noncontrolling interest	(0.1)	(0.2)	(0.8)	(1.2)
Less: Undistributed earnings attributable to unvested shares	(0.1)	-	(0.3)	(0.1)
Earnings (loss) from continuing operations available to Modine shareholders	8.9	(3.6)	24.1	10.9
Earnings from discontinued operations, net of income taxes	0.6	-	0.6	-
Net earnings (loss) available to Modine shareholders	$9.5	$(3.6)	$24.7	$10.9
Weighted average shares outstanding - basic	47.2	46.9	47.2	46.8
Effect of dilutive securities	0.5	-	0.5	0.7
Weighted average shares outstanding - diluted	47.7	46.9	47.7	47.5
Basic Earnings Per Share:				
Earnings (loss) per share - continuing operations	$0.19	$(0.08)	$0.51	$0.23
Earnings per share - discontinued operations	0.01	-	0.01	-
Net earnings (loss) per share - basic	$0.20	$(0.08)	$0.52	$0.23
Diluted Earnings Per Share:				
Earnings (loss) per share - continuing operations	$0.19	$(0.08)	$0.51	$0.23
Earnings per share - discontinued operations	0.01	-	0.01	-
Net earnings (loss) per share - diluted	$0.20	$(0.08)	$0.52	$0.23

For the three and nine months ended December 31, 2014, the calculation of diluted earnings per share excluded 0.9 million and 0.7 million stock options, respectively, because they were anti-dilutive. For the three and nine months ended December 31, 2013, the calculation of diluted earnings per share excluded 0.5 million and 0.7 million stock options, respectively, because they were anti-dilutive. For the three months ended December 31, 2013, the total number of potential dilutive securities was 0.8 million. However, these securities were not included in the computation of diluted net loss per share since to do so would have decreased the loss per share.

Note 10: Inventories

Inventories consisted of the following:

	December 31, 2014	March 31, 2014
Raw materials and work in process	$ 93.1	$89.2
Finished goods	31.0	27.6

Total inventories	$ 124.1	$116.8

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

Note 11: Property, Plant and Equipment

Property, plant and equipment consisted of the following:

	December 31, 2014	March 31, 2014
Gross property, plant and equipment	$ 1,021.2	$ 1,078.6
Accumulated depreciation	(684.4)	(719.0)
Net property, plant and equipment	$ 336.8	$ 359.6

Note 12: Goodwill and Intangible Assets

Changes in the carrying amount of goodwill were as follows:

	South America	Asia	Building HVAC	Total
Goodwill, March 31, 2014	$ 10.9	$ 0.5	$ 17.3	$ 28.7
Effect of exchange rate changes	(1.6)	-	(0.9)	(2.5)
Goodwill, December 31, 2014	$ 9.3	$ 0.5	$ 16.4	$ 26.2

Intangible assets consisted of the following:

	December 31, 2014			March 31, 2014		
	Gross Carrying Value	Accumulated Amortization	Net Intangible Assets	Gross Carrying Value	Accumulated Amortization	Net Intangible Assets
Tradenames	$ 9.5	$ (5.8)	$ 3.7	$ 10.1	$ (5.7)	$ 4.4
Acquired technology	5.7	(0.7)	5.0	5.8	(0.2)	5.6
Customer relationships	2.2	(0.2)	2.0	2.4	-	2.4
Total intangible assets	$ 17.4	$ (6.7)	$ 10.7	$ 18.3	$ (5.9)	$ 12.4

Amortization expense for the three months ended December 31, 2014 and 2013 was $0.4 million and $0.2 million, respectively. Amortization expense for the nine months ended December 31, 2014 and 2013 was $1.2 million and $0.6 million, respectively. Estimated future amortization expense is as follows:

Fiscal Year	Estimated Amortization Expense
Remainder of 2015	$ 0.4
2016	1.6
2017	1.7
2018	1.7
2019	1.5
2020 & Beyond	3.8

12

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

Note 13: Product Warranties

Changes in accrued warranty costs were as follows:

	Three months ended December 31,	
	2014	2013
Beginning balance	$13.0	$9.3
Accruals for warranties issued	1.3	1.9
(Reversals) accruals related to pre-existing warranties	(0.1)	0.9
Settlements	(2.2)	(1.6)
Effect of exchange rate changes	(0.3)	0.1
Ending balance	$11.7	$10.6

	Nine months ended December 31,	
	2014	2013
Beginning balance	$14.0	$12.6
Accruals for warranties issued	4.5	4.3
Accruals related to pre-existing warranties	1.2	3.4
Settlements	(7.0)	(9.8)
Effect of exchange rate changes	(1.0)	0.1
Ending balance	$11.7	$10.6

Note 14: Indebtedness

The Company's long-term debt includes $125.0 million of 6.8 percent Senior Notes. The Company also maintains a $175.0 million domestic revolving credit facility, which expires in August 2018. At December 31, 2014 and March 31, 2014, the Company had no borrowings outstanding under its revolving credit facility.

The Company also maintains credit agreements for its foreign subsidiaries, with outstanding short-term borrowings at December 31, 2014 and March 31, 2014 of $23.0 million and $32.4 million, respectively. At December 31, 2014, the Company's foreign unused lines of credit totaled $43.0 million. In aggregate, the Company had total available lines of credit of $218.0 million at December 31, 2014.

Provisions in the Company's revolving credit facility, Senior Note agreements, and various foreign credit agreements require the Company to maintain compliance with various covenants and include certain cross-default clauses. The Company was in compliance with its debt covenants as of December 31, 2014.

The Company estimates the fair value of long-term debt using discounted future cash flows at rates offered to the Company for similar debt instruments of comparable maturities. At December 31, 2014 and March 31, 2014, the carrying value of Modine's long-term debt approximated fair value, with the exception of the Senior Notes, which had a fair value of approximately $136.0 million and $140.0 million, 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.