MODINE MANUFACTURING CO
Form 10-Q
October 30, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015

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 T 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 T 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 T

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 T

The number of shares outstanding of the registrant's common stock, $0.625 par value, was 48,160,284 at October 23, 2015.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

MODINE MANUFACTURING COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS
For the three and six months ended September 30, 2015 and 2014
(In millions, except per share amounts)
(Unaudited)

	Three months ended September 30,		Six months ended September 30,	
	2015	2014	2015	2014
Net sales	$334.0	$377.3	$680.1	$769.8
Cost of sales	288.3	320.6	577.4	645.4
Gross profit	45.7	56.7	102.7	124.4
Selling, general and administrative expenses	76.8	47.8	119.6	90.6
Restructuring expenses	1.0	1.0	3.6	1.8
Operating (loss) income	(32.1)	7.9	(20.5)	32.0
Interest expense	(2.7)	(3.0)	(5.5)	(6.1)
Other (expense) income – net	(0.1)	0.5	(0.1)	0.3
(Loss) earnings before income taxes	(34.9)	5.4	(26.1)	26.2
Benefit (provision) for income taxes	12.4	(3.4)	9.1	(10.1)
Net (loss) earnings	(22.5)	2.0	(17.0)	16.1
Net earnings attributable to noncontrolling interest	-	(0.3)	(0.4)	(0.7)
Net (loss) earnings attributable to Modine	$(22.5)	$1.7	$(17.4)	$15.4
Net (loss) earnings per share attributable to Modine shareholders:				
Basic	$(0.47)	$0.04	$(0.37)	$0.32
Diluted	$(0.47)	$0.04	$(0.37)	$0.32
Weighted-average shares outstanding:				
Basic	47.4	47.2	47.4	47.1
Diluted	47.4	47.7	47.4	47.7

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 six months ended September 30, 2015 and 2014
(In millions)
(Unaudited)

	Three months ended September 30,		Six months ended September 30,	
	2015	2014	2015	2014
Net (loss) earnings	$(22.5)	$2.0	$(17.0)	$16.1
Other comprehensive income (loss):				
Foreign currency translation	(8.6)	(24.5)	0.1	(22.8)
Defined benefit plans, net of income taxes of $12.0, $0.4, $12.6 and $0.9	19.2	0.9	20.4	1.8
Total other comprehensive income (loss)	10.6	(23.6)	20.5	(21.0)
Comprehensive income (loss)	(11.9)	(21.6)	3.5	(4.9)
Comprehensive loss (income) attributable to noncontrolling interest	0.3	(0.1)	(0.1)	(0.7)
Comprehensive income (loss) attributable to Modine	$(11.6)	$(21.7)	$3.4	$(5.6)

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

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MODINE MANUFACTURING COMPANY
CONSOLIDATED BALANCE SHEETS
September 30, 2015 and March 31, 2015
(In millions, except per share amounts)
(Unaudited)

	September 30, 2015	March 31, 2015
ASSETS		
Cash and cash equivalents	$ 64.9	$ 70.5
Trade accounts receivable – net	184.9	192.9
Inventories	113.1	107.7
Deferred income taxes	12.0	13.4
Other current assets	84.2	79.7
Total current assets	459.1	464.2
Property, plant and equipment – net	329.7	322.1
Intangible assets – net	9.2	9.9
Goodwill	16.5	16.2
Deferred income taxes	106.6	102.7
Other noncurrent assets	21.2	16.5
Total assets	$ 942.3	$ 931.6
LIABILITIES AND SHAREHOLDERS' EQUITY		
Short-term debt	$ 20.1	$ 18.6
Long-term debt – current portion	0.5	0.5
Accounts payable	149.5	152.0
Accrued compensation and employee benefits	48.4	56.7
Other current liabilities	91.7	83.4
Total current liabilities	310.2	311.2
Long-term debt	130.1	129.6
Deferred income taxes	3.7	3.4
Pensions	116.1	110.4
Other noncurrent liabilities	16.6	16.4
Total liabilities	576.7	571.0
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 49.0 million and 48.6 million shares	30.6	30.4
Additional paid-in capital	183.7	180.6
Retained earnings	342.4	359.8
Accumulated other comprehensive loss	(177.8)	(198.6)
Treasury stock, at cost, 0.8 million and 0.7 million shares	(17.1)	(16.2)
Total Modine shareholders' equity	361.8	356.0
Noncontrolling interest	3.8	4.6
Total equity	365.6	360.6
Total liabilities and equity	$ 942.3	$ 931.6

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 six months ended September 30, 2015 and 2014
(In millions)
(Unaudited)

	Six months ended September 30, 2015	2014
Cash flows from operating activities:		
Net (loss) earnings	$(17.0)	$16.1
Adjustments to reconcile net (loss) earnings to net cash provided by operating activities:		
Depreciation and amortization	24.7	26.5
Insurance proceeds from Airedale fire	1.9	7.3
Pension and postretirement expense	40.4	1.2
Deferred income taxes	(14.7)	2.8
Other – net	3.3	3.8
Changes in operating assets and liabilities:		
Trade accounts receivable	8.6	3.4
Inventories	(6.8)	(14.6)
Accounts payable	(3.5)	(6.6)
Other assets and liabilities	(7.1)	(16.3)
Net cash provided by operating activities	29.8	23.6
Cash flows from investing activities:		
Expenditures for property, plant and equipment	(30.2)	(29.2)
Insurance proceeds from Airedale fire	21.0	-
Costs to replace building and equipment damaged in Airedale fire	(28.1)	(3.1)
Other – net	0.3	(0.1)
Net cash used for investing activities	(37.0)	(32.4)
Cash flows from financing activities:		
Borrowings of debt	15.9	21.5
Repayments of debt	(13.6)	(26.0)
Dividend paid to noncontrolling interest	(0.9)	-
Other – net	(0.6)	0.2
Net cash provided by (used for) financing activities	0.8	(4.3)
Effect of exchange rate changes on cash	0.8	(2.8)
Net decrease in cash and cash equivalents	(5.6)	(15.9)
Cash and cash equivalents – beginning of period	70.5	87.2
Cash and cash equivalents – end of period	$64.9	$71.3

The notes to 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 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, 2015. 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 six months of fiscal 2016 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, 2015.

New 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 will be effective for the Company's first quarter of fiscal 2019. 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. There were no injuries caused by the fire. The Rawdon facility, which is 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 Company suspended operations at the Rawdon site as a result of the fire; however, it transferred operations to temporary facilities and is in the process of rebuilding the leased facility. The Company expects to complete reconstruction and return its operations to the Rawdon site in the second half of fiscal 2016.

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. As such, the Company records losses and costs in the same statement of operations line as the related insurance recovery. During the first quarter of fiscal 2015, the Company recorded $2.6 million of recoveries from business interruption insurance related to fiscal 2014 lost profits within selling, general and administrative ("SG&A") expenses. Since the date of the fire, the Company has received cumulative cash proceeds of $85.6 million from its insurance provider for covered losses.

The terms of the Rawdon lease agreement obligate the Company to rebuild the damaged facility. Through September 30, 2015, the Company has capitalized reconstruction costs of $44.6 million, and has recorded this asset on the consolidated balance sheet within other current assets. As of September 30, 2015, the Company recorded a liability for both the estimated reconstruction costs of $48.8 million and an advance from its insurance provider of $2.8 million within other current liabilities. As of March 31, 2015, the other current liability to rebuild the facility was $48.0 million and the receivable from the Company's insurance provider was $18.0 million.

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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, short-term investments, trade accounts receivable, accounts payable, and short-term debt 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 $3.0 million at both September 30, 2015 and March 31, 2015. The fair value of the Company’s long-term debt is disclosed in Note 14.

Note 4: Pensions

During the three months ended September 30, 2015 and 2014, the Company contributed $1.5 million and $2.0 million, respectively, to its U.S. pension plans. During the six months ended September 30, 2015 and 2014, the Company contributed $2.8 million and $3.8 million, respectively, to its U.S. pension plans. Pension cost included the following components:

	Three months ended September 30,		Six months ended September 30,	
	2015	2014	2015	2014
Service cost	$0.2	$0.2	$0.3	$0.3
Interest cost	3.1	3.2	6.1	6.5
Expected return on plan assets	(4.4)	(4.2)	(8.7)	(8.4)
Amortization of unrecognized net loss	1.8	1.4	3.6	2.8

Settlements (a)	39.2	-	39.2	-
Net periodic benefit cost	$39.9	$0.6	$40.5	$1.2

(a) During September 2015, in an effort to reduce the size, volatility, mortality risk, and costs associated with its U.S. pension plans, the Company completed a voluntary lump-sum payout program offered to certain eligible former employees. Approximately 2,000 participants accepted the lump-sum settlement offer, and a total of $60.8 million was paid from pension plan assets, which reduced the Company's pension obligation by the same amount. In connection with this settlement, the Company remeasured the assets and liabilities of its U.S. pension plans using a discount rate of 4.4 percent. The remeasurement resulted in a $4.1 million increase in the plans' underfunded status and a $39.2 million non-cash charge in the second quarter of fiscal 2016, related to the accelerated recognition of unamortized actuarial losses previously recorded on the consolidated balance sheets within accumulated other comprehensive loss. The Company recorded $30.9 million and $8.3 million of the settlement loss to SG&A expenses and cost of sales, respectively, within the consolidated statement of operations.

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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 $1.9 million and $1.7 million for the three months ended September 30, 2015 and 2014, respectively. The Company recognized stock-based compensation cost of $3.0 million and $2.7 million for the six months ended September 30, 2015 and 2014, respectively. The performance component of awards granted under the Company’s long-term incentive plan during the first quarter of fiscal 2016 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 six months ended September 30, 2015 and 2014 were as follows:

	Six months ended September 30,			
	2015		2014	
	Shares	Fair Value Per Award	Shares	Fair Value Per Award
Stock options	0.2	$7.11	0.1	$10.21
Restricted stock - retention	0.3	$11.39	0.2	$14.94
Restricted stock - performance based	0.2	$11.39	0.2	$14.94
Unrestricted stock	0.1	$10.45	0.1	$14.83

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

	Six months ended September 30,	
	2015	2014
Expected life of awards in years	6.3	6.3
Risk-free interest rate	1.9 %	2.1 %
Expected volatility of the Company's stock	66.9%	76.1%
Expected dividend yield on the Company's stock	0.0 %	0.0 %

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As of September 30, 2015, 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	$ 2.5	2.9
Restricted stock - retention	6.2	2.8
Restricted stock - performance based	3.1	2.2
Total	$ 11.8	2.7

Note 6: Restructuring Activities

During fiscal 2016, the Company announced a plan to close its Washington, Iowa manufacturing facility, and began transferring the facility's production to other existing Americas segment manufacturing facilities. Also during fiscal 2016, the Company completed the transfer of production from its McHenry, Illinois manufacturing facility to other existing Americas segment manufacturing facilities. These restructuring activities reflect the Company's focus on operating scale manufacturing facilities to improve overall competitiveness and profitability.

During fiscal 2015, the Company initiated a headcount reduction plan for its Brazil manufacturing facility within its Americas segment. The headcount reductions were in response to the economic slowdown in Brazil and reflect the Company's objective to maintain profitability in this business despite lower sales volume.

During fiscal 2013, the Company initiated restructuring activities within its Europe segment. The restructuring activities 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 Company designed these activities to align the cost structure of the segment with its strategic focus on the commercial vehicle, off-highway, automotive component, and engine product markets, while improving gross margin and return on average capital employed.

Restructuring and repositioning expenses were as follows:

	Three months ended September 30,		Six months ended September 30,	
	2015	2014	2015	2014
Employee severance and related benefits	$(0.2)	$0.1	$1.7	$0.4
Other restructuring and repositioning expenses	1.2	0.9	1.9	1.4
Total	$1.0	$1.0	$3.6	$1.8

Other restructuring and repositioning expenses primarily consist of equipment transfer and plant consolidation costs.

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The Company accrues severance in accordance with its written plans, procedures, and relevant statutory requirements. Changes in accrued severance were as follows:

	Three months ended September 30,	
	2015	2014
Beginning balance	$9.8	$17.7
Additions and adjustments	(0.2)	0.1
Payments	(1.8)	(0.6)
Effect of exchange rate changes	-	(1.2)
Ending balance	$7.8	$16.0

	Six months ended September 30,	
	2015	2014
Beginning balance	$9.9	$19.4
Additions and adjustments	1.7	0.4
Payments	(4.2)	(2.5)
Effect of exchange rate changes	0.4	(1.3)
Ending balance	$7.8	$16.0

During the first quarter of fiscal 2016, the Company reclassified property, plant, and equipment related to a manufacturing facility in the Europe segment to assets held for sale. At September 30, 2015 and March 31, 2015, assets held for sale of $8.5 million and $3.2 million, respectively, were included in other noncurrent assets and consisted of facilities that the Company is actively marketing for sale.

Note 7: Other Income and Expense

Other income and expense consisted of the following:

	Three months ended September 30,		Six months ended September 30,	
	2015	2014	2015	2014
Equity in (losses) earnings of non-consolidated affiliate	$(0.1)	$0.2	$0.1	$0.4
Interest income	0.1	0.2	0.2	0.3
Foreign currency transactions	(0.1)	0.1	(0.4)	(0.4)
Total other (expense) income - net	$(0.1)	$0.5	$(0.1)	$0.3

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

Note 8: Income Taxes

For the three months ended September 30, 2015 and 2014, the Company's effective income tax rate was 35.5 percent and 63.0 percent, respectively. For the six months ended September 30, 2015 and 2014, the Company's effective income tax rate was 34.9 percent and 38.5 percent, respectively.

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The most significant factors impacting the effective tax rate for the three and six months ended September 30, 2015, as compared with the prior-year periods, were changes in the valuation allowance related to certain foreign jurisdictions and changes in the mix of foreign and domestic earnings. At September 30, 2015, the Company continued to record a full valuation allowance against its net deferred tax assets in certain foreign jurisdictions ($44.1 million) and a valuation allowance against certain U.S. deferred tax assets ($5.8 million), as it is more likely than not 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. It is possible that in late fiscal 2016 or in fiscal 2017, the Company may release a portion of its existing valuation allowance in a foreign jurisdiction (approximately $3.0 million) if 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 Company records the tax impacts of certain significant, unusual or infrequently occurring items in the period in which they occur. The Company considered the $39.2 million pension settlement loss (see Note 4 for additional information) to be significant and infrequent; therefore, it recorded a $15.2 million tax benefit from this loss discretely in the second quarter of fiscal 2016. Additionally, the Company excluded the impact of its operations in certain foreign locations from the overall effective tax rate methodology and recorded them 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.

Note 9: Earnings Per Share

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

	Three months ended September 30,		Six months ended September 30,	
	2015	2014	2015	2014
Net (loss) earnings attributable to Modine	$(22.5)	$1.7	$(17.4)	$15.4
Less: Undistributed earnings attributable to unvested shares	-	-	-	(0.2)
Net (loss) earnings available to Modine shareholders	$(22.5)	$1.7	$(17.4)	$15.2
Weighted-average shares outstanding - basic	47.4	47.2	47.4	47.1
Effect of dilutive securities	-	0.5	-	0.6
Weighted-average shares outstanding - diluted	47.4	47.7	47.4	47.7
Earnings per share:				
Net (loss) earnings per share - basic	$(0.47)	$0.04	$(0.37)	$0.32
Net (loss) earnings per share - diluted	$(0.47)	$0.04	$(0.37)	$0.32

For both the three and six months ended September 30, 2015, the calculation of diluted earnings per share excluded 0.9 million stock options because they were anti-dilutive. For both the three and six months ended September 30, 2014, the calculation of diluted earnings per share excluded 0.7 million stock options because they were anti-dilutive. For both the three and six months ended September 30, 2015, the total number of potential dilutive securities was 0.4 million. However, these securities were not included in the respective computations of diluted net loss per share since to do so would decrease the loss per share.

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(In millions, except per share amounts)
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Note 10: Inventories

Inventories consisted of the following:

	September 30, 2015	March 31, 2015
Raw materials and work in process	$ 81.6	$ 80.7
Finished goods	31.5	27.0
Total inventories	$ 113.1	$ 107.7

Note 11: Property, Plant and Equipment

Property, plant and equipment consisted of the following:

	September 30, 2015	March 31, 2015
Gross property, plant and equipment	$ 1,018.1	$ 994.8
Accumulated depreciation	(688.4)	(672.7)
Net property, plant and equipment	$ 329.7	$ 322.1

Note 12: Goodwill and Intangible Assets

Changes in the carrying amount of goodwill were as follows:

	Asia	Building HVAC	Total
Goodwill, March 31, 2015	$0.5	$ 15.7	$ 16.2
Effect of exchange rate changes	-	0.3	0.3
Goodwill, September 30, 2015	$0.5	$ 16.0	$ 16.5

Intangible assets consisted of the following:

	September 30, 2015			March 31, 2015		
	Gross Carrying Value	Accumulated Amortization	Net Intangible Assets	Gross Carrying Value	Accumulated Amortization	Net Intangible Assets
Trade names	$9.2	$ (6.2)	$ 3.0	$9.1	$ (5.8)	$ 3.3
Acquired technology	5.6	(1.2)	4.4	5.6	(0.9)	4.7
Customer relationships	2.1	(0.3)	1.8	2.1	(0.2)	1.9
Total intangible assets	$16.9	$ (7.7)	$ 9.2	$16.8	$ (6.9)	$ 9.9

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Amortization expense for both the three months ended September 30, 2015 and 2014 was $0.4 million. Amortization expense for both the six months ended September 30, 2015 and 2014 was $0.8 million. Estimated future amortization expense is as follows:

Fiscal Year	Estimated Amortization Expense
Remainder of 2016	$ 0.8
2017	1.6
2018	1.6
2019	1.5
2020	1.4
2021 & Beyond	2.3

Note 13: Product Warranties

Changes in accrued warranty costs were as follows:

	Three months ended September 30,	
	2015	2014
Beginning balance	$11.3	$13.9
Accruals for warranties issued	1.2	1.6
(Reversals) accruals related to pre-existing warranties	(0.7)	0.7
Settlements	(1.7)	(2.4)
Effect of exchange rate changes	(0.1)	(0.8)
Ending balance	$10.0	$13.0

	Six months ended September 30,	
	2015	2014
Beginning balance	$10.4	$14.0
Accruals for warranties issued	2.6	3.2
Accruals related to pre-existing warranties	0.1	1.3
Settlements	(3.2)	(4.8)
Effect of exchange rate changes	0.1	(0.7)
Ending balance	$10.0	$13.0

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 September 30, 2015 and March 31, 2015, no borrowings were outstanding under the revolving credit facility.

The Company also maintains credit agreements for its foreign subsidiaries, with outstanding short-term borrowings at September 30, 2015 and March 31, 2015 of $20.1 million and $18.6 million, respectively. At September 30, 2015, the Company's foreign unused lines of credit totaled $36.0 million. In aggregate, the Company had total available lines of credit of $211.0 million at September 30, 2015.

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 September 30, 2015.

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 September 30, 2015 and March 31, 2015, 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 $133.0 million and $141.0 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.

Note 15: Contingencies and Litigation

Environmental: The United States Environmental Protection Agency has designated the Company as a potentially responsible party for remediation of three sites. These sites are: Auburn Incinerator, Inc./Lake Calumet Cluster (Illinois), Cam-Or (Indiana) and a scrap metal site known as Chemetco (Illinois). 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; however, they 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 its relatively small portion of contributed materials.

The Company has recorded environmental investigation and remediation accruals for subsurface contamination at its former manufacturing facility in the Netherlands and groundwater contamination at its manufacturing facility in its wholly-owned subsidiary in Brazil ("Modine Brazil"), along with other lesser environmental matters 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 $3.9 million and $3.8 million at September 30, 2015 and March 31, 2015, respectively. As additional information becomes available, the Company will re-assess any potential liability related to these matters and revise the estimated accrual, if necessary. Based on currently available information, the Company believes the ultimate outcome of these matters, individually and in the aggregate, will not have a material adverse effect on its financial position. 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 facility in Brazil filed suit against Modine Brazil, seeking remediation and certain other damages as a result of contamination allegedly attributable to the Company's operations. The Company is defending this suit and believes that the ultimate outcome of this matter will not be material.

Brazil antitrust investigation: During the fourth quarter of fiscal 2015, Brazil's Administrative Council for Economic Defense (CADE) provided formal notice to Modine Brazil of an administrative investigation regarding alleged violations of Brazil's antitrust regulations by Modine Brazil and certain of its employees during a period of time at least seven years ago. As of September 30, 2015 and March 31, 2015, we accrued $2.5 million and $3.2 million (BRL 10.0 million at each date), respectively, representing the estimated amount that may be incurred in connection with the management and resolution of this matter. Due to the ongoing nature of this matter, the Company cannot provide assurance of its ultimate resolution at this time.

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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, 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 or proceedings are not expected to have a material adverse effect on the Company's consolidated financial statements.

Note 16: Accumulated Other Comprehensive Loss

Changes in accumulated other comprehensive loss were as follows:

	Three months ended September 30, 2015			Six months ended September 30, 2015		
	Foreign Currency Translation	Defined Benefit Plans	Total	Foreign Currency Translation	Defined Benefit Plans	Total
Beginning balance	$(32.0)	$(156.7)	$(188.7)	$(40.7)	$(157.9)	$(198.6)
Other comprehensive income (loss) before reclassifications	(8.3)	(9.7)	(18.0)	0.4	(9.7)	(9.3)
Reclassifications:						
Amortization of unrecognized net loss (a)	-	41.0	41.0	-	42.8	42.8
Amortization of unrecognized prior service credit (a)	-	(0.1)	(0.1)	-	(0.1)	(0.1)
Income taxes	-	(12.0)	(12.0)	-	(12.6)	(12.6)
Total other comprehensive income (loss)	(8.3)	19.2	10.9	0.4	20.4	20.8
Ending balance	$(40.3)	$(137.5)	$(177.8)	$(40.3)	$(137.5)	$(177.8)

	Three months ended September 30, 2014			Six months ended September 30, 2014		
	Foreign Currency Translation	Defined Benefit Plans	Total	Foreign Currency Translation	Defined Benefit Plans	Total
Beginning balance	$28.8	$(130.3)	$(101.5)	$27.3	$(131.2)	$(103.9)
Other comprehensive income (loss) before reclassification	(24.3)	-	(24.3)	(22.8)	-	(22.8)
Reclassification for amortization of unrecognized net loss (a)	-	1.3	1.3	-	2.7	2.7
Income taxes	-	(0.4)	(0.4)	-	(0.9)	(0.9)
Total other comprehensive income (loss)	(24.3)	0.9	(23.4)	(22.8)	1.8	(21.0)
Ending balance	$4.5	$(129.4)	$(124.9)	$4.5	$(129.4)	$(124.9)

(a) Amounts are included in the calculation of net periodic benefit cost for the Company's defined benefit plans, which include pension and other postretirement plans. See Note 4 for additional information about the Company's pension plans.

Note 17: Segment Information

Effective April 1, 2015, the Company combined its North America and South America segments into the Americas segment to streamline operations, gain synergies and improve its cost structure. As a result, the Company recast the prior period segment financial information to conform to the current period presentation. There was no impact to the Company's consolidated financial statements as a result.

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

	Three months ended September 30,		Six months ended September 30,	
Net sales:	2015	2014	2015	2014
Americas	$144.2	$170.8	$303.3	$347.6
Europe	127.7	146.4	258.9	305.0
Asia	18.1	19.0	37.4	39.8
Building HVAC	48.8	45.5	90.1	86.2
Segment total	338.8	381.7	689.7	778.6
Corporate and eliminations	(4.8)	(4.4)	(9.6)	(8.8)
Net sales	$334.0	$377.3	$680.1	$769.8

	Three months ended September 30,				Six months ended September 30,			
	2015		2014		2015		2014	
Gross profit:	$'s	% of sales	$'s	% of sales	$'s	% of sales	$'s	% of sales
Americas	$23.4	16.3%	$24.5	14.4%	$50.1	16.5%	$56.1	16.1%
Europe	14.7	11.5%	16.7	11.4%	29.8	11.5%	38.9	12.8%
Asia	2.1	11.8%	2.1	11.1%	5.6	15.1%	5.7	14.3%
Building HVAC	14.6	29.9%	13.2	29.2%	26.0	28.9%	23.1	26.9%
Segment total	54.8	16.2%	56.5	14.8%	111.5	16.2%	123.8	15.9%
Corporate and eliminations (a)	(9.1)	-	0.2	-	(8.8)	-	0.6	-
Gross profit	$45.7	13.7%	$56.7	15.0%	$102.7	15.1%	$124.4	16.2%

	Three months ended September 30,		Six months ended September 30,	
Operating income:	2015	2014	2015	2014
Americas	$7.8	$8.2	$17.1	$24.1
Europe	5.0	4.6	10.7	15.0
Asia	(1.2)	(0.7)	(0.8)	0.2
Building HVAC	3.9	3.2	6.0	6.4
Segment total	15.5	15.3	33.0	45.7
Corporate and eliminations (a)	(47.6)	(7.4)	(53.5)	(13.7)
Operating (loss) income	$(32.1)	$7.9	$(20.5)	$32.0

	September 30, 2015	March 31, 2015
Total assets:		
Americas	$ 256.8	$277.9
Europe	304.5	283.1

Asia	86.1	92.4
Building HVAC	150.8	131.4
Corporate and eliminations	144.1	146.8
Total assets	$ 942.3	$931.6

(a) During the second quarter of fiscal 2016, the Company recorded a pension settlement loss of $39.2 million at Corporate, within SG&A expenses ($30.9 million) and cost of sales ($8.3 million). See Note 4 for additional information.

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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, we are referring to Modine Manufacturi Company. Our fiscal year ends on March 31 and, accordingly, all references to quarters refer to our fiscal quarters. The quarter ended September 30, 2015 was the second quarter of fiscal 2016.

Second Quarter Highlights: Net sales in the second quarter of fiscal 2016 decreased $43.3 million, or 11 percent, from the second quarter of fiscal 2015, primarily due to a $34.7 million unfavorable impact of foreign currency exchange rate changes associated with the strengthening of the U.S. dollar and lower sales volume to off-highway customers, partially offset by higher sales volume to automotive and building heating, ventilating and air conditioning ("HVAC") customers. During September 2015, we completed a voluntary lump-sum payout program offered to certain eligible former employees participating in our U.S. pension plans (see Note 4 of the Notes to Condensed Consolidated Financial Statements for additional information). As a result of this program, we recorded a $39.2 million non-cash pension settlement loss in the second quarter of fiscal 2016, which we recorded to cost of sales ($8.3 million) and selling, general and administrative ("SG&A") expenses ($30.9 million). Our net loss during the second quarter of fiscal 2016 was $22.5 million, compared with $2.0 million of net earnings in the prior year, primarily due to the pension settlement loss of $24.0 million, net of income taxes. In addition, during October 2015, we announced our new Strengthen, Diversify & Grow strategic transformation framework, which we expect to guide us for the foreseeable future. Our Board of Directors also authorized a new $50 million share repurchase program.

Year-to-Date Highlights: Net sales in the first six months of fiscal 2016 decreased $89.7 million, or 12 percent, from the same period last year, primarily due to a $74.9 million unfavorable impact of foreign currency exchange rate changes associated with the strengthening of the U.S. dollar and lower sales volume to off-highway customers, partially offset by higher sales volume to automotive and building HVAC customers. Gross profit decreased compared with the prior year, primarily due to the pension settlement loss, which is described above, an unfavorable impact of foreign currency exchange rate changes and lower sales volume. SG&A expenses increased compared with the prior year, primarily due to the pension settlement loss. The $17.0 million net loss in the first half of fiscal 2016 represents a $33.1 million decrease from net income of $16.1 million in the prior year.

CONSOLIDATED RESULTS OF OPERATIONS

The following table presents our consolidated financial results on a comparative basis for the three and six months ended September 30, 2015 and 2014:

	Three months ended September 30,				Six months ended September 30,			
	2015		2014		2015		2014	
(in millions)	$'s	% of sales	$'s	% of sales	$'s	% of sales	$'s	% of sales
Net sales	$334.0	100.0%	$377.3	100.0%	$680.1	100.0 %	$769.8	100.0%
Cost of sales	288.3	86.3 %	320.6	85.0 %	577.4	84.9 %	645.4	83.8 %
Gross profit	45.7	13.7 %	56.7	15.0 %	102.7	15.1 %	124.4	16.2 %
Selling, general and administrative expenses	76.8	23.0 %	47.8	12.7 %	119.6	17.6 %	90.6	11.8 %
Restructuring expenses	1.0	0.3 %	1.0	0.2 %	3.6	0.5 %	1.8	0.2 %
Operating (loss) income	(32.1)	-9.6 %	7.9	2.1 %	(20.5)	-3.0 %	32.0	4.2 %
Interest expense	(2.7)	-0.8 %	(3.0)	-0.8 %	(5.5)	-0.8 %	(6.1)	-0.8 %
Other (expense) income – net	(0.1)	-	0.5	0.1 %	(0.1)	-	0.3	-
(Loss) earnings before income taxes	(34.9)	-10.4 %	5.4	1.4 %	(26.1)	-3.8 %	26.2	3.4 %
Benefit (provision) for income taxes	12.4	3.7 %	(3.4)	-0.9 %	9.1	1.3 %	(10.1)	-1.3 %

Net (loss) earnings	$(22.5)	-6.7 %	$2.0	0.5 %	$(17.0)	-2.5 %	$16.1	2.1 %

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Comparison of Three Months Ended September 30, 2015 and 2014

Second quarter net sales of $334.0 million were $43.3 million, or 11 percent, lower than the second quarter of the prior year, primarily due to lower sales in our Europe segment, where sales volume increases were more than offset by a $24.1 million unfavorable impact of foreign currency exchange rate changes, and lower sales in the Americas segment.

Second quarter gross profit decreased $11.0 million and gross margin declined 130 basis points to 13.7 percent. These decreases were primarily due to an $8.3 million pension settlement loss and $1.3 million of procurement consulting expenses in the current year, partially offset by lower material costs and improved production efficiencies in the Americas segment. In addition, gross profit was negatively impacted by a $4.2 million unfavorable impact of foreign currency exchange rate changes.

SG&A expenses increased $29.0 million from the second quarter of fiscal 2015 to the second quarter of fiscal 2016, primarily due to a $30.9 million pension settlement loss and higher compensation-related expenses in the current year, partially offset by a $3.1 million favorable impact of foreign currency exchange rate changes.

Restructuring expenses of $1.0 million in the second quarter of fiscal 2016 were consistent with the prior year and primarily consisted of equipment transfer costs related to plant consolidation activities in the Americas segment.

The operating loss of $32.1 million in the second quarter of fiscal 2016 represents a $40.0 million decrease from $7.9 million of operating income in the second quarter of fiscal 2015. This decrease was primarily due to the $39.2 million pension settlement loss in fiscal 2016.

Interest expense in the second quarter of fiscal 2016 decreased $0.3 million, or 10 percent, compared with the second quarter of the prior year, primarily due to lower outstanding short-term debt.

The benefit for income taxes was $12.4 million in the second quarter of fiscal 2016, compared with a provision for income taxes of $3.4 million in the second quarter of fiscal 2015. The $15.8 million change was primarily due to a $15.2 million income tax benefit related to the pension settlement loss in the second quarter of fiscal 2016.

Comparison of Six Months Ended September 30, 2015 and 2014

Fiscal 2016 year-to-date net sales of $680.1 million were $89.7 million, or 12 percent, lower than the same period last year, primarily due to lower sales in our Europe segment, where sales volume increases were more than offset by a $55.4 million unfavorable impact of foreign currency exchange rate changes, and lower sales in the Americas segment.

Fiscal 2016 year-to-date gross profit of $102.7 million decreased $21.7 million from the same period last year and gross margin declined 110 basis points to 15.1 percent. These decreases were primarily due to an $8.3 million pension settlement loss in the current year and lower sales volume in the Americas segment. In addition, gross profit was negatively impacted by an $8.9 million unfavorable impact of foreign currency exchange rate changes.

Fiscal 2016 year-to-date SG&A expenses increased $29.0 million from the same period last year. The increase was primarily due to a $30.9 million pension settlement loss in the current year, the absence of a $2.6 million recovery from business interruption insurance recognized within the Building HVAC segment during the prior year, and higher compensation-related expenses, partially offset by a $6.7 million favorable impact of foreign currency exchange rate changes.

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Restructuring expenses increased $1.8 million in the first half of fiscal 2016, primarily due to severance expenses and equipment transfer costs related to plant consolidation activities in the Americas segment.

The operating loss of $20.5 million during the first six months of fiscal 2016 represents a $52.5 million decline from $32.0 million of operating income in the same period last year, primarily due to the $39.2 million pension settlement loss in the current year and lower gross profit.

Fiscal 2016 year-to-date interest expense decreased $0.6 million, or 10 percent, from the same period last year, primarily due to lower outstanding short-term debt.

The benefit for income taxes was $9.1 million during the first six months of fiscal 2016, compared with a provision for income taxes of $10.1 million in the prior year. The $19.2 million change was primarily due to a $15.2 million income tax benefit related to the pension settlement loss in the current year and a decrease in operating earnings. We believe it is possible that approximately $3.0 million of the valuation allowance against our deferred tax assets in a foreign jurisdiction could be released in late fiscal 2016 or in fiscal 2017. See Note 8 of the Notes to Condensed Consolidated Financial Statements for additional information.

SEGMENT RESULTS OF OPERATIONS

Effective April 1, 2015, we combined our North America and South America segments into the Americas segment to streamline operations, gain synergies and improve our cost structure. As a result, we recast the prior period segment financial information to conform to the current period presentation. There was no impact to our consolidated financial statements as a result.

The following is a discussion of our segment results of operations for the three and six months ended September 30, 2015 and 2014:

Americas

	Three months ended September 30,				Six months ended September 30,			
	2015		2014		2015		2014	
(in millions)	$'s	% of sales	$'s	% of sales	$'s	% of sales	$'s	% of sales
Net sales	$144.2	100.0%	$170.8	100.0%	$303.3	100.0%	$347.6	100.0%
Cost of sales	120.8	83.7 %	146.3	85.6 %	253.2	83.5 %	291.5	83.9 %
Gross profit	23.4	16.3 %	24.5	14.4 %	50.1	16.5 %	56.1	16.1 %
Selling, general and administrative expenses	14.7	10.2 %	16.1	9.5 %	29.4	9.7 %	31.3	9.0 %
Restructuring expenses	0.9	0.7 %	0.2	0.1 %	3.6	1.2 %	0.7	0.2 %
Operating income	$7.8	5.4 %	$8.2	4.8 %	$			