

MODINE MANUFACTURING CO
Form 10-Q
August 07, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 26, 2006

or

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

For the transition period from _____ to _____

Commission file number 1-1373

MODINE MANUFACTURING COMPANY

(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [P] No []

Edgar Filing: MODINE MANUFACTURING CO - Form 10-Q

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

Large Accelerated Filer ☒ Accelerated Filer ☐ Non-accelerated Filer ☐

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 32,958,424 at August 2, 2006.

MODINE MANUFACTURING COMPANY
INDEX

	Page No.
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
Consolidated Balance Sheets - June 26 and March 31, 2006	3
Consolidated Statements of Earnings - For the Three Months Ended June 26, 2006 and 2005	4
Condensed Consolidated Statements of Cash Flows - For the Three Months Ended June 26, 2006 and 2005	5
Notes to Unaudited Condensed Consolidated Financial Statements	6-26
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	27-37
Item 3. Quantitative and Qualitative Disclosures About Market Risk	37-41
Item 4. Controls and Procedures	41-42
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	42-43
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	43-44
Item 4. Submission of Matters to a Vote of Security Holders	44
Item 6. Exhibits	45
Signature	46

**PART I . FINANCIAL
INFORMATION.**

Item 1. Financial Statements

MODINE MANUFACTURING
COMPANY
CONSOLIDATED BALANCE SHEETS
June 26, 2006 and March 31, 2006
(In thousands, except per share amounts)
(Unaudited)

Edgar Filing: MODINE MANUFACTURING CO - Form 10-Q

	June 26, 2006	March 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 14,278	\$ 30,798
Short term investments	2,295	-
Trade receivables, less allowance for doubtful accounts of \$1,778 and \$1,511	282,012	254,681
Inventories	120,206	90,227
Deferred income taxes and other current assets	44,228	36,489
Total current assets	463,019	412,195
Noncurrent assets:		
Property, plant, and equipment – net	501,701	467,600
Investment in affiliates	16,982	41,728
Goodwill	60,876	52,256
Other intangible assets – net	12,973	12,735
Prepaid pension costs	59,369	59,894
Other noncurrent assets	9,822	5,687
Total noncurrent assets	661,723	639,900
Total assets	\$ 1,124,742	\$ 1,052,095
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	\$ 5,552	\$ 5,983
Long-term debt – current portion	797	125
Accounts payable	187,872	187,048
Accrued compensation and employee benefits	63,624	56,835
Income taxes	14,379	13,169
Accrued expenses and other current liabilities	41,061	31,789
Total current liabilities	313,285	294,949
Noncurrent liabilities:		
Long-term debt	179,125	151,706
Deferred income taxes	39,797	38,424
Pensions	31,051	28,933
Postretirement benefits	20,238	20,085
Other noncurrent liabilities	20,861	12,573
Total noncurrent liabilities	291,072	251,721
Total liabilities	604,357	546,670
Commitments and contingencies (See Note 19)		
Shareholders' equity:		
Preferred stock, \$0.025 par value, authorized 16,000 shares, issued - none	-	-
Common stock, \$0.625 par value, authorized 80,000 shares, issued 32,939 and 33,210 shares	20,587	20,756
Additional paid-in capital	53,551	52,459
Retained earnings	436,542	433,405

Edgar Filing: MODINE MANUFACTURING CO - Form 10-Q

Accumulated other comprehensive income	22,196	10,017
Treasury stock at cost: 421 and 404 shares	(11,648)	(11,212)
Deferred compensation trust	(843)	-
Total shareholders' equity	520,385	505,425
Total liabilities and shareholders' equity	\$ 1,124,742	\$ 1,052,095

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

MODINE MANUFACTURING COMPANY
CONSOLIDATED STATEMENTS OF EARNINGS
For the three months ended June 26, 2006 and 2005
(In thousands, except per share amounts)
(Unaudited)

	Three months ended June 26	
	2006	2005
Net sales	\$ 430,393	\$ 396,838
Cost of sales	354,297	316,566
Gross profit	76,096	80,272
Selling, general, and administrative expenses	55,062	50,553
Restructuring charges	850	-
Income from operations	20,184	29,719
Interest expense	(2,010)	(1,544)
Other income – net	1,509	2,671
Earnings from continuing operations before income taxes	19,683	30,846
Provision for income taxes	3,386	10,148
Earnings from continuing operations	16,297	20,698
Earnings from discontinued operations (net of income taxes)	-	53
Cumulative effect of accounting change (net of income taxes)	70	-
Net earnings	\$ 16,367	\$ 20,751
Earnings per share of common stock – basic:		
Continuing operations	\$ 0.51	\$ 0.60
Earnings from discontinued operations	-	-
Cumulative effect of accounting change	-	-
Net earnings – basic	\$ 0.51	\$ 0.60
Earnings per share of common stock – diluted:		
Continuing operations	\$ 0.51	\$ 0.60
Earnings from discontinued operations	-	-
Cumulative effect of accounting change	-	-
Net earnings – diluted	\$ 0.51	\$ 0.60
Dividends per share	\$ 0.175	\$ 0.175

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

MODINE MANUFACTURING COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three months ended June 26, 2006 and 2005

Edgar Filing: MODINE MANUFACTURING CO - Form 10-Q

(In thousands)
(Unaudited)

	Three months ended June 26	
	2006	2005
Cash flows from operating activities:		
Net earnings	\$ 16,367	\$ 20,751
Adjustments to reconcile net earnings with net cash provided by operating activities:		
Depreciation and amortization	17,285	17,033
Other – net	(119)	3,020
Net changes in operating assets and liabilities, excluding acquisitions and dispositions	(27,444)	(18,551)
Net cash provided by operating activities	6,089	22,253
Cash flows from investing activities:		
Expenditures for property, plant, and equipment	(18,081)	(11,656)
Acquisitions, net of cash acquired	(10,950)	(37,193)
Proceeds from dispositions of assets	18	21
Other – net	2	432
Net cash used for investing activities	(29,011)	(48,396)
Cash flows from financing activities:		
Short-term debt	(790)	-
Additions to long-term debt	56,000	45,000
Reductions of long-term debt	(32,457)	(3,000)
Bank overdrafts	(1,418)	7,370
Proceeds from exercise of stock options	352	1,387
Repurchase of common stock, treasury and retirement	(8,703)	(5,618)
Cash dividends paid	(5,687)	(6,081)
Settlement of derivative contracts	(641)	-
Excess tax benefits from stock-based compensation	175	-
Net cash provided by financing activities	6,831	39,058
Effect of exchange rate changes on cash	(429)	(2,508)
Net (decrease) increase in cash and cash equivalents	(16,520)	10,407
Cash and cash equivalents at beginning of period	30,798	55,091
Cash and cash equivalents at end of period	\$ 14,278	\$ 65,498

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

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

Note 1: General

The accompanying condensed consolidated financial statements, which have not been audited by independent accountants, were prepared in conformity with generally accepted accounting principles and such principles were applied on a basis consistent with the preparation of the consolidated financial statements in Modine Manufacturing Company's (Modine or the Company) Annual Report on Form 10-K for the year ended March 31, 2006 filed with the Securities and Exchange Commission. The financial information furnished includes all normal recurring adjustments that are, in the opinion of management, necessary for a fair statement of results for the interim periods. Results for the first three months of fiscal 2007 are not necessarily indicative of the results to be expected for the full year.

The March 31, 2006 consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles in the United States. In addition, certain notes and other information have been condensed or omitted from these interim financial statements. Therefore, such statements should be read in conjunction with the consolidated financial statements and related notes contained in Modine's Annual Report on Form 10-K for the year ended March 31, 2006.

On July 22, 2005, the Company spun off its Aftermarket business on a tax-free basis and merged it with Transpro, Inc. As a result of this spin-off, the condensed consolidated financial statements and related notes have been restated to present the results of the Aftermarket business as a discontinued operation. Accordingly, the operating results of the Aftermarket business have been included in earnings from discontinued operations, (net of income taxes) in the consolidated statement of earnings for the three months ended June 26, 2005.

Note 2: Significant Accounting Policies

Stock-based compensation: Effective April 1, 2006, in accordance with Statement of Financial Accounting Standards (SFAS) No. 123(R), "Share-Based Payment," Modine began to record compensation expense under the "fair-value-based" method of accounting for stock options and restricted awards granted to employees and directors. The effect of this change, from the "intrinsic-value-based method" previously used by the Company, on the first quarter fiscal 2007 results is as follows:

	Three months ended June 26, 2006		
	Fair value method	Intrinsic value method	Impact on earnings from adoption of SFAS No. 123(R)
Stock-based compensation expense effect on:			
Income from continuing operations before taxes	(\$1,197)	(\$384)	(\$813)
Income from continuing operations	(\$732)	(\$235)	(\$497)
Net earnings	(\$732)	(\$235)	(\$497)
Earnings per share effect:			
Basic earnings per share	(\$0.02)	(\$0.01)	(\$0.01)
Diluted earnings per share	(\$0.02)	(\$0.01)	(\$0.01)

The Company adopted SFAS No. 123(R) using the “modified prospective method” and, as a result, financial results for periods prior to fiscal 2007 were not restated for this accounting change. The modified prospective method requires compensation cost to be recognized beginning on the effective date for (a) all new share-based awards granted after the effective date and to previously issued awards that are modified, repurchased or cancelled after that date and for (b) outstanding share-based awards on the effective date that are unvested because the requisite service period has not been completed. Compensation cost recorded on the unvested awards is based on the grant-date fair value determined under SFAS No. 123 and previously reported in the Company’s pro forma disclosures. Stock-based compensation expense is recognized using the straight-line attribution method and remains unchanged from the method used in prior years except for the requirement under SFAS No. 123(R) to estimate forfeitures rather than record them as they occur. This expense has not been allocated to the various segments, but is reflected in corporate as administrative expense.

Prior to the adoption of SFAS No. 123(R), the Company presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the consolidated statement of cash flows. SFAS No. 123(R) requires the cash flow resulting from the tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows. The excess tax benefits realized for the tax deductions from option exercises for the three months ended June 26, 2006 was \$175. During the three months ended June 26, 2006 and 2005, the Company recognized total income tax benefits related to stock-based compensation awards of \$465 and \$231, respectively.

Prior to fiscal 2007, the Company had adopted SFAS No. 148 “Accounting for Stock-Based Compensation - Transition and Disclosure,” requiring SFAS No. 123 pro forma disclosure recognizing compensation expense for stock options under the fair-value based method. The net income and net income per share of common stock for the first quarter of fiscal 2006 would have been as follows:

	Three months ended June 26, 2005
Earnings from continuing operations, as reported	\$ 20,698
Compensation expense for stock awards as reported, net of tax	579
Stock compensation expense under fair value method, net of tax	(795)
Earnings from continuing operations, pro forma	\$ 20,482
Net earnings, as reported	\$ 20,751
Compensation expense for stock awards as reported, net of tax	594
Stock compensation expense under fair value method, net of tax	(810)
Net earnings, pro forma	\$ 20,535
Net earnings per share from continuing operations (basic), as reported	\$ 0.60
Net earnings per share from continuing operations (basic), pro forma	\$ 0.60
Net earnings per share (basic), as reported	\$ 0.60
Net earnings per share (basic), pro forma	\$ 0.60
Net earnings per share from continuing operations (diluted), as reported	\$ 0.60
Net earnings per share from continuing operations (diluted), pro forma	\$ 0.59
Net earnings per share (diluted), as reported	\$ 0.60
Net earnings per share (diluted), pro forma	\$ 0.59

See Note 4 for additional information on the Company's stock based compensation plans.

Deferred compensation trust: The Company maintains a deferred compensation trust to fund future obligations under its non-qualified deferred compensation plan. The trust's investments in third-party debt and equity securities are reflected as short term investments in the consolidated balance sheet, with changes in fair value reflected as a component of earnings. The trust's investment in Modine stock is reflected as a reduction of shareholder's equity in the consolidated balance sheet at its original stock cost. A deferred compensation obligation is recorded within liabilities at the fair value of the investments held by the deferred compensation trust. Any differences between the recorded value of the short term investments and Modine stock and the fair value of the deferred compensation obligation is reflected as an adjustment to earnings.

New accounting pronouncements: In November 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 151, "Inventory Costs - An Amendment of Accounting Research Bulletin No. 43, Chapter 4," which clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage). The Company adopted the provisions of SFAS No. 151 effective for inventory costs incurred during the first quarter of fiscal 2007. The adoption of this statement did not have a material impact on the Company's financial condition or results of operations.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Non-monetary Assets - An Amendment of APB Opinion No. 29," which eliminates the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. The Company was required to adopt SFAS No. 153 for non-monetary asset exchange occurring in the first quarter of fiscal 2007. The adoption of this statement did not have a material impact on the Company's financial condition or results of operations.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections - A Replacement of APB Opinion No. 20 and FASB Statement No. 3," which changes the requirements for the accounting and reporting of a change in accounting principle. SFAS No. 154 applies to all voluntary changes in accounting principles and to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. SFAS No. 154 requires retrospective application in prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. The Company adopted SFAS No. 154 in the first quarter of fiscal 2007. The adoption of this statement did not have a material impact of the Company's financial condition or results of operations.

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48). This interpretation clarifies the accounting for uncertainty in income taxes recognized in accordance with SFAS No. 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Under FIN 48, if a tax position does not meet a "more-likely-than-not" recognition threshold, the benefit of that position is not recognized in the financial statements. The Company is required to adopt FIN 48 in the first quarter of fiscal 2008, and is currently assessing the impact of adopting this interpretation.

On July 26, 2006, the FASB affirmed its previous decision to make the recognition provision of its proposed standard, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans," an amendment of FASB Statements No. 87, 88, 106 and 132(R), effective for public companies (as defined in FASB Statement No. 123 (revised 2004), "Share-Based Payment") for fiscal years ending after December 15, 2006. Accordingly, Modine will be required to apply the new standard, which is expected to be issued on or before September 26, 2006, to its fiscal 2007 financial statements and recognize on its balance sheet the funded status of its pension and postretirement plans. The anticipated impact of adopting this proposed standard, based on the March 31, 2006 funded status of our pension and postretirement plans, would be to increase total liabilities and reduce total shareholders' equity by \$116,996. The

Company does not anticipate the adoption of the proposed standard will have an adverse impact on existing loan covenants.

Note 3: Employee Benefit Plans

Modine's contributions to the defined contribution employee benefit plans for the three months ended June 26, 2006 and 2005 were \$2,033 and \$983, respectively.

Costs for Modine's pension and postretirement benefit plans for the three months ended June 26, 2006 and 2005 include the following components:

For the three months ending June 26,	Pension plans		Postretirement plans	
	2006	2005	2006	2005
Service cost	\$ 1,106	\$ 1,995	\$ 97	\$ 99
Interest cost	3,787	3,449	482	548
Expected return on plan assets	(4,764)	(4,561)	-	-
Amortization of:				
Unrecognized net loss	1,428	1,184	128	157
Unrecognized prior service cost	-	(11)	-	-
Unrecognized net asset	(7)	(7)	-	-
Net periodic benefit cost	\$ 1,550	\$ 2,049	\$ 707	\$ 804

Note 4: Stock Based Compensation

The Company's long-term stock-based incentive plans for employees consist of a discretionary stock option program for top managers and other key employees and an officers and key executive program that consists of a stock option component (20 percent), retention restricted stock component (20 percent) and a performance stock component (60 percent). The performance component of the long-term incentive compensation program consists of an earnings per share measure (weighted at 60 percent) based on a cumulative three year period and a total shareholder return measure (TSR) (weighted at 40 percent) compared to the performance of the S&P 500 (stock price change and dividends) over the same three year period. A new performance period begins each fiscal year so multiple performance periods, with separate goals, operate simultaneously. Stock options granted under each program have an exercise price equal to the fair market value of the common stock on the date of grant and are immediately exercisable after one year of service with the Company. Retention restricted stock awards are granted at fair market value and vest annually over a period of four to five years depending on the year of grant. The stock granted under the performance component, once earned, is fully vested and will be granted immediately.

In addition to the long-term stock-based incentive plans for employees, stock options and stock awards may be granted to non-employee directors by the Officer Nomination & Compensation Committee (ONC) of the Board of Directors. The Board or the ONC, as applicable, has the broad discretionary authority to set the terms of the awards of stock under the plan. Stock options expire no later than 10 years after the grant date and have an exercise price equal to the fair market value of the common stock on the date of the grant. Unrestricted stock awards granted vest immediately.

The fulfillment of equity based grants is currently being accomplished through the issuance of new common shares. Shares being repurchased through the share repurchase program are being returned to the status of authorized but un-issued shares. Under the Company's 2002 Incentive Stock Plan and the Amended and Restated 2000 Stock

Edgar Filing: MODINE MANUFACTURING CO - Form 10-Q

Incentive Plan for Non-Employee Directors, 1,510 shares and 242 shares, respectively, are available for the granting of additional options and awards.

Stock Options: All stock options granted under the plans as described above were vested on April 1, 2006, the date of adoption of SFAS No. 123(R), except for employees who had not completed one year of service. The fair value of the option awards is estimated on the date of grant using the Black-Scholes option valuation model that uses the assumptions noted in the following table:

	2006	Three months Ended June 26 2005
Expected life of options - years	N/A	5
Risk-free interest rate	N/A	3.69%
Expected volatility of the Company's stock	N/A	35.75%
Expected dividend yield on the Company's stock	N/A	2.77%
Expected forfeiture rate	N/A	0%

Expected volatilities are based on the historical volatility of the Company's stock and other factors. The Company uses historical data to estimate option exercises and employee terminations within the valuation model. The risk-free interest rate was based on yields of U.S. zero-coupon issues with a term equal to the expected life of the option for the week the options were granted. No stock options were granted by the Company in the first quarter of fiscal 2007. In the first quarter of fiscal 2007, Modine recorded \$125 in compensation expense related to stock options which were outstanding but unvested at the April 2006 adoption date of SFAS No. 123(R) because the requisite one-year service period had not been completed. No compensation expense was recorded in the first quarter of fiscal 2006 related to stock options.

The weighted average fair value of stock options granted in the first quarter of fiscal 2006 was \$8.64 per option. The total fair value of stock options vesting in the first quarter of fiscal 2007 was \$301. As of June 26, 2006, the total compensation expense not yet recognized related to non-vested stock options was \$69 and the weighted-average period in which the expense is expected to be recognized is approximately seven months.

A summary of the stock option activity for the first quarter of fiscal 2007 is as follows:

	Weighted average option price	Options	Weighted average remaining contractual years	Aggregate intrinsic value
Outstanding March 31, 2006	\$ 27.10	2,565		
Granted	-	-		
Exercised	\$ 13.91	21		
Forfeited	-	-		
Outstanding June 26, 2006	\$ 27.19	2,544	5.6	\$ 3,528
Exercisable June 26, 2006	\$ 27.18	2,531	5.6	\$ 3,528

The aggregate intrinsic value in the table above represents the pre-tax difference between the closing price of Modine common shares on the last trading day of the first quarter of 2007 over the exercise price of the stock option, multiplied by the number of options outstanding or exercisable. The aggregate value shown is not recorded for financial statement purposes under SFAS No. 123(R) and the value will change based upon daily changes in the fair value of Modine's common shares.

Additional information related to stock options exercised during the first quarters of fiscal 2007 and 2006 were as follows:

		Three months ended June 26	
		2006	2005
Intrinsic value of stock options exercised	\$	141	\$ 354
Proceeds from stock options exercised	\$	352	\$ 1,387

Restricted Stock: A summary of the restricted stock activity for the first quarter of fiscal 2007 is as follows:

	Weighted average price	Shares subject to restrictions
Non-vested at March 31, 2006	\$ 22.50	433
Granted	-	-
Vested	\$ 26.67	(59)
Forfeited	\$ 30.12	(2)
Non-vested at June 26, 2006	\$ 24.14	372

At June 26, 2006, Modine had approximately \$8,982 of total unrecognized compensation cost related to non-vested restricted stock. The cost is expected to be recognized over a weighted average period of 3.3 years.

As required by SFAS No.123(R), management has made an estimate (based upon historical rates) of expected forfeitures and is recognizing compensation costs for those restricted shares expected to vest. A cumulative adjustment (net of income taxes) of \$70 was recorded in the first quarter of fiscal 2007, reducing the compensation expense recognized on non-vested restricted shares.

Restricted Stock - Performance Based Shares: In fiscal 2006, the ONC changed the performance portion of the restricted stock award program lengthening the time horizon to a three-year period and establishing two performance measures - an EPS measure and a Total Shareholder Return (TSR) measure. Awards are earned based on the attainment of corporate financial goals over a three-year period and are paid at the end of that three-year performance period if the performance targets have been achieved. A new performance period begins each year so multiple performance periods, with separate goals, operate simultaneously. In the first quarter of fiscal 2007, Modine recorded \$303 in compensation expense resulting from the TSR portion of the performance award. No expense was recorded relative to the EPS portion of the performance award based upon current projections of probable attainment of this portion of the award. The fair value of the TSR portion of the award was estimated in fiscal 2007 using a Monte Carlo valuation model. In fiscal 2006, the compensation expense recorded was based upon variable accounting under APB

Edgar Filing: MODINE MANUFACTURING CO - Form 10-Q

No. 25. Because the fiscal 2006 performance shares were unvested on the adoption date of SFAS No. 123(R), the Monte Carlo method was used to determine the fair value for recording compensation expense in fiscal 2007. The following table sets forth assumptions used to determine the fair value for each performance award:

	May 2006 Grant	May 2005 Grant
Expected life of award - years	3	3
Risk-free interest rate	4.96%	3.75%
Expected volatility of the Company's stock	31.40%	40.70%
Expected dividend yield on the Company's stock	2.19%	2.13%
Expected forfeiture rate	5.00%	5.00%

At June 26, 2006, Modine had approximately \$2,736 of total unrecognized compensation cost related to non-vested restricted stock. That cost is expected to be recognized over a weighted average period of 2.3 years.

Note 5: Other Income - Net

Other income - net was comprised of the following:

		2006		Three months ended June 26 2005
Equity in earnings of non-consolidated affiliates	\$	1,035	\$	1,033
Interest income		289		215
Foreign currency transactions		8		1,329
Other non-operating income - net		177		94
Total other income - net	\$	1,509	\$	2,671

Note 6: Income Taxes

During the three months ended June 26, 2006 and 2005, the Company's effective income tax rate attributable to earnings from continuing operations before income taxes was 17.2 percent and 32.9 percent, respectively. During the first quarter of fiscal 2007, the Company recorded an approximate \$3,600 benefit related to net operating losses in Brazil that were previously unavailable, resulting in the reduction in the effective income tax rate. This benefit became available in connection with the recent acquisition of the remaining 50 percent of Radiadores Visconde Ltda. and future tax restructuring of the Brazilian operations.

Note 7: Earnings Per Share

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

	2006	2005
Numerator:		

Edgar Filing: MODINE MANUFACTURING CO - Form 10-Q

Earnings from continuing operations	\$	16,297	\$	20,698
Earnings from discontinued operation		-		53
Cumulative effect of accounting change		70		-
Net earnings	\$	16,367	\$	20,751
Denominator:				
Weighted average shares outstanding – basic		32,213		34,329
Effect of dilutive securities		133		302
Weighted average shares outstanding – diluted		32,346		34,631
Net earnings per share of common stock – basic:				
Continuing operations	\$	0.51	\$	0.60
Earnings from discontinued operation		-		-
Cumulative effect of accounting change		-		-
Net earnings – basic	\$	0.51	\$	0.60
Net earnings per share of common stock – diluted:				
Continuing operations	\$	0.51	\$	0.60
Earnings from discontinued operation		-		-
Cumulative effect of accounting change		-		-
Net earnings – diluted	\$	0.51	\$	0.60

The calculation of diluted earnings per share excluded 1,512 and 958 options for the three months ended June 26, 2006 and 2005, respectively, as the exercise price of these stock options was greater than the market price of the Company's common stock on June 26, 2006, and were thus anti-dilutive. The calculation of diluted earnings per share also excludes 277 and 68 restricted stock awards for the three months ended June 26, 2006 and 2005, respectively, as these awards were anti-dilutive.

Note 8: Comprehensive Earnings

Comprehensive earnings, which represent net earnings adjusted by the change in accumulated other comprehensive income was as follows:

	Three months ended June 26	
	2006	2005
Net earnings	\$ 16,367	\$ 20,751
Foreign currency translation	12,570	(18,222)
Cash flow hedges	(391)	(203)
Total comprehensive earnings	\$ 28,546	\$ 2,326

Note 9: Inventories

The amounts of raw material, work in process and finished goods cannot be determined exactly except by physical inventories. Based on partial interim physical inventories and percentage relationships at the time of complete physical inventories, management believes the amounts shown below are reasonable estimates of raw material, work in process and finished goods.

Edgar Filing: MODINE MANUFACTURING CO - Form 10-Q

	June 26, 2006	March 31, 2006
Raw materials	\$ 54,024	\$ 39,779
Work in process	33,111	29,435
Finished goods	33,071	21,013
Total inventories	\$ 120,206	