MODINE MANUFACTURING CO
Form 10-Q
November 05, 2007

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 September 26, 2007

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 [P] No [ ]

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 [P] 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 [P]

The number of shares outstanding of the registrant's common stock, $0.625 par value, was 32,673,841 at October 31, 2007.

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements.

MODINE MANUFACTURING COMPANY
CONSOLIDATED STATEMENTS OF EARNINGS
For the three and six months ended September 26, 2007 and 2006
(In thousands, except per share amounts)
(Unaudited)

	Three months ended September 26		Six months ended September 26	
	2007	**2006**	**2007**	**2006**
Net sales	$ 431,494	$ 427,583	$ 875,567	$ 849,501
Cost of sales	368,778	359,551	741,881	703,435
Gross profit	62,716	68,032	133,686	146,066
Selling, general, and administrative expenses	55,550	59,200	110,512	112,259
Restructuring (income) charges	(79)	1,375	(319)	1,465
Income from operations	7,245	7,457	23,493	32,342
Interest expense	(2,965)	(2,417)	(5,754)	(4,427)
Other income – net	147	1,411	4,276	2,950
Earnings from continuing operations before income taxes	4,427	6,451	22,015	30,865
(Benefit from) provision for income taxes	(5,503)	657	(311)	4,170
Earnings from continuing operations	9,930	5,794	22,326	26,695
Earnings from discontinued operations (net of income taxes)	132	6,575	386	1,971
Cumulative effect of accounting change (net of income taxes)	-	-	-	70
Net earnings	$ 10,062	$ 12,369	$ 22,712	$ 28,736
Earnings per share of common stock – basic:				
Continuing operations	$ 0.31	$ 0.18	$ 0.70	$ 0.83
Earnings from discontinued operations	-	0.20	0.01	0.06
Cumulative effect of accounting change	-	-	-	-
Net earnings – basic	$ 0.31	$ 0.38	$ 0.71	$ 0.89
Earnings per share of common stock – diluted:				
Continuing operations	$ 0.31	$ 0.18	$ 0.69	$ 0.83
Earnings from discontinued operations	-	0.20	0.01	0.06
Cumulative effect of accounting change	-	-	-	-
Net earnings – diluted	$ 0.31	$ 0.38	$ 0.70	$ 0.89
Dividends per share	$ 0.175	$ 0.175	$ 0.350	$ 0.350

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

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MODINE MANUFACTURING COMPANY
CONSOLIDATED BALANCE SHEETS
September 26, 2007 and March 31, 2007
(In thousands, except per share amounts)
(Unaudited)

		September 26, 2007		March 31, 2007
ASSETS				
Current assets:				
Cash and cash equivalents	$	36,217	$	21,227
Short term investments		2,903		3,001
Trade receivables, less allowance for doubtful accounts of $1,711 and $1,512		253,732		248,493
Inventories		121,040		108,217
Assets held for sale		8,547		9,256
Deferred income taxes and other current assets		80,458		66,663
Total current assets		502,897		456,857
Noncurrent assets:				
Property, plant, and equipment – net		518,621		514,949
Investment in affiliates		19,892		18,794
Goodwill		65,955		64,284
Intangible assets – net		10,992		11,137
Assets held for sale		6,243		9,281
Other noncurrent assets		44,363		26,271
Total noncurrent assets		666,066		644,716
Total assets	$	1,168,963	$	1,101,573
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Short-term debt	$	8,327	$	344
Long-term debt – current portion		3,160		3,149
Accounts payable		187,627		194,734
Accrued compensation and employee benefits		63,399		58,977
Income taxes		8,611		14,358
Liabilities of business held for sale		3,535		3,478
Accrued expenses and other current liabilities		51,197		32,913
Total current liabilities		325,856		307,953
Noncurrent liabilities:				
Long-term debt		202,755		175,856
Deferred income taxes		17,604		18,291
Pensions		33,182		48,847
Postretirement benefits		28,150		27,960
Liabilities of business held for sale		97		94
Other noncurrent liabilities		33,272		29,305
Total noncurrent liabilities		315,060		300,353
Total liabilities		640,916		608,306

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 32,717 and 32,872 shares		20,448		20,545
Additional paid-in capital		65,143		61,240
Retained earnings		443,327		439,318
Accumulated other comprehensive income (loss)		12,650		(14,779)
Treasury stock at cost: 472 and 453 shares		(12,938)		(12,468)
Deferred compensation trust		(583)		(589)
Total shareholders' equity		528,047		493,267
Total liabilities and shareholders' equity	$	1,168,963	$	1,101,573

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 six months ended September 26, 2007 and 2006
(In thousands)
(Unaudited)

	Six months ended September 26 2007	2006
Cash flows from operating activities:		
Net earnings	$ 22,712	$ 28,736
Adjustments to reconcile net earnings with net cash provided by operating activities:		
Depreciation and amortization	38,423	34,965
Other – net	(18,522)	(6,440)
Net changes in operating assets and liabilities, excluding acquisitions and dispositions	(28,370)	(23,496)
Net cash provided by operating activities	14,243	33,765
Cash flows from investing activities:		
Expenditures for property, plant and equipment	(34,348)	(38,958)
Acquisitions, net of cash acquired	-	(11,096)
Proceeds from dispositions of assets	8,435	19
Settlement of derivative contracts	194	(128)
Other – net	241	146
Net cash used for investing activities	(25,478)	(50,017)
Cash flows from financing activities:		
Short-term debt	8,037	1,951
Additions to long-term debt	65,012	82,600
Reductions of long-term debt	(38,118)	(59,951)
Book overdrafts	7,071	2,483
Proceeds from exercise of stock options	664	1,175
Repurchase of common stock, treasury and retirement	(5,962)	(12,580)
Cash dividends paid	(11,337)	(11,351)
Other – net	101	202
Net cash provided by financing activities	25,468	4,529
Effect of exchange rate changes on cash	757	(649)
Net increase (decrease) in cash and cash equivalents	14,990	(12,372)
Cash and cash equivalents at beginning of period	21,227	30,798
Cash and cash equivalents at end of period	$ 36,217	$ 18,426

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

MODINE MANUFACTURING COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, 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 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, 2007 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 six months of fiscal 2008 are not necessarily indicative of the results to be expected for the full fiscal year.

The March 31, 2007 consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP 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, 2007.

Note 2: Significant Accounting Policies

Discontinued operations and assets held for sale: The Company considers businesses to be held for sale when management approves and commits to a formal plan to actively market a business for sale. Upon designation as held for sale, the carrying value of the assets of the business are recorded at the lower of their carrying value or their estimated fair value, less costs to sell. The Company ceases to record depreciation expense at the time of designation as held for sale. Results of operations of a business classified as held for sale are reported as discontinued operations when (a) the operations and cash flows of the business will be eliminated from ongoing operations as a result of the sale and (b) the Company will not have any significant continuing involvement in the operations of the business after the sale. The Company currently classifies the Electronics Cooling business as held for sale and as a discontinued operation. See Note 12 for further discussion.

Accounting standards changes and new accounting pronouncements: In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurement," which addresses how companies should measure fair value when required to use a fair value measure for recognition or disclosure purposes under GAAP. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands the disclosures on fair value measurements. The Company is required to adopt SFAS No. 157 in the first quarter of fiscal 2009, and is currently assessing the impact of adopting this pronouncement.

In September 2006, the FASB issued SFAS No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans," an amendment of FASB Statement Nos. 87, 88, 106 and 132(R). The Company adopted the recognition and disclosure requirements of SFAS No. 158 as of March 31, 2007 which did not have an adverse impact on existing loan covenants. SFAS No. 158 also requires that employers measure plan assets and the Company's obligations as of the date of their year-end financial statements beginning with the Company's fiscal year ending March 31, 2009. The Company adopted the year-end measurement date for its pension and postretirement plans in fiscal 2008 using the prospective method, which resulted in an increase in accumulated other comprehensive income (loss) and a reduction in retained earnings of $839.

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In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities – including an Amendment of SFAS No. 115” (SFAS No. 159), which permits an entity to measure many financial assets and financial liabilities at fair value that are not currently required to be measured at fair value. Entities that elect the fair value option will report unrealized gains and losses in earnings at each subsequent reporting date. The fair value option may be elected on an instrument-by-instrument basis, with a few exceptions. SFAS No. 159 amends previous guidance to extend the use of the fair value option to available-for-sale and held-to-maturity securities. The Statement also establishes presentation and disclosure requirements to help financial statement users understand the effect of the election. SFAS No. 159 is effective as of the beginning of the first quarter of fiscal 2009. Management is currently assessing the potential impact of this standard on the Company’s consolidated financial statements.

Note 3: Employee Benefit Plans

Modine’s contributions to the defined contribution employee benefit plans for the three months ended September 26, 2007 and 2006 were $1,895 and $2,179, respectively. Modine’s contributions to the defined contribution employee benefit plans for the six months ended September 26, 2007 and 2006 were $3,731 and $4,212, respectively.

In September 2007, the Company announced that effective January 1, 2008, the Modine Manufacturing Company Pension Plan for Non-Union Hourly-Paid Factory and Salaried Employees (Salaried Employee Component) and the Modine Manufacturing Company Supplemental Executive Retirement Plan are being modified so that no increases in annual earnings after December 31, 2007 will be included in calculating the average annual earnings portion under the pension plan formula. The Company recorded a pension curtailment gain of $4,214 during the three months ended September 26, 2007 to reflect this modification.

In July 2006, the Company announced the closure of its facility in Clinton, Tennessee. The Company recorded a pension curtailment charge of $700 during the three months ended September 26, 2006 to reflect the impact of this closure of the Clinton Hourly-Paid Employees Retirement Plan.

In May 2006, the Company offered a voluntary enhanced early retirement program to certain U.S. employees. This program included an enhanced pension benefit of five years of credited service for those employees who accepted the early retirement program. The Company recorded a charge of $940 during the three months ended September 26, 2006 to reflect this enhanced pension benefit.

Costs for Modine's pension and postretirement benefit plans for the three and six months ended September 26, 2007 and 2006 include the following components:

	Three months ended September 26				**Six months ended September 26**			
	Pension		**Postretirement**		**Pension**		**Postretirement**	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
Service cost	$ 683	$ 1,109	$ 83	$ 97	$ 1,471	$ 2,215	$ 166	$ 194
Interest cost	3,348	3,790	447	482	7,156	7,577	894	963
Expected return on plan assets	(4,401)	(4,764)	-	-	(9,100)	(9,528)	-	-
Amortization of:								

Unrecognized net loss	341	1,428	122	128	1,889	2,856	244	257
Unrecognized prior service cost	104	-	-	-	80	-	-	-
Unrecognized net asset	(5)	(7)	-	-	(12)	(14)	-	-
Adjustment for curtailment	(4,214)	700	-	-	(4,214)	700	-	-
Enhanced pension benefit	-	940	-	-	-	940	-	-
Net periodic benefit (income) cost	$ (4,144)	$ 3,196	$ 652	$ 707	$ (2,730)	$ 4,746	$ 1,304	$ 1,414

Note 4: Stock-Based Compensation

Modine adopted SFAS No. 123(R), "Share-Based Payment," effective April 1, 2006. SFAS No. 123(R) requires that the cost of stock-based compensation be recognized in the financial statements based on the grant date fair value of the award. Stock-based compensation consists of stock options and restricted stock granted for retention and performance. Upon adoption, management made an estimate (based upon historical rates) of expected forfeitures and recognized 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. Modine recognized stock-based compensation cost of $2,320 and $1,255 for the three months ended September 26, 2007 and 2006, respectively. Modine recognized stock-based compensation cost of $3,674 and $2,452 for the six months ended September 26, 2007 and 2006, respectively. Compensation expense recognized in the second quarter of fiscal 2008 included $571 related to the earnings per share component of the fiscal 2007-08 performance grant based upon probable attainment of the targeted three-year compound growth rate.

The following tables present, by type, the fair market value of stock-based compensation awards granted during the three and six months ended September 26, 2007 and 2006:

	Three months ended September 26,			
	2007		**2006**	
Type of award	**Shares**	**Fair Value Per Award**	**Shares**	**Fair Value Per Award**
Common stock options	-	$ -	-	$ -
Restricted common stock - retention	11.2	$ 28.50	-	$ -
Restricted common stock - performance based upon total shareholder return compared to the S&P 500	-	$ -	-	$ -
Restricted common stock - performance based upon earnings per share growth	149.6	$ 23.25	-	$ -

	Six months ended September 26,			
	2007		2006	
Type of award	Shares	Fair Value Per Award	Shares	Fair Value Per Award
Common stock options	0.3	$ 5.30	-	$ -
Restricted common stock - retention	11.2	$ 28.50	-	$ -
Restricted common stock - performance based upon total shareholder return compared to the S&P 500	79.9	$ 23.60	66.7	$ 29.75
Restricted common stock - performance based upon earnings per share growth	149.6	$ 23.25	-	$ -

The table below sets forth the pricing assumptions used in determining the fair value for the common stock options using the Black Scholes model and the total shareholder return portion of the performance awards using the Monte Carlo model:

	Three and six months ended September 26,		
	2007		2006
	Options	Performance Awards	Performance Awards
Expected life of awards in years	5	3	3
Risk-free interest rate	4.58%	4.57%	4.96%
Expected volatility of the Company's stock	28.51%	29.60%	31.40%
Expected dividend yield on the Company's stock	3.32%	2.88%	2.19%
Expected forfeiture rate	1.50%	1.50%	1.50%

As of September 26, 2007, the total remaining unrecognized compensation cost related to the non-vested stock-based compensation awards which will be amortized over the weighted average remaining service periods is as follows:

Type of award	Unrecognized Compenstion Costs	Weighted Average Remaining Service Period in Years
Common stock options	$ 4	0.2
Restricted common stock - retention	5,305	2.4
Restricted common stock - performance (including both total shareholder return and earnings per share components)	5,563	2.3
Total	$ 10,872	2.3

Note 5: Other Income – Net

Other income – net was comprised of the following:

	Three months ended September 26		Six months ended September 26	
	2007	2006	2007	2006
Equity earnings of non-consolidated affiliates	$ 583	$ 380	$ 1,270	$ 1,415
Interest income	350	190	592	474
Foreign currency transactions	(886)	736	2,252	781
Other non-operating income - net	100	105	162	280
Total other income - net	$ 147	$ 1,411	$ 4,276	$ 2,950

Foreign currency transactions for the three and six months ended September 26, 2007 were primarily comprised of foreign currency transaction gains (losses) on inter-company loans denominated in a foreign currency in Brazil.

Note 6: Income Taxes

For the three months ended September 26, 2007 and September 26, 2006, Modine reported earnings from continuing operations of $4,427 and $6,451 which resulted in an overall tax benefit of $5,503 and expense of $657, respectively. During the second quarter of fiscal 2008, the Company recorded an income tax benefit of $867 which related to the prior fiscal year. This adjustment was made in the second quarter of fiscal 2008 as it was deemed insignificant to the reported results of operations for fiscal 2007 and estimated results for fiscal 2008. The second quarter fiscal 2008 effective tax rate of (124.3 percent) is 134.5 percentage points lower than the effective tax rate for the second quarter of fiscal 2007. This decrease is primarily the result of the impact of a favorable retroactive income tax law change in Germany which reduced the German income tax rate by 10 percentage points as well as an overall change in the earnings mix across the Company's tax jurisdictions.

For the six months ended September 26, 2007 and September 26, 2006, Modine reported earnings from continuing operations of $22,015 and $30,865 which resulted in an overall tax benefit of $311 and expense of $4,170, respectively. The six month fiscal year 2008 effective tax rate of (1.4 percent) is 14.9 percentage points lower than the effective tax rate for the first six month period of fiscal 2007. This decrease is primarily the result of the absence of the Brazilian tax benefit recorded in the first quarter of fiscal 2007 (approximately $3,600) offset by the favorable impact of the income tax law change in Germany as well as an overall change in the earnings mix across the Company's tax jurisdictions.

The following is a reconciliation of the effective tax rate for the three and six months ended September 26, 2007 and 2006:

	Three months ended September 26		Six months ended September 26	
	2007	2006	2007	2006
Statutory federal tax	35.0%	35.0%	35.0%	35.0%
State taxes, net of federal benefit	(17.1)	(9.4)	(3.4)	(1.8)

Taxes on non-U.S. earnings and losses	(52.4)	(15.5)	(16.6)	(7.0)
Foreign tax law change	(61.9)	-	(12.4)	-
Tax exempt income	(25.6)	-	(5.1)	
Research and development tax credit	(3.8)	-	(2.4)	-
Net operating losses in Brazil	-	-	-	(11.5)
Other	1.5	0.1	3.5	(1.2)
Effective tax rate	(124.3%)	10.2%	(1.4%)	13.5%

After adoption of FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes" on April 1, 2007, the Company's total gross liability for uncertain tax positions was $8,587, including $541 of accrued penalties and $770 of accrued interest. The amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate is $5,757.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits as a component of income tax expense. During the six months ended September 26, 2007, the Company recorded interest and penalties of $158. There is no material change to the amount of unrecognized tax benefits during the six months ended September 26, 2007. The Company does not expect a significant increase or decrease in the total amount of unrecognized tax benefits during the remainder of fiscal 2008.

The Company files income tax returns, including returns for its subsidiaries, with federal, state, local and foreign taxing jurisdictions. The following tax years remain subject to examination by the respective major tax jurisdictions:

Austria	Fiscal 2000 – 2007
Brazil	Fiscal 2002 – 2006
Germany	Fiscal 2000 – 2007
Korea	Fiscal 2004 – 2007
United States	Fiscal 2004 – 2007

Note 7: Earnings Per Share

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

	Three months ended September 26		Six months ended September 26	
	2007	**2006**	**2007**	**2006**
Numerator:				
Earnings from continuing operations	$ 9,930	$ 5,794	$ 22,326	$ 26,695
Earnings from discontinued operations	132	6,575	386	1,971
Cumulative effect of accounting change	-	-	-	70
Net earnings	$ 10,062	$ 12,369	$ 22,712	$ 28,736
Denominator:				
Weighted average shares outstanding – basic	32,099	32,171	32,105	32,192
Effect of dilutive securities	195	59	126	96
Weighted average shares outstanding – diluted	32,294	32,230	32,231	32,288

Net earnings per share of common stock – basic:								
Continuing operations	$	0.31	$	0.18	$	0.70	$	0.83
Earnings from discontinued operations		-		0.20		0.01		0.06
Cumulative effect of accounting change		-		-		-		-
Net earnings – basic	$	0.31	$	0.38	$	0.71	$	0.89
Net earnings per share of common stock – diluted:								
Continuing operations	$	0.31	$	0.18	$	0.69	$	0.83
Earnings from discontinued operations		-		0.20		0.01		0.06
Cumulative effect of accounting change		-		-		-		-
Net earnings – diluted	$	0.31	$	0.38	$	0.70	$	0.89

The calculation of diluted earnings per share excluded 1,593 and 1,660 stock options for the three months ended September 26, 2007 and 2006, respectively, and 1,615 and 1,660 options for the six months ended September 26, 2007 and 2006, respectively, as these stock options were anti-dilutive. The calculation of diluted earnings per share also excludes 12 and 222 restricted stock awards for the three months ended September 26, 2007 and 2006, respectively, and 145 and 222 restricted stock awards for the six months ended September 26, 2007 and 2006, respectively, as these awards were anti-dilutive.

Note 8: Comprehensive Income

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

	Three months ended September 26				Six months ended September 26			
		2007		**2006**		**2007**		**2006**
Net earnings	$	10,062	$	12,369	$	22,712	$	28,736
Foreign currency translation		2,382		(176)		9,735		12,394
Cash flow hedges		(827)		(879)		(2,227)		(1,270)
Change in SFAS No. 158 benefit plan adjustment		18,947		-		19,921		-
Total comprehensive income	$	30,564	$	11,314	$	50,141	$	39,860

Note 9: Inventories

The amounts of raw materials, 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 materials, work in process and finished goods.

		September 26, 2007		**March 31, 2007**
Raw materials and work in process	$	90,239	$	79,904

Finished goods	30,801	28,313
Total inventories	$ 121,040	$ 108,217

Note 10: Property, Plant and Equipment

Property, plant and equipment consisted of the following:

	September 26, 2007	March 31, 2007
Gross property, plant and equipment	$ 1,077,386	$ 1,043,698
Less accumulated depreciation	(558,765)	(528,749)
Net property, plant and equipment	$ 518,621	$ 514,949

Note 11: Restructuring, Plant Closures and Other Related Costs

In fiscal 2007, Modine announced a global competitiveness program intended to reduce costs, accelerate technology development, and accelerate market and geographic expansion – all intended to stimulate growth and profits. The Company initiated the following plans: relocated its Harrodsburg, Kentucky-based research and development activities to its technology center in Racine, Wisconsin; offered a voluntary enhanced early retirement program in the U.S.; implemented a reduction in force in the U.S.; and announced various facility closings within North America.

The Company has incurred $3,299 of termination charges, $663 of pension curtailment charges and $7,574 of other closure costs to date related to these plans. Total additional costs which are anticipated to be incurred through fiscal 2009 are approximately $3,600; consisting of $500 of employee-related costs and $3,100 of other costs such as equipment moving costs and miscellaneous facility closing costs. Total additional cash expenditures of approximately $4,500 are anticipated to be incurred related to these plans.

The accrued restructuring liability for the three and six months ended September 26, 2007 and 2006 were comprised of the following related to the above-described restructuring activities:

	Three months ended September 26	
	2007	2006
Termination Benefits:		
Balance, June 27	$ 1,897	$ 90
Additions	81	1,375
Adjustments	(160)	-
Payments	(33)	(604)
Balance, September 26	$ 1,785	$ 861

Six months ended September 26

		2007		2006
Termination Benefits:				
Balance, April 1	$	2,313	$	-
Additions		290		1,465
Adjustments		(609)		-
Payments		(209)		(604)
Balance, September 26	$	1,785	$	861

The following is the summary of restructuring and other repositioning costs recorded related to the announced plans during the three and six months ended September 26, 2007 and 2006:

	Three months ended September 26				Six months ended September 26			
		2007		2006		2007		2006
Restructuring (income) charges:								
Employee severance and related benefits	$	(79)	$	1,375	$	(319)	$	1,465
Other repositioning costs:								
Special termination benefits - early retirement		-		1,541		-		1,905
Pension curtailment charge		-		700		-		700
Miscellaneous other closure costs		722		596		1,172		636
Total other repositioning costs		722		2,837		1,172		3,241
Total restructuring and other repositioning costs	$	643	$	4,212	$	853	$	4,706

The total restructuring and other repositioning costs of $643 and $853 were recorded in the consolidated statement of earnings for the three and six months ended September 26, 2007, respectively, as follows: $722 and $1,172 were recorded as a component of cost of sales and $79 and $319 were recorded as restructuring income. The Company accrues severance in accordance with its written plans and procedures when payment of the amounts becomes probable. Restructuring income relates to reversals of severance liabilities due to employee terminations prior to completion of required retention periods. The total restructuring and other repositioning costs of $4,212 and $4,706 were recorded in the consolidated statement of earnings for the three and six months ended September 26, 2006, respectively, as follows:

$870 and $910 were recorded as a component of cost of sales, $1,967 and $2,331 were recorded as a component of selling, general and administrative expenses and $1,375 and $1,465 were recorded as restructuring charges.

Note 12: Discontinued Operations and Assets Held for Sale

On May 1, 2007, Modine announced it would explore strategic alternatives for its Electronics Cooling business. The Company is actively marketing this business for sale at a price and on terms that will represent a better value for Modine's shareholders than having the business continue to operate as a Modine subsidiary. In accordance with the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," it was determined that the Electronics Cooling business should be presented as held for sale and as a discontinued operation in the consolidated financial statements. The Electronics Cooling business was formerly presented as part of the Other segment. See Note 18 for further discussion on segments. The balance sheet amounts of the Electronics Cooling business have been reclassified to assets and liabilities of business held for sale on the consolidated balance sheet, and the operating results have been separately presented as a discontinued operation in the consolidated statement of earnings for all periods presented.

At March 31, 2007, the Richland, South Carolina assets totaled $3,315 and consisted of land, building and associated improvements. These assets, which were recorded in the Original Equipment – North America segment, were classified as assets held for sale in the consolidated balance sheet at March 31, 2007. These assets were sold during the first quarter of fiscal 2008.

The major classes of assets and liabilities held for sale at September 26, 2007 and March 31, 2007 included in the consolidated balance sheets were as follows:

	September 26, 2007	March 31, 2007
Assets held for sale:		
Receivables - net	$ 4,093	$ 3,866
Inventories	2,757	3,695
Other current assets	1,697	1,695
Total current assets held for sale	8,547	9,256
Property, plant and equipment - net	2,630	5,715
Goodwill	2,806	2,745
Other noncurrent assets	807	821
Total nonccurent assets held for sale	6,243	9,281
Total assets held for sale	$ 14,790	$ 18,537
Liabilities of business held for sale:		
Accounts payable	$ 1,791	$ 1,596
Accrued expenses and other current liabilities	1,744	1,882
Total current liabilities of business held for sale	3,535	3,478
Other noncurrent liabilities	97	94
Total liabilities of business held for sale	$ 3,632	$ 3,572

In addition, the Electronics Cooling business had cash of $1,353 and $1,239 at September 26, 2007 and March 31, 2007, respectively, that was included in cash and cash equivalents on the consolidated balance sheets.

The following results of the Electronics Cooling business have been presented as earnings from discontinued operations in the consolidated statement of earnings:

	Three months ended September 26		Six months ended September 26	
	2007	2006	2007	2006

Net sales	$	6,842	$	9,929	$	14,386	$	18,404
Cost of sales and other expenses		6,591		11,290		13,832		24,495
Earnings (loss) before income taxes		251		(1,361)		554		(6,091)
Provision for (benefit from) income taxes		119		(7,936)		168		(8,062)
Earnings from discontinued operations	$	132	$	6,575	$	386	$	1,971

Note 13: Goodwill and Intangible Assets

Changes in the carrying amount of goodwill during the first six months of fiscal 2008, by segment and in the aggregate, are summarized in the following table:

		OE - Asia		OE - Europe		OE - North America		South America		Commercial Products		Total
Balance, March 31, 2007	$	523	$	8,817	$	23,769	$	11,634	$	19,541	$	64,284
Fluctuations in foreign currency		-		259		-		940		472		1,671
Balance, September 26, 2007	$	523	$	9,076	$	23,769	$	12,574	$	20,013	$	65,955

Intangible assets are comprised of the following:

	September 26, 2007						March 31, 2007					
		Gross Carrying Value		Accumulated Amortization		Net Intangible Assets		Gross Carrying Value		Accumulated Amortization		Net Intangible Assets
Amortized intangible assets:												
Patents and product technology	$	3,951	$	(3,568)	$	383	$	3,951	$	(3,437)	$	514
Trademarks		10,732		(1,684)		9,048		10,523		(1,301)		9,222
Other intangibles		460		(122)		338		423		(157)		266
Total amortized intangible assets		15,143		(5,374)		9,769		14,897		(4,895)		10,002
Unamortized intangible assets:												
Tradename		1,223		-		1,223		1,135		-		1,135
Total intangible assets	$	16,366	$	(5,374)	$	10,992	$	16,032	$	(4,895)	$	11,137

Amortization expense was $124 and $354 for the three months ended September 26, 2007 and 2006, respectively, and $437 and $538 for the six months ended September 26, 2007 and 2006, respectively. Total estimated annual amortization expense expected for the remainder of fiscal year 2008 through 2013 and beyond is as follows:

Fiscal Year	Estimated Amortization Expense
Remainder of 2008	$531
2009	1,062
2010	807
2011	807
2012	731
2013 & Beyond	5,831

Note 14: Financial Instruments

Concentrations of Credit Risk: The Company invests excess cash in investment quality short-term liquid debt instruments. Such investments are made only in instruments issued by high quality institutions. Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of accounts receivable. The Company sells a broad range of products that provide thermal solutions to a diverse group of customers operating throughout the world. At September 26, 2007 and March 31, 2007, approximately 46 percent and 53 percent, respectively, of the Company's trade accounts receivables were from the Company's top ten individual customers. These customers operate primarily in the automotive, truck and heavy equipment markets and are all influenced by many of the same market and general economic factors. To reduce credit risk, the Company performs periodic customer credit evaluations and actively monitors their financial condition and developing business news. The Company does not generally require collateral or advanced payments from its customers, but does so in those cases where a substantial credit risk is identified. Credit losses to customers operating in the markets served by the Company have not been material. Total bad debt write-offs have been well below 1 percent of outstanding trade receivable balances for the presented periods.

Inter-Company Loans Denominated in Foreign Currencies: The Company has certain foreign-denominated long-term inter-company loans that are sensitive to foreign exchange rates. At September 26, 2007, the Company had a 24,095 billion won ($26,160 U.S. equivalent), 8-yr loan to its wholly owned subsidiary, Modine Korea, LLC, which matures on August 31, 2012. On April 6, 2005, the Company entered into a zero cost collar to hedge the foreign exchange exposure on the entire amount of the loan. This collar was settled on August 29, 2006 for a loss of $1,139. On August 29, 2006, the Company entered into a new zero cost collar that expires on February 29, 2008 to hedge the foreign exchange exposure on the entire amount of the loan.

At September 26, 2007, the Company had inter-company loans totaling $22,541 to its wholly owned subsidiary, Modine do Brasil Sistemas Tesmicos, Ltda. (Modine Brazil), with various maturity dates through February 2009. On June 21, 2007, the Company entered into a zero cost collar to hedge the foreign exchange exposure on the principal amount of the loan. This collar has an expiration date of March 31, 2008.

Note 15: Foreign Exchange Contracts/Derivatives/Hedges

Modine uses derivative financial instruments in a limited way as a tool to manage certain financial risks. Their use is restricted primarily to hedging assets and obligations already held by Modine, and they are used to protect cash flows rather than generate income or engage in speculative activity. Leveraged derivatives are prohibited by Company policy.

Commodity derivatives: The Company enters into futures contracts related to certain of the Company's forecasted purchases of aluminum and natural gas. The Company's strategy in entering into these contracts is to reduce its exposure to changing prices for future purchases of these commodities. These contracts have been designated as cash flow hedges by the Company. Accordingly, unrealized gains and losses on these contracts are deferred as a component of other comprehensive income, and recognized as a component of earnings at the same time that the underlying purchases of aluminum and natural gas impact earnings. During the three months ended September 26, 2007 and 2006, $1,128 and $353 of expense, respectively, was recorded in the consolidated statements of earnings related to the settlement of certain futures contracts. During the six months ended September 26, 2007 and 2006, $194 of income and $128 of expense, respectively, was recorded in the consolidated statements of earnings related to the settlement of certain futures contracts. At September 26, 2007, $1,892 of unrealized losses remain deferred in accumulated other comprehensive income (loss), and will be realized as a component of cost of sales over the next thirteen months.

During the three months ended September 26, 2007, the Company entered into futures contracts related to certain of the Company's forecasted purchases of copper and nickel. The Company's strategy in entering into these contracts is to reduce its exposure to changing purchase prices for future purchases of these commodities. The Company has not designated these contracts as hedges, therefore gains and losses on these contracts are recorded directly in the consolidated statements of earnings.

Interest rate derivatives: On August 5, 2005, the Company entered into a one-month forward ten-year treasury interest rate lock in anticipation of a private placement borrowing which occurred on December 29, 2005. The contract was settled on December 1, 2005 with a loss of $1,794. On October 25, 2006, the Company entered into two forward starting swaps in anticipation of the aggregate $75,000 private placement debt offerings that occurred on December 7, 2006. On November 14, 2006, the fixed interest rate on the private placement borrowing was locked and, accordingly, the Company terminated and settled the forward starting swaps at a loss of $1,812. These interest rate derivatives were treated as cash flow hedges of forecasted transactions. Accordingly, the losses are reflected as a component of accumulated other comprehensive income (loss) and are being amortized to interest expense over the respective lives of the borrowings.

During the three months ended September 26, 2007 and 2006, $52 and $28 of expense, respectively, was recorded in the consolidated statements of earnings related to the amortization of the interest rate derivative losses. During the six months ended September 26, 2007 and 2006, $174 and $55 of expense, respectively, was recorded in the consolidated statements of earnings related to the amortization of the interest rate derivative losses. At September 26, 2007, $1,901 of net unrealized losses remains deferred in accumulated other comprehensive income (loss).

Note 16: Product Warranties and Other Commitments

Product warranties: Modine provides product warranties for its assorted product lines with warranty periods generally ranging from one to ten years. The Company accrues for estimated future warranty costs in the period in which the sale is recorded, and warranty expense estimates are forecasted based on the best information available using analytical and statistical analysis of both historical and current claim data. These expenses are adjusted when it becomes probable that expected claims will differ from initial estimates recorded at the time of the sale.

Changes in the warranty liabillity were as follows:

	Three months ended September 26	
	2007	2006
Balance, June 26	$ 13,407	$ 10,567
Accruals for warranties issued in current period	1,184	2,283
Accruals (reversals) related to pre-existing warranties	366	(4)
Settlements made	(2,421)	(2,536)
Effect of exchange rate changes	35	(77)
Balance, September 26	$ 12,571	$ 10,233

	Six months ended September 26	
	2007	2006
Balance, March 31	$ 13,843	$ 10,893
Acquisitions	-	527
Accruals for warranties issued in current period	2,823	4,073
Accruals (reversals) related to pre-existing warranties	262	(12)
Settlements made	(4,659)	(5,412)
Effect of exchange rate changes	302	164
Balance, September 26	$ 12,571	$ 10,233

Commitments: At September 26, 2007, the Company had capital expenditure commitments of $38,405. Significant commitments include tooling and equipment expenditures for new and renewal platforms with new and current customers in Europe, Asia and North America. The Company utilizes consignment inventory arrangements with certain vendors in the normal course of business, whereby the suppliers maintain certain inventory stock at the Company's facilities or at other outside facilities. In these cases, the Company has arrangements with the vendor to use the material within a specific period of time.

Note 17: Share Repurchase Programs

During fiscal 2006, the Company announced two common share repurchase programs approved by the Board of Directors. The first program, announced on May 18, 2005, was a dual purpose program authorizing the repurchase of up to five percent of the Company's outstanding common stock, as well as the indefinite buy-back of additional shares to offset dilution from Modine's incentive stock plans. The five percent portion of this program was completed in fiscal 2006, while the anti-dilution portion of this program continues to be available to the Company. During the three and six months ended September 26, 2007, 200 shares were purchased under the anti-dilution portion of this program at an average cost of $27.44 per share, or a total of $5,488. No shares were repurchased under the anti-dilution portion of this program during the three and six months ended September 26, 2006. On January 26, 2006, the Company announced a second share repurchase program, which authorized the repurchase of up to ten percent of the Company's outstanding shares over an 18-month period of time, which expired on July 26, 2007. No share repurchases were made under this program during fiscal 2008. During the three months ended September 26, 2006, 164 shares were purchased under this program at an average cost of $23.25 per share, or a total of $3,806. During the six months ended September 26, 2006, 454 shares were purchased under this program at an average cost of $26.60 per share, or a total of $12,067. The repurchases were made from time to time at current prices through solicited and unsolicited transactions in the open market or in privately negotiated or other transactions. The Company is retiring shares acquired pursuant to the programs, and the retired shares are being returned to the status of authorized but un-issued shares.

Note 18: Segment Information

Modine's product lines consist of heat-transfer components and systems. Modine serves the vehicular; industrial; building heating, ventilating and air conditioning; and fuel cell original-equipment markets. During the first quarter of fiscal 2008, the Company implemented certain management reporting changes which resulted in the following changes in Modine's reportable segments:

- The Brazilian operation was reported in the newly established South America segment;
- The Original Equipment – Americas segment was renamed Original Equipment – North America;
- Certain support departments previously included within Corporate and administrative were realigned into the Original Equipment – North America segment;
- The Commercial HVAC&R segment name was changed to Commercial Products; and
- The Electronics Cooling business, previously reported in the Other segment, was presented as a discontinued operation. Therefore, the only remaining operation within the Other segment is the Fuel Cell business, which is now reported as a separate segment.

In conjunction with the above changes, the previously reported segment results have been restated for comparative purposes. Based on the above changes, the Company has six reportable segments, as follows:

Original Equipment – Asia
Comprised of vehicular and industrial original equipment products in Asia.

Original Equipment – Europe
Comprised of vehicular and industrial original equipment products in Europe.

Original Equipment – North America
Comprised of vehicular and industrial original equipment products in North America.

South America
Comprised of vehicular and industrial original equipment products and aftermarket products in South America.

Commercial Products
Comprised of building heating, ventilating and air conditioning products throughout the world.

Fuel Cell
Comprised of global fuel cell products.

Each Modine segment is managed at the regional vice-president or managing director level and has separate financial results reviewed by the Company's chief operating decision makers. These results are used by management in evaluating the performance of each business segment, and in making decisions on the allocation of resources among the Company's various businesses. The segment results include certain allocations of Corporate selling, general and administrative expenses, and the significant accounting policies of the segments are the same as those of Modine as a whole.

In addition, the segment data is presented on a continuing operations basis, except where noted.

The following is a summary of net sales, earnings (loss) from continuing operations and total assets by segment:

	Three months ended September 26		Six months ended September 26	
	2007	**2006**	**2007**	**2006**
Sales :				
Original Equipment - Asia	$ 62,916	$ 42,018	$ 134,082	$ 97,951
Original Equipment - Europe	168,414	135,669	345,820	282,855
Original Equipment - North America	119,744	179,645	247,894	351,823
South America	33,561	21,570	62,172	29,528
Commercial Products	50,896	49,953	95,171	89,312
Fuel Cell	868	493	1,307	1,410
Segment sales	436,399	429,348	886,446	852,879
Corporate and administrative	839	1,343	2,140	2,396
Eliminations	(5,744)	(3,108)	(13,019)	(5,774)
Sales from continuing operations	$ 431,494	$ 427,583	$ 875,567	$ 849,501
Operating earnings (loss):				
Original Equipment - Asia	$ (731)	$ (3,733)	$ 164	$ (2,726)
Original Equipment - Europe	17,006	14,494	40,974	33,682
Original Equipment - North America	(4,197)	13,906	(3,154)	32,038
South America	3,957	715	6,224	1,230
Commercial Products	4,128	2,132	5,775	3,882
Fuel Cell	(201)	(685)	(852)	(724)
Segment earnings	19,962	26,829	49,131	67,382
Corporate and administrative	(12,732)	(19,323)	(25,694)	(35,011)
Eliminations	15	(49)	56	(29)
Other items not allocated to segments	(2,818)	(1,006)	(1,478)	(1,477)
Earnings from continuing operations before income taxes	$ 4,427	$ 6,451	$ 22,015	$ 30,865

	September 26, 2007	March 31, 2007
Assets:		
Original Equipment - Asia	$ 175,213	$ 163,836
Original Equipment - Europe	397,258	369,374
Original Equipment - North America	242,525	244,942
South America	90,957	76,367
Commercial Products	107,975	97,619
Fuel Cell	1,022	1,007
Corporate and administrative	155,530	148,425
Assets held for sale	14,790	18,537
Eliminations	(16,307)	(18,534)
Total assets	$ 1,168,963	$ 1,101,573

Note 19: Contingencies and Litigation

Market risks: The Company sells a broad range of products that provide thermal solutions to a diverse group of customers operating primarily in the automotive, truck, heavy equipment and commercial heating and air conditioning markets. A sustained economic downturn in any of these markets, particularly a further decline in the North American truck market, could have a material adverse effect on the future results of operations and potentially result in the impairment of related assets.

Environmental: At present, the United States Environmental Protection Agency has designated the Company as a potentially responsible party for remediation of four waste disposal sites with which the Company may have had direct or indirect involvement. These sites are not Company owned and allegedly contain wastes attributable to Modine from past operations. The percentage of material attributable to Modine is relatively low. These claims are in various stages of administrative or judicial proceedings and include recovery of past governmental costs and for future investigations and remedial actions. The Company's potential liability is not expected to be material at these sites based upon Modine's relatively small portion of contributed waste.

The Company has other environmental cleanup and remediation exposure for certain facilities located in the United States and The Netherlands. These exposures relate to facilities where past operations followed practices and procedures that were considered acceptable under then existing regulations, but will now require investigative and/or remedial work to ensure sufficient environmental protection.

Other Litigation: The Company, along with Rohm & Haas Company and Morton International, is named as a defendant in twenty-two separate personal injury actions that were filed in the Philadelphia Court of Common Pleas ("PCCP"), including four cases filed during the second quarter of fiscal 2008, and in a class action matter filed in the United States District Court, Eastern District of Pennsylvania. The PCCP cases involve allegations of personal injury from exposure to solvents that were allegedly released to groundwater and air for an undetermined period of time. The federal court action seeks damages for medical monitoring and property value diminution for a putative class of residents of a community that are allegedly at risk for personal injuries as a result of exposure to this same allegedly contaminated groundwater and air. Plaintiffs' counsel has threatened to file further personal injury cases. The Company is in the discovery stage and intends to aggressively defend these cases.

In June 2004, the Servicio de Administracion Tributaria in Nuevo Laredo, Mexico, where the Company operates a plant in its Commercial Products segment, notified the Company of a tax assessment based primarily on the administrative authority's belief that the Company (i) imported goods not covered by the Maquila program and (ii) that it imported goods under a different tariff classification than the ones approved. The Company filed a Nullity Tax Action with the Federal Tax Court (Tribunal Federal de Justicia Fiscal y Adminstrativa) in Monterrey, Mexico, and received a favorable ruling from the Federal Tax Court in the second quarter of fiscal 2008. The ruling of the Federal Tax Court has been appealed by the Servicio de Administracion Tributaria.

In the normal course of business, Modine and its subsidiaries are named as defendants in various other lawsuits and enforcement proceedings by private parties, the Occupational Safety and Health Administration, the Environmental Protection Agency, other governmental agencies and others in which claims, such as personal injury, property damage, intellectual property or antitrust and trade regulation issues, are asserted against Modine.

If a loss arising from the environmental and other litigation matters discussed above is probable and can reasonably be estimated, the Company records the amount of the estimated loss, or the minimum estimated liability when the loss is estimated using a range, and no point within the range is more likely than another. The undiscounted reserves for these matters totaled $3,044 and $1,424 at September 26, 2007 and March 31, 2007, respectively. The Company recorded additional reserves of $300, net of insurance recoveries, for the three and six months ended September 26, 2007. No additional reserves were recorded during the three and six months ended September 26, 2006. Many of these matters are covered by various insurance policies, however the Company does not record any insurance recoveries until these are realized or realizable. As additional information becomes available, any potential liability related to these matters is assessed and the estimates are revised, if necessary. Based on currently available information, Modine believes that the ultimate outcome of these matters, individually and in the aggregate, will not have a material adverse effect on the financial position or overall trends in results of operations. However, these matters are subject to inherent uncertainties, and unfavorable outcomes could occur, including monetary damages. If an unfavorable outcome were to occur, there exists the possibility of a material adverse impact on the results of operations of the period in which the outcome occurs.

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

When we use the terms “Modine”, “we”, “us”, “Company”, or “our” in this report, unless the context otherwise requires, we ar referring to Modine Manufacturing Company. Our fiscal year ends on March 31 and, accordingly, all references to quarters refer to our fiscal quarters. The quarter ended September 26, 2007 refers to the second quarter of fiscal 2008. Our subsidiaries located outside of the United States primarily report results with a one month lag.

Second Quarter Highlights: Net sales in the second quarter of fiscal 2008 were $431.5 million, representing a 0.9 percent increase from the second quarter of fiscal 2007. The growth in revenues was driven by strength in our European, Asian and South American operations, as well as the positive impact of foreign currency exchange rate changes as the U.S. dollar has weakened during the second quarter of fiscal 2008. These increased revenues were largely offset by a 33 percent reduction in North American sales volumes based on decreased build rates in the heavy duty truck market, and to a lesser extent the medium duty truck market, following the January 1, 2007 emissions law changes. While we anticipated a cyclical reduction in North American truck volumes due to the pre-buy activity which preceded the emissions law change, the reduction in build rates has been greater than anticipated, and does not appear to be rebounding as quickly as originally anticipated. Earnings from continuing operations increased $4.2 million from the second quarter of fiscal 2007, due to the following offsetting factors:

- The decline in the high margin North American truck volumes, as well as operating inefficiencies experienced in our North American business as we continue to realign our manufacturing operations, were the primary factors driving a 1.4 percentage point decline in gross margin from the second quarter of fiscal 2007;
- We adopted an amendment to freeze our pension plan and sold a corporate aircraft during the second quarter of fiscal 2008, both contributing to the overall decrease of $3.6 million in selling, general and administrative (SG&A) expenses; and
- Our effective tax rate decreased significantly due to legislation which reduced the tax rate by 10 percentage points in Germany, as well as an overall change in the earnings mix across the Company’s tax jurisdictions.

Year to Date Highlights: Net sales in the first six months of fiscal 2008 were $875.6 million, representing a 3.1 percent increase from the first six months of fiscal 2007. During the first six months of fiscal 2008, we experienced strong revenues in our operations outside North America, especially within Europe, Asia and South America. In addition, the benefits of the weak U.S. dollar over this six month period also contributed to the growth in these foreign revenues. Partially offsetting these strong revenues was a decrease in North American revenues based on the substantial reduction in North American truck build rates. Earnings from continuing operations decreased $4.4 million from the first six months of fiscal 2007, largely driven by changes in our product mix toward lower margin products with the reduction in North American truck volumes.

CONSOLIDATED RESULTS OF OPERATIONS – CONTINUING OPERATIONS

The following table presents consolidated results from continuing operations on a comparative basis for the three and six months ended September 26, 2007 and 2006:

	Three months ended September 26				**Six months ended September 26**			
	2007		2006		**2007**		2006	
(dollars in millions)	**$'s**	**% of sales**	$'s	% of sales	**$'s**	**% of sales**	$'s	% of sales

Net sales	**431.5**	**100.0%**	427.6	100.0%	**875.6**	**100.0%**	849.5	100.0%
Cost of sales	**368.8**	**85.5%**	359.6	84.1%	**741.9**	**84.7%**	703.4	82.8%
Gross profit	**62.7**	**14.5%**	68.0	15.9%	**133.7**	**15.3%**	146.1	17.2%
Selling, general and administrative expenses	**55.6**	**12.9%**	59.2	13.8%	**110.5**	**12.6%**	112.3	13.2%
Restructuring (income) expense	**(0.1)**	**0.0%**	1.4	0.3%	**(0.3)**	**0.0%**	1.5	0.2%
Income from operations	**7.2**	**1.7%**	7.4	1.7%	**23.5**	**2.7%**	32.3	3.8%
Interest expense	**(2.9)**	**-0.7%**	(2.4)	-0.6%	**(5.8)**	**-0.7%**	(4.4)	-0.5%
Other income - net	**0.1**	**0.0%**	1.4	0.3%	**4.3**	**0.5%**	3.0	0.4%
Earnings from continuing operations before income taxes	**4.4**	**1.0%**	6.4	1.5%	**22.0**	**2.5%**	30.9	3.6%
(Benefit from) provision for income taxes	**(5.5)**	**-1.3%**	0.7	0.2%	**(0.3)**	**0.0%**	4.2	0.5%
Earnings from continuing operations	**9.9**	**2.3%**	5.7	1.3%	**22.3**	**2.5%**	26.7	3.1%

Comparison of Three Months Ended September 26, 2007 and 2006

Second quarter net sales of $431.5 million were $3.9 million higher than the $427.6 million reported in the second quarter of fiscal 2007. The increase in revenues was driven by a $65.6 million improvement in revenues in our European, Asian and South American businesses based on continued strength within these regions, which includes $16.8 million of favorable foreign currency exchange rate changes. Largely offsetting these increases was declining revenues in North America based on decreased build rates in the truck market.

During the second quarter of fiscal 2008, gross margin decreased 140 basis points from 15.9 percent for last year's second quarter to 14.5 percent in the second quarter of this year. The decrease in gross margin is related to a shift in our product mix toward lower margin products in Europe, Asia and South America and away from higher margin truck products in North America. In addition, the manufacturing realignment currently in progress in North America, including the process of closing four plants and the consolidation and launch of products lines, resulted in operating inefficiencies during the second quarter of fiscal 2008 which caused margin pressure. We achieved year-over-year net positive results in materials pricing for the first time in three years, as commodity costs stabilized while we continued to pass through material price increases to various customers during the second quarter of fiscal 2008.

SG&A expenses decreased $3.6 million from the second quarter of fiscal 2007 to the second quarter of fiscal 2008. During the second quarter of fiscal 2008, we announced an amendment to freeze the salaried portion of our pension plan, and we sold one of our corporate aircraft. These events contributed approximately $8 million toward the reduction in SG&A. Partially offsetting these decreases was $1.7 million of higher SG&A costs due to the impact of foreign currency exchange rate changes.

Restructuring income and expenses is primarily comprised of severance costs incurred under our global competitiveness plan which was initiated during fiscal 2007. We recorded income of $0.1 million during the second quarter of fiscal 2008, which represents reversals of previously established severance accruals upon employee terminations prior to the completion of required retention periods. During the second quarter of fiscal 2007, $1.4 million of restructuring expense was recorded upon the announcement of activities under our global competitiveness plan.

Income from operations remained relatively consistent at $7.2 million in the second quarter of fiscal 2008 and $7.4 million in the second quarter of fiscal 2007. The reduction in gross profit and margin were primarily offset by the improvement in SG&A expenses and restructuring costs.

Other income decreased $1.3 million from the second quarter of fiscal 2007 to the second quarter of fiscal 2008. The reduction in other income was primarily related to foreign currency transaction losses recorded in the second quarter of fiscal 2008 on the intercompany loans with Modine do Brasil Sistemas Tesmicos, Ltda. (Modine Brazil).

During the second quarter of fiscal 2008, we recorded a $5.5 million benefit from income taxes, as compared to a $0.7 million provision for income taxes recorded during the second quarter of fiscal 2007. This represents a reduction in effective income tax rate from 10.2 percent in the prior year to -124.3 percent in the current year. During the second quarter of fiscal 2008, Germany passed legislation which reduced the tax rate by 10 percentage points within that country. This reduced income tax rate in Germany significantly contributed to the year-over-year reduction in effective tax rate. In addition, the changing mix of earnings toward lower tax rate foreign jurisdictions in combination with taxable losses being generated in the United States also contributed to the reduction in the effective tax rate.

Earnings from continuing operations increased $4.2 million from the second quarter of fiscal 2007 to the second quarter of fiscal 2008. In addition, diluted earnings per share from continuing operations increased from $0.18 per share to $0.31 per share over this same period. These improvements were primarily related to the significant reduction in the effective tax rate during the second quarter of fiscal 2008.

Comparison of Six Months Ended September 26, 2007 and 2006

Fiscal 2008 year to date net sales of $875.6 million were $26.1 million higher than the $849.5 million reported in the same period last year. The increase in revenues was driven by a $131.7 million improvement in revenues in our European, Asian and South American businesses, which includes $33.5 million of favorable foreign currency exchange rate changes. Partially offsetting these increases was a 30 percent decrease in North American revenues based on reduced build rates in the truck market.

Fiscal 2008 year to date gross margin decreased to 15.3 percent from 17.2 percent reported in the same period last year. The decrease in gross margin is primarily related to a shift in our product mix toward lower margin products in Europe, Asia and South America and away from higher margin truck products in North America. In addition, operating inefficiencies in our North American operations during the second quarter of fiscal 2008 contributed to the reduction in gross margin. Materials pricing was slightly negative on a year to date basis in fiscal 2008, with net negative results in the first quarter being partially offset with net positive results in the second quarter.

Fiscal 2008 year to date SG&A expenses decreased $1.8 million from the same period last year. The income generated from the second quarter fiscal 2008 amendment to freeze the salaried portion of our pension plan and sale of a corporate aircraft were partially offset by $3.1 million of higher SG&A costs due to the impact of foreign currency exchange rate changes.

Fiscal 2008 year to date restructuring income of $0.3 million represents reversals of previously established severance accruals upon employee terminations prior to the completion of required retention periods. During the same period last year, $1.5 million of restructuring expense was recorded upon the announcement of activities under our global competitiveness plan.

Fiscal 2008 year to date interest expense increased $1.4 million over the same period last year, based on increased borrowings in fiscal 2008 as we fund working capital requirements and capital expenditures.

Fiscal 2008 year to date other income increased $1.3 million over the same period last year. Foreign currency transaction gains recorded in the first quarter of fiscal 2008 were partially offset by foreign currency transaction losses recorded in the second quarter of fiscal 2008.

During the first six months of fiscal 2008, we recorded a $0.3 million benefit from income taxes, as compared to a $4.2 million provision for income taxes recorded during the first six months of fiscal 2007.

This represents a reduction in effective income tax rate from 13.5 percent in the prior year to -1.4 percent in the current year. The 10 percentage point reduction in income tax rate in Germany during the second quarter of fiscal 2008 significantly contributed to the year-over-year reduction in effective tax rate. In addition, the changing mix of earnings toward lower tax rate foreign jurisdictions in combination with taxable losses being generated in the United States also contributed to the reduction in effective tax rate. During the first six months of fiscal 2007, we recognized a $3.6 million tax benefit related to net operating losses in Brazil that were previously unavailable to us, but which became available in connection with the first quarter acquisition of Modine Brazil and tax restructuring of the Brazilian operation.

Earnings from continuing operations decreased $4.4 million from the first six months of fiscal 2007 to the first six months of fiscal 2008. In addition, diluted earnings per share from continuing operations decreased from $0.83 per share to $0.69 per share over this same period. The decrease in operating income, partially offset by the benefit from income taxes, were the primary drivers of these decreases.

DISCONTINUED OPERATIONS

During the first quarter of fiscal 2008, we announced the intention to explore strategic alternatives for our Electronics Cooling business, and we are currently marketing this business for sale. At September 26, 2007, $14.8 million of assets and $3.6 million of liabilities for this business have been presented as held for sale in the consolidated balance sheet. In addition, the Electronics Cooling business continues to be presented as a discontinued operation. As a result of this presentation, the net earnings related to this business of $0.1 million and $6.6 million for the three months ended September 26, 2007 and 2006, respectively, and $0.4 million and $2.0 million for the six months ended September 26, 2007 and 2006, respectively, have been separately presented in the consolidated statements of earnings as a component of earnings from discontinued operations (net of income taxes). The reduction in the quarterly and year to date earnings of this business was related to a tax benefit of $8.0 million which was recorded in the second quarter of fiscal 2007 based on the determination that the investment in the Taiwan portion of the Electronics Cooling Business had become worthless. No similar tax benefit was recorded during fiscal 2008. The fiscal 2007 tax benefit was partially offset by operating losses in the business during the first six months of fiscal 2007. During the first six months of fiscal 2008, the Electronics Cooling business has generated a significantly improved gross margin and positive earnings.

The following table presents the quarterly and annual results of the Electronics Cooling business reported during fiscal 2007 and fiscal 2006, which will be separately presented as a component of earnings (loss) from discontinued operations in future quarterly and annual filings (amounts in thousands):

Fiscal 2007 Quarter Ended				Fiscal 2007	Fiscal 2006
June	**Sept.**	**Dec.**	**March**	**Full Year**	**Full Year**