MODINE MANUFACTURING CO
Form 10-K
May 30, 2014

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

FORM 10-K

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

For the fiscal year ended March 31, 2014

or

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

For the transition period from _____ to _____

Commission file number 1-1373

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

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.625 par value	New York Stock Exchange

Securities Registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes o No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was

required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes þ No o

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10 K or any amendment to this Form 10 K. þ

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

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

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

Approximately 97 percent of the outstanding shares are held by non-affiliates. The aggregate market value of these shares was approximately $675 million based upon the market price of $14.63 per share on September 30, 2013, the last day of our most recently completed second fiscal quarter. Shares of common stock held by each executive officer and director and by each person known to beneficially own more than 10 percent of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. The determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares outstanding of the registrant's common stock, $0.625 par value, was 47,661,058 at May 22, 2014.

An Exhibit Index appears at pages 78-80 herein.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents are incorporated by reference into the parts of this Form 10 K designated to the right of the document listed.

Incorporated Document	Location in Form 10-K
Proxy Statement for the 2014 Annual Meeting of Shareholders	Part III of Form 10-K (Items 10, 11, 12, 13, 14)

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PART I

ITEM 1. BUSINESS.

Modine Manufacturing Company ("Modine" or "the Company") specializes in thermal management systems and components, bringing heating and cooling technology and solutions to diversified global markets. We are a leading global developer, manufacturer and marketer of heat exchangers and systems for use in on-highway and off-highway original equipment manufacturer ("OEM") vehicular applications, and to a wide array of building, industrial and refrigeration markets. Product lines include radiators and radiator cores, condensers, oil coolers, charge air coolers, heat-transfer modules and assemblies, exhaust gas recirculation ("EGR") coolers, and building heating, ventilating and air conditioning ("HVAC") equipment. Our primary customers across the globe are:

- Automobile, truck, bus, and specialty vehicle OEMs;
- Agricultural, industrial and construction equipment OEMs;
- Heating and cooling OEMs;
- Construction architects and contractors; and
- Wholesalers of heating equipment.

We focus our development efforts on solutions that meet the pressing heat transfer needs of OEMs and other customers within the automobile, commercial vehicle, construction, agricultural, industrial and commercial HVAC industries. Our products and systems typically are aimed at solving complex heat transfer challenges requiring effective thermal management. Typical customer and market demands include products and systems that are lighter weight, more compact, more efficient and more durable to meet customer standards as they work to ensure compliance with increasingly stringent global emissions, fuel economy and energy efficiency requirements. Our Company's heritage provides a depth and breadth of expertise in thermal management, which, when combined with our global manufacturing presence, standardized processes, and state-of-the-art technical resources, enables us to rapidly bring highly valued, customized solutions to our customers.

History

Modine was incorporated under the laws of the State of Wisconsin on June 23, 1916 by its founder, Arthur B. Modine. Mr. Modine's "Turbotube" radiators became standard equipment on the famous Ford Motor Company Model T. When he died at the age of 95, A.B. Modine had personally been granted a total of 120 U.S. patents for his heat transfer innovations. The standard of innovation exemplified by A.B. Modine remains the cornerstone of Modine today.

Terms and Year References

When we use the terms "Modine," "we," "us," the "Company," or "our" in this report, unless the context otherwise requires, w are referring to Modine Manufacturing Company. Our fiscal year ends on March 31 and, accordingly, all references to a particular year mean the fiscal year ended March 31 of that year, unless indicated otherwise.

Business Strategy and Results

Modine focuses on thermal management leadership and highly engineered product and service innovations for diversified, global markets and customers. We are committed to enhancing our presence around the world and serving our customers where they are located. We create value by focusing on customer partnerships and providing innovative solutions for our customers' thermal management problems.

Modine's strategy for improved profitability is grounded in diversifying our markets and customer base, differentiating our products and services, both technically and commercially, and partnering with customers to deliver the right

products in the right markets. Modine's top five customers are in three different markets – automotive, truck, and off-highway – and our ten largest customers accounted for 56 percent of our fiscal 2014 sales, compared to 59 percent in fiscal 2013. In fiscal 2014, 66 percent of total sales were generated from customers outside of the U.S., 56 percent of which were generated by Modine's foreign operations and 10 percent of which were generated by exports from the U.S. In fiscal 2013, 61 percent of total sales were generated from customers outside of the U.S., with 54 percent generated by foreign operations and 7 percent generated by exports from the U.S. In fiscal 2012, 64 percent of total sales were generated from customers outside of the U.S., with 58 percent generated by foreign operations and 6 percent generated by exports from the U.S.

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During fiscal 2014, the Company reported consolidated net sales of $1.48 billion, a 7 percent increase from $1.38 billion in fiscal 2013. Sales volume increases were seen across most of Modine's end markets, including, in particular, the commercial vehicle and automotive markets. Gross profit increased $29.6 million from $208.6 million in fiscal 2013 to $238.2 million in fiscal 2014, primarily as a result of sales volume improvements and favorable material costs year over year. Selling, general and administrative ("SG&A") expenses increased $15.4 million from fiscal 2013 to $181.7 million, primarily due to higher compensation-related expenses.

The Company has entered its final stages of its Europe restructuring program, which was initiated during fiscal 2013. Since the commencement of the Europe restructuring program, the Company has recorded $26.1 million of asset impairment charges and $28.6 million of employee severance costs. During the fourth quarter of fiscal 2014, the Company approved the planned closure of its McHenry, Illinois manufacturing facility within its North America segment. This measure reflects the Company's focus on operating scale manufacturing facilities to improve overall competitiveness and profitability.

Operating income improved $37.8 million from fiscal 2013, primarily due to increased gross profit and lower impairment charges, partially offset by higher SG&A expenses. In addition, at March 31, 2014, the Company reversed $119.2 million of its income tax valuation allowance as the need for a valuation allowance on certain U.S. deferred tax assets was eliminated. This reversal drove a significant benefit from income taxes of $107.9 million during fiscal 2014. As a result of the large income tax benefit and improved operating income, net earnings were $131.9 million, or $2.72 per diluted share during fiscal 2014. These results compare to a net loss of $22.8 million, or $0.52 per diluted share during fiscal 2013.

A key metric by which the Company measures its performance is return on average capital employed ("ROACE"). ROACE is defined as operating income, less impairment charges, restructuring expenses, certain other adjustments, income tax at a 30 percent rate, and earnings attributable to noncontrolling interest; divided by the average of debt plus Modine shareholders' equity. The Company has established a long-term goal of achieving ROACE of 15 percent. ROACE is not a measure derived under generally accepted accounting principles ("GAAP") and should not be considered as a substitute for any measure derived in accordance with GAAP. Management believes that ROACE provides investors with helpful information about the Company's performance, its ability to provide an acceptable return on capital, and its ability to fund future growth. This measure may be inconsistent with similar measures presented by other companies. The following schedule provides a reconciliation of ROACE to the most directly comparable financial measures calculated and presented in accordance with GAAP:

	Fiscal 2014	Fiscal 2013
Operating income (loss)	$37.2	$(0.6)
Restructuring expenses	16.1	17.0
Impairment charges	3.2	25.9
Other adjustments (a)	4.8	-
Subtotal	61.3	42.3
Tax applied at 30% rate	(18.4)	(12.7)
Noncontrolling interest	(1.5)	(1.4)
Operating income - adjusted	$41.4	$28.2
Divided by:		
Average capital (debt + Modine shareholders' equity for the last two year-ends / divided by 2)	$509.3	$459.3
ROACE	8.1 %	6.1 %

(a)

Other adjustments primarily consist of $4.3 million of accelerated depreciation related to production equipment that is no longer used in Germany because of manufacturing process changes.

ROACE increased from 6.1 percent in fiscal 2013 to 8.1 percent in fiscal 2014. This increase was primarily due to improved earnings, partially offset by an increase in average capital employed. The reversal of the income tax valuation allowance on certain U.S. deferred tax assets contributed to the increase in average capital employed.

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Products

The Company offers a broad line of products that are categorized as a percentage of net sales as follows:

	Fiscal 2014		Fiscal 2013	
Modules/Assemblies*	26	%	26	%
Oil Coolers	15	%	14	%
EGR Coolers	12	%	10	%
Building HVAC	11	%	11	%
Charge Air Coolers	11	%	12	%
Condensers	9	%	9	%
Radiators	9	%	10	%
Other	7	%	8	%

*Typically include components such as radiators, oil coolers, charge air coolers, condensers and other purchased components.

Competitive Position

We compete with many manufacturers of heat transfer and HVAC products, some of which are divisions of larger companies. The markets for the Company's products are increasingly competitive and have changed significantly in the past few years. The Company's traditional OEM customers in the U.S. and Europe are faced with dramatically increased international competition and have expanded their worldwide sourcing of parts to compete more effectively with lower cost imports and have expanded their global footprint to compete in local markets. Some of these market changes have caused the Company to experience competition from suppliers in other parts of the world that enjoy economic advantages such as lower labor costs, lower healthcare costs, and lower tax rates. As a result, we have expanded our geographic footprint, in part to allow us to more flexibly serve our OEM customers across the globe. Our customers also continue to ask us, as well as their other primary suppliers, to provide research and development ("R&D"), design, and validation support in new potential projects. This combined work effort often results in stronger customer relationships and more partnership opportunities for the Company. It can also introduce risk to the extent that these requests come at a time when actual business awards are undefined.

Business Segments

The Company has assigned specific businesses to a segment based principally on defined markets and geographic locations. Each operating segment is managed by a vice president or managing director and has separate financial results reviewed by the Company's chief operating decision maker. These results are used by management in evaluating the performance of each business segment and in making decisions on the allocation of resources among our various businesses. Financial information related to the Company's operating segments is included in Note 21 of the Notes to Consolidated Financial Statements.

North America, South America, Europe, and Asia Segments

The continued globalization of the Company's OEM customer base has led to the necessity of viewing Modine's strategic approach, product offerings and competitors on a global basis. This trend offers significant opportunities for Modine with its market positioning, including presence in key global markets (U.S., Europe, Brazil, China, India, South Korea, Japan, Russia, and Mexico) and a global product-based organization with expertise to solve technical challenges. Modine is recognized as having strong technical support, product breadth and the ability to support global standard designs for its customers.

The Company's main competitors, AKG Group, Mahle Behr, Dana Corporation, BorgWarner, Visteon Corporation, Denso Corporation, Delphi Corporation, T.Rad Co. Ltd., Tata Toyo, Valeo SA and TitanX, have a multi-regional or worldwide presence. Increasingly, the Company faces heightened competition as these competitors expand their product offerings and manufacturing footprints through expansion into low cost countries and low cost country sourcing initiatives. In addition, competitors from some of the low cost regions are expanding their presence in OEM markets in their home countries and abroad.

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The North America, South America, Europe, and Asia segments represent the Company's original equipment segments and serve the following markets:

Commercial Vehicle

Products – Powertrain cooling (engine cooling modules, radiators, charge air coolers, condensers, oil coolers, fan shrouds, and surge tanks); on-engine cooling (EGR coolers, engine oil coolers, fuel coolers, charge air coolers and intake air coolers); and auxiliary coolers (transmission and retarder oil coolers and power steering coolers)

Customers – Commercial, medium- and heavy-duty truck and engine manufacturers; bus and specialty vehicle manufacturers

Market Overview – After a slow start in fiscal 2014, the North America commercial vehicle market is starting to show signs of improvement. During the first half of fiscal 2014, North America truck makers paced their production to keep backlog in line with low order volumes. Freight fundamentals suggest solid underlying freight demand and improved profits for truck fleets, although these gains may be offset by the introduction of new government regulations. New trucks in the U.S., Canada, and the Eurozone are notably more expensive, but have improved fuel economy. Truck buyers making initial capital outlays will expect to begin experiencing improved fuel economy and reduced fuel expenses. As fleets become accustomed to this paradigm shift, orders are expected to increase. These market conditions, coupled with older truck fleets and tight shipping capacity, are expected to result in year over year increases in North America truck production. Following the pre-buy of Euro 5 truck platforms in Europe during fiscal 2014, we anticipate slower commercial vehicle orders of the new Euro 6 platform during the first part of fiscal 2015, partially offset by improved economic conditions.

Other trends influencing the market include a recent call by global commercial vehicle manufacturers to standardize U.S., Canada, and Eurozone emission regulations. If the global truck OEMs are successful, this will lead to further consolidation of our customer base and competitors as they leverage higher volumes, consolidate development costs, and rationalize distribution channels. Additionally, truck makers are looking to alternative powertrains and fuels, vehicle electrification, waste heat recovery and other technologies to improve fuel economy.

OEMs continue to expect greater supplier support and seek new technology solutions at a competitive price for their thermal management needs. In general, this creates a challenge to the supply base, but it is also an opportunity for suppliers who develop effective solutions.

Global standardization, fuel economy and emissions regulations are driving the advancement of product development worldwide and creating demand for incremental thermal transfer products that Modine is well positioned to support.

Primary Competitors – Mahle Behr; TitanX; T.Rad Co. Ltd.; BorgWarner; and Tata Toyo

Off-Highway

Products – Powertrain cooling (engine cooling modules, radiators, condensers, charge air coolers, fuel coolers, oil coolers); auxiliary coolers (power steering coolers and transmission oil coolers); and on-engine cooling (EGR coolers, engine oil coolers, fuel coolers, charge air coolers and intake air coolers)

Customers – Construction, agricultural, and mining equipment and engine manufacturers and industrial manufacturers of material handling equipment, generator sets and compressors

Market Overview – The U.S. agricultural market has recently been at relatively high levels. Concerns going forward include higher used equipment inventories suppressing new equipment sales, lower commodity prices, the absence of

tax benefits, and expected higher interest rates. We expect the global agricultural market to recede slightly as well. Many mining equipment buyers continued to cut capital investment plans as it appears this market is progressing through a multiple year cycle of demand declines. Mining equipment markets were flat-to-depressed in fiscal 2014, but we anticipate some improvement later in fiscal 2015, especially in the U.S. The construction market is mixed by region and segment; we expect a year over year improvement in Europe as the Eurozone economic conditions improve.

Overall market trends include a migration toward global machine platforms, driving the multi-region assembly of a common design platform. OEMs often prefer global suppliers with local production capabilities. Modine is recognized as having strong technical support, product breadth, and the ability to support global standard designs and local manufacturing operations for its customers.

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Primary Competitors – Adams Thermal Systems Inc.; AKG Group; Denso Corporation; Zhejiang Yinlun Machinery Co., Ltd.; ThermaSys Corp.; Doowon; Donghwan; TRad Co. Ltd.; Mahle Industrial Thermal Systems; KALE OTO RADYATÖR; and RAAL

Automotive

Products – Powertrain cooling (engine cooling assemblies, radiators, condensers, charge air coolers, auxiliary cooling (power steering coolers and transmission oil coolers), component assemblies, radiators for special applications), on-engine cooling (EGR coolers, engine oil coolers, fuel coolers, charge air coolers and intake air coolers); and battery cooling (layered core battery chillers)

Customers – Automobile, light truck, and motor sport vehicle and engine manufacturers

Market Overview – The automotive market improved as we progressed through fiscal 2014 and we expect to see that trend continue in fiscal 2015. Structurally, the automotive market is beginning to move away from traditional internal combustion engines to alternative powertrains such as electric, hybrid, or fuel cell. This shift increases the thermal requirements for these vehicles and Modine has positioned itself to capitalize on this by applying new product platforms in response. We expect our global automotive market production to increase in fiscal 2015 if Eurozone economic conditions improve and China volumes increase with new product launches.

Primary Competitors – Mahle Behr; Dana Corporation; Delphi Corporation; Denso Corporation; Visteon Corporation; Showa; BorgWarner; and Valeo SA

Commercial Products

Products – Unit heaters (gas-fired, hydronic, electric and oil-fired); duct furnaces (indoor and outdoor); infrared units (high intensity and low intensity); hydronic products (commercial fin-tube radiation, cabinet unit heaters, and convectors); roof mounted direct- and indirect-fired makeup air units; commercial packaged rooftop ventilation units; unit ventilators; single packaged vertical units; geothermal and water-source heat pumps; precision air conditioning units for data center applications; air-handling units; chillers; ceiling cassettes; and condensing units

Customers – Mechanical contractors; HVAC wholesalers; installers; and end users in a variety of commercial and industrial applications, including banking and finance, data center management, education, hospitality, telecommunications, entertainment arenas, hotels, restaurants, hospitals, warehousing, manufacturing, and food and beverage processing

Market Overview – The North American heating market experienced significant volume increases during fiscal 2014, driven by a prolonged, severely cold winter and a slowly improving economy. We expect the North American heating market to decline slightly in fiscal 2015, however, unless another extremely cold winter is experienced. We anticipate market demand for our data center cooling, ventilation, and geothermal heat pump products to increase in fiscal 2015. Continued growth in global computing power, coupled with increasing requirements for energy efficiency and green solutions, will continue to drive increased demand for our data center cooling products, especially our high-density and free-cooling solutions. Likewise, a steadily-improving economy, improvement in construction markets, and energy efficiency legislation is expected to drive increased demand for our ventilation and geothermal products.

Primary Competitors – Lennox International Inc. (ADP); ABB (Reznor); Mestek Inc. (Sterling); Emerson Electric Company (Liebert); Stulz; Schneider Electric (APC / Uniflair); Johnson Controls, Inc. (York); Daikin (McQuay International); Bard Manufacturing; and Aaon, Inc.

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Geographical Areas

We maintain administrative organizations in four regions - North America, South America, Europe, and Asia - to facilitate customer support, development and testing, and other administrative functions. We operate in the following countries:

North America	South America	Europe	Asia/Pacific	Middle East/Africa
United States	Brazil	Austria	China	Dubai
Mexico		Germany	India	South Africa
		Hungary	Japan	
		Italy	South Korea	
		The Netherlands		
		Russia		
		United Kingdom		

Our non-U.S. subsidiaries and affiliates manufacture and sell a number of vehicular and industrial products similar to those produced in the U.S. In addition to normal business risks, operations outside the U.S. are subject to other risks such as changing political, economic and social environments, changing governmental laws, taxes and regulations, foreign currency volatility, and market fluctuations.

Exports

The Company exports products from North America to foreign countries. Export sales from the U.S. as a percentage of net sales were 10 percent for fiscal 2014, 7 percent for fiscal 2013, and 6 percent for fiscal 2012.

Modine believes its international presence has positioned the Company to share profitably in the anticipated long-term growth of the global vehicular, commercial, industrial, and building HVAC markets. Modine is committed to increasing its involvement and investment in international markets in the years ahead.

Foreign and Domestic Operations

Financial information relating to the Company's foreign and domestic operations is included in Note 21 of the Notes to Consolidated Financial Statements.

Customer Dependence

The Company’s ten largest customers accounted for 56 percent of the Company's sales in fiscal 2014. These customers, listed alphabetically, were: BMW; Caterpillar; Daimler AG; Deere & Company; Denso Corporation; Ford Motor Co.; MAN SE; Navistar; Volkswagen AG; and Volvo. In fiscal 2014 and 2013, Daimler AG was the only customer that accounted for 10 percent or more of total Company sales. In fiscal 2012, no one customer accounted for 10 percent or more of total Company sales. Generally, products are supplied to our customers on the basis of individual purchase orders received from them. When it is in the customer's and the Company's best interests, the Company utilizes long term sales agreements to minimize investment risks and provide the customer with a proven source of competitively priced products. These contracts are, on average, three years in duration and may include built-in pricing adjustments.

Backlog of Orders

The Company's operating units maintain their own inventories and production schedules. We believe that our current production capacity is capable of handling the sales volume expected in fiscal 2015 and beyond.

Raw Materials

Aluminum, nickel and steel are purchased from several domestic and foreign suppliers. In general, the Company does not rely on any one supplier for these materials which are, for the most part, available from numerous sources in quantities required by the Company. The supply of copper and brass material is highly concentrated between two global suppliers. The Company normally does not experience material shortages and believes that our suppliers' production of these metals will be adequate throughout the next fiscal year. Metals pricing with the Company's raw material and major fabricated component suppliers are typically adjusted on a quarterly basis. When possible, we have made material pass-through arrangements with key customers, which allow us to pass material cost increases and decreases to our customers. However, where these pass-through arrangements are utilized, there can be a time lag between the time of the material price increase or decrease and the time of price adjustment. This time lag can range from three months to one year.

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Patents

The Company owns outright or has a number of licenses to produce products under patents. These patents and licenses have been obtained over a period of years and expire at various times. Because the Company has many product lines, it believes that its business as a whole is not materially dependent upon any particular patent or license, or any particular group of patents or licenses. Modine considers each of its patents, trademarks and licenses to be of value and aggressively defends its rights throughout the world against infringement. Modine has been granted and/or acquired more than 2,000 patents worldwide over the life of the Company.

Research and Development

The Company remains committed to its vision of creating value through technology and innovation. We focus our R&D efforts on solutions that meet challenging heat transfer needs of OEMs and other customers within the commercial vehicle, automotive, construction, agricultural, industrial and building HVAC industries. Our products and systems typically are aimed at solving difficult and complex heat transfer challenges requiring advanced thermal management. Typical market demands are for products and systems that are lighter weight, more compact, more efficient and more durable to meet customer standards as customers work to ensure compliance with increasingly stringent global emissions and energy efficiency requirements. Our Company's heritage includes depth and breadth of expertise in thermal management that, combined with our global manufacturing presence, standardized processes, and state-of-the-art technical resources, enables us to rapidly bring customized solutions to customers at the best value.

R&D expenditures were $62 million, $68 million, and $70 million in fiscal 2014, 2013, and 2012, respectively. Over the last three years, R&D expenditures have been between 4 and 5 percent of sales. This level of investment reflects our continued commitment to R&D in an ever-changing market. To achieve efficiencies and lower development costs, Modine's R&D groups work closely with our customers on special projects and system designs. Recent R&D projects have included development of waste heat recovery systems for major U.S.-based engine and truck manufacturers in conjunction with the U.S. Department of Energy to help these manufacturers meet ever-increasing demands for emissions reduction, while simultaneously improving powertrain efficiency and, thus, fuel economy. Other projects include next generation aluminum radiators for the commercial vehicle, agricultural and constructions markets, and EGR technology, which enable our customers to efficiently meet tighter regulatory emissions standards. Most of our current R&D activities are focused on internal development in the areas of powertrain cooling, engine, and building HVAC products. The Company is also involved with several industry, university, and government-sponsored research organizations that conduct research and provide data on technical topics of interest to the Company for practical applications in the markets we serve. During fiscal 2014 and 2013, the Company received reimbursements from government sponsored organizations of $1 million and $2 million, respectively.

We continue to identify, evaluate and engage in external research projects that complement strategic internal research initiatives in order to further leverage the Company's significant thermal technology expertise and capability.

Quality Improvement

Through Modine's global Quality Management System ("QMS"), the manufacturing facilities in our North America, Europe, South America and Asia segments are registered to ISO 9001:2008 or ISO/TS 16949:2009 standards, helping to ensure that our customers receive high quality products and services from every Modine facility. While customer expectations for performance, quality and service have risen continuously over the past years, our QMS has allowed us to drive improvements in quality performance and enabled the ongoing delivery of products and services that meet or exceed customer expectations.

The global QMS operates within the context of the Modine Operating System ("MOS"), which focuses on well-defined improvement principles and leadership behaviors to engage our teams in driving rapid improvements. Sustainable and

systematic continuous improvement is driven throughout all functional areas and operating segments of the organization by the principles, processes and behaviors that are core to these systems.

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Environmental, Health and Safety Matters

Modine is committed to preventing pollution, eliminating waste and reducing environmental risks. The Company's facilities maintain Environmental Management System ("EMS") certification to the international ISO14001 standard through independent third-party audits. All Modine locations have established specific environmental improvement targets and objectives for the coming fiscal year.

In fiscal 2014, Modine's carbon emissions resulting from its on-site use of natural gas and propane, and from its use of electricity generated by off-site sources, decreased by six percent (normalized for sales) compared to the prior year. We will continue to identify and implement carbon reduction opportunities when feasible to do so.

Modine's consumption of water decreased nine percent, saving nine million gallons of water in fiscal 2014. This decrease is a continuation of a sustained improvement over the past six years, during which time the Company's water use has decreased 38 percent. In fiscal 2014, Modine consumed 58 million gallons of water less than it did in fiscal 2008. As in previous years, Modine continues to systematically identify opportunities and implement measures to reduce waste and conserve natural resources within the structure of its EMS.

Modine's commitment to environmental stewardship is reflected in its reporting of chemical releases as monitored by the United States Environmental Protection Agency's Toxic Chemical Release Inventory program. The Company's U.S. locations decreased their reported chemical releases by 97 percent over the 10-year period from 2002 to 2012. This long-term improvement is the result of Modine's improved manufacturing efficiencies and transition to more environmentally friendly manufacturing technologies and raw materials.

Modine's product portfolio reflects its sense of environmental responsibility. The Company continues its development and refinement of environmentally friendly product lines including oil, fuel, and EGR coolers for diesel applications, light weight and high performance powertrain cooling heat exchangers, and its Advanced Cooling System technology. These products provide increased fuel economies and enable combustion technologies that reduce harmful gas emissions. Modine's Commercial Products segment offerings, including the Airedale Schoolmate geo-thermal heat pump, the Effinity93, the most efficient gas-fired unit heater in North America, and the Atherion™ Commercial Packaged Ventilation System, are helping commercial, industrial and residential users achieve high energy efficiencies and reduce utility costs. Modine's Geofinity products feature innovative geothermal heat pump technologies providing energy savings and reduced carbon emissions during both the heating and cooling seasons.

An obligation for remedial activities may arise at our facilities due to past practices or as a result of a property purchase or sale. These expenditures most often relate to sites where past operations followed practices that were considered acceptable under then-existing regulations, but now require investigative and/or remedial work to ensure appropriate environmental protection or where the Company is a successor to the obligations of prior owners and current laws and regulations require investigative and/or remedial work to ensure sufficient environmental compliance. Three of the Company's currently owned manufacturing facilities and one formerly owned property have been identified as requiring soil and/or groundwater remediation. Environmental liabilities for investigative work and remediation at sites in the United States, Brazil, and the Netherlands totaled approximately $5 million at March 31, 2014.

Modine recorded a fiscal 2014 global Recordable Incident Rate ("RIR"), which represents the number of injuries per 100 full-time workers as defined by OSHA, of 1.59, representing a ten percent year over year improvement. Modine's long-term safety performance as indicated by RIR improved 21 percent over the past five years, with 34 percent fewer injuries in fiscal 2014 when compared to fiscal 2009. Modine has consistently out-performed the private-industry RIR average which, by comparison, was 3.20 in 2012, greater than double that of Modine's.

Modine's behavior-based safety program is a proactive, global effort that not only seeks to correct at-risk behaviors, but also positively reinforce safe behaviors. Modine's behavior-based safety program represents the Company's commitment to a continually improving safety culture.

Employees

The Company employed approximately 6,900 persons as of March 31, 2014.

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Seasonal Nature of Business

The Company's overall operating performance generally is not subject to a significant degree of seasonality as sales to OEM customers are dependent upon market demand for new vehicles. Our Commercial Products segment experiences some seasonality since the demand for HVAC products can be affected by heating and cooling seasons, weather patterns, construction, and other factors. Generally, sales volume within the Commercial Products segment is stronger in our second and third fiscal quarters, corresponding with demand for heating products.

Working Capital

The Company manufactures products in the original equipment markets on an as-ordered basis, which makes large inventories of such products unnecessary. In the Commercial Products segment, the Company maintains varying levels of finished goods inventory due to seasonal demand and certain sales programs. In these areas, the Company makes use of extended payment terms, not to exceed 90 days, for customers on a limited basis. The Company does not experience a significant amount of returned products within any of its operating segments.

Available Information

We make available free of charge through our website, www.modine.com (Investor Relations link), our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, other Securities Exchange Act reports and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission ("SEC"). Our reports are also available free of charge on the SEC's website, www.sec.gov. Also available free of charge on our website are the following corporate governance documents:

- Code of Ethics and Business Conduct, which is applicable to all Modine employees, including the principal executive officer, the principal financial officer, the principal accounting officer and directors;
- Corporate Governance Guidelines;
- Audit Committee Charter;
- Officer Nomination and Compensation Committee Charter;
- Corporate Governance and Nominating Committee Charter; and
- Technology Committee Charter.

All of the reports and corporate governance documents referred to above and other materials relating to corporate governance may also be obtained without charge by contacting Corporate Secretary, Modine Manufacturing Company, 1500 DeKoven Avenue, Racine, Wisconsin 53403-2552. We do not intend to incorporate our internet website and the information contained therein or incorporated therein into this annual report on Form 10-K.

ITEM 1A. RISK FACTORS.

Our business involves risks. The following information about these risks should be considered carefully together with the other information contained in this report. The risks described below are not the only risks we face. Additional risks not currently known or deemed immaterial as of the date of this report may also adversely impact our business results.

A. OPERATIONAL RISKS

Restructuring

We may be unable to complete and successfully implement our European restructuring plans.

We are entering the final stages of a restructuring program within our Europe segment. Successful implementation of the program's initiatives, and in particular the consolidation of two German manufacturing facilities into one, is critical to our future competitiveness and our ability to improve our profitability within that segment and across Modine as a whole.

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Challenges of Product Launches

We are in the midst of launching a significant number of new programs at our facilities across the world. The success of these launches is critical to our business.

We design technologically advanced products, and the processes required to produce these products can be difficult and complex. The Company commits significant time and financial resources to ensure the successful launch of new products and programs. Managing the product launch process is difficult because we are launching many new products and programs in each segment of the Company. Due to this launch activity, we need to appropriately deploy our operational and administrative resources to take advantage of this increase in our business. If we do not successfully launch the products and programs, we may lose market share or damage relationships with our customers, which could negatively affect our business. In addition, any failure in our manufacturing strategy for these new products or programs could result in production inefficiencies or long-lived asset impairment charges.

Complexities of Global Presence

We are subject to risks related to our international operations.

We have manufacturing and technical facilities located in North America, South America, Europe, Asia, and Africa. In fiscal 2014, 56 percent of our sales were from non-U.S. operations. Consequently, our global operations are subject to numerous risks and uncertainties, including changes in monetary and fiscal policies, trade restrictions or prohibitions, import or other charges or taxes, fluctuations in foreign currency exchange and interest rates, limitations on the repatriation of funds, changing economic conditions, unreliable intellectual property protection and legal systems, insufficient infrastructures, social unrest, political instability and disputes, and international terrorism. In addition, compliance with multiple and often conflicting laws and regulations of various countries is burdensome and expensive.

Reliance upon Technology Advantage

If we cannot differentiate ourselves from our competitors with our technology, our existing and potential customers may seek lower prices and our sales and earnings may be adversely affected.

Price, quality, delivery, technological innovation, and application engineering development are the primary elements of competition in our markets. If we fail to keep pace with technological changes and cannot differentiate ourselves from our competitors with our technology or to provide high quality products and services, we may experience price erosion, lower revenues, and lower margins. Significant technological developments by others also could adversely affect our business and results of operations.

Developments or assertions by or against the Company relating to intellectual property rights could adversely affect our business.

The Company owns significant intellectual property, including a large number of patents, trademarks, copyrights and trade secrets, and is involved in numerous licensing arrangements. The Company’s intellectual property plays an important role in maintaining our competitive position in a number of the markets we serve. Developments or assertions by or against the Company relating to intellectual property rights could adversely affect the business.

Claims and Litigation

We may incur material losses and costs as a result of warranty and product liability claims and litigation.

We are exposed to warranty and product liability claims in the event that our products fail to perform as expected, and we may be required to participate in a recall or other field campaign of such products. Many of our OEM customers have extended warranty protection for their vehicles, putting pressure on the supply base to extend warranty coverage as well. Historically, we have experienced relatively low warranty charges from our customers due to our contractual arrangements and the quality, reliability and durability of our products. If our customers demand higher warranty-related cost recoveries, or if our products fail to perform as expected, it could have a material adverse impact on our results of operations and/or financial condition. We are also involved in various legal proceedings from time to time incidental to our business. If any such proceeding has a negative result, it could adversely affect our business and results of operations.

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Information Technology Systems

We may be adversely affected by any disruption in our information technology systems.

Our operations are dependent upon our information technology systems, which encompass all of our major business functions. A substantial disruption in our information technology systems for a prolonged time period or a material breach of our information security, could result in delays in receiving inventory and supplies or filling customer orders, and/or the release of otherwise confidential information, adversely affecting our customer service and relationships as well as our reputation. Our systems might be damaged or interrupted by natural or man-made events (caused by us, by our service providers or others) or by computer viruses, physical or electronic break-ins and similar disruptions affecting the internet. Such delays, problems or costs could have a material adverse effect on our business, financial condition, results of operations and reputation.

Environmental, Health and Safety Regulations

We could be adversely impacted by the costs of environmental, health and safety regulations.

Our operations are subject to various federal, state, local and foreign laws and regulations governing, among other things, emissions to air, discharge to waters and the generation, handling, storage, transportation, treatment and disposal of waste and other materials. The operation of our manufacturing facilities entails risks in these areas and there can be no assurance that we will avoid material costs or liabilities relating to such matters. Our financial responsibility to clean up contaminated property may extend to previously owned or used property, properties owned by unrelated companies, as well as properties that we currently own and use, regardless of whether the contamination is attributable to prior owners. In addition, potentially significant expenditures could be required in order to comply with evolving environmental, health and safety laws, regulations or other requirements that may be adopted or imposed in the future.

We are currently working with environmental consultants to remediate groundwater contamination at our facility in Brazil that has, over a period of years, migrated to neighboring properties, and subsurface contamination at our former manufacturing facility in the Netherlands. Remediation of these contaminations could result in potentially significant expenditures. See Note 19 of the Notes to Consolidated Financial Statements for further discussion.

B. MARKET RISKS

Customer and Supplier Matters

Our OEM business, which accounts for approximately 86 percent of our business currently, is dependent upon the health of the customers and markets we serve.

We are highly susceptible to downward trends in the markets we serve because our customers' sales and production levels are affected by general economic conditions, including access to credit, the price of fuel and electricity, employment levels and trends, interest rates, labor relations issues, regulatory requirements, trade agreements and other factors as well as by customer-specific issues. Any significant decline in production levels for current and future customers could result in long-lived asset impairment charges and would reduce our sales and adversely impact our results of operations and financial condition.

If we were to lose business with a major OEM customer, our revenue and profitability could be adversely affected.

Deterioration of a business relationship with a major OEM customer could cause the Company's revenue and profitability to suffer. We principally compete for new business both during the initial development of new models

and upon the redesign of models by our major customers. New model development generally begins two to five years prior to the marketing of such models to the public. The failure to obtain new business on new models or to retain or increase business on redesigned existing models could adversely affect our business and financial results. In addition, as a result of the relatively long lead times required for many of our complex components, it may be difficult in the short-term for us to obtain new sales to replace any unexpected decline in the sales of existing products. We may incur significant expense in preparing to meet anticipated customer requirements that may not be recovered. The loss of a major OEM customer, the loss of business with respect to one or more of the vehicle models that use our products, or a significant decline in the production levels of such vehicles could have an adverse effect on our business, results of operations and financial condition.

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Our OEM customers continually seek price reductions from us. These price reductions adversely affect our results of operations and financial condition.

A challenge that we and other suppliers to vehicular OEMs face is continued price reduction pressure from our customers. Downward pricing pressure has been a characteristic of the automotive industry and is migrating to all of our vehicular OEM markets. Virtually all such OEMs impose aggressive price reduction initiatives upon their suppliers, and we expect such actions to continue in the future. In the face of lower prices to customers, the Company must reduce its operating costs in order to maintain profitability. The Company has taken and continues to take steps to reduce its operating costs to offset customer price reductions; however, price reductions are adversely affecting our profit margins and are expected to do so in the future. If the Company is unable to offset customer price reductions through improved operating efficiencies, new manufacturing processes, sourcing alternatives, technology enhancements and other cost reduction initiatives, or if we are unable to avoid price reductions from our customers, our results of operations and financial condition could be adversely affected.

Fluctuations in costs of materials (including steel, copper, aluminum, nickel, other raw materials and energy) could place significant pressure on our results of operations.

Increases in the costs of materials could have a significant effect on our results of operations and on those of others in our industry. We have sought to alleviate the risk of increasing costs by including material pass-through provisions in our contracts with our customers. Under these arrangements, we can pass material cost increases and decreases to our customers. However, where these pass-through arrangements are utilized, there can be a time lag between the time of the material increase or decrease and the time of the pass-through. This time lag can range between three months and one year. To further mitigate the Company's exposure to fluctuating material prices, we have entered into forward contracts from time to time to hedge a portion of our forecasted aluminum and copper purchases. However, the hedges may only partially offset increases in material costs, and significant increases could have an adverse effect on our results of operations.

The continual pressure to absorb costs adversely affects our profitability.

We continue to be pressured to absorb costs related to product design, engineering and tooling, as well as other items previously paid directly by OEMs. OEM customers often request that we pay for design, engineering and tooling costs that are incurred prior to the start of production and recover these costs through amortization in the piece price of the product. Some of these costs cannot be capitalized, which adversely affects our profitability until the programs for which they have been incurred are launched. If a given program is not launched or is launched with significantly lower volumes than planned, we may not be able to recover the design, engineering and tooling costs from our customers, further adversely affecting our profitability.

The Company could be adversely affected if we experience shortages of components or materials from our suppliers.

In an effort to manage and reduce the cost of purchased goods and services, the Company, like many suppliers and customers, has been consolidating its supply base. As a result, the Company is dependent upon limited sources of supply for certain components used in the manufacture of our products. The Company selects its suppliers based on total value (including price, delivery and quality), taking into consideration their production capacities, financial condition and ability to meet demand. In some cases, it can take several months or longer to find a supplier due to qualification requirements. However, there can be no assurance that strong demand, capacity limitations or other problems experienced by the Company's suppliers will not result in occasional shortages or delays in their supply of product to us. If we were to experience a significant or prolonged shortage of critical components or materials from any of our suppliers and could not procure the components or materials from other sources, the Company would be unable to meet its production schedules for some of its key products and would miss product delivery dates, which would adversely affect our sales, margins and customer relations.

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Competitive Environment

The Company faces strong competition.

The competitive environment has changed dramatically over the past few years as our traditional OEM customers, faced with intense international competition, have expanded their sourcing of components. As a result, we have experienced competition from suppliers in other parts of the world that enjoy economic advantages, such as lower labor costs, lower health care costs, lower tax rates, lower costs associated with legal compliance, and, in some cases, export or raw materials subsidies. Increased competition could adversely affect our business and our results of operations.

Exposure to Foreign Currencies

As a global company, we are subject to foreign currency rate fluctuations, and a significant movement between the U.S. dollar and the euro and Brazilian real, in particular, could have an adverse effect on our profitability.

Although our financial results are reported in U.S. dollars, a significant portion of our sales and operating costs are realized in euros, the Brazilian real and other currencies. Our profitability is affected by movements of the U.S. dollar against the euro, the real and other currencies in which we generate revenues and incur expenses. To the extent that we are unable to match revenues received in foreign currencies with costs paid in the same currency, exchange rate fluctuations in any such currency could have an adverse effect on our financial results. During times of a strengthening U.S. dollar, our reported sales and earnings from our international operations will be reduced because the applicable local currency will be translated into fewer U.S. dollars. Significant long-term fluctuations in relative currency values, in particular a significant change in the relative values of the U.S. dollar, euro or real, could have an adverse effect on our profitability and financial condition.

C. FINANCIAL RISKS

Liquidity and Access to Cash

Market trends and regulatory requirements may require additional funding for our pension plans.

The Company has several defined benefit pension plans that cover most of its domestic employees hired on or before December 31, 2003. The funding policy for these plans is to contribute annually, at a minimum, the amount necessary on an actuarial basis to provide for benefits in accordance with applicable laws and regulations. The domestic plans have an unfunded balance of $53 million. During fiscal 2015, we anticipate making funding contributions totaling approximately $9 million related to these domestic plans. Changes in actuarial assumptions, including applicable mortality rate tables, could have a significant impact on benefit obligations of and funding requirements for these plans. If significant additional funding contributions are necessary, this could have an adverse impact on our liquidity position.

D. STRATEGIC RISK

Growth Strategies

Inability to identify and execute acquisitions may adversely impact our business and operating results.

We expect to pursue growth opportunities through acquisitions and business ventures. There can be no assurance that we will be able to identify attractive targets and successfully complete transactions in the future. If we are unable to complete additional acquisitions, our growth may be limited. Recent and future acquisitions will require integration

of operations, sales and marketing, information technology, finance, and administrative functions. If we are unable to successfully integrate acquisitions and operate these businesses profitably, we may not achieve the financial or operational success expected from the acquisitions.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

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ITEM 2. PROPERTIES.

We operate manufacturing facilities in the United States and certain foreign countries. The Company's world headquarters, including general offices, and laboratory, experimental and tooling facilities are located in Racine, Wisconsin. Additional technical support functions are located in Bonlanden, Germany; Sao Paulo, Brazil; Leeds, United Kingdom; and Changzhou, China.

The following table sets forth information regarding our principal properties as of March 31, 2014. Properties with less than 20,000 square feet of building space have been omitted from this table.

Location of Facility	Building Space	Primary Use	Owned or Leased
North America Segment			
Lawrenceburg, TN	353,800 sq. ft.	Manufacturing	143,800 Owned; 210,000 Leased
Nuevo Laredo, Mexico	288,500 sq. ft.	Manufacturing	Owned
Jefferson City, MO	220,000 sq. ft.	Manufacturing	162,000 Owned; 58,000 Leased
Washington, IA	165,400 sq. ft.	Manufacturing	148,800 Owned; 16,600 Leased
McHenry, IL	164,700 sq. ft.	Manufacturing	Owned
Trenton, MO	159,900 sq. ft.	Manufacturing	Owned
Joplin, MO	139,500 sq. ft.	Manufacturing	Owned
Laredo, TX	45,000 sq. ft	Warehouse	Leased
Europe Segment			
Bonlanden, Germany	262,200 sq. ft.	Administrative & technology center	Owned
Kottingbrunn, Austria	220,600 sq. ft.	Manufacturing	Owned
Pontevico, Italy	150,700 sq. ft.	Manufacturing	Owned
Mezökövesd, Hungary	146,500 sq. ft.	Manufacturing	Owned
Pliezhausen, Germany	125,900 sq. ft	Manufacturing	48,400 Owned; 77,500 Leased
Wackersdorf, Germany	109,800 sq. ft.	Assembly	Owned
Kirchentellinsfurt, Germany	107,600 sq. ft.	Manufacturing	Owned
Uden, Netherlands	90,300 sq. ft.	Manufacturing	61,900 Owned; 28,400 Leased
Neuenkirchen, Germany	76,400 sq. ft.	Manufacturing	Owned
Gyöngyös, Hungary	58,300 sq. ft.	Manufacturing	Leased
South America Segment			

Sao Paulo, Brazil	342,900 sq. ft.	Manufacturing & technology center	Owned	
Asia Segment				
Chennai, India	118,100 sq. ft.	Manufacturing	Owned	
Changzhou, China	107,600 sq. ft.	Manufacturing	Owned	
Shanghai, China	80,300 sq. ft.	Manufacturing	Leased	
Cheonan, South Korea	46,300 sq. ft.	Manufacturing (Joint Venture)	Leased	
Commercial Products Segment				
Leeds, United Kingdom	269,100 sq. ft.	Administrative & manufacturing	Leased	(a)
Leeds, United Kingdom	104,400 s			