

METHODE ELECTRONICS INC

Form 10-Q

December 09, 2008

**Table of Contents**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-Q**

**(Mark One)**

- Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended November 1, 2008**
- or**
- Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.**

**Commission file number 0-2816  
METHODE ELECTRONICS, INC.**

(Exact name of registrant as specified in its charter.)

Delaware

36-2090085

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

7401 West Wilson Avenue, Harwood Heights, Illinois

60706-4548

(Address of principal executive offices)

(Zip Code)

(Registrant's telephone number, including area code) (708) 867-6777

None

(Former name, former address, former fiscal year, if changed since last report)

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 for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No   
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

At December 9, 2008, Registrant had 37,838,970 shares of common stock outstanding.

METHODE ELECTRONICS, INC.  
FORM 10-Q  
November 1, 2008  
TABLE OF CONTENTS

<u>PART I. FINANCIAL INFORMATION</u>	Page
<u>Item 1. Financial Statements (unaudited)</u>	
<u>Condensed consolidated balance sheets as of November 1, 2008 and May 3, 2008</u>	3
<u>Condensed consolidated statements of income Three months and six months ended November 1, 2008 and October 27, 2007</u>	4
<u>Condensed consolidated statements of cash flows Six months ended November 1, 2008 and October 27, 2007</u>	5
<u>Notes to condensed consolidated financial statements November 1, 2008</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
<u>Item 3. Quantitative and Qualitative Disclosure About Market Risk</u>	37
<u>Item 4. Controls and Procedures</u>	38
<u>PART II. OTHER INFORMATION</u>	
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	39
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	39
<u>Item 6. Exhibits</u>	41
<u>SIGNATURES</u>	42
<u>INDEX TO EXHIBITS</u>	43
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32</u>	

**Table of Contents****PART I FINANCIAL INFORMATION**

## Item 1 Financial Statements

## METHODE ELECTRONICS, INC AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

	November 1, 2008 (Unaudited)	May 3, 2008
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 52,806	\$ 104,305
Accounts receivable, net	73,599	85,805
Inventories:		
Finished products	17,369	15,384
Work in process	17,681	20,715
Materials	32,993	19,850
	68,043	55,949
Deferred income taxes	8,485	8,730
Prepaid expenses and other current assets	6,082	6,028
<b>TOTAL CURRENT ASSETS</b>	<b>209,015</b>	<b>260,817</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>	<b>288,166</b>	<b>308,264</b>
Less allowances for depreciation	207,762	217,984
	80,404	90,280
<b>GOODWILL</b>	<b>68,085</b>	<b>54,476</b>
<b>INTANGIBLE ASSETS, net</b>	<b>54,184</b>	<b>41,282</b>
<b>OTHER ASSETS</b>	<b>26,144</b>	<b>23,365</b>
	148,413	119,123
	\$ 437,832	\$ 470,220
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 32,922	\$ 42,810
Other current liabilities	25,654	33,902
<b>TOTAL CURRENT LIABILITIES</b>	<b>58,576</b>	<b>76,712</b>
<b>OTHER LIABILITIES</b>	<b>17,211</b>	<b>13,833</b>
<b>DEFERRED COMPENSATION</b>	<b>4,561</b>	<b>6,890</b>
<b>SHAREHOLDERS EQUITY</b>		

Edgar Filing: METHODE ELECTRONICS INC - Form 10-Q

Common stock, \$0.50 par value, 100,000,000 shares authorized, 38,283,075 and 38,225,379 shares issued as of November 1, 2008 and May 3, 2008, respectively	19,141	19,113
Unearned common stock issuances	(4,257)	(4,257)
Additional paid-in capital	71,682	69,953
Retained earnings	270,826	265,838
Accumulated other comprehensive income	11,472	28,381
Treasury stock, 1,342,588 and 702,708 shares as of November 1, 2008 and May 3, 2008, respectively	(11,380)	(6,243)
	357,484	372,785
	\$ 437,832	\$ 470,220

See notes to condensed consolidated financial statements.

**Table of Contents**

METHODE ELECTRONICS, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)  
 (in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	November 1, 2008	October 27, 2007	November 1, 2008	October 27, 2007
<b>INCOME</b>				
Net sales	\$ 121,304	\$ 133,239	\$ 255,818	\$ 258,248
Other	959	527	1,692	673
	122,263	133,766	257,510	258,921
<b>COSTS AND EXPENSES</b>				
Cost of products sold	97,815	105,900	203,245	204,235
Restructuring	6,284		11,201	
Selling and administrative expenses	18,650	16,107	35,102	32,071
	122,749	122,007	249,548	236,306
Income/(loss) from operations	(486)	11,759	7,962	22,615
Interest income, net	469	611	1,003	1,047
Other, net	1,853	(941)	1,584	(1,161)
Income before income taxes	1,836	11,429	10,549	22,501
Income taxes/(benefit)	(865)	2,623	1,032	5,423
<b>NET INCOME</b>	<b>\$ 2,701</b>	<b>\$ 8,806</b>	<b>\$ 9,517</b>	<b>\$ 17,078</b>
Amounts per common share:				
Basic net income	\$ 0.07	\$ 0.24	\$ 0.26	\$ 0.46
Diluted net income	\$ 0.07	\$ 0.24	\$ 0.25	\$ 0.46
Cash dividends:				
Common stock	\$ 0.07	\$ 0.05	\$ 0.12	\$ 0.10
Weighted average number of Common Shares outstanding:				
Basic	37,068	37,079	37,120	37,033
Diluted	37,551	37,467	37,584	37,476
See notes to condensed consolidated financial statements.				

**Table of Contents**

METHODE ELECTRONICS, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)  
 (in thousands)

	Six Months Ended	
	November 1, 2008	October 27, 2007
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 9,517	\$ 17,078
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for depreciation	12,489	9,939
Impairment of assets	3,177	
Amortization of intangibles	3,052	2,739
Amortization of stock awards and stock options	1,605	1,602
Changes in operating assets and liabilities	(1,160)	10,587
Other	735	174
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>29,415</b>	<b>42,119</b>
<b>INVESTING ACTIVITIES</b>		
Purchases of property, plant and equipment	(9,557)	(10,082)
Proceeds from sale of building		960
Acquisition of businesses	(56,785)	(7,350)
Acquisition of technology licenses	(225)	(346)
Joint venture dividend		(1,000)
Other	(209)	(346)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(66,776)</b>	<b>(18,164)</b>
<b>FINANCING ACTIVITIES</b>		
Repurchase of common stock	(5,137)	
Proceeds from exercise of stock options	110	1,145
Tax benefit from stock options and awards	46	190
Cash dividends	(4,528)	(3,781)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(9,509)</b>	<b>(2,446)</b>
Effect of foreign currency exchange rate changes on cash	(4,629)	1,250
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(51,499)</b>	<b>22,759</b>
Cash and cash equivalents at beginning of period	104,305	60,091
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 52,806</b>	<b>\$ 82,850</b>

See notes to condensed consolidated financial statements.





**Table of Contents**

**METHODE ELECTRONICS, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**  
(Dollar amounts in thousands, except share data)

November 1, 2008

**1. BASIS OF PRESENTATION**

Methode Electronics, Inc. was incorporated in 1946 as an Illinois corporation and reincorporated in Delaware in 1966. As used herein, we, us, our, the Company or Methode means Methode Electronics, Inc. and its subsidiaries. The condensed consolidated financial statements and related disclosures as of November 1, 2008 and results of operations for the three months and six months ended November 1, 2008 and October 27, 2007 are unaudited, pursuant to the rules and regulations of the Securities and Exchange Commission ( SEC ). The May 3, 2008 condensed consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America ( U.S. GAAP ). Certain information and footnote disclosures normally included in the financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. In our opinion, these financial statements include all adjustments (consisting only of normal recurring adjustments) necessary for the fair statement of the results for the interim periods. These financial statements should be read in conjunction with the financial statements included in our latest Form 10-K for the year ended May 3, 2008 filed with the SEC on July 17, 2008. Results may vary from quarter to quarter for reasons other than seasonality.

**2. RECENT ACCOUNTING PRONOUNCEMENTS**

We adopted Financial Accounting Standards Board ( FASB ) Statement of Financial Accounting Standard ( SFAS ) No. 157, Fair Value Measurements ( SFAS No. 157 ) as of May 4, 2008 for financial assets and liabilities, and non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. SFAS No. 157 defines fair value, establishes a framework for measuring fair value as required by other accounting pronouncements and expands fair value measurement disclosures. The provisions of SFAS No. 157 are applied prospectively upon adoption and did not have a material impact on our condensed consolidated financial statements. The disclosures required by SFAS No. 157 are included in Note 12, Fair Value Measurements, to our condensed consolidated financial statements.

In February 2008, the FASB issued FASB Staff Position No. 157-2, which delays the effective date of SFAS No. 157 for non-financial assets and liabilities, which are not measured at fair value on a recurring basis (at least annually) until fiscal years beginning after November 15, 2008, which is our fiscal year 2010 that begins May 3, 2009. We are currently assessing the impact of adopting SFAS No. 157 for non-financial assets and liabilities on our condensed consolidated financial statements.

We adopted SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 ( SFAS No. 159 ) as of May 4, 2008. SFAS No. 159 permits entities to elect to measure many financial instruments and certain other items at fair value. We did not elect the fair value option for any assets or liabilities, which were not previously carried at fair value. Accordingly, the adoption of SFAS No. 159 had no impact on our condensed consolidated financial statements.

We adopted Emerging Issues Task Force (EITF) No. 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements ( EITF No. 06-4 ) as of May 4, 2008. EITF No. 06-4 requires that endorsement split-dollar life insurance arrangements, which provide a benefit to an employee beyond the postretirement period be recorded in accordance with SFAS No. 106, Employer's Accounting for Postretirement Benefits Other Than Pensions or Accounting Principle Board ( APB ) Opinion No. 12, Omnibus Opinion 1967 based on the substance of the agreement with the employee. The adoption of EITF No. 06-4 had no impact on our condensed consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007) ( SFAS No. 141R ), a revision of SFAS No. 141, Business Combinations. SFAS No. 141R establishes requirements for the recognition and measurement of acquired assets, liabilities, goodwill and non-controlling interests. SFAS No. 141R also provides disclosure requirements related to business combinations. SFAS No. 141R is effective for fiscal years beginning after December 15, 2008, which is our fiscal year 2010 that begins May 3, 2009. SFAS No. 141R will be applied



**Table of Contents**

**METHODE ELECTRONICS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

(Dollar amounts in thousands, except share data)

**2. RECENT ACCOUNTING PRONCEMENTS** Continued

prospectively to business combinations with an acquisition date on or after the effective date. This statement will generally affect acquisitions occurring after the adoption date.

In December 2007, the FASB issued SFAS No. 160, Non-Controlling Interests in Consolidated Financial Statements an amendment of ARB No. 51 ( SFAS No. 160 ). SFAS No. 160 establishes new standards for the accounting for and reporting of non-controlling interests (formerly minority interests) and for the loss of control of partially owned and consolidated subsidiaries. SFAS No. 160 does not change the criteria for consolidating a partially owned entity. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008, which is our fiscal year 2010 that begins May 3, 2009. The provisions of SFAS No. 160 will be applied prospectively upon adoption except for the presentation and disclosure requirements, which will be applied retrospectively. We do not expect the adoption of SFAS No. 160 to have a material impact on our condensed consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of SFAS No. 133 ( SFAS No. 161 ). SFAS No. 161 requires enhanced disclosures about an entity s derivative and hedging activities and is effective for fiscal years and interim periods beginning after November 15, 2008, which is our fiscal year 2010 that begins May 3, 2009. We do not believe the adoption of SFAS No. 161 will have a material impact on our condensed consolidated financial statements.

In April 2008, the FASB issued FASB Staff Position No. FAS 142-3, Determination of the Useful Life of Intangible Assets ( FSP 142-3 ). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, Goodwill and Other Intangible Assets. This provision of FSP 142-3 will be effective for financial statements issued for fiscal years beginning after December 15, 2008, which is our fiscal year 2010 that begins May 3, 2009. Early adoption is prohibited. Since this guidance will be applied prospectively, on adoption, there will be no impact to our financial position, results of operations or cash flows.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles ( SFAS No 162 ). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements. SFAS No. 162 is effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board ( PCAOB ) amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles . We do not believe the adoption of this standard will have a material impact on our condensed consolidated financial statements.

**3. RESTRUCTURING**

On January 24, 2008, we announced a restructuring of our U.S.-based automotive operations and a decision to discontinue producing certain legacy products in the Interconnect segment. The Automotive and Interconnect restructuring is expected to be completed during fiscal 2010. We record the expense in the restructuring section of our condensed consolidated statement of income. We estimate that we will record additional pre-tax charges through fiscal 2010 of between \$5,000 and \$10,000, of which \$2,000 to \$3,000 will relate to the termination of approximately 550 employees and the cost of one-time employee benefits, retention, COBRA and outplacement services. During the second quarter of fiscal 2009, we recorded impairment charges on our fixed assets of \$2,705 and \$472 for the Automotive and Interconnect segments, respectively. Based on the rules of SFAS No. 144, we concluded that the future estimated cash flows did not support the current net book values of the assets (before the impairment adjustment) due to lower forecasted sales in the Automotive and Interconnect segments. We will continue to perform periodic impairment testing, if indicators exist, and will record any charges incurred as per SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, ( SFAS No. 144 ) in the period when impairment is incurred.

During the fiscal quarter ended November 1, 2008, we recorded a restructuring charge of \$6,284, which consisted of \$1,609 for employee severance, \$4,350 in impairment and accelerated depreciation for buildings and improvements and machinery and equipment and \$325 relating to professional fees. As of November 1, 2008, we



**Table of Contents**

## METHODE ELECTRONICS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Dollar amounts in thousands, except share data)

## 3. RESTRUCTURING Continued

had an accrued restructuring liability of \$5,297 reflected in the current liabilities section of our condensed consolidated balance sheet. We expect the majority of this liability to be paid out during fiscal 2010.

During the six months ended November 1, 2008, we recorded a restructuring charge of \$11,201, which consisted of \$4,430 for employee severance, \$5,900 in impairments and accelerated depreciation for buildings and improvements and machinery and equipment, \$153 in inventory write-downs and \$718 relating to professional fees.

The table below reflects the activity for restructuring as of November 1, 2008:

	<b>One-Time Employee Benefits</b>	<b>Asset Write-Downs</b>	<b>Other Costs</b>	<b>Total</b>
FY 2008 restructuring charges	\$ 3,355	\$ 1,346	\$ 458	\$ 5,159
Payments and asset write-downs	(203)	(1,346)	(434)	(1,983)
Accrued balance at May 3, 2008	3,152		24	3,176
First Quarter FY 2009 restructuring charges	2,821	1,703	393	4,917
Payments and asset write-downs	(1,556)	(1,703)	(417)	(3,676)
Accrued balance at August 2, 2008	4,417			4,417
Second Quarter FY 2009 restructuring charges	1,609	4,350	325	6,284
Payments and asset write-downs	(729)	(4,350)	(325)	(5,404)
Accrued balance at November 1, 2008	5,297			5,297

## 4. COMPREHENSIVE INCOME/(LOSS)

The components of our comprehensive income/(loss) for the three months and six months ended November 1, 2008 and October 27, 2007 include net income and adjustments to stockholders' equity for foreign currency translations. The foreign currency translation adjustment was due to exchange rate fluctuations in our foreign affiliates' local currency versus the U.S. dollar.

The following table presents details of our comprehensive income/(loss):

	Three Months Ended		Six Months Ended	
	November 1, 2008	October 27, 2007	November 1, 2008	October 27, 2007
Net income	\$ 2,701	\$ 8,806	\$ 9,517	\$ 17,078
Translation adjustment	(18,644)	4,309	(16,909)	4,061
Total comprehensive income/(loss)	\$ (15,943)	\$ 13,115	\$ (7,392)	\$ 21,139

## 5. GOODWILL AND INTANGIBLE ASSETS

We review our goodwill and other intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable, and we also review our goodwill annually in

accordance with SFAS No. 142, Goodwill and Other Intangibles. The values assigned to goodwill and intangible assets are normally based on estimates and judgments regarding expectations for the success and life cycle of products and technologies acquired. A severe decline in expectations could result in significant

**Table of Contents**

**METHODE ELECTRONICS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

(Dollar amounts in thousands, except share data)

**5. GOODWILL AND INTANGIBLE ASSETS** Continued

impairment charges, which could have a material adverse effect on our business, financial condition and results of operations.

One potential indicator of goodwill and other intangible asset impairment is whether our fair value, as measured by our market capitalization, has remained below our net book value for a significant period of time. During the second quarter of fiscal 2009, the lowest closing price of our common stock was \$6.11, as reported by the New York Stock Exchange, which corresponds to a market capitalization of approximately \$231,197, compared to our November 1, 2008 net book value of approximately \$357,484. Based on this event and general business declines, including the Automotive segment, we performed step one of the goodwill impairment test in accordance with paragraph 19 of SFAS No. 142, on the reporting units that have goodwill as of November 1, 2008. Based on this test, we determined that the fair value was less than the carrying value of the net assets for certain reporting units. We have not yet completed step two of the impairment test, and, as of the filing of this 10-Q, impairment is possible but is not reasonably estimable. The amount of goodwill associated to these reporting units is \$29,237.

In accordance with FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that long-lived assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. During the second quarter of 2009, events and circumstances indicated that \$15,192 million of identifiable intangible assets of the TouchSensor business might be impaired. However, the Company's estimate of undiscounted cash flows indicated that such carrying amounts are expected to be recovered. Nonetheless, it is reasonably possible that the estimate of undiscounted cash flows may change in the near term resulting in the need to write down those assets to fair value.

On September 30, 2008, we acquired certain assets of Hetronic LLC (Hetronic) for \$53,639 in cash. We also incurred \$2,367 in transaction costs related to the purchase. Hetronic is a global leader in industrial safety radio remote controls with locations in the U.S., Malta, the Philippines and Germany. Hetronic is represented in 45 countries by direct sales associates, licensed partners, distributors and representatives. Hetronic provides application specific and standard controls to many different industries, such as material handling, transportation, mining, military, agriculture and construction.

On a preliminary basis, based on a third-party valuation report, the tangible net assets acquired had a fair value of \$27,265. The fair values assigned to intangible assets acquired were \$11,430 for customer relationships, \$2,700 for the trade name and trademarks, \$1,500 for technology valuation, and \$260 for non-compete, resulting in \$12,851 of goodwill. The customer relationships, technology valuation and non-compete will be amortized over 5 to approximately 12 years. The trade name and trademarks are not subject to amortization but will be subject to periodic impairment testing. The accounts and transactions of Hetronic have been included in the Interconnect segment in the consolidated financial statements from the effective date of the acquisition. Based on the nature of the Hetronic business, a significant portion of their inventory is raw material. This is the primary reason why the total company consolidated raw material inventory increased as of November 1, 2008 as compared to April 28, 2008.

In connection with the Power Products segment's acquisition of Cableco Technologies in fiscal 2005, additional contingent consideration may be due if certain operational and financial targets are met. Additional goodwill of up to \$4,257 may result from future contingent payments for this acquisition.

On August 31, 2007, we acquired 100% of the assets of Value Engineered Products, Inc. (VEP) for \$5,750 in cash, plus transaction costs of \$79. VEP is a thermal management solutions provider, manufacturing heat sinks and related products for high-powered applications. These components complement our Power Products product offerings and, in some instances, are joined with bus bars to aid thermal management of power systems. The terms of the acquisition provided for an additional payment of up to a maximum of \$1,000 if sales reached specified targets during the twelve-month period following the close. The final payout was \$758, recorded in the second quarter of fiscal 2009.





**Table of Contents**

## METHODE ELECTRONICS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Dollar amounts in thousands, except share data)

## 5. GOODWILL AND INTANGIBLE ASSETS Continued

Based on a third-party valuation report, the tangible net assets acquired in the VEP transaction had a fair value of \$915. The fair values assigned to intangible assets acquired were \$2,900 for customer relationships, \$600 for trademarks, resulting in \$2,172 of goodwill. The customer relationships acquired are being amortized over a period of approximately 16 years, which began in September 2007. The trademark intangible assets are not subject to amortization but will be subject to periodic impairment testing. The accounts and transactions of the acquired business have been included in the Power Products segment in the consolidated financial statements from the effective date of the acquisition.

The following tables present details of the Company's intangible assets:

	as of November 1, 2008		
	Gross	Accumulated Amortization	Net
Customer relationships and agreements	\$ 52,517	\$ 21,324	\$ 31,193
Patents and technology licenses	29,077	6,531	22,546
Covenants not to compete	2,740	2,295	445
Total	\$ 84,334	\$ 30,150	\$ 54,184

	as of May 3, 2008		
	Gross	Accumulated Amortization	Net
Customer relationships and agreements	\$ 41,324	\$ 19,168	\$ 22,156
Patents and technology licenses	24,692	5,795	18,897
Covenants not to compete	2,480	2,251	229
Total	\$ 68,496	\$ 27,214	\$ 41,282

The intangible assets for customer relationships and agreements includes \$1,840 and \$2,278 as of November 1, 2008 and May 3, 2008, respectively, of net value assigned to a supply agreement with Delphi Corporation. Delphi is currently operating under a bankruptcy petition filed on October 8, 2005. We continue to supply product to Delphi post-petition pursuant to this supply agreement and have determined that the value of the supply agreement has not been impaired.

The estimated aggregate amortization expense for fiscal 2009 and each of the four succeeding fiscal years is as follows:

2009	\$7,570
2010	8,496
2011	7,340
2012	5,671
2013	4,415

## 6. INCOME TAXES

We recognize interest and penalties accrued related to the unrecognized tax benefits in the provision for income taxes. During the three months and six months ended November 1, 2008, we recognized \$75 and \$42 in interest, respectively and zero in penalties. We had approximately \$901 for the payment of interest and zero for the payment of

penalties accrued at November 1, 2008. The total unrecognized tax benefits as of November 1, 2008 was \$5,770.

We believe that it is reasonably possible that the total amount of unrecognized tax benefits will change within the next twelve months. We have certain tax return years subject to statutes of limitation, which will close

**Table of Contents**

## METHODE ELECTRONICS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Dollar amounts in thousands, except share data)

## 6. INCOME TAXES Continued

within twelve months of the end of the quarter. Unless challenged by tax authorities, the closure of those statutes of limitation is expected to result in the recognition of uncertain tax positions in the amount of \$493.

The Company and all of its domestic subsidiaries file income tax returns in the U.S. federal jurisdiction and various states. Our foreign subsidiaries file income tax returns in certain foreign jurisdictions since they have operations outside the U.S. The Company and its subsidiaries are generally no longer subject to U.S. federal, state and local examinations by tax authorities for years before fiscal year 2005.

## 7. COMMON STOCK AND STOCK-BASED COMPENSATION

The following table sets forth the changes in the number of issued shares of common stock during the six month period presented:

	Six Months Ended	
	November 1, 2008	October 27, 2007
Balance at the beginning of the period	38,225,379	37,950,829
Options exercised	19,089	100,730
Restricted stock awards vested	38,607	46,967
Balance at the end of the period	38,283,075	38,098,526

We paid quarterly dividends of \$2,633 and \$1,895 on October 31, 2008 and August 1, 2008, respectively. We intend to retain the remainder of our earnings not used for dividend payments to provide funds for the operation and expansion of our business. Our Board of Directors approved a stock repurchase plan on September 18, 2008 to repurchase up to 3,000,000 shares. The plan expires at the end of fiscal 2010. There were 639,880 shares purchased during the second quarter of fiscal 2009 at an average price of \$8.03 per share.

The following tables summarize the stock option activity and related information for the six months ended November 1, 2008:

	Summary of Option Activity	
	Shares	Wtd. Avg. Exercise Price
Outstanding at May 3, 2008	689,689	\$ 10.26
Exercised	(19,089)	5.90
Forfeited	(15,921)	11.68
Outstanding at November 1, 2008	654,679	10.35

Options Outstanding and  
Exercisable at November 1, 2008

Range of Exercise Prices	Shares	Wtd.	Avg.
		Exercise Price	Remaining

			Life (Years)
\$5.12 - \$7.69	161,025	\$ 6.71	2.5
\$8.08 - \$11.64	353,305	10.58	2.4
\$12.11 - \$17.66	140,349	13.94	1.5
	654,679	10.35	

The aggregate intrinsic value of all options outstanding at November 1, 2008 was \$142.

**Table of Contents**

**METHODE ELECTRONICS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

(Dollar amounts in thousands, except share data)

**7. COMMON STOCK AND STOCK-BASED COMPENSATION** Continued

Prior to June 21, 2007, we had three active stock plans, the Methode Electronics, Inc. 1997 Stock Plan, the Methode Electronics, Inc. 2000 Stock Plan, and the Methode Electronics, Inc. 2004 Stock Plan. No options were granted under the Plans since the first quarter of fiscal 2005. As of November 1, 2008, we had 654,679 unexercised stock options, all of which are fully vested and have a term of ten years. There is no remaining unrecognized compensation expense relating to the stock options.

In April 2007, 225,000 shares of common stock subject to performance-based Restricted Stock Awards (RSAs) granted to our CEO in fiscal 2006 and 2007 were converted to Restricted Stock Units (RSUs). The RSUs are subject to the same vesting schedule and other major provisions of the RSAs they replaced, except the RSUs are not payable until the earlier of: (1) thirty days after the CEO's date of termination of employment with the Company and all of its subsidiaries and affiliates; or (2) the last day of our fiscal year in which the payment of common stock in satisfaction of the RSUs becomes deductible to the Company under Section 162(m) of the Internal Revenue Code. All further discussion of RSAs in this report includes the RSUs described above.

At the beginning of fiscal year 2009, there were 582,298 performance-based and time-based RSAs outstanding. The time-based RSAs vest in three equal annual installments from the grant date. All RSAs awarded to senior management are performance-based and vest after three years if the recipient remains employed by the Company until that date and we have met certain revenue growth and return on invested capital targets. All of the unvested RSAs are entitled to voting rights and to payment of dividends. During the six months ended November 1, 2008, we awarded 340,665 restricted stock awards. Of the shares granted, 24,000 shares vest immediately upon grant, 256,565 are performance-based RSAs and 60,100 are time-based RSAs.

We recognized pre-tax compensation expense for RSAs of \$1,603 and \$1,591 in the six months ended November 1, 2008 and October 27, 2007, respectively. We record the expense in the selling and administrative section of our condensed consolidated statement of income.

**Table of Contents**

## METHODE ELECTRONICS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Dollar amounts in thousands, except share data)

## 7. COMMON STOCK AND STOCK-BASED COMPENSATION Continued

The following table summarizes the RSA activity for the six months ended November 1, 2008:

	Shares
Unvested at May 3, 2008	582,298
Awarded	340,665
Vested	(24,332)
Forfeited	
Unvested at November 1, 2008	898,631

The table below shows the Company's unvested RSAs at November 1, 2008:

Grant Fiscal Year	RSAs	Vesting Period	Weighted Average Value	Probable Unearned Compensation Expense at November 1, 2008	Target Unearned Compensation Expense at November 1, 2008
2006	832	3-year equal annual installments	10.84		
2006	125,000	3-year cliff	12.42		
2007	24,757	3-year equal annual installments	7.87	27	27
2007	227,750	3-year cliff	7.79	307	307
2008	38,954	3-year equal annual installments	14.97	218	218
2008	164,673	3-year cliff	15.14	1,388	1,388
2009	60,100	3-year equal annual installments	11.35	509	509
2009	256,565	3-year cliff	11.35	2,509	2,509

At November 1, 2008, the aggregate unvested RSAs had a weighted average fair value of \$11.35 and a weighted average vesting period of approximately 16 months.

**Table of Contents**

METHODE ELECTRONICS, INC. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)  
 (Dollar amounts in thousands, except share data)

**8. EARNINGS PER SHARE**

Basic earnings per share (EPS) is calculated by dividing net earnings by the weighted average number of common shares outstanding for the applicable period. Diluted EPS is calculated after adjusting the numerator and the denominator of the basic EPS calculation for the effect of all potential dilutive common shares outstanding during the period.

The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended		Six Months Ended	
	November 1, 2008	October 27, 2007	November 1, 2008	October 27, 2007
Numerator net income	\$ 2,701	\$ 8,806	\$ 9,517	\$ 17,078
Denominator:				
Denominator for basic earnings per share-weighted average shares	37,068	37,079	37,120	37,033
Dilutive potential common shares-employee and director stock options	483	388	465	443
Denominator for diluted earnings per share adjusted weighted average shares and assumed conversions	37,551	37,467	37,584	37,476
Basic and diluted net income per share:				
Basic	\$ 0.07	\$ 0.24	\$ 0.26	\$ 0.46
Diluted	\$ 0.07	\$ 0.24	\$ 0.25	\$ 0.46

Options to purchase 304,522 shares of common stock at a weighted-average exercise price of \$12.54 per share were outstanding as of November 1, 2008, but were not included in the computation of diluted earnings per share because the exercise prices were greater than the average market price of the common stock and, therefore, the effect would be antidilutive.

**9. SEGMENT INFORMATION**

We are a global manufacturer of component and subsystem devices. We design, manufacture and market devices employing electrical, radio remote control, electronic, wireless, sensing and optical technologies. Our components are found in the primary end markets of the automotive, appliance, communications (including information processing and storage, networking equipment, wireless and terrestrial voice/data systems), aerospace, rail and other transportation industries, consumer and industrial equipment markets.

We report in four operating segments Automotive, Interconnect, Power Products and Other. The Company's systems are not designed to capture information by smaller product groups and it would be impracticable to breakdown the Company's sales into smaller product groups.

On January 24, 2008, we announced a restructuring of our U.S.-based automotive operations and a decision to discontinue producing certain legacy products in the Interconnect segment. During the three months ended November 1, 2008, we recorded a restructuring charge of \$4,351 and \$1,933 for the Automotive and Interconnect segments, respectively. During the six months ended November 1, 2008, we recorded a restructuring charge of \$7,514 and \$3,687 for the Automotive and Interconnect segments, respectively.

The Automotive segment supplies electronic and electromechanical devices and related products to automobile OEMs, either directly or through their tiered suppliers, including control switches for electrical power and signals,

connectors for electrical devices, integrated control components, switches and sensors that monitor the



**Table of Contents**

## METHODE ELECTRONICS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Dollar amounts in thousands, except share data)

## 9. SEGMENT INFORMATION Continued

operation or status of a component or system, and packaging of electrical components.

The Interconnect segment provides a variety of copper and fiber-optic interconnect and interface solutions for the aerospace, appliance, commercial, computer, construction, consumer, material handling, medical, military, mining, networking, storage, and telecommunications markets. Solutions include solid-state field effect interface panels, PC and express card packaging, industrial safety radio remote control, optical and copper transceivers, terminators, connectors, custom cable assemblies and conductive polymer and thick film inks. Services include the design and installation of fiber optic and copper infrastructure systems, and manufacturing of active and passive optical components.

The Power Products segment manufactures current-carrying laminated bus devices, custom power-product assemblies; powder coated bus bars, braided flexible cables and high-current low voltage flexible power cabling systems that are used in various markets and applications, including telecommunications, computers, transportation, industrial and power conversion, insulated gate bipolar transistor solutions, aerospace and military.

The Other segment includes a designer and manufacturer of magnetic torque sensing products, and independent laboratories that provide services for qualification testing and certification, and analysis of electronic and optical components.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. We allocate resources to and evaluate performance of segments based on operating income. Transfers between segments are recorded using internal transfer prices set by us.

The identifiable assets for the Automotive segment decreased \$34,912 to \$150,993 as of November 1, 2008, compared to \$185,905 as of May 3, 2008. The decrease is primarily due to restructuring charges for fixed assets and a general decrease in business. The identifiable assets for the Interconnect segment increased \$47,694 to 182,106 as of November 1, 2008, compared to \$134,412 as of May 3, 2008. The increase is primarily due to the acquisition of Hetric, which was funded by Corporate.

Below is a table of identifiable assets for each segment as of November 1, 2008 and May 3, 2008:

	November 1, 2008	May 3, 2008	Net Change
Automotive	150,993	185,905	(34,912)
Interconnect	182,106	134,412	47,694
Power Products	36,977	37,063	(86)
Other	7,926	7,332	594
Corporate	59,830	105,508	(45,678)
Total Identifiable Assets	437,832	470,220	(32,388)

**Table of Contents**

METHODE ELECTRONICS, INC. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)  
 (Dollar amounts in thousands, except share data)

## 9. SEGMENT INFORMATION Continued

The table below presents information about our reportable segments:

	Three Months Ended November 1, 2008					Consoli- dated
	Auto- motive	Inter- Connect	Power Dis- tribution	Other	Elimi- nations	
Net sales	\$ 75,207	\$ 32,146	\$ 11,676	\$ 2,556	\$ 281	\$ 121,304
Transfers between segments		(143)	(112)	(26)	(281)	
Net sales to unaffiliated customers	\$ 75,207	\$ 32,003	\$ 11,564	\$ 2,530	\$	\$ 121,304
Segment income (loss) before restructuring charge	\$ 12,991	\$ (638)	\$ 482	\$ (750)	\$	\$ 12,085
Restructuring	(4,351)	(1,933)				(6,284)
Segment income (loss) including restructuring charge	\$ 8,640	\$ (2,571)	\$ 482	\$ (750)	\$	\$ 5,801
Corporate expenses, net						(3,965)
Income before income taxes						\$ 1,836

	Three Months Ended October 27, 2007					Consoli- dated
	Auto- motive	Inter- Connect	Power Dis- tribution	Other	Elimi- nations	
Net sales	\$ 89,806	\$ 30,472	\$ 11,848	\$ 1,587	\$ 474	\$ 133,239
Transfers between segments		(213)	(246)	(15)	(474)	
Net sales to unaffiliated customers	\$ 89,806	\$ 30,259	\$ 11,602	\$ 1,572	\$	\$ 133,239
Segment income (loss) before restructuring charge	\$ 13,300	\$ 1,157	\$ 2,129	\$ (407)	\$	\$ 16,179
Restructuring						
Segment income (loss) including restructuring charge	\$ 13,300	\$ 1,157	\$ 2,129	\$ (407)	\$	\$ 16,179

Corporate expenses, net (4,750)

Income before income taxes \$ 11,429

**Table of Contents**

METHODE ELECTRONICS, INC. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)  
 (Dollar amounts in thousands, except share data)

## 9. SEGMENT INFORMATION Continued

	Six Months Ended November 1, 2008					
	Auto- motive	Inter- Connect	Power Dis- tribution	Other	Elimi- nations	Consoli- dated
Net sales	\$ 159,940	\$ 67,865	\$ 23,810	\$ 4,778	\$ 575	\$ 255,818
Transfers between segments		(275)	(245)	(55)	(575)	
Net sales to unaffiliated customers	\$ 159,940	\$ 67,590	\$ 23,565	\$ 4,723	\$	\$ 255,818
Segment income (loss) before restructuring charge	\$ 26,589	\$ 1,536	\$ 1,284	\$ (1,332)	\$	\$ 28,077
Restructuring	(7,514)	(3,687)				(11,201)
Segment income (loss) including restructuring charge	\$ 19,075	\$ (2,151)	\$ 1,284	\$ (1,332)	\$	\$ 16,876
Corporate expenses, net						(6,327)
Income before income taxes						\$ 10,549

	Six Months Ended October 27, 2007					
	Auto- motive	Inter- Connect	Power Dis- tribution	Other	Elimi- nations	Consoli- dated
Net sales	\$ 172,668	\$ 62,058	\$ 21,183	\$ 3,261	\$ 922	\$ 258,248
Transfers between segments		(391)	(501)	(30)	(922)	
Net sales to unaffiliated customers	\$ 172,668	\$ 61,667	\$ 20,682	\$ 3,231	\$	\$ 258,248
Segment income (loss) before restructuring charge	\$ 25,042	\$ 3,558	\$ 3,978	\$ (682)	\$	\$ 31,896
Restructuring						
Segment income (loss) including restructuring charge	\$ 25,042	\$ 3,558	\$ 3,978	\$ (682)	\$	\$ 31,896

Corporate expenses, net	(9,395)
Income before income taxes	\$ 22,501

#### 10. CONTINGENCIES

Certain litigation arising in the normal course of business is pending against us. We are from time to time subject to various legal actions and claims incidental to our business, including those arising out of alleged defects, breach of contracts, employment-related matters and environmental matters. We consider insurance coverage and third-party indemnification when determining required accruals for pending litigation and claims. Although the outcome of potential legal actions and claims cannot be determined, it is our opinion, based on the information available, that we have adequate reserves for these liabilities and that the ultimate resolution of these matters will not have a material effect on our consolidated financial statements.

**Table of Contents**

**METHODE ELECTRONICS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

(Dollar amounts in thousands, except share data)

**11. PRE-PRODUCTION COSTS RELATED TO LONG-TERM SUPPLY ARRANGEMENTS**

We incur pre-production tooling costs related to certain products produced for our customers under long-term supply agreements. We had \$8,039 and \$8,211 as of fiscal periods ended November 1, 2008 and May 3, 2008, respectively, of pre-production tooling costs related to customer-owned tools for which reimbursement is contractually guaranteed by the customer or for which the customer has provided a non-cancelable right to use the tooling. These amounts are included in our work-in-process inventory in the condensed consolidated balance sheets. Net revenues and costs on projects are deferred and recognized over the life of the related long-term supply agreement.

**12. FAIR VALUE MEASUREMENTS**

We adopted SFAS No. 157, Fair Value Measurements as of May 4, 2008. SFAS No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants.

In February 2008, the FASB issued FASB Staff Position No. 157-2, which delays the effective date of SFAS No. 157 for non-financial assets and liabilities, which are not measured at fair value on a recurring basis (at least annually) until fiscal years beginning after November 15, 2008, which is our fiscal year 2010 that begins May 3, 2009. We are currently assessing the impact of adopting SFAS No. 157 for non-financial assets and liabilities on our condensed consolidated financial statements.

SFAS No. 157 also specifies a fair value hierarchy based upon the observation of inputs in valuation techniques. Observable inputs (highest level) reflect market data obtained from independent sources, while unobservable inputs (lowest level) reflect internally developed market assumptions. In accordance with SFAS No. 157, fair value measurements are classified under the following hierarchy:

Level 1 Quoted prices in active markets for identical assets and liabilities.

Level 2 Quoted prices in active markets for similar assets and liabilities, or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The adoption of SFAS No. 157 had no effect on our condensed consolidated financial position or results of operations. Assets and liabilities recorded at fair value are valued using quoted market prices or under a market approach using other relevant information generated by market transactions involving identical or comparable instruments and included:

**Table of Contents**

METHODE ELECTRONICS, INC. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)  
 (Dollar amounts in thousands, except share data)

## 12. FAIR VALUE MEASUREMENTS Continued

Below is a table that summarizes the fair value of assets and liabilities as of November 1, 2008:

		Fair value measurement used		
		Quoted prices in active markets for identical instruments (Level 1)	Quoted prices in active markets for similar instruments (Level 2)	Other unobservable inputs (Level 3)
Assets:	Recorded Value			
Cash and Cash Equivalents (1)	\$ 52,806	\$ 47,612	\$ 5,194	\$
Assets Related to Deferred Compensation Plan	\$ 2,467	\$	\$ 2,467	\$
Total Assets at Fair Value	\$ 55,273	\$ 47,612	\$ 7,661	\$
Liabilities:				
Deferred Compensation Plan	\$ 2,241	\$ 2,241	\$	\$
Total Liabilities at Fair Value	\$ 2,241	\$ 2,241	\$	\$

(1) Includes cash, money-market investments and certificates of deposit.

**Table of Contents**

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

***Cautionary Statement***

Certain statements in this report are forward-looking statements that are subject to certain risks and uncertainties. We undertake no duty to update any such forward-looking statements to conform to actual results or changes in our expectations. Our business is highly dependent upon two large automotive customers and specific makes and models of automobiles. Our results will be subject to many of the same risks that apply to the automotive, appliance, computer and telecommunications industries, such as general economic conditions, interest rates, credit availability, consumer spending patterns and technological changes. Other factors, which may result in materially different results for future periods, include the following risk factors. These risk factors should be considered in connection with evaluating the forward-looking statements contained in this report because these factors could cause our actual results and condition to differ materially from those projected in forward-looking statements. The forward-looking statements in this report are subject to the safe harbor protection provided under the securities laws.

Our business may be materially adversely affected by the current economic environment. The recent disruptions in global financial and credit markets have significantly impacted global economic activity and lead to an economic recession. As a result of these disruptions, our customers and markets have been adversely affected. We have recently experienced a significant drop in sales in our Automotive segment. If we experience reduced demand because of these disruptions in the macroeconomic environment, our business, results of operation and financial condition could be materially adversely affected. If we are unable to successfully anticipate changing economic and financial conditions, we may be unable to effectively plan for and respond to these changes and our business could be adversely affected.

We may record impairment charges which would adversely impact our results of operations. We review our goodwill and other intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable, and we also review our goodwill annually in accordance with SFAS No. 142, Goodwill and Other Intangibles. The values assigned to goodwill and intangible assets are normally based on estimates and judgments regarding expectations for the success and life cycle of products and technologies acquired. A severe decline in expectations, future cash flows, a change in strategic direction or our market capitalization remaining below our net book value for a significant period of time could result in significant impairment charges, which could have a material adverse effect on our business, financial condition and results of operations. Based on events and general business declines, especially in the Automotive segment, we performed step one of the goodwill impairment test in accordance with paragraph 19 of SFAS No. 142, on the reporting units that have goodwill as of November 1, 2008. Based on this test, we determined that the fair value was less than the carrying value of the net assets for certain reporting units. We have not yet completed step two of the impairment test, and, as of the filing of this 10-Q, impairment is possible but is not reasonably estimable. The amount of goodwill associated to these reporting units is \$29,237.

In accordance with FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that long-lived assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. During the second quarter of 2009, events and circumstances indicated that \$15,192 million of identifiable intangible assets of the TouchSensor business might be impaired. However, the Company's estimate of undiscounted cash flows indicated that such carrying amounts are expected to be recovered. Nonetheless, it is reasonably possible that the estimate of undiscounted cash flows may change in the near term resulting in the need to write down those assets to fair value.

We may incur additional significant restructuring charges that will adversely affect our results of operations.



Our automotive customers have recently experienced severe declines in demand for their products. Such factors as consumer preference, restricted liquidity and the availability of financing and increased cost of

---

**Table of Contents**

***Cautionary Statement Continued***

capital has negatively impacted their businesses. This could cause them to decrease purchases of our products, further restructure their businesses or even reorganize under bankruptcy laws.

We depend on a small number of large customers. If we were to lose any of these customers or any of these customers decreased the number of orders it placed, our future results could be adversely affected.

Our business is cyclical and seasonal in nature and further downturns in the automotive industry could reduce the sales and profitability of our business.

Because we derive approximately 63% of our revenues from the automotive industry, the downturn and challenges faced by this industry may have a material adverse effect on our business, financial condition and operating results.

Because we derive a substantial portion of our revenues from customers in the automotive, appliance, computer and communications industries, construction, industrial safety radio remote control market, we are susceptible to trends and factors affecting those industries.

Because we derive approximately 63% of our revenues from the automotive segment, oil prices could adversely affect future results.

We are subject to intense pricing pressures in the automotive industry.

We are dependent on the availability and price of raw materials.

We face risks relating to our international operations, including fluctuations in the U.S. dollar.

Our technology-based business and the markets in which we operate are highly competitive. If we are unable to compete effectively, our sales will decline.

If we are unable to protect our intellectual property or we infringe, or are alleged to infringe, on another person's intellectual property, our business, financial condition and operating results could be materially adversely affected.

We may be unable to keep pace with rapid technological changes, which would adversely affect our business.

Products we manufacture may contain design or manufacturing defects that could result in reduced demand for our products or services and liability claims against us.

We may acquire businesses or divest of various business operations. These transactions may pose significant risks and may materially adversely affect our business, financial condition and operating results.

We cannot assure you that the newly-acquired Hetronic business will be successful or that we can implement and profit from new applications of the acquired technology.

Any such forward-looking statements are not guarantees of future performance and actual results, developments and business decisions may differ materially from those foreseen in such forward-looking statements. These forward-looking statements speak only as of the date of the report, press release, statement, document, webcast or oral discussion in which they are made. We do not intend to update any forward-looking statement, all of which are expressly qualified by the foregoing. See Part I Item A, Risk Factors of our latest Form 10-K for the fiscal year ended May 3, 2008, for a further discussion regarding some of the reasons that actual results may be materially different

from those we anticipate.

**Table of Contents**

***Overview***

We are a global manufacturer of component and subsystem devices with manufacturing, design and testing facilities in the United States, Malta, Mexico, United Kingdom, Germany, Czech Republic, China, India, the Philippines and Singapore. We design, manufacture and market devices employing electrical, electronic, wireless, sensing and optical technologies and wireless remote controls. Our business is managed on a segment basis, with those segments being Automotive, Interconnect, Power Products and Other. For more information regarding the business and products of these segments, see Item 1. Business of our Form 10-K for the fiscal year ended May 3, 2008.

Our components are found in the primary end markets of the automotive, information processing and networking equipment, construction, voice and data communication systems, consumer electronics, appliance, aerospace vehicles and industrial equipment industries. Our products employ electronic and optical technologies to control and convey signals through sensors, interconnections and controls. Recent trends in the industries that we serve include:

continued customer migration to lower-cost Eastern European and Asian suppliers;

growth of North American subsidiaries of foreign-based automobile manufacturers;

rising raw material costs;

the deteriorating financial condition of certain of our customers and the uncertainty as they undergo restructuring initiatives, including in some cases, reorganization under bankruptcy laws;

increasing pressure by automobile manufacturers on automotive suppliers to reduce selling prices;

more supplier-funded design, engineering and tooling costs previously funded by the automobile manufacturers;

reduced production schedules for domestic automobile manufacturers; rising interest rates and availability of credit; and

decline in demand for less fuel-efficient trucks and SUVs.

On September 30, 2008, we acquired certain assets of Hetronic LLC (Hetronic) for \$53,639 in cash. We also incurred \$2,367 in transaction costs related to the purchase. Hetronic is a global leader in industrial safety radio remote controls with locations in the U.S., Malta, the Philippines and Germany. Hetronic is represented in 45 countries by direct sales associates, licensed partners, distributors and representatives. Hetronic provides application specific and standard controls to many different industries, such as material handling, transportation, mining, military, agriculture and construction.

On March 30, 2008, we acquired 100% of the assets of Tribotek, Inc for \$1.8 million in cash. Tribotek designs, develops and manufactures high current power connectors and power product systems for products such as power supplies, servers, rectifiers, inverters, robotics and automated test equipment, in addition to various military and telecommunication applications.

On August 31, 2007, we acquired 100% of the assets of Value Engineered Products, Inc. (VEP) for \$5.8 million in cash. VEP is a thermal management solutions provider, manufacturing heat sinks and related products for high-powered applications. These components complement our Power Product offerings and, in some instances, are joined with bus bars to aid thermal management of power systems.

On January 24, 2008, we announced a restructuring of our U.S.-based automotive operations and a decision to discontinue producing certain legacy electronic Interconnect products. The Automotive and Interconnect restructuring is expected to be completed during fiscal 2010. During the three months ended November 1, 2008, we recorded a restructuring charge of \$6,284, which consisted of \$1,609 for employee severance, \$4,350 in impairment and accelerated depreciation for buildings and improvements and machinery and equipment, and \$325 relating to

professional fees. During the six months ended November 1, 2008, we recorded a restructuring charge of \$11,201, which consisted of \$4,430 for employee severance, \$5,900 in impairment and accelerated depreciation for buildings and improvements and machinery and equipment, \$153 in inventory write-downs and \$718 relating to professional fees. We record the expense in the restructuring section of our consolidated statement of income. We estimate that we will record additional pre-tax charges through fiscal 2010 of between \$5,000 and \$10,000, of which \$2,000 to \$3,000 will relate to the termination of approximately 550 employees and the cost of one-time employee benefits,

**Table of Contents****Overview Continued**

retention, COBRA and outplacement services. We will continue to perform periodic impairment testing and will record any charges incurred as per SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets in the period when impairment is incurred.

**Business Outlook**

Recent market events, including an unfavorable global economic environment and a widening international credit crisis, are adversely impacting demand for our customer's products and will impact our operating results in the foreseeable future. Our financial results will be subject to certain factors outside of our control. We will continue to monitor industry and market conditions and intend to respond accordingly. However, no assurance can be given regarding the length or severity of the economic downturn and its impact on our future financial results.

**Results of Operations for the Three Months Ended November 1, 2008 as Compared to the Three Months Ended October 27, 2007****Consolidated Results**

Below is a table summarizing results for the three months ended:  
(in millions)

	November 1, 2008	October 27, 2007	Net Change	Net Change
Net sales	\$ 121.3	\$ 133.2	\$ (11.9)	-8.9%
Other income	1.0	0.5	0.5	100.0%
	122.3	133.7	(11.4)	-8.5%
Cost of products sold	97.8	105.9	(8.1)	-7.6%
Gross margins (including other income)	24.5	27.8	(3.3)	-11.9%
Restructuring	6.3		6.3	0.0%
Selling and administrative expenses	18.7	16.1	2.6	16.1%
Interest income, net income/(expense)	0.4	0.6	(0.2)	-33.3%
Other, net income/(expense)	1.9	(0.9)	2.8	-311.1%
Income taxes (benefit)/expense	(0.9)	2.6	(3.5)	-134.6%
Net income	\$ 2.7	\$ 8.8	\$ (6.1)	-69.3%

	November 1, 2008	October 27, 2007
Percent of sales:		
Net sales	100.0%	100.0%
Other income	0.8%	0.4%
Cost of products sold	80.6%	79.5%
Gross margins (including other income)	20.2%	20.9%
Restructuring	5.2%	0.0%
Selling and administrative expenses	15.4%	12.1%
Interest income, net	0.3%	0.5%

Edgar Filing: METHODE ELECTRONICS INC - Form 10-Q

Other, net	1.6%	-0.7%
Income taxes	-0.7%	2.0%
Net income	2.2%	6.6%

*Net Sales.* Consolidated net sales decreased \$11.9 million, or 8.9%, to \$121.3 million for the three months ended November 1, 2008 from \$133.2 million for three months ended October 27, 2007. The automotive segment

**Table of Contents****Consolidated Results Continued**

net sales declined \$14.6 million or 16.3% to \$75.2 million in the second quarter of fiscal 2009 from \$89.8 million in the second quarter of fiscal 2008. The decline is attributable to the softening of the global economic environment, especially the direct effect on the North American automotive industry. Recently, the Detroit 3 automakers reported sales volume declines of between 30 to 40 percent. The Automotive segment net sales were negatively impacted by anticipated lower Chrysler sales, but, were also negatively impacted by price increases of \$2.2 million in the second quarter of fiscal 2009, compared to \$3.7 million in the second quarter of fiscal 2008. In July 2007, we decided to exit production for certain Chrysler products at the expiration of our manufacturing commitment, but, at the request of the customer, agreed to produce until production was transferred to other suppliers. The transfer of the Chrysler product is expected to be completed by the end of the third quarter of fiscal 2009. The Interconnect segment net sales increased \$1.7 million, or 5.6% to \$32.0 million in the second quarter of fiscal 2009 as compared to \$30.3 million in the second quarter of fiscal 2008. The increase is primarily due to the acquisition of Hetronic, purchased on September 30, 2008. Translation of foreign operations net sales in the three months ended November 1, 2008 increased reported net sales by \$0.8 million or 0.6% due to currency rate fluctuations.

*Other Income.* Other income increased \$0.5 million, or 100.0%, to \$1.0 million for the three months ended November 1, 2008 from \$0.5 million for three months ended October 27, 2007. Other income consisted primarily of earnings from engineering design fees and royalties.

*Cost of Products Sold.* Consolidated cost of products sold decreased \$8.1 million, or 7.6%, to \$97.8 million for the three months ended November 1, 2008 from \$105.9 million for the three months ended October 27, 2007. The decrease is due to the lower Automotive segment net sales volumes, partially offset by higher Interconnect sales from Hetronic. Consolidated cost of products sold as a percentage of sales was 80.6% for the three months ended November 1, 2008 and 79.5% for the three months ended October 27, 2007. The increase in cost of products sold as a percentage of net sales is due to lower sales volumes in the Automotive segment and production costs for the Power Products segment, which is partially offset by favorable cost for Hetronic, which has a lower cost of goods sold as a percentage of sales compared to other businesses. The Automotive segment cost of products sold as a percentage of sales was favorably impacted by Chrysler price increases during the second quarter of fiscal 2008.

*Gross Margins (including other income).* Consolidated gross margins (including other income) decreased \$3.3 million, or 11.9%, to \$24.5 million for the three months ended November 1, 2008 as compared to \$27.8 million for the three months ended October 27, 2007. Gross margins as a percentage of net sales was 20.2% for the three months ended November 1, 2008 as compared to 20.9% for the three months ended October 27, 2007. The decline in gross margins as a percentage of sales is due to the lower Automotive segment net sales, unfavorable product mix for the Power Products segment and the impact of the Chrysler price increases in the second quarter of fiscal 2008.

*Selling and Administrative Expenses.* Selling and administrative expenses increased \$2.6 million, or 16.1%, to \$18.7 million for the three months ended November 1, 2008 compared to \$16.1 million for the three months ended October 27, 2007. The increase relates to the Hetronic acquisition, as well as higher amortization expense for the TouchSensor and VEP acquisitions, purchased on February 28, 2007 and August 31, 2007, respectively. Selling and administrative expenses as a percentage of net sales increased to 15.4% in the three months ended November 1, 2008 from 12.1% for the three months ended October 27, 2007.

*Restructuring.* On January 24, 2008, we announced a restructuring of our U.S.-based automotive operations and the decision to discontinue producing certain legacy products in the Interconnect segment. During the fiscal quarter ended November 1, 2008, we recorded a restructuring charge of \$6.3 million, which consisted of \$1.6 million for employee severance, \$4.4 million for impairment and accelerated depreciation for buildings and improvements and machinery and equipment and \$0.3 million relating to professional fees.

*Interest Income, Net.* Net interest income decreased 33.3% in the three months ended November 1, 2008 to \$0.4 million as compared to \$0.6 million in the three months ended October 27, 2007. The average cash balance was \$94.6 million during the three months ended November 1, 2008 as compared to \$79.3 million during the three months ended October 27, 2007. The average interest rate earned in the three months ended November 1, 2008 was 2.38% compared to 3.35% in the three months ended October 27, 2007. The portfolio was weighted more heavily to tax-exempt investments in the second quarter of fiscal 2009 as compared to the second quarter of fiscal 2008. The





**Table of Contents**

**Consolidated Results Continued**

average interest rate earned includes both taxable interest and tax-exempt municipal interest. Interest expense was \$0.1 million for both periods.

*Other, Net.* Other, net was income of \$1.9 million for the three months ended November 1, 2008 as compared to expense of \$0.9 million for the three months ended October 27, 2007. The increase is primarily due to the strengthening of the U.S. dollar versus the Euro and Czech koruna during the second quarter of fiscal 2009 as compared to the second quarter of fiscal 2008. The functional currencies of these operations are the British pound, Chinese yuan, Czech koruna, Euro, Mexican peso and Singapore dollar. Some foreign operations have transactions denominated in currencies other than their functional currencies, primarily sales in U.S. dollars and Euros, creating exchange rate sensitivities.

At November 1, 2008, approximately \$5.9 million was invested in an enhanced cash fund sold as an alternative to traditional money-market funds. We have historically invested a portion of our on hand cash balances in this fund. These investments are subject to credit, liquidity, market and interest rate risk. Based on the information available to us, we have estimated the fair value of this fund at \$0.882 per unit as of November 1, 2008. During the quarter ended November 1, 2008 we recorded a loss of \$0.5 million, of which \$0.2 million was realized on partial redemptions of \$3.8 million, and \$0.3 million was unrealized.

*Income Taxes.* The effective income tax rate was a benefit of 47.1% in the second quarter of fiscal 2009 compared with an income tax expense of 23.0% in the second quarter of fiscal 2008. The income tax rate was a benefit in the second quarter of fiscal 2009 in our U.S.-based businesses due to restructuring charges and slowing of business, causing a loss before income taxes. In addition, the effective tax rates for both fiscal 2009 and 2008 reflect utilization of foreign investment tax credits and the effect of lower tax rates on income of the Company's foreign earnings and a higher percentage of earnings at those foreign operations.

*Net Income.* Net income decreased \$6.1 million, or 69.3%, to \$2.7 million for the three months ended November 1, 2008 as compared to \$8.8 million for the three months ended October 27, 2007 due to the restructuring charges, the softening of the global economic environment resulting in decreased sales and higher selling and administrative expenses. Net income as a percentage of sales decreased to 2.2% for the three months ended November 1, 2008 as compared to 6.6% for the three months ended October 27, 2007.

**Table of Contents****Operating Segments****Automotive Segment Results**

Below is a table summarizing results for the three months ended:

(in millions)

	November 1, 2008	October 27, 2007	Net Change	Net Change
Net sales	\$ 75.2	\$ 89.8	\$ (14.6)	-16.3%
Cost of products sold	60.2	71.3	(11.1)	-15.6%
Gross margins	15.0	18.5	(3.5)	-18.9%
Income before income taxes and restructuring	\$ 13.0	\$ 13.3	\$ (0.3)	-2.3%
Restructuring	(4.4)		(4.4)	0.0%
Income before income taxes	\$ 8.6	\$ 13.3	\$ (4.7)	-35.3%

	November 1, 2008	October 27, 2007
Percent of sales:		
Net sales	100.0%	100.0%
Cost of products sold	80.1%	79.4%
Gross margins	19.9%	20.6%
Income before income taxes and restructuring	17.3%	14.8%
Restructuring	-5.9%	0.0%
Income before income taxes	11.4%	14.8%

*Net Sales.* Automotive segment net sales decreased \$14.6 million, or 16.3%, to \$75.2 million for the three months ended November 1, 2008 from \$89.8 million for the three months ended October 27, 2007. The decline is attributable to the softening of the global economic environment, especially the effect on the North American automotive industry. Recently, the Detroit 3 automakers reported volume declines of between 30 to 40 percent. Net sales have declined in the second quarter of fiscal 2009 as compared to fiscal 2008 by 21.6% in North America, 10.1% in Europe and 11.1% in Asia. The Automotive segment net sales were negatively impacted by anticipated lower Chrysler sales, but, were also negatively impacted by price increases of \$2.2 million in the second quarter of fiscal 2009, compared to \$3.7 million in the second quarter of fiscal 2008. In July 2007, we decided to exit production for certain Chrysler products at the expiration of our manufacturing commitment, but, at the request of the customer, agreed to produce until production was transferred to other suppliers. The transfer of the Chrysler product is expected to be completed by the end of the third quarter of fiscal 2009. Translation of foreign operations net sales in the three months ended November 1, 2008 increased reported net sales by \$0.5 million, or 0.6%, due to currency rate fluctuations.

*Cost of Products Sold.* Automotive segment cost of products sold decreased \$11.1 million to \$60.2 million for the three months ended November 1, 2008 from \$71.3 for the three months ended October 27, 2007. The decrease relates to lower sales volumes. Automotive segment costs of products sold as a percentage of sales increased to 80.1% for the three months ended November 1, 2008 from 79.4% for the three months ended October 27, 2007. Automotive segment cost of products sold as a percentage of sales was negatively impacted by the year-over-year sales volume

declines in the Chrysler business in the second quarter of fiscal 2009 as compared to the second quarter of fiscal 2008, as well as increased costs due to overall lower production volumes.

*Gross Margins.* Automotive segment gross margins decreased \$3.5 million, or 18.9%, to \$15.0 million for the three months ended November 1, 2008 as compared to \$18.5 million for the three months ended October 27, 2007. Gross margins as a percentage of net sales decreased to 19.9% for the three months ended November 1, 2008 from 20.6% for the three months ended October 27, 2007. The decrease in gross profit as a percentage of sales is

26

---

**Table of Contents****Automotive Segment Results Continued**

primarily due to higher costs related to lower production volumes and the decline in sales volumes in the second quarter of fiscal 2009 as compared to the second quarter of fiscal 2008.

*Restructuring.* On January 24, 2008, we announced a restructuring of our U.S.-based automotive operations. During the fiscal quarter ended November 1, 2008, we recorded a restructuring charge of \$4.4 million, which consisted of \$1.1 million for employee severance, \$3.0 million for impairment and accelerated depreciation for buildings, building improvements and machinery and equipment and \$0.3 million for professional fees. We expect the restructuring to be completed during fiscal 2010.

*Income Before Income Taxes.* Automotive segment income before income taxes decreased \$4.7 million, or 35.3%, to \$8.6 million for the three months ended November 1, 2008 compared to \$13.3 million for the three months ended October 27, 2007 due to restructuring expenses, lower sales volumes in the second quarter of fiscal 2009 as compared to the second quarter of fiscal 2008.

**Interconnect Segment Results**

Below is a table summarizing results for the three months ended:  
(in millions)

	November 1, 2008	October 27, 2007	Net Change	Net Change
Net sales	\$ 32.0	\$ 30.3	\$ 1.7	5.6%
Cost of products sold	23.2	23.6	(0.4)	-1.7%
Gross margins	8.8	6.7	2.1	31.3%
Income before income taxes and restructuring	\$ (0.6)	\$ 1.2	\$ (1.8)	-150.0%
Restructuring	(1.9)		(1.9)	0.0%
Income/(loss) before income taxes	\$ (2.5)	\$ 1.2	\$ (3.7)	-308.3%

	November 1, 2008	October 27, 2007
Percent of sales:		
Net sales	100.0%	100.0%
Cost of products sold	72.5%	77.9%
Gross margins	27.5%	22.1%
Income before income taxes and restructuring	-1.9%	4.0%
Restructuring	-5.9%	0.0%
Income/(loss) before income taxes	-7.8%	4.0%

*Net Sales.* Interconnect segment net sales increased \$1.7 million, or 5.6%, to \$32.0 million for the three months ended November 1, 2008 from \$30.3 million for the three months ended October 27, 2007. Net sales were favorably impacted by the acquisition of Hetronic on September 30, 2008. Excluding Hetronic, North American net sales declined 7.4% and Europe and Asia declined 1.2% in the second quarter of fiscal 2009 as compared to the second quarter of fiscal 2008. The North American net sales decline was primarily due to the restructuring of our Connector

and Duel businesses during the fourth quarter of fiscal 2008 and the first quarter of fiscal 2009. Translation of foreign operations net sales in the three months ended November 1, 2008 increased reported net sales by \$0.3 million, or 1.0%, due to currency rate fluctuations.

*Cost of Products Sold.* Interconnect segment cost of products sold decreased \$0.4 million to \$23.2 million for the three months ended November 1, 2008 compared to \$23.6 million for the three months ended October 27, 2007. Interconnect segment cost of products sold as a percentage of net sales decreased to 72.5% for the three

**Table of Contents****Interconnect Segment Results Continued**

months ended November 1, 2008 compared to 77.9% for the three months ended October 27, 2007. The decrease in cost of products sold as a percentage of net sales is primarily due to Hetronic, which has a lower cost of goods sold as a percentage of sales compared to the other Interconnect businesses.

*Gross Margins.* Interconnect segment gross margins increased \$2.1 million, or 31.3%, to \$8.8 million for the three months ended November 1, 2008 as compared to \$6.7 million for the three months ended October 27, 2007. Gross margins as a percentage of net sales increased to 27.5% for the three months ended November 1, 2008 from 22.1% for the three months ended October 27, 2007. The increase in gross margins as a percentage of net sales is primarily due to Hetronic, which has higher gross margins compared to the other Interconnect businesses.

*Restructuring.* On January 24, 2008, we announced our decision to discontinue producing certain legacy products in the Interconnect segment. During the fiscal quarter ended November 1, 2008, we recorded a restructuring charge of \$1.9 million, which consisted of \$0.6 million for employee severance and \$1.3 million for impairment and accelerated depreciation for buildings, building improvements and machinery and equipment. We expect the restructuring will be completed by the fourth quarter of fiscal 2009.

*Income/(Loss) Before Income Taxes.* Interconnect income before income taxes decreased \$3.7 million to a loss of \$2.5 million for the three months ended November 1, 2008 compared to income of \$1.2 million for the three months ended October 27, 2007 due to restructuring charges and \$0.9 million of increased amortization expense.

**Power Products Segment Results**

Below is a table summarizing results for the three months ended:  
(in millions)

	November 1, 2008	October 27, 2007	Net Change	Net Change
Net sales	\$ 11.6	\$ 11.6	\$	0.0%
Cost of products sold	9.5	8.5	1.0	11.8%
Gross margins	2.1	3.1	(1.0)	-32.3%
Income before income taxes	\$ 0.5	\$ 2.1	\$ (1.6)	-76.2%

Percent of sales:	November 1, 2008	October 27, 2007
Net sales	100.0%	100.0%
Cost of products sold	81.9%	73.3%
Gross margins	18.1%	26.7%
Income before income taxes	4.3%	18.1%

*Net Sales.* Power Products segment net sales were \$11.6 million for both the three months ended November 1, 2008 and the three months ended October 27, 2007. Net sales from VEP, acquired on August 31, 2007 were offset by declines in the other Power Products businesses. Excluding VEP, Power Products net sales declined 2.6% in the second quarter of fiscal 2009 as compared to the second quarter of fiscal 2008.

*Cost of Products Sold.* Power Products segment cost of products sold increased \$1.0 million, or 11.8%, to \$9.5 million for the three months ended November 1, 2008 compared to \$8.5 million for the three months ended October 27, 2007. The Power Products segment cost of products sold as a percentage of sales increased to 81.9% for the three months ended November 1, 2008 from 73.3% for the three months ended October 27, 2007. The increase is partially due to a product which reached end-of-life at the end of fiscal 2008 and had a lower cost as a percentage of

sales than the remaining sales during the second quarter of fiscal 2009. In addition, we experienced unfavorable product mix in our busbar businesses, as well as, increased shipping and distribution costs.



**Table of Contents****Power Products Segment Results Continued**

*Gross Margins.* Power Products segment gross margins decreased \$1.0 million, or 32.3%, to \$2.1 million for the three months ended November 1, 2008 as compared to \$3.1 million for the three months ended October 27, 2007. Gross margins as a percentage of net sales decreased to 18.1% for the three months ended November 1, 2008 from 26.7% for the three months ended October 27, 2007. The decrease is due to a product which reached end-of-life at the end of fiscal 2008 and had higher gross margins than the remaining sales and gross margins during the second quarter of fiscal 2009. In addition, we also experienced unfavorable product mix and labor costs, as well as, shipping and distribution costs.

*Income Before Income Taxes.* Power Products segment income before income taxes decreased by \$1.6 million or 76.2% to \$0.5 million for the three months ended November 1, 2008 from \$2.1 million for the three months ended October 27, 2007 due to decreased sales of products which became end-of-life at the end of fiscal year 2008, higher material, labor and shipping costs, higher commission expense and expenses related to Tribotek, which was acquired on March 30, 2008.

**Other Segment Results**

Below is a table summarizing results for the three months ended:  
(in millions)

	November 1, 2008	October 27, 2007	Net Change	Net Change
Net sales	\$ 2.5	\$ 1.6	\$ 0.9	56.3%
Cost of products sold	2.6	1.6	1.0	62.5%
Gross margins	(0.1)		(0.1)	0.0%
Loss before income taxes	\$ (0.8)	\$ (0.4)	\$ (0.4)	100.0%

	November 1, 2008	October 27, 2007
Percent of sales:		
Net sales	100.0%	100.0%
Cost of products sold	104.0%	100.0%
Gross margins	-4.0%	0.0%
Loss before income taxes	-32.0%	-25.0%

*Net Sales.* The Other segment net sales increased \$0.9 million to \$2.5 million for the three months ended November 1, 2008 as compared to \$1.6 million for the three months ended October 27, 2007. Net sales from our torque-sensing business increased 204.9% and net sales from our testing facilities increased 33.7% in the second quarter of fiscal 2009 as compared to the second quarter of fiscal 2008.

*Cost of Products Sold.* Other segment cost of products sold increased \$1.0 million to \$2.6 million for the three months ended November 1, 2008 compared to \$1.6 million for the three months ended October 27, 2007. The majority of the increase is due to continued investment initiatives in our torque-sensing business.

*Gross Margins.* The Other segment gross margins decreased to a loss of \$0.1 million for the three months ended November 1, 2008, compared to break-even gross margins for the three months ended October 27, 2007. Gross margins slightly declined in the second quarter of fiscal 2009 due to the increased investments in our torque-sensing business.

*Loss Before Income Taxes.* The Other segment loss before income taxes was \$0.8 million for the three months ended November 1, 2008 compared to \$0.4 million for the three months ended October 27, 2007. The increase in the loss before income taxes is due to additional support staff for our North American testing facilities, as well as, a new testing facility that was opened in Shanghai, China in the second quarter of fiscal 2009.

**Table of Contents****Results of Operations for the Six Months Ended November 1, 2008 as Compared to the Six Months Ended October 27, 2007****Consolidated Results**

Below is a table summarizing results for the six months ended:  
(in millions)

	November 1, 2008	October 27, 2007	Net Change	Net Change
Net sales	\$ 255.8	\$ 258.3	\$ (2.5)	-1.0%
Other income	1.7	0.7	1.0	142.9%
	257.5	259.0	(1.5)	-0.6%
Cost of products sold	203.2	204.2	(1.0)	-0.5%
Gross margins (including other income)	54.3	54.8	(0.5)	-0.9%
Restructuring	11.2		11.2	0.0%
Selling and administrative expenses	35.2	32.1	3.1	9.7%
Interest income, net income/(expense)	1.0	1.0		0.0%
Other, net income/(expense)	1.6	(1.2)	2.8	-233.3%
Income taxes (benefit)/expense	1.0	5.4	(4.4)	-81.5%
Net income	\$ 9.5	\$ 17.1	\$ (7.6)	-44.4%

	November 1, 2008	October 27, 2007
Percent of sales:		
Net sales	100.0%	100.0%
Other income	0.7%	0.3%
Cost of products sold	79.4%	79.1%
Gross margins (including other income)	21.2%	21.2%
Restructuring	4.4%	0.0%
Selling and administrative expenses	13.8%	12.4%
Interest income, net	0.4%	0.4%
Other, net	0.6%	-0.5%
Income taxes	0.4%	2.1%
Net income	3.7%	6.6%

*Net Sales.* Consolidated net sales decreased \$2.5 million, or 1.0%, to \$255.8 million for the six months ended November 1, 2008 from \$258.3 million for six months ended October 27, 2007. The automotive segment net sales declined \$12.8 million or 7.4% to \$159.9 million in the first half of fiscal 2009 from \$172.7 million in the first half of fiscal 2008. The decline is attributable to the softening of the global economic environment, especially the effect on the North American automotive industry. The Automotive segment net sales were negatively impacted by anticipated

lower Chrysler sales, but, were also favorably impacted by price increases of \$7.3 million in the first half of fiscal 2009, compared to \$5.0 million in the first half of fiscal 2008. In July 2007, we decided to exit production for certain Chrysler products at the expiration of our manufacturing commitment, but, at the request of the customer, agreed to produce until production was transferred to other suppliers. Therefore, the first half of fiscal 2009 had 6 months of price increases and the first half of fiscal 2008 only had four months of price increases. The transfer of the Chrysler product is expected to be completed by the end of the third quarter of fiscal 2009. The Interconnect segment net sales increased \$5.9 million, or 9.6% to \$67.6 million in the first half of fiscal 2009 as compared to \$61.7 million in the first half of fiscal 2008. The increase is primarily due to the acquisition of Hetric, which was purchased on September 30, 2008 and increased net sales in our TouchSensor business, which launched a new product line for an existing customer in the first half of fiscal 2009. The Power Products segment was favorably impacted by the VEP business that was acquired on August 31, 2007. Translation of foreign operations net sales in

**Table of Contents****Consolidated Results Continued**

the six months ended November 1, 2008 increased reported net sales by \$4.7 million or 1.8% due to currency rate fluctuations.

*Other Income.* Other income increased \$1.0 million, or 142.9%, to \$1.7 million for the six months ended November 1, 2008 from \$0.7 million for six months ended October 27, 2007. Other income consisted primarily of earnings from engineering design fees and royalties.

*Cost of Products Sold.* Consolidated cost of products sold decreased \$1.0 million, or 0.5%, to \$203.2 million for the six months ended November 1, 2008 from \$204.2 million for the six months ended October 27, 2007. The decrease is due to the lower sales volumes. Consolidated cost of products sold as a percentage of sales was 79.4% for the six months ended November 1, 2008 and 79.1% for the six months ended October 27, 2007. The Automotive segment cost of products sold as a percentage of sales was impacted by favorable pricing from the Chrysler business during the first half of fiscal 2009. Cost of products sold as a percentage of net sales is higher to due to lower sales volumes in the Automotive segment, unfavorable product mix and production costs for the Power Products segment, which is partially offset by favorable costs for Hetronic, which has a lower cost of goods sold as a percentage of sales compared to other businesses.

*Gross Margins (including other income).* Consolidated gross margins (including other income) decreased \$0.5 million, or 0.9%, to \$54.3 million for the six months ended November 1, 2008 as compared to \$54.8 million for the six months ended October 27, 2007. Gross margins as a percentage of net sales were 21.2% for both the six months ended November 1, 2008 and the six months ended October 27, 2007. Gross margins were impacted by favorable pricing and sales volumes related to the Chrysler business in the first half of fiscal 2009 compared to the first half of fiscal 2008, offset by lower automotive segment sales and unfavorable product mix and production costs for the Power Products segment.

*Selling and Administrative Expenses.* Selling and administrative expenses increased \$3.1 million, or 9.7%, to \$35.2 million for the six months ended November 1, 2008 compared to \$32.1 million for the six months ended October 27, 2007. The increase relates to the Hetronic acquisition, as well as higher amortization expense for the TouchSensor and VEP acquisitions, purchased on February 28, 2007 and August 31, 2007, respectively. In addition, management positions were filled for our testing facilities in the first half of fiscal 2009, which were vacant in the first half of fiscal 2008. Selling and administrative expenses as a percentage of net sales increased to 13.8% in the six months ended November 1, 2008 from 12.4% for the six months ended October 27, 2007.

*Restructuring.* On January 24, 2008, we announced a restructuring of our U.S.-based automotive operations and the decision to discontinue producing certain legacy products in the Interconnect segment. During the six months ended November 1, 2008, we recorded a restructuring charge of \$11.2 million, which consisted of \$4.4 million for employee severance, \$5.9 million for impairment and accelerated depreciation for buildings and improvements and machinery and equipment, \$0.2 million for inventory write-downs and \$0.7 million relating to professional fees.

*Interest Income, Net.* Net interest income was \$1.0 million for both the six months ended November 1, 2008 and six months ended October 27, 2007. The average cash balance was \$105.3 million during the six months ended November 1, 2008 as compared to \$73.4 million during the six months ended October 27, 2007. The average interest rate earned in the six months ended November 1, 2008 was 2.14% compared to 3.32% in the six months ended October 27, 2007. The portfolio was weighted more heavily to tax-exempt investments in the first half of fiscal 2009 as compared to the first half of fiscal 2008. The average interest rate earned includes both taxable interest and tax-exempt municipal interest. Interest expense was \$0.1 million for both periods.

*Other, Net.* Other, net was income of \$1.6 million for the six months ended November 1, 2008, compared to an expense of \$1.2 million for the six months ended October 27, 2007. The increase is primarily due to the strengthening of the U.S. dollar versus the Euro and Czech koruna during the first half of fiscal 2009 as compared to the first half of fiscal 2008. The functional currencies of these operations are the British pound, Chinese yuan, Czech koruna, Euro, Mexican peso and Singapore dollar. Some foreign operations have transactions denominated in currencies other than their functional currencies, primarily sales in U.S. dollars and Euros, creating exchange rate sensitivities.

**Table of Contents****Consolidated Results Continued**

At November 1, 2008, approximately \$5.9 million was invested in an enhanced cash fund sold as an alternative to traditional money-market funds. We have historically invested a portion of our on hand cash balances in this fund. These investments are subject to credit, liquidity, market and interest rate risk. Based on the information available to us, we have estimated the fair value of this fund at \$0.8820 per unit as of November 1, 2008. During the first six months of the fiscal year, we recorded a loss of \$0.5 million, of which \$0.2 million was realized on partial redemptions of \$6.4 million, and \$0.3 was unrealized.

*Income Taxes.* The effective income tax rate was 9.8% in the first half of fiscal 2009 compared with 24.1% in the first half of fiscal 2008. The income tax rate in the first half of fiscal 2009 benefited due to restructuring charges and slowing business in our U.S. based businesses, causing a smaller income before income taxes. The effective tax rates for both fiscal 2009 and 2008 reflect utilization of foreign investment tax credits and the effect of lower tax rates on income of the Company's foreign earnings and a higher percentage of earnings at those foreign operations.

*Net Income.* Net income decreased \$7.6 million, or 44.4%, to \$9.5 million for the six months ended November 1, 2008 as compared to \$17.1 million for the six months ended October 27, 2007 due to the restructuring charges and higher selling and administrative expenses, partially offset by automotive segment price increases. Net income as a percentage of sales decreased to 3.7% for the six months ended November 1, 2008 as compared to 6.6% for the six months ended October 27, 2007.

**Operating Segments****Automotive Segment Results**

Below is a table summarizing results for the six months ended:

(in millions)

	November 1, 2008	October 27, 2007	Net Change	Net Change
Net sales	\$ 159.9	\$ 172.7	\$ (12.8)	-7.4%
Cost of products sold	127.8	137.8	(10.0)	-7.3%
Gross margins	32.1	34.9	(2.8)	-8.0%
Income before income taxes and restructuring	\$ 26.6	\$ 25.0	\$ 1.6	6.4%
Restructuring	(7.5)		(7.5)	0.0%
Income before income taxes	\$ 19.1	\$ 25.0	\$ (5.9)	-23.6%

	November 1, 2008	October 27, 2007
Percent of sales:		
Net sales	100.0%	100.0%
Cost of products sold	79.9%	79.8%
Gross margins	20.1%	20.2%
Income before income taxes and restructuring	16.6%	14.5%
Restructuring	-4.7%	0.0%
	11.9%	14.5%

Income before income  
taxes

*Net Sales.* Automotive segment net sales decreased \$12.8 million, or 7.4%, to \$159.9 million for the six months ended November 1, 2008 from \$172.7 million for the six months ended October 27, 2007. The decline is attributable to the softening of the global economic environment, especially the effect on the North American

32

---

**Table of Contents****Automotive Segment Results Continued**

automotive industry. Recently, the Detroit 3 automakers reported volume declines of between 30 to 40 percent. North American net sales have declined in the first half of fiscal 2009 as compared to fiscal 2008 by 11.5%. The Automotive segment net sales were negatively impacted by anticipated lower Chrysler sales, but, were also favorably impacted by price increases of \$7.3 million in the first half of fiscal 2009, compared to \$5.0 million in the first half of fiscal 2008. In July 2007, we decided to exit production for certain Chrysler products at the expiration of our manufacturing commitment, but, at the request of the customer, agreed to produce until production was transferred to other suppliers. Therefore, the first half of fiscal 2009 had 6 months of price increases and the first half of fiscal 2008 only had four months of price increases. The transfer of the Chrysler product is expected to be completed by the end of the third quarter of fiscal 2009. Excluding the Chrysler sales volume increases, North American net sales declined 18.3% in the first half of fiscal 2009 compared to the first half of fiscal 2008. Net sales declined in Europe and Asia by 1.4% and 13.1%, respectively in the first half of fiscal 2009 compared to the first half of fiscal 2008. Translation of foreign operations net sales in the six months ended November 1, 2008 increased reported net sales by \$3.9 million, or 2.2%, due to currency rate fluctuations.

*Cost of Products Sold.* Automotive segment cost of products sold decreased \$10.0 million to \$127.8 million for the six months ended November 1, 2008 from \$137.8 for the six months ended October 27, 2007. The decrease relates to lower sales volumes. Automotive segment costs of products sold as a percentage of sales decreased to 79.9% for the six months ended November 1, 2008 from 79.8% for the six months ended October 27, 2007. Automotive segment cost of products sold as a percentage of sales was impacted by favorable Chrysler sales price increases in the first half of fiscal 2009 as compared to the first half of fiscal 2008. The favorable sales price offset higher production cost due to lower volumes in the first half of fiscal 2009 as compared to the same period last year.

*Gross Margins.* Automotive segment gross margins decreased \$2.8 million, or 8.0%, to \$32.1 million for the six months ended November 1, 2008 as compared to \$34.9 million for the six months ended October 27, 2007. Gross margins as a percentage of net sales decreased to 20.1% for the six months ended November 1, 2008 from 20.2% for the six months ended October 27, 2007. Automotive segment gross margins as a percentage of sales was impacted by favorable Chrysler sales price increases in the first half of fiscal 2009 as compared to the first half of fiscal 2008. The favorable sales price increases offset higher production cost due to lower volumes in the first half of fiscal 2009 as compared to the same period last year.

*Restructuring.* On January 24, 2008, we announced a restructuring of our U.S.-based automotive operations. During the fiscal half year ended November 1, 2008, we recorded a restructuring charge of \$7.5 million, which consisted of \$3.2 million for employee severance, \$3.7 million for impairment and accelerated depreciation for buildings, building improvements and machinery and equipment and \$0.6 million for professional fees. We expect the restructuring to be completed during fiscal 2010.

*Income Before Income Taxes.* Automotive segment income before income taxes decreased \$5.9 million, or 23.6%, to \$19.1 million for the six months ended November 1, 2008 compared to \$25.0 million for the six months ended October 27, 2007 due to restructuring expenses, decreased net sales, higher production costs, partially offset by the price increases.



**Table of Contents****Interconnect Segment Results**

Below is a table summarizing results for the six months ended:  
(in millions)

	November 1, 2008	October 27, 2007	Net Change	Net Change
Net sales	\$ 67.6	\$ 61.7	\$ 5.9	9.6%
Cost of products sold	49.8	47.3	2.5	5.3%
Gross margins	17.8	14.4	3.4	23.6%
Income before income taxes and restructuring	\$ 1.5	\$ 3.6	\$ (2.1)	-58.3%
Restructuring	(3.7)		(3.7)	0.0%
Income/(loss) before income taxes	\$ (2.2)	\$ 3.6	\$ (5.8)	-161.1%

	November 1, 2008	October 27, 2007
Percent of sales:		
Net sales	100.0%	100.0%
Cost of products sold	73.7%	76.7%
Gross margins	26.3%	23.3%
Income before income taxes and restructuring	2.2%	5.8%
Restructuring	-5.5%	0.0%
Income before income taxes	-3.3%	5.8%

*Net Sales.* Interconnect segment net sales increased \$5.9 million, or 9.6%, to \$67.6 million for the six months ended November 1, 2008 from \$61.7 million for the six months ended October 27, 2007. Net sales were favorably impacted by the acquisition of Hetronic on September 30, 2008. Excluding Hetronic, North American net sales increased 2.8%, Asia increased 15.0% and Europe declined 4.8% in the first half of fiscal 2009 as compared to the first half of fiscal 2008. The European net sales decline was primarily due to our Optical businesses. Translation of foreign operations net sales in the six months ended November 1, 2008 increased reported net sales by \$0.8 million, or 1.3%, due to currency rate fluctuations.

*Cost of Products Sold.* Interconnect segment cost of products sold increased \$2.5 million to \$49.8 million for the six months ended November 1, 2008 compared to \$47.3 million for the six months ended October 27, 2007. The majority of the increase is due to higher net sales. Interconnect segment cost of products sold as a percentage of net sales decreased to 73.7% for the six months ended November 1, 2008 compared to 76.7% for the six months ended October 27, 2007. The decrease in cost of products sold as a percentage of net sales is due primarily to Hetronic, which has a lower cost of goods sold as a percentage of sales compared to the other Interconnect businesses.

*Gross Margins.* Interconnect segment gross margins increased \$3.4 million, or 23.6%, to \$17.8 million for the six months ended November 1, 2008 as compared to \$14.4 million for the six months ended October 27, 2007. Gross margins as a percentage of net sales increased to 26.3% for the six months ended November 1, 2008 from 23.3% for the six months ended October 27, 2007. The increase in gross margins as a percentage of net sales is due primarily to

Hetronic, which has higher gross margins compared to the other Interconnect businesses.

*Restructuring.* On January 24, 2008, we announced our decision to discontinue producing certain legacy products in the Interconnect segment. During the fiscal first half ended November 1, 2008, we recorded a restructuring charge of \$3.7 million, which consisted of \$1.2 million for employee severance, \$2.2 million for impairment and accelerated depreciation for buildings, building improvements and machinery and equipment, \$0.2 million for inventory write-downs and \$0.1 relating to professional fees. We expect the restructuring to be completed by the fourth quarter of fiscal 2009.

**Table of Contents****Interconnect Segment Results Continued**

*Income/(Loss) Before Income Taxes.* Interconnect income before income taxes decreased \$5.8 million, or 161.1%, to a loss of \$2.2 million for the six months ended November 1, 2008 compared to income of \$3.6 million for the six months ended October 27, 2007 due to restructuring, \$1.5 million of increased amortization expense, partially offset by higher gross margins.

**Power Products Segment Results**

Below is a table summarizing results for the six months ended:

(in millions)

	November 1, 2008	October 27, 2007	Net Change	Net Change
Net sales	\$ 23.6	\$ 20.7	\$ 2.9	14.0%
Cost of products sold	19.2	15.0	4.2	28.0%
Gross margins	4.4	5.7	(1.3)	-22.8%
Income before income taxes	\$ 1.3	\$ 4.0	\$ (2.7)	-67.5%

	November 1, 2008	October 27, 2007
Percent of sales:		
Net sales	100.0%	100.0%
Cost of products sold	81.4%	72.5%
Gross margins	18.6%	27.5%
Income before income taxes	5.5%	19.3%

*Net Sales.* Power Products segment net sales increased \$2.9 million to \$23.6 million for the six months ended November 1, 2008 from \$20.7 million for the six months ended October 27, 2007. Net sales were favorably impacted by the VEP acquisition on August 31, 2007. Excluding VEP, Power Products net sales increased 8.2% in the second quarter of fiscal 2009 as compared to the second quarter of fiscal 2008 due to strong net sales from our Asian operation.

*Cost of Products Sold.* Power Products segment cost of products sold increased \$4.2 million, or 28.0%, to \$19.2 million for the six months ended November 1, 2008 compared to \$15.0 million for the six months ended October 27, 2007. The Power Products segment cost of products sold as a percentage of sales increased to 81.4% for the six months ended November 1, 2008 from 72.5% for the six months ended October 27, 2007. The increase is partially due to a product which reached end-of-life at the end of fiscal 2008 and had a lower cost as a percentage of sales than the remaining sales during the first half of fiscal 2009. In addition, we experienced an unfavorable product mix in our busbar businesses, as well as, increased shipping and distribution costs.

*Gross Margins.* Power Products segment gross margins decreased \$1.3 million, or 22.8%, to \$4.4 million for the six months ended November 1, 2008 as compared to \$5.7 million for the six months ended October 27, 2007. Gross margins as a percentage of net sales decreased to 18.6% for the six months ended November 1, 2008 from 27.5% for the six months ended October 27, 2007. The decrease is due to a product which reached end-of-life at the end of fiscal 2008 and had higher gross margins than the remaining sales and gross margins during the first half of fiscal 2009. We also experienced an unfavorable product mix, labor costs, as well as, shipping and distribution costs.

*Income Before Income Taxes.* Power Products segment income before income taxes decreased by \$2.7 million or 67.5% to \$1.3 million for the six months ended November 1, 2008 from \$4.0 million for the six months ended

October 27, 2007 due to decreased sales of products which became end-of-life at the end of fiscal year 2008, higher material, labor and shipping costs, higher commission expense and expenses related to Tribotek, which was acquired on March 30, 2008.

**Table of Contents****Other Segment Results**

Below is a table summarizing results for the six months ended:  
(in millions)

	November 1, 2008	October 27, 2007	Net Change	Net Change
Net sales	\$ 4.7	\$ 3.2	\$ 1.5	46.9%
Cost of products sold	4.6	3.1	1.5	48.4%
Gross margins	0.1	0.1	0.0	0.0%
Loss before income taxes	\$ (1.3)	\$ (0.7)	\$ (0.6)	85.7%

	November 1, 2008	October 27, 2007
Percent of sales:		
Net sales	100.0%	100.0%
Cost of products sold	97.9%	96.9%
Gross margins	2.1%	3.1%
Loss before income taxes	-27.7%	-21.9%

*Net Sales.* The Other segment net sales increased \$1.5 million to \$4.7 million for the six months ended November 1, 2008 as compared to \$3.2 million for the six months ended October 27, 2007. Net sales from our torque-sensing business increased 214.3% and net sales from our testing facilities increased 21.7% in the first half of fiscal 2009 as compared to the first half of fiscal 2008.

*Cost of Products Sold.* Other segment cost of products sold increased \$1.5 million to \$4.6 million for the six months ended November 1, 2008 compared to \$3.1 million for the six months ended October 27, 2007. The majority of the increase is due to continued investment initiatives in our torque-sensing business.

*Gross Margins.* The Other segment gross margins were \$0.1 million for both the six months ended November 1, 2008 and October 27, 2007. Gross margins were flat in the first half of fiscal 2009 due to the increased sales for both the torque-sensing business and the testing facilities, offset by increased investments in our torque-sensing business.

*Loss Before Income Taxes.* The Other segment loss before income taxes was \$1.3 million for the six months ended November 1, 2008 compared to \$0.7 million for the six months ended October 27, 2007. The increase in the loss before income taxes is due to additional support staff for our North American testing facilities as well as a new testing facility that was opened in Shanghai, China in the second quarter of fiscal 2009.

**Liquidity and Capital Resources**

We have historically financed our cash requirements through cash flows from operations. We are currently pursuing opportunities to expand our business through acquisitions. If we are successful, our cash position will be reduced. Our future capital requirements will depend on a number of factors, including our future net sales and the timing and the severity of the current global economic crisis and the financial and business problems of major customers. We believe our current cash balances together with the cash flow expected to be generated from future domestic and foreign operations will be sufficient to support current operations. We have an agreement with our primary bank for a committed \$75.0 million revolving credit facility to provide ready financing for general corporate purposes, including acquisition opportunities that may become available. The bank credit agreement, which expires on January 31, 2011, requires maintenance of certain financial ratios and a minimum net worth level. At November 1, 2008, the Company was in compliance with these covenants and there were no borrowings against this credit facility.

At November 1, 2008, approximately \$5.9 million was invested in an enhanced cash fund sold as an alternative to traditional money-market funds. We have historically invested a portion of our on hand cash balances in this fund. These investments are subject to credit, liquidity, market and interest rate risk. In December 2007, the fund was overwhelmed with withdrawal requests from investors and was closed with a restriction placed upon the

**Table of Contents****Liquidity and Capital Resources Continued**

cash redemption ability of its holders. Based on the information available to us, we have estimated the fair value of this fund at \$0.8820 per unit as of November 1, 2008. During the second quarter, we recorded a loss of \$0.5 million, of which \$0.2 million was realized on partial redemptions of \$3.8 million, and \$0.3 million was unrealized. For the first six months of the fiscal year, we recorded a loss of \$0.5 million, of which \$0.2 million was realized on partial redemptions of \$6.4 million, and \$0.3 million was unrealized.

The latest information from fund management states that its goal is to have 83% of the portfolio liquidated by December 2008 and 90% by June 2009. Information and the markets relating to these investments remain dynamic, and there may be further declines in the value of these investments, the value of the collateral held by these entities, and the liquidity of our investments. To the extent we determine that there is a further decline in fair value, we may recognize additional losses in future periods.

Net cash provided by operating activities decreased \$12.7 million, or 30.2%, to \$29.4 million for the first six months of fiscal 2009 compared to \$42.1 million in the first six months of fiscal 2008. Our net income decreased \$7.6 million, or 44.4%, to \$9.5 million in the first six months of fiscal 2009 compared to \$17.1 million for the first six months of fiscal 2008. In the first quarter of fiscal 2008, we received a significant prepayment from a customer for products that were delivered during the fiscal year. The primary factor in the Company's ability to generate cash from operations is our net income. Additionally, cash flows from operations exceed net income because non-cash charges (depreciation, amortization of intangibles, restricted stock awards, and stock options) negatively impact net income but do not result in the use of cash. Similarly, non-cash credits such as deferred income tax benefits increase net income but do not provide cash. Additional contributors or offsets to cash flows from operations are working capital requirements.

Net cash used in investing activities during the first six months of fiscal 2009 was \$66.8 million compared to \$18.2 million for the first six months of fiscal 2008. Purchases of plant and equipment was \$9.6 million and \$10.1 million for the first six months of fiscal 2009 and 2008, respectively. On September 30, 2008, we acquired certain assets of Hetric LLC (Hetric) for \$53.6 million in cash. We also incurred \$2.4 million in transaction costs related to the purchase. In the first six months of fiscal 2009, we made a contingent payment of \$0.8 million related to the VEP acquisition. In the first six months of fiscal 2008, we made a contingent payment of \$0.3 million related to the acquisition of Cableco Technologies. In the first six months of fiscal 2008, a dividend payment of \$1.0 million was paid relating to our automotive joint venture.

Net cash used in financing activities during the first six months in fiscal 2009 was \$9.5 million compared with \$2.4 million in the first six months of fiscal 2008. Our Board of Directors approved a stock repurchase plan on September 18, 2008 to repurchase up to 3,000,000 shares. There were 639,880 shares purchased for \$5.1 million during the second quarter of fiscal 2009 at an average price of \$8.03 per share. Proceeds from the exercise of stock options decreased \$1.0 million to \$0.1 million for the first six months of fiscal 2009 as compared to \$1.0 million in the first six months of fiscal 2008. In addition, cash dividends increased \$0.8 million in the first six months of fiscal 2009 to \$4.5 million, compared to \$3.8 million in the first six months of fiscal 2008. In September 2008, the Board of Directors announced that the dividend increased from \$0.05 per share to \$0.07 per share for the second quarter fiscal 2009 payout.

**Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements, other than operating leases and purchase obligations entered into in the normal course of business.

**Item 3. Quantitative And Qualitative Disclosures About Market Risk**

Certain of our foreign operations enter into transactions in currencies other than their functional currency, primarily the U.S. dollar and the Euro. A 10% change in foreign currency exchange rates from balance sheet date levels could impact our income before income taxes by \$1.9 million and \$1.1 million for periods ended November 1, 2008 and May 3, 2008, respectively. We also have foreign currency exposure arising from the translation of our net equity investment in our foreign operations to U.S. dollars. We generally view our investments in foreign operations with functional currencies other than the U.S. dollar as long-term. The currencies to which we are exposed are the British pound, Chinese yuan, Czech koruna, Euro, Mexican peso, and Singapore dollar. A 10%





**Table of Contents**

change in foreign currency exchange rates from balance sheet date levels could impact our net foreign investments by \$14.1 million at November 1, 2008 and \$15.1 million at May 3, 2008.

**Item 4. Controls And Procedures**

As of the end of the period covered by this quarterly report on Form 10-Q, we performed an evaluation under the supervision and with the participation of the Company's management, including our Chief Executive Officer and our Chief Financial Officer, of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934). The Company's disclosure controls and procedures are designed to ensure that the information required to be disclosed by the Company in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's applicable rules and forms. As a result of this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective.

There have been no changes in our internal control over financial reporting during the quarter ended November 1, 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents**

## PART II. OTHER INFORMATION

## Item 2. Unregistered Sales Of Equity Securities And Use Of Proceeds

## c) Purchase of equity securities by the issuer and affiliated purchasers.

Period	Total Number of Shares Purchased (1)(2)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
August 3, 2008 through August 30, 2008	122	\$ 11.54		
August 31, 2008 through October 4, 2008				
October 5, 2008 through November 2, 2008	639,880	\$ 8.03	639,880	2,360,120
	640,002	\$ 8.03	639,880	2,360,120

(1) The amount represents the repurchase and cancellation of shares of common stock redeemed by the Company for the payment of minimum withholding taxes on the value of restricted stock awards vesting during the period.

(2) On September 18, 2008, the Company adopted a plan

to repurchase up  
to 3 million  
shares of its  
common stock.

The plan expires  
on May 1, 2010.

Item 4. Submission Of Matters To A Vote Of Security Holders

(a) The 2008 Annual Stockholders Meeting of the Company was held on September 18, 2008.

(c) At the Annual Stockholders Meeting, the common stockholders voted on the following uncontested matters.

**Table of Contents**

## Item 4. Submission Of Matters To A Vote Of Security Holders Continued

## 1. Election of the below named nominees to the Board of Directors of the Company:

	<b>For</b>	<b>Withheld</b>
Aspatore, Walter J.	33,748,922	1,787,465
Batts, Warren L.	35,456,505	79,882
Colgate, J. Edward	35,363,860	172,527
Dawson, Darren M.	35,350,965	185,422
Duda, Donald W.	35,435,347	101,040
Goossen, Isabelle C.	35,223,493	312,894
Hornung, Christopher J.	35,382,865	153,522
Shelton, Paul G.	35,225,204	311,183
Skatoff, Lawrence B.	35,236,058	300,329

## 2. Ratification of Ernst &amp; Young LLP to serve as the Company's independent registered public accounting firm for the fiscal year ending May 2, 2009:

<b>For</b>	<b>Against</b>	<b>Abstain</b>
31,713,859	3,588,017	234,511
	40	

---

**Table of Contents**

Item 6. Exhibits

Exhibit

Number	Description
31.1	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer
32	Certification of Periodic Financial Report Pursuant to 18 U.S.C. Section 1350

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

METHODE ELECTRONICS, INC.

By: */s/ Douglas A. Koman*  
Douglas A. Koman  
Chief Financial Officer  
(principal financial officer)

Dated: December 9, 2008

**Table of Contents**

INDEX TO EXHIBITS

Exhibit Number	Description
31.1	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer
32	Certification of Periodic Financial Report Pursuant to 18 U.S.C. Section 1350

43