

METHODE ELECTRONICS INC
Form 10-Q/A
June 29, 2009
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

Amendment #1

(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.)

Edgar Filing: METHODE ELECTRONICS INC - Form 10-Q/A

Delaware
(State or other jurisdiction of
incorporation or organization)

36-2090085
(I.R.S. Employer
Identification No.)

7401 West Wilson Avenue, Harwood Heights, Illinois
(Address of principal executive offices)

60706-4548
(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 smaller reporting company. See definitions of "accelerated filer", "large 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

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.

Table of Contents

METHODE ELECTRONICS, INC.

FORM 10-Q/A

November 1, 2008

TABLE OF CONTENTS

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
	Page
	3
<u>Item 1.</u>	4
	5
	6
	7
<u>Item 2.</u>	26
<u>PART II. OTHER INFORMATION</u>	
<u>Item 6.</u>	45
<u>SIGNATURES</u>	46
<u>INDEX TO EXHIBITS</u>	47

Table of Contents

EXPLANATORY NOTE:

We are filing this first amendment to our quarterly report on Form 10-Q for the six months ended November 1, 2008 to restate our condensed consolidated financial statements for the three and six months then ended. In the course of preparing our financial statements for our annual report on Form 10-K to be filed with the Securities and Exchange Commission (SEC) for the fiscal year ended May 2, 2009, we discovered an error related to unrealized currency exchange losses arising from an intercompany loan between our corporate headquarters and one of our foreign subsidiaries in conjunction with a recent acquisition of Hetronic, L.L.C., purchased on September 30, 2008. The loan amount was \$20,858,304. Due to the U.S. Dollar increasing versus the Euro, from 0.6923 on September 30, 2008 to 0.7850 on November 1, 2008, an unrealized currency loss of \$2,463,140 should have been recorded during the second quarter. The restatements to include this unrecorded currency loss have a significant impact to our previously reported condensed consolidated balance sheets and condensed consolidated statement of income for the three and six months ended November 1, 2008. Note 2 of this Form 10-Q/A discloses previously reported results as well as the restated results in our unaudited Condensed Consolidated Financial Statements for the three and six months ended November 1, 2008.

No attempt has been made in the Form 10-Q/A to update disclosures presented in the original Form 10-Q as filed except those items affected by the recognition of the previously unrecorded loan currency loss. Furthermore, this Form 10-Q/A does not reflect events occurring after the original filing except as disclosed in the original Form 10-Q, including any changes to the exhibits affected by subsequent events. Therefore, the exhibits have not been included with this Form 10-Q/A with the exception of Exhibits 31.1, 31.2 and 32.1 new certificates by our principal executive officer and principal financial officer as required by Rule 13a-14 promulgated under the Securities Exchange Act of 1934, as amended. Accordingly, this Form 10-Q/A should be read in conjunction with our other filings made with the SEC subsequent to the filing of the original Form 10-Q, including any amendments to those filings.

Table of ContentsPART I - FINANCIAL INFORMATION

Item 1 - Financial Statements

METHODE ELECTRONICS, INC AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

	Restated (Note 2) November 1, 2008 (Unaudited)	May 3, 2008
ASSETS		
CURRENT ASSETS		
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
TOTAL CURRENT ASSETS	209,015	260,817
PROPERTY, PLANT AND EQUIPMENT	288,166	308,264
Less allowances for depreciation	207,762	217,984
	80,404	90,280
GOODWILL	68,085	54,476
INTANGIBLE ASSETS, net	54,184	41,282
OTHER ASSETS	26,144	23,365
	148,413	119,123
	\$ 437,832	\$ 470,220
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 32,922	\$ 42,810
Other current liabilities	25,654	33,902
TOTAL CURRENT LIABILITIES	58,576	76,712
OTHER LIABILITIES	17,211	13,833
DEFERRED COMPENSATION	4,561	6,890
SHAREHOLDERS' EQUITY		
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

Edgar Filing: METHODE ELECTRONICS INC - Form 10-Q/A

Retained earnings	268,363	265,838
Accumulated other comprehensive income	13,935	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	
	Restated (Note 2) November 1, 2008	October 27, 2007	Restated (Note 2) November 1, 2008	October 27, 2007
INCOME				
Net sales	\$ 121,304	\$ 133,239	\$ 255,818	\$ 258,248
Other	959	527	1,692	673
	122,263	133,766	257,510	258,921
COSTS AND EXPENSES				
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	(610)	(941)	(879)	(1,161)
Income before income taxes	(627)	11,429	8,086	22,501
Income taxes/(benefit)	(865)	2,623	1,032	5,423
NET INCOME	\$ 238	\$ 8,806	\$ 7,054	\$ 17,078
Amounts per common share:				
Basic net income	\$ 0.01	\$ 0.24	\$ 0.19	\$ 0.46
Diluted net income	\$ 0.01	\$ 0.24	\$ 0.19	\$ 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	
	Restated (Note 2) November 1, 2008	October 27, 2007
OPERATING ACTIVITIES		
Net income	\$ 7,054	\$ 17,078
Adjustments to reconcile net income to net cash provided by operating activities:		
Non-cash translation loss	2,463	
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
NET CASH PROVIDED BY OPERATING ACTIVITIES	29,415	42,119
INVESTING ACTIVITIES		
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)
NET CASH USED IN INVESTING ACTIVITIES	(66,776)	(18,164)
FINANCING ACTIVITIES		
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)
NET CASH USED IN FINANCING ACTIVITIES	(9,509)	(2,446)
Effect of foreign currency exchange rate changes on cash	(4,629)	1,250
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(51,499)	22,759
Cash and cash equivalents at beginning of period	104,305	60,091
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 52,806	\$ 82,850

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. RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

We have restated our balance sheet as of November 1, 2008 and the related statement of income and cash flows. We discovered an error related to unrealized currency exchange losses arising from an intercompany loan between our corporate headquarters and one of our foreign subsidiaries in conjunction with a recent acquisition of Hetric, L.L.C., purchased on September 30, 2008. The loan amount was \$20,858. Due to the U.S. Dollar increasing versus the Euro, from 0.6923 on September 30, 2008 to 0.7850 on November 1, 2008, an unrealized currency loss of \$2,463 should have been recorded during the second quarter.

The effects of the restatement are as follows:

- Adjustment to the November 1, 2008 condensed consolidated balance sheet decreases retained earnings by \$2,463 from \$270,826 as previously reported, to \$268,363 and increases the accumulated other comprehensive income by \$2,463 from \$11,472 as previously reported, to \$13,935.

Edgar Filing: METHODE ELECTRONICS INC - Form 10-Q/A

- Adjustment to the three months ended November 1, 2008 condensed consolidated statement of income decreases other income by \$2,463 from \$1,853 as previously reported to an expense of \$610. Net income for the three months ended November 1, 2008 decreased \$2,463 from \$2,701 as previously reported to \$238. Basic and diluted earnings per share both decreased \$0.06, from \$0.07 as previously reported to \$0.01.
- Adjustment to the six months ended November 1, 2008 condensed consolidated statement of income decreases other income by \$2,463 from \$1,584 as previously reported to an expense of \$879. Net income for the six months ended November 1, 2008 decreased \$2,463 from \$9,517 as previously reported to \$7,054. Basic earnings per share decreased \$0.07, from \$0.26 as previously reported to \$0.19. Diluted earnings per share decreased \$0.06, from \$0.25 as previously reported to \$0.19.
- Adjustment to the six months ended November 1, 2008 condensed consolidated statement of cash flows decreases net income by \$2,463, from \$9,517 as previously reported to \$7,054. In addition, a non-cash charge of \$2,463 was added back to the operating activities section of the condensed consolidated statement of cash flows.

Table of Contents

METHODE ELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Dollar amounts in thousands, except share data)

The effect of the adjustments discussed on the previous page for the Condensed Consolidated Balance Sheet at November 1, 2008 is illustrated below:

METHODE ELECTRONICS, INC AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

	As Reported November 1, 2008 (Unaudited)	Adjustment	Restated November 1, 2008
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 52,806	\$	\$ 52,806
Accounts receivable, net	73,599		73,599
Inventories:			
Finished products	17,369		17,369
Work in process	17,681		17,681
Materials	32,993		32,993
	68,043		68,043
Deferred income taxes	8,485		8,485
Prepaid expenses and other current assets	6,082		6,082
TOTAL CURRENT ASSETS	209,015		209,015
PROPERTY, PLANT AND EQUIPMENT	288,166		288,166
Less allowances for depreciation	207,762		207,762
	80,404		80,404
GOODWILL	68,085		68,085
INTANGIBLE ASSETS, net	54,184		54,184
OTHER ASSETS	26,144		26,144
	148,413		148,413
	\$ 437,832	\$	\$ 437,832
LIABILITIES AND SHAREHOLDERS EQUITY			
CURRENT LIABILITIES			
Accounts payable	\$ 32,922	\$	\$ 32,922
Other current liabilities	25,654		25,654
TOTAL CURRENT LIABILITIES	58,576		58,576
OTHER LIABILITIES	17,211		17,211

Edgar Filing: METHODE ELECTRONICS INC - Form 10-Q/A

DEFERRED COMPENSATION	4,561		4,561
SHAREHOLDERS' EQUITY			
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		19,141
Unearned common stock issuances	(4,257)		(4,257)
Additional paid-in capital	71,682		71,682
Retained earnings	270,826	(2,463)	268,363
Accumulated other comprehensive income	11,472	2,463	13,935
Treasury stock, 1,342,588 and 702,708 shares as of November 1, 2008 and May 3, 2008, respectively	(11,380)		(11,380)
	357,484		357,484
	\$ 437,832	\$	\$ 437,832

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)

The effect of the adjustments discussed above on the Condensed Consolidated Income Statement for the three months ended as of November 1, 2008 is illustrated below.

METHODE ELECTRONICS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(in thousands, except per share data)

	As Reported November 1, 2008	Three Months Ended Adjustment	Restated November 1, 2008
INCOME			
Net sales	\$ 121,304	\$	\$ 121,304
Other	959		959
	122,263		122,263
COSTS AND EXPENSES			
Cost of products sold	97,815		97,815
Restructuring	6,284		6,284
Selling and administrative expenses	18,650		18,650
	122,749		122,749
Income/(loss) from operations	(486)		(486)
Interest income, net	469		469
Other, net	1,853	(2,463)	(610)
Income before income taxes	1,836	(2,463)	(627)
Income taxes/(benefit)	(865)		(865)
NET INCOME	\$ 2,701	\$ (2,463)	\$ 238
Amounts per common share:			
Basic net income	\$ 0.07	\$ (0.06)	\$ 0.01
Diluted net income	\$ 0.07	\$ (0.06)	\$ 0.01
Cash dividends:			
Common stock	\$ 0.07		\$ 0.07

Edgar Filing: METHODE ELECTRONICS INC - Form 10-Q/A

Weighted average number of Common Shares outstanding:		
Basic	37,068	37,068
Diluted	37,551	37,551

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)

The effect of the adjustments discussed above on the Condensed Consolidated Income Statement for the six months ended November 1, 2008 is illustrated below.

METHODE ELECTRONICS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(in thousands, except per share data)

	As Reported November 1, 2008	Six Months Ended Adjustment	Restated November 1, 2008
INCOME			
Net sales	\$ 255,818	\$	\$ 255,818
Other	1,692		1,692
	257,510		257,510
COSTS AND EXPENSES			
Cost of products sold	203,245		203,245
Restructuring	11,201		11,201
Selling and administrative expenses	35,102		35,102
	249,548		249,548
Income/(loss) from operations	7,962		7,962
Interest income, net	1,003		1,003
Other, net	1,584	(2,463)	(879)
Income before income taxes	10,549	(2,463)	8,086
Income taxes/(benefit)	1,032		1,032
NET INCOME	\$ 9,517	\$ (2,463)	\$ 7,054
Amounts per common share:			
Basic net income	\$ 0.26	\$ (0.07)	\$ 0.19
Diluted net income	\$ 0.25	\$ (0.06)	\$ 0.19
Cash dividends:			
Common stock	\$ 0.07		\$ 0.07

Edgar Filing: METHODE ELECTRONICS INC - Form 10-Q/A

Weighted average number of Common Shares outstanding:		
Basic	37,120	37,120
Diluted	37,584	37,584

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)

The effect of the adjustments discussed above on the condensed consolidated cash flow statement for the six months ended as of November 1, 2008 is illustrated below.

METHODE ELECTRONICS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(in thousands)

	As Reported November 1, 2008	Six Months Ended Adjustment	Restated November 1, 2008
OPERATING ACTIVITIES			
Net income	\$ 9,517	\$ (2,463)	\$ 7,054
Adjustments to reconcile net income to net cash provided by operating activities:			
Non-cash translation loss		2,463	2,463
Provision for depreciation	12,489		12,489
Impairment of assets	3,177		3,177
Amortization of intangibles	3,052		3,052
Amortization of stock awards and stock options	1,605		1,605
Changes in operating assets and liabilities	(1,160)		(1,160)
Other	735		735
NET CASH PROVIDED BY OPERATING ACTIVITIES	29,415		29,415
INVESTING ACTIVITIES			
Purchases of property, plant and equipment	(9,557)		(9,557)
Proceeds from sale of building			
Acquisition of businesses	(56,785)		(56,785)
Acquisition of technology licenses	(225)		(225)
Joint venture dividend			
Other	(209)		(209)
NET CASH USED IN INVESTING ACTIVITIES	(66,776)		(66,776)
FINANCING ACTIVITIES			
Repurchase of common stock	(5,137)		(5,137)
Proceeds from exercise of stock options	110		110
Tax benefit from stock options and awards	46		46
Cash dividends	(4,528)		(4,528)
NET CASH USED IN FINANCING ACTIVITIES	(9,509)		(9,509)
Effect of foreign currency exchange rate changes on cash	(4,629)		(4,629)

Edgar Filing: METHODE ELECTRONICS INC - Form 10-Q/A

INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(51,499)	(51,499)
Cash and cash equivalents at beginning of period	104,305	104,305
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 52,806	\$ 52,806

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)

3. 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 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.

Edgar Filing: METHODE ELECTRONICS INC - Form 10-Q/A

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.

Table of Contents

METHODE ELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Dollar amounts in thousands, except share data)

3. RECENT ACCOUNTING PRONOUNCEMENTS - Continued

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.

4. 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 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.

Edgar Filing: METHODE ELECTRONICS INC - Form 10-Q/A

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.

Table of Contents

METHODE ELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Dollar amounts in thousands, except share data)

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

	One-Time Employee Benefits	Asset Write-Downs	Other Costs	Total
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

5. 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	
	Restated (Note 2) November 1, 2008	October 27, 2007	Restated (Note 2) November 1, 2008	October 27, 2007
Net income	\$ 238	\$ 8,806	\$ 7,054	\$ 17,078
Translation adjustment	(16,181)	4,309	(14,446)	4,061
Total comprehensive income/(loss)	\$ (15,943)	\$ 13,115	\$ (7,392)	\$ 21,139

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

Table of Contents

METHODE ELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Dollar amounts in thousands, except share data)

6. GOODWILL AND INTANGIBLE ASSETS - Continued

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.

Edgar Filing: METHODE ELECTRONICS INC - Form 10-Q/A

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)

6. 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

7. 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)

7. 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.

8. 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:

Edgar Filing: METHODE ELECTRONICS INC - Form 10-Q/A

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	Avg. 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)

8. 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)

8. 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)

9. 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	
	Restated (Note 2) November 1, 2008	October 27, 2007	Restated (Note 2) November 1, 2008	October 27, 2007
Numerator - net income	\$ 238	\$ 8,806	\$ 7,054	\$ 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	\$ 0.01	\$ 0.24	\$ 0.20	\$ 0.46
Diluted	\$ 0.01	\$ 0.24	\$ 0.19	\$ 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.

10. SEGMENT INFORMATION

Edgar Filing: METHODE ELECTRONICS INC - Form 10-Q/A

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.

Table of Contents

METHODE ELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Dollar amounts in thousands, except share data)

10. SEGMENT INFORMATION - Continued

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 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 Hetronic, which was funded by Corporate.

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

Edgar Filing: METHODE ELECTRONICS INC - Form 10-Q/A

	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)

10. SEGMENT INFORMATION - Continued

The table below presents information about our reportable segments:

	Three Months Ended November 1, 2008						Consolidated
	Restated (Note 2)	Inter-Connect	Power		Eliminations		
	Automotive		Distribution	Other			
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	\$ 10,528	\$ (638)	\$ 482	\$ (750)		\$ 9,622	
Restructuring	(4,351)	(1,933)				(6,284)	
Segment income (loss) including restructuring charge	\$ 6,177	\$ (2,571)	\$ 482	\$ (750)		\$ 3,338	
Corporate expenses, net						(3,965)	
Income before income taxes						\$ (627)	

	Three Months Ended October 27, 2007						Consolidated
	Automotive	Inter-Connect	Power		Eliminations		
			Distribution	Other			
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)

10. SEGMENT INFORMATION - Continued

	Six Months Ended November 1, 2008						Consolidated
	Restated (Note 2) Automotive	Inter-Connect	Power Distribution	Other	Eliminations		
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	\$ 24,126	\$ 1,536	\$ 1,284	\$ (1,332)	\$	\$ 25,614	
Restructuring	(7,514)	(3,687)				(11,201)	
Segment income (loss) including restructuring charge	\$ 16,612	\$ (2,151)	\$ 1,284	\$ (1,332)	\$	\$ 14,413	
Corporate expenses, net						(6,327)	
Income before income taxes						\$ 8,086	

	Six Months Ended October 27, 2007						Consolidated
	Automotive	Inter-Connect	Power Distribution	Other	Eliminations		
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	

11. 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)

12. 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.

13. 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)

13. FAIR VALUE MEASUREMENTS - Continued

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

	Recorded Value	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:				
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 \$27,769 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

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

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)

	Restated (Note 2) 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)	(0.6)	(0.9)	0.3	-33.3%
Income taxes - (benefit)/expense	(0.9)	2.6	(3.5)	-134.6%
Net income	\$ 0.2	\$ 8.8	\$ (8.6)	-97.7%

Restated (Note 2) November 1,	October 27,
-------------------------------------	-------------

Edgar Filing: METHODE ELECTRONICS INC - Form 10-Q/A

Percent of sales:	2008	2007
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%
Other, net	-0.5%	-0.7%
Income taxes	-0.7%	2.0%
Net income	0.2%	6.6%

Table of Contents

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 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 Hetric, 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 Hetric. 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 Hetric, 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

Table of Contents

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

Other, Net. As restated, Other, net was expense of \$0.6 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. During the second quarter of fiscal 2009, we recorded \$2.5 million of unrealized currency exchange losses arising from an intercompany loan between our corporate headquarters and one of our foreign subsidiaries in conjunction with a recent acquisition of Hetronic, L.L.C., purchased on September 30, 2008. In addition, the U.S. dollar strengthened 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. As restated, net income decreased \$8.6 million, or 97.7%, to \$0.2 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 and the unrealized currency exchange loss relating to the intercompany loan. Net income as a percentage of sales decreased to 0.2% 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)

	Restated (Note 2)					
	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	\$ 10.5	\$	13.3	\$	(2.8)	-21.1%
Restructuring	(4.4)				(4.4)	0.0%
Income before income taxes	\$ 6.1	\$	13.3	\$	(7.2)	-54.1%

	Restated (Note 2)			
Percent of sales:	November 1, 2008		October 27, 2007	
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	14.0%		14.8%	
Restructuring	-5.9%		0.0%	
Income before income taxes	8.1%		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,

Table of Contents

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 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. As restated, Automotive segment income before income taxes decreased \$7.2 million, or 54.1%, to \$6.1 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 and the unrealized currency exchange loss relating to the intercompany loan 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 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%
Percent of sales:		November 1, 2008		October 27, 2007			
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%			

Edgar Filing: METHODE ELECTRONICS INC - Form 10-Q/A

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.

Table of Contents

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 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 Hetric, 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 Hetric, 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%

Edgar Filing: METHODE ELECTRONICS INC - Form 10-Q/A

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

Table of Contents

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.

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%

Percent of sales:	November 1, 2008	October 27, 2007
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

Table of Contents

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.

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)

	Restated (Note 2) 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)	(0.9)	(1.2)	0.3	-25.0%
Income taxes - (benefit)/expense	1.0	5.4	(4.4)	-81.5%
Net income	\$ 7.0	\$ 17.1	\$ (10.1)	-59.1%

	Restated (Note 2) 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	-0.4%	-0.5%
Income taxes	0.4%	2.1%
Net income	2.7%	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

Table of Contents

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 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 Hetric, 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 Hetric 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.

Table of Contents

Other, Net. As restated, Other, net was an expense of \$0.9 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. During the second quarter of fiscal 2009, we recorded \$2.5 million of unrealized currency exchange losses arising from an intercompany loan between our corporate headquarters and one of our foreign subsidiaries in conjunction with a recent acquisition of Hetronic, L.L.C., purchased on September 30, 2008. In addition, the U.S. dollar strengthened 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 \$0.8820 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. As restated, net income decreased \$10.1 million, or 59.1%, to \$7.0 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, the unrealized currency exchange loss relating to the intercompany loan, partially offset by automotive segment price increases. Net income as a percentage of sales decreased to 2.7% for the six months ended November 1, 2008 as compared to 6.6% for the six months ended October 27, 2007.

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

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

(in millions)

	Restated (Note 2) 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	\$ 24.1	\$ 25.0	\$ (0.9)	-3.6%
Restructuring	(7.5)		(7.5)	0.0%
Income before income taxes	\$ 16.6	\$ 25.0	\$ (8.4)	-33.6%

	Restated (Note 2) 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	15.1%	14.5%
Restructuring	-4.7%	0.0%
Income before income taxes	10.4%	14.5%

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 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.

Table of Contents

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. As restated, Automotive segment income before income taxes decreased \$8.4 million, or 33.6%, to \$16.6 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, the unrealized currency exchange loss relating to the intercompany loan, partially offset by the price increases.

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%
Percent of sales:	November 1, 2008	October 27, 2007		

Edgar Filing: METHODE ELECTRONICS INC - Form 10-Q/A

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 Hetric on September 30, 2008. Excluding Hetric, 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.

Table of Contents

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 Hetric, 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 Hetric, 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.

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)

Edgar Filing: METHODE ELECTRONICS INC - Form 10-Q/A

	November 1, 2008		October 27, 2007		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%

Percent of sales:	November 1, 2008		October 27, 2007	
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.

Table of Contents

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.

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 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%

Percent of sales:	November 1, 2008		October 27, 2007	
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

Table of Contents

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 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.

As restated, 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. As restated, our net income decreased \$10.1 million, or 59.1%, to \$7.0 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 Hetronic LLC (Hetronic) 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

Table of Contents

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.

Table of Contents

PART II. OTHER INFORMATION

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: June 29, 2009

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