

METHODE ELECTRONICS INC

Form 10-Q

December 06, 2007

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

**FORM 10-Q**

(Mark One)

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended October 27, 2007**

**or**

**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.**

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

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

Delaware

36-2090085

(State or other jurisdiction of incorporation or organization)

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

7401 West Wilson Avenue, Harwood Heights, Illinois

60706-4548

(Address of principal executive offices)

(Zip Code)

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

None

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

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

Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

At December 4, 2007, Registrant had 37,967,834 shares of common stock outstanding.

METHODE ELECTRONICS, INC.  
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## Item 1 Financial Statements

## METHODE ELECTRONICS, INC AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

|  | October 27,<br>2007<br>(Unaudited) | April 28,<br>2007 |
|--|------------------------------------|-------------------|
| <b>ASSETS</b>                              |                                    |                   |
| <b>CURRENT ASSETS</b>                      |                                    |                   |
| Cash and cash equivalents                  | \$ 82,850                          | \$ 60,091         |
| Accounts receivable, net                   | 78,369                             | 79,180            |
| Inventories:                               |                                    |                   |
| Finished products                          | 11,080                             | 12,280            |
| Work in process                            | 24,592                             | 20,288            |
| Materials                                  | 20,990                             | 21,911            |
|  | 56,662                             | 54,479            |
| Deferred income taxes                      | 7,589                              | 6,868             |
| Prepaid expenses and other current assets  | 7,720                              | 8,823             |
| <b>TOTAL CURRENT ASSETS</b>                | <b>233,190</b>                     | <b>209,441</b>    |
| <b>PROPERTY, PLANT AND EQUIPMENT</b>       | <b>305,887</b>                     | <b>290,882</b>    |
| Less allowances for depreciation           | 216,691                            | 204,025           |
|  | 89,196                             | 86,857            |
| <b>GOODWILL</b>                            | <b>56,559</b>                      | <b>51,520</b>     |
| <b>INTANGIBLE ASSETS, net</b>              | <b>42,735</b>                      | <b>43,680</b>     |
| <b>OTHER ASSETS</b>                        | <b>22,062</b>                      | <b>20,242</b>     |
|  | 121,356                            | 115,442           |
|  | \$ 443,742                         | \$ 411,740        |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b> |                                    |                   |
| <b>CURRENT LIABILITIES</b>                 |                                    |                   |
| Accounts payable                           | \$ 41,266                          | \$ 41,041         |
| Other current liabilities                  | 37,120                             | 31,420            |
| <b>TOTAL CURRENT LIABILITIES</b>           | <b>78,386</b>                      | <b>72,461</b>     |
| <b>OTHER LIABILITIES</b>                   | <b>12,194</b>                      | <b>4,898</b>      |
| <b>DEFERRED COMPENSATION</b>               | <b>8,475</b>                       | <b>10,172</b>     |

SHAREHOLDERS EQUITY

|  |            |            |
|--|------------|------------|
| Common stock, \$0.50 par value, 100,000,000 shares authorized,<br>38,098,526 and 37,950,829 shares issued as of October 27, 2007 and<br>April 28, 2007, respectively | 19,049     | 18,975     |
| Unearned common stock issuances  | (4,257)    | (4,517)    |
| Additional paid-in capital   | 68,323     | 65,512     |
| Retained earnings  | 246,956    | 233,684    |
| Accumulated other comprehensive income   | 20,071     | 16,010     |
| Treasury stock, 625,342 shares as of October 27, 2007 and April 28, 2007   | (5,455)    | (5,455)    |
|  | 344,687    | 324,209    |
|  | \$ 443,742 | \$ 411,740 |

See notes to condensed consolidated financial statements.

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

|   | Three Months Ended     |                        | Six Months Ended       |                        |
|---|------------------------|------------------------|------------------------|------------------------|
|   | October<br>27,<br>2007 | October<br>28,<br>2006 | October<br>27,<br>2007 | October<br>28,<br>2006 |
| <b>INCOME</b>   |                        |                        |                        |                        |
| Net sales   | \$ 133,239             | \$ 108,516             | \$ 258,248             | \$ 212,087             |
| Other   | 527                    | 151                    | 673                    | 335                    |
|   | 133,766                | 108,667                | 258,921                | 212,422                |
| <b>COSTS AND EXPENSES</b>   |                        |                        |                        |                        |
| Cost of products sold   | 105,900                | 89,244                 | 204,235                | 173,203                |
| Selling and administrative expenses   | 16,107                 | 13,277                 | 32,071                 | 27,030                 |
|   | 122,007                | 102,521                | 236,306                | 200,233                |
| Income from operations  | 11,759                 | 6,146                  | 22,615                 | 12,189                 |
| Interest income, net  | 611                    | 904                    | 1,047                  | 1,723                  |
| Other, net  | (941)                  | 393                    | (1,161)                | 325                    |
| Income before income taxes and cumulative effect<br>of accounting change      | 11,429                 | 7,443                  | 22,501                 | 14,237                 |
| Income taxes  | 2,623                  | 2,555                  | 5,423                  | 5,090                  |
| Income before cumulative effect of accounting<br>change                       | 8,806                  | 4,888                  | 17,078                 | 9,147                  |
| Cumulative effect of accounting change, net of<br>taxes of \$28               |                        |                        |                        | 101                    |
| <b>NET INCOME</b>   | <b>\$ 8,806</b>        | <b>\$ 4,888</b>        | <b>\$ 17,078</b>       | <b>\$ 9,248</b>        |
| Amounts per common share:   |                        |                        |                        |                        |
| Basic and diluted net income before cumulative<br>effect of accounting change | \$ 0.24                | \$ 0.13                | \$ 0.46                | \$ 0.25                |
| Basic and diluted net income  | \$ 0.24                | \$ 0.13                | \$ 0.46                | \$ 0.25                |
| Cash dividends:   |                        |                        |                        |                        |
| Common stock  | \$ 0.05                | \$ 0.05                | \$ 0.10                | \$ 0.10                |

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Weighted average number of Common Shares  
outstanding:

|         |        |        |        |        |
|---------|--------|--------|--------|--------|
| Basic   | 37,079 | 36,275 | 37,033 | 36,298 |
| Diluted | 37,467 | 36,495 | 37,476 | 36,516 |

See notes to condensed consolidated financial statements.

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

|   | Six Months Ended    |                     |
|---|---------------------|---------------------|
|   | October 27,<br>2007 | October 28,<br>2006 |
| <b>OPERATING ACTIVITIES</b>   |                     |                     |
| Net income  | \$ 17,078           | \$ 9,248            |
| Adjustments to reconcile net income to net cash provided by operating activities: |                     |                     |
| Provision for depreciation  | 10,049              | 9,294               |
| Amortization of intangibles   | 2,739               | 2,426               |
| Amortization of stock awards and stock options                                    | 1,602               | 1,466               |
| Changes in operating assets and liabilities                                       | 14,385              | 2,940               |
| Other   | 77                  | 1,213               |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>                                  | <b>45,930</b>       | <b>26,587</b>       |
| <b>INVESTING ACTIVITIES</b>   |                     |                     |
| Purchases of property, plant and equipment  | (10,836)            | (5,022)             |
| Proceeds from sale of building  | 960                 | 800                 |
| Acquisition of businesses   | (7,350)             | (2,678)             |
| Joint venture dividend  | (1,000)             |                     |
| Other   | (651)               | (631)               |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>                                      | <b>(18,877)</b>     | <b>(7,531)</b>      |
| <b>FINANCING ACTIVITIES</b>   |                     |                     |
| Repurchase of common stock  |                     | (1,926)             |
| Proceeds from exercise of stock options   | 1,145               | 187                 |
| Tax benefit from stock options and awards   | 190                 |                     |
| Cash dividends  | (3,781)             | (3,732)             |
| <b>NET CASH USED IN FINANCING ACTIVITIES</b>                                      | <b>(2,446)</b>      | <b>(5,471)</b>      |
| Effect of foreign currency exchange rate changes on cash                          | (1,848)             | 175                 |
| <b>INCREASE IN CASH AND CASH EQUIVALENTS</b>                                      | <b>22,759</b>       | <b>13,760</b>       |
| Cash and cash equivalents at beginning of period                                  | 60,091              | 81,646              |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>                                 | <b>\$ 82,850</b>    | <b>\$ 95,406</b>    |

See notes to condensed consolidated financial statements.



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

October 27, 2007

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 October 27, 2007 and results of operations for the three months and six months ended October 27, 2007 and October 28, 2006 are unaudited, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). The April 28, 2007 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 April 28, 2007 filed with the SEC on July 12, 2007. Results may vary from quarter to quarter for reasons other than seasonality.

2. RECENT ACCOUNTING PRONOUNCEMENTS

In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation 48 (FIN 48), *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement disclosures of tax positions taken or expected to be taken in a tax return. The evaluation of a tax position is a two-step process. The first step requires an entity to determine whether it is more likely than not that a tax position will be sustained upon examination based on the technical merits of the position. The second step requires an entity to recognize in the financial statements each tax position that meets the more likely than not criteria, measured at the largest amount of benefit that has a greater than fifty percent likelihood of being realized. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting for interim periods, disclosure and transition. See Note 5 for more information regarding the impact of adopting FIN 48.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in U.S. GAAP, and expands disclosures about fair value measurements. SFAS No. 157 is effective as of our fiscal year 2009, which begins May 4, 2008. We have not completed the analysis of the potential impact of the adoption of SFAS No. 157 on our financial position, results of operations, or cash flows.

In February 2007, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115* (SFAS No. 159). SFAS No. 159 permits all entities to choose to measure eligible items at fair value at specified election dates and report unrealized gains and losses on the items for which the fair value option has been elected in earnings. SFAS No. 159 is effective as of our fiscal year 2009, which begins May 4, 2008. We do not believe the adoption of SFAS No. 159 will have a material impact on our financial position, results of operations or cash flows.

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

**3. COMPREHENSIVE INCOME**

The components of our comprehensive income for the three months and six months ended October 27, 2007 and October 28, 2006 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:

|                               | Three Months Ended     |                        | Six Months Ended       |                        |
|-------------------------------|------------------------|------------------------|------------------------|------------------------|
|                               | October<br>27,<br>2007 | October<br>28,<br>2006 | October<br>27,<br>2007 | October<br>28,<br>2006 |
| Net income                    | \$ 8,806               | \$ 4,888               | \$ 17,078              | \$ 9,248               |
| Translation adjustment        | 4,309                  | 209                    | 4,061                  | 1,032                  |
| Total comprehensive<br>income | \$ 13,115              | \$ 5,097               | \$ 21,139              | \$ 10,280              |

**4. GOODWILL AND INTANGIBLE ASSETS**

In connection with the Power Distribution segment acquisition of Cableco Technologies in fiscal 2005, additional contingent consideration may be due if certain operational and financial targets are met. During the first quarter of fiscal 2008, a portion of the operational and financial targets were met resulting in a \$260 payment. The payment was recorded as an increase to goodwill. Additional goodwill of up to \$4,257 may result from future contingent payments for this acquisition.

In connection with the Interconnect segment acquisition of TouchSensor Technologies, L.L.C. (TST) on February 28, 2007, an increase to goodwill of \$991 was recorded for the six months ended October 27, 2007. The increase relates to adjustments for working capital and valuation of intangible assets acquired. We are in the process of completing the valuation of the intangible assets acquired and we anticipate that the final valuations will not differ materially from our preliminary assessment.

On August 31, 2007, we acquired the assets of Value Engineered Products, Inc. (VEP) for \$5,750 in cash. VEP is a thermal management solutions provider, manufacturing heat sinks and related products for high-powered applications. These components complement our Power Distribution product offerings and, in some instances, are joined with bus bars to aid thermal management of power systems. The terms of the acquisition provide for an additional payment of up to a maximum of \$1,000 if sales reach specified targets during the twelve-month period following the close.

On a preliminary basis, we estimate the tangible net assets acquired in the VEP transaction had a fair value of \$915. The fair values assigned to intangible assets acquired were \$1,000 for customer relationships, \$100 for covenants not to compete and \$3,787 for goodwill. The intangible assets acquired will be amortized over periods of 2 to 3 years. These values will be adjusted when we receive the final valuation report from an independent third party. The accounts and transactions of the acquired business have been included in the Power Distribution segment in the consolidated financial statements from the effective date of the acquisition.

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METHODE ELECTRONICS, INC. AND SUBSIDIARIES  
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 (Dollar amounts in thousands, except share data)

## 4. GOODWILL AND INTANGIBLE ASSETS Continued

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

|                                       |           | October 27, 2007            |           |
|---------------------------------------|-----------|-----------------------------|-----------|
|                                       | Gross     | Accumulated<br>Amortization | Net       |
| Customer relationships and agreements | \$ 39,334 | \$ 16,365                   | \$ 22,969 |
| Patents and technology licenses       | 24,761    | 5,357                       | 19,404    |
| Covenants not to compete              | 2,580     | 2,218                       | 362       |
| Total                                 | \$ 66,675 | \$ 23,940                   | \$ 42,735 |

|                                       |           | April 28, 2007              |           |
|---------------------------------------|-----------|-----------------------------|-----------|
|                                       | Gross     | Accumulated<br>Amortization | Net       |
| Customer relationships and agreements | \$ 38,170 | \$ 14,293                   | \$ 23,877 |
| Patents and technology licenses       | 24,382    | 4,741                       | 19,641    |
| Covenants not to compete              | 2,330     | 2,168                       | 162       |
| Total                                 | \$ 64,882 | \$ 21,202                   | \$ 43,680 |

At October 27, 2007, the intangible assets for customer relationships and agreements includes \$2,733 of net value assigned to a supply agreement with Delphi Corporation, acquired in our acquisition of the passive occupancy detection systems (PODS) business in August 2001. 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 2008 and each of the four succeeding fiscal years is as follows:

|      |         |
|------|---------|
| 2008 | \$5,141 |
| 2009 | 3,495   |
| 2010 | 3,481   |
| 2011 | 3,008   |
| 2012 | 2,410   |

## 5. INCOME TAXES

We adopted FIN 48 on April 29, 2007. As a result of the implementation of FIN 48, we recognized a \$1,039 increase in the liability for unrecognized tax benefits which was accounted for as an increase of \$1,014 to the April 29, 2007 balance of deferred tax assets and a decrease of \$25 to the April 29, 2007 balance of retained earnings.

Included in deferred tax assets at October 27, 2007 are \$1,014 of tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would have accelerated the payment of cash to the taxing authority to an earlier period. We recognize interest and penalties accrued related to the unrecognized tax benefits in the provision for

income taxes. During the six months ended October 27, 2007, we recognized an insignificant amount in interest and penalties. We had approximately \$1,204 for the payment of interest and penalties accrued at October 27, 2007.

We believe that it is reasonably possible that the total amount of unrecognized tax benefits will change within twelve months of the date of adoption of FIN 48. We have certain tax return years subject to statutes of limitation, which will close within twelve months of the date of adoption. Unless challenged by tax authorities, the

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## METHODE ELECTRONICS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Dollar amounts in thousands, except share data)

## 5. INCOME TAXES Continued

closure of those statutes of limitation is expected to result in the recognition of uncertain tax positions in the amount of \$162.

The Company and all of its domestic subsidiaries file income tax returns in the U.S. federal jurisdiction and various states. The Company's 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 2004.

## 6. 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 periods presented:

|   | Six Months Ended    |                     |
|---|---------------------|---------------------|
|   | October 27,<br>2007 | October 28,<br>2006 |
| Balance at the beginning of the period  | 37,950,829          | 37,700,484          |
| Repurchased and retired   |                     | (306)               |
| Options exercised   | 100,730             | 29,710              |
| Restricted stock awards vested  | 46,967              | 834                 |
| Reversal of unvested restricted stock awards upon adoption of SFAS No. 123(R) |                     | (463,957)           |
| Balance at the end of the period  | 38,098,526          | 37,266,765          |

We paid quarterly dividends in the amounts of \$1,884 and \$1,897, or \$0.05 per share, on July 27, 2007 and October 26, 2007, 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 and the repurchase of common stock. Our Board of Directors approved a stock repurchase plan in September 2006, which expires at the end of fiscal 2008. There were no shares purchased during the first half of fiscal 2008.

On June 21, 2007, our Board of Directors, on the recommendation of our Compensation Committee, adopted the Methode Electronics, Inc. 2007 Stock Plan (the "Stock Plan"). The Stock Plan was voted on and approved by the shareholders at our annual meeting on September 13, 2007.

The Stock Plan permits a total of 1,250,000 shares of our common stock to be awarded to participants. Shares issued under the Stock Plan may be either authorized but unissued shares, or treasury shares. If any award terminates, expires, is cancelled or forfeited as to any number of shares of common stock, new awards may be awarded with respect to such shares. The total number of shares with respect to which awards may be granted to any participant in any calendar year shall not exceed 200,000 shares. As of October 27, 2007 there were 1,007,877 shares still available under the Stock Plan.

As of April 28, 2007, awards with respect to 400,900 shares and 171,877 shares of our common stock were subject to issuance under the 2004 Plan and the 2000 Plan, respectively. Upon adoption of the Stock Plan, our board of directors elected to terminate the 2004 Plan and the 2000 Plan with respect to the shares reserved under these plans that are not subject to outstanding awards.

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

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

The following tables summarize the stock option activity and related information for the six months ended October 27, 2007:

|                                 | Summary of Option Activity |                          |
|---------------------------------|----------------------------|--------------------------|
|                                 | Shares                     | Wtd. Avg. Exercise Price |
| Outstanding at April 28, 2007   | 818,918                    | \$ 10.26                 |
| Exercised                       | (100,730)                  | 11.36                    |
| Forfeited                       | (3,521)                    | 8.03                     |
| Outstanding at October 27, 2007 | 714,667                    | 10.11                    |

| Range of Exercise Prices | Options Outstanding at October 27, 2007 |                          |                             | Exercisable Options at October 27, 2007 |                          |                             |
|--------------------------|---|--------------------------|-----------------------------|---|--------------------------|-----------------------------|
|                          | Shares                                  | Wtd. Avg. Exercise Price | Avg. Remaining Life (Years) | Shares                                  | Wtd. Avg. Exercise Price | Avg. Remaining Life (Years) |
| \$5.12 \$7.69            | 199,342                                 | \$ 6.46                  | 3.0                         | 199,342                                 | \$ 6.46                  | 3.0                         |
| \$8.08 \$11.64           | 364,120                                 | 10.56                    | 3.4                         | 364,120                                 | 10.56                    | 3.4                         |
| \$12.11 \$17.66          | 151,205                                 | 13.86                    | 2.5                         | 151,205                                 | 13.86                    | 2.5                         |
|                          | 714,667                                 | 10.11                    |                             | 714,667                                 | 10.11                    |                             |

The aggregate intrinsic value for all options outstanding at October 27, 2007 was \$2,597.

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 October 27, 2007, we had 714,667 unexercised stock options, all of which are fully vested and have a term of ten years. In the six months ended October 27, 2007, we recognized pre-tax compensation expense of \$11. There is no remaining unrecognized compensation expense relating to the stock options as of July 28, 2007.

In April 2007, 225,000 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 2008, there were 525,589 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 cliff-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 October 27, 2007, we awarded

244,123 restricted stock awards. Of the 244,123 shares granted, 24,000 shares vest immediately upon grant, 164,673 are performance-based RSAs and 55,450 are time-based RSAs.

We recognized pre-tax compensation expense for RSAs of \$1,591 and \$1,401 in the six months ended October 27, 2007, and October 28, 2006, respectively. We record the expense in the selling and administrative section of our condensed consolidated statement of income.

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## METHODE ELECTRONICS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Dollar amounts in thousands, except share data)

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

The following table summarizes the RSA activity for the six months ended October 27, 2007:

|                            | Shares   |
|----------------------------|----------|
| Unvested at April 28, 2007 | 525,589  |
| Awarded                    | 244,123  |
| Released                   | (50,549) |
| Forfeited                  | (432)    |

|                                 |         |
|---------------------------------|---------|
| Unvested at October 27,<br>2007 | 718,731 |
|---------------------------------|---------|

The table below shows the Company's unvested RSAs at October 27, 2007:

| Grant<br>Fiscal<br>Year | RSAs    | Vesting Period                   | Weighted<br>Average<br>Value | Probable<br>Unearned<br>Compensation<br>Expense at<br>October 27,<br>2007 | Target<br>Unearned<br>Compensation<br>Expense at<br>October 27,<br>2007 |
|-------------------------|---------|----------------------------------|------------------------------|---|---|
| 2005                    | 864     | 3-year equal annual installments | \$11.81                      | \$  | \$  |
| 2006                    | 28,774  | 3-year equal annual installments | 12.26                        | 16  | 16  |
| 2006                    | 190,500 | 3-year cliff                     | 12.42                        | 624   | 624   |
| 2007                    | 50,720  | 3-year equal annual installments | 7.81                         | 82  | 82  |
| 2007                    | 227,750 | 3-year cliff                     | 7.91                         | 951   | 951   |
| 2008                    | 55,450  | 3-year equal annual installments | 15.14                        | 552   | 552   |
| 2008                    | 164,673 | 3-year cliff                     | 15.14                        | 2,374   | 2,374   |

At October 27, 2007, the aggregate unvested RSAs had a weighted average fair value of \$11.97 and a weighted average vesting period of approximately 22 months.



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## METHODE ELECTRONICS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Dollar amounts in thousands, except share data)

## 7. 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    |                     |
|---|---------------------|---------------------|---------------------|---------------------|
|   | October 27,<br>2007 | October 28,<br>2006 | October 27,<br>2007 | October 28,<br>2006 |
| Numerator net income  | \$ 8,806            | \$ 4,888            | \$17,078            | \$ 9,248            |
| Denominator:  |                     |                     |                     |                     |
| Denominator for basic earnings per share-weighted average shares                                    | 37,079              | 36,275              | 37,033              | 36,298              |
| Dilutive potential common shares-employee and director stock options                                | 388                 | 220                 | 443                 | 218                 |
| Denominator for diluted earnings per share adjusted weighted average shares and assumed conversions | 37,467              | 36,495              | 37,476              | 36,516              |
| Basic and diluted net income per share:   |                     |                     |                     |                     |
| Income before cumulative effect of accounting change  | \$ 0.24             | \$ 0.13             | \$ 0.46             | \$ 0.25             |
| Net income  | \$ 0.24             | \$ 0.13             | \$ 0.46             | \$ 0.25             |

Options to purchase 29,413 shares of common stock at a weighted-average exercise price of \$17.66 per share were outstanding as of October 27, 2007, 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.

## 8. SEGMENT INFORMATION

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

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

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 appliance, computer, networking, telecommunications, storage, medical, military, aerospace, commercial and

consumer markets. Solutions include solid-state field effect interface panels, PC card and express card packaging, optical and copper transceivers, terminators, connectors, custom cable assemblies and conductive polymer and thick

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## METHODE ELECTRONICS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Dollar amounts in thousands, except share data)

## 8. SEGMENT INFORMATION Continued

film inks. Services include the design and installation of fiber optic and copper infrastructure systems, and manufacture of active and passive optical components.

The Power Distribution segment manufactures current-carrying laminated bus devices, custom power-distribution assemblies, powder coated bus bars, braided flexible cables, customized heat sinks 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 (IGBT) solutions, aerospace and military.

The Other segment includes a design 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 in the Annual Report on Form 10-K for the year ended April 28, 2007. We allocate resources to and we evaluate performance of our segments based on segment income. Transfers between segments are recorded using internal transfer prices set by us.

The table below presents information about our reportable segments:

|                                     | Three Months Ended October 27, 2007 |                   |                            |          |                   |                   |
|-------------------------------------|-------------------------------------|-------------------|----------------------------|----------|-------------------|-------------------|
|                                     | Auto-<br>motive                     | Inter-<br>Connect | Power<br>Dis-<br>tribution | Other    | Elimi-<br>nations | Consoli-<br>dated |
| 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)               | \$ 13,300                           | \$ 1,157          | \$ 2,129                   | \$ (407) | \$                | \$ 16,179         |
| Corporate expenses, net             |                                     |                   |                            |          |                   | (4,750)           |
| Income before income taxes          |                                     |                   |                            |          |                   | \$ 11,429         |

|                                     | Three Months Ended October 28, 2006 |                   |                            |          |                   |                   |
|-------------------------------------|-------------------------------------|-------------------|----------------------------|----------|-------------------|-------------------|
|                                     | Auto-<br>motive                     | Inter-<br>Connect | Power<br>Dis-<br>tribution | Other    | Elimi-<br>nations | Consoli-<br>dated |
| Net sales                           | \$ 76,118                           | \$ 18,659         | \$ 12,084                  | \$ 2,009 | \$ 354            | \$ 108,516        |
| Transfers between segments          |                                     | (282)             | (44)                       | (28)     | (354)             |                   |
| Net sales to unaffiliated customers | \$ 76,118                           | \$ 18,377         | \$ 12,040                  | \$ 1,981 | \$                | \$ 108,516        |

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|                            |          |          |          |         |    |           |
|----------------------------|----------|----------|----------|---------|----|-----------|
| Segment income (loss)      | \$ 5,818 | \$ 1,840 | \$ 2,640 | \$ (81) | \$ | \$ 10,217 |
| Corporate expenses, net    |          |          |          |         |    | (2,774)   |
| Income before income taxes |          |          |          |         |    | \$ 7,443  |

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

## 8. SEGMENT INFORMATION Continued

|  | Six Months Ended October 27, 2007 |                   |                            |          |                   | Consoli-<br>dated |
|--|-----------------------------------|-------------------|----------------------------|----------|-------------------|-------------------|
|  | Auto-<br>motive                   | Inter-<br>Connect | Power<br>Dis-<br>tribution | Other    | Elimi-<br>nations |                   |
| Net sales                              | \$ 172,668                        | \$ 62,058         | \$ 21,183                  | \$ 3,261 | \$ 922            | \$ 258,248        |
| Transfers between segments             |                                   | (391)             | (501)                      | (30)     | (922)             |                   |
| Net sales to unaffiliated<br>customers | \$ 172,668                        | \$ 61,667         | \$ 20,682                  | \$ 3,231 | \$                | \$ 258,248        |
| Segment income (loss)                  | \$ 25,042                         | \$ 3,558          | \$ 3,978                   | \$ (682) | \$                | \$ 31,896         |
| Corporate expenses, net                |                                   |                   |                            |          |                   | (9,395)           |
| Income before income taxes             |                                   |                   |                            |          |                   | \$ 22,501         |

|   | Six Months Ended October 28, 2006 |                   |                            |          |                   | Consoli-<br>dated |
|---|-----------------------------------|-------------------|----------------------------|----------|-------------------|-------------------|
|   | Auto-<br>motive                   | Inter-<br>Connect | Power<br>Dis-<br>tribution | Other    | Elimi-<br>nations |                   |
| Net sales   | \$ 150,230                        | \$ 36,764         | \$ 22,102                  | \$ 3,743 | \$ 752            | \$ 212,087        |
| Transfers between segments  |                                   | (582)             | (102)                      | (68)     | (752)             |                   |
| Net sales to unaffiliated<br>customers                                      | \$ 150,230                        | \$ 36,182         | \$ 22,000                  | \$ 3,675 | \$                | \$ 212,087        |
| Segment income (loss)   | \$ 12,279                         | \$ 3,935          | \$ 4,255                   | \$ (189) | \$                | \$ 20,280         |
| Corporate expenses, net   |                                   |                   |                            |          |                   | (6,043)           |
| Income before income taxes<br>and cumulative effect of<br>accounting change |                                   |                   |                            |          |                   | \$ 14,237         |

## 9. 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.

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

***Cautionary Statement***

Certain information included in or incorporated by reference in this document, in press releases, written statements or other documents filed with or furnished to the SEC, or in our communications and discussions through webcasts, phone calls, conference calls and other presentations and meetings, may be deemed to be forward-looking statements within the meaning of the federal securities laws. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including statements regarding: projections of sales revenue, margins, expenses, tax provisions (or reversal of tax provisions), earnings or losses from operations, cash flows, liquidity position, synergies, cost-control activities, cost savings or other financial items; plans, strategies and objectives of management for future operations, trends, seasonality. Forward-looking statements may be characterized by terminology such as believe, anticipate, should, would, intend, plan, will, expects, estimates, project, strategy and similar expressions. These statements are based on assumptions and assessments made by us in light of our experience and our perception of historical trends, current conditions, expected future developments and other factors we believe to be appropriate. These forward-looking statements are subject to a number of risks and uncertainties, including but not limited to the following:

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.

Because we derive approximately 70% of our revenues from the automotive industry, any downturns or challenges faced by this industry may have an adverse effect on our business, financial condition and operating results.

Because we also derive a substantial portion of our revenues from customers in the appliance, computer and communications industries, we are susceptible to trends and factors affecting those industries.

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

We face risks relating to our international operations, currency fluctuations, and political and economic instability.

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.

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

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.

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We may acquire businesses or divest certain 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 TouchSensor Technologies and Value Engineered Products Inc. businesses will be successful or that we can implement and profit from new applications of the acquired technology.

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

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 April 28, 2007, for a further discussion regarding some of the reasons that actual results may be materially different from those we anticipate.

### ***Overview***

We are a global manufacturer of component and subsystem devices with manufacturing, design and testing facilities in the U. S., Malta, Mexico, United Kingdom, Germany, Czech Republic, China and Singapore. We design, manufacture and market devices employing electrical, thermal, electronic, wireless, sensing and optical technologies. Our business is managed on a segment basis, with those segments being Automotive, Interconnect, Power Distribution 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 April 28, 2007.

Our components are found in the primary end markets of the automotive, appliance, communications (including information processing and thermal, storage, networking equipment, wireless and terrestrial voice/data systems), aerospace and military, rail and other transportation industries and the consumer and industrial equipment markets. Recent trends in the industries that we serve include:

continued customer migration to Asian and Eastern European suppliers;

growth of North American operations 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 directly by the automobile manufacturers;

reduced production schedules for domestic automobile manufacturers; and

interest rate fluctuations.

In response to pricing pressures, we continue to employ lean manufacturing processes and invest in, and implement techniques to lower our costs in order to reduce or prevent margin erosion. We also have become more selective with regard to programs in which we participate in order to reduce our exposure to low profit programs, and have transferred several automotive lines and identified additional lines to be transferred from the U.S. to low-cost countries.

### **Business Outlook**



Sales in fiscal 2008 are expected to increase compared to fiscal 2007. We anticipate growth related to the TouchSensor Technologies, L.L.C. (TST) and Value Engineered Products, Inc. (VEP) acquisitions on February 28, 2007 and August 31, 2007, respectively. Sales of automotive products at our Shanghai, China operation are expected to continue to increase and we anticipate increased sales of automotive switches at our Malta operation. Sales of sensor pads for passive occupant-detection systems are expected to decline due to lower demand in the U.S.

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Even though our traditional North American automotive sales have been unexpectedly higher during the first half of fiscal 2008, the automotive OEM s continue to forecast lower sales in the future periods. We have received price increases on previously marginally profitable and unprofitable products, which we had decided to exit at the expiration of our manufacturing commitment, but, at the request of the customer, have agreed to produce through the end of fiscal year 2008. We are currently in discussions to continue production beyond this time period but there are no assurances that this will occur.

**Results of Operations for the Three Months Ended October 27, 2007 as Compared to the Three Months Ended October 28, 2006****Consolidated Results**

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

(in millions)

|                                       | October<br>27,<br>2007 | October<br>28,<br>2006 | Net<br>Change | Net<br>Change |
|---------------------------------------|------------------------|------------------------|---------------|---------------|
| Net sales                             | \$ 133.2               | \$ 108.5               | \$ 24.7       | 22.8%         |
| Other income                          | 0.5                    | 0.2                    | 0.3           | 150.0%        |
|                                       | 133.7                  | 108.7                  | 25.0          | 23.0%         |
| Cost of products sold                 | 105.9                  | 89.2                   | 16.7          | 18.7%         |
| Gross margin (including other income) | 27.8                   | 19.5                   | 8.3           | 42.6%         |
| Selling and administrative expenses   | 16.1                   | 13.3                   | 2.8           | 21.1%         |
| Interest income, net                  | 0.6                    | 0.9                    | (0.3)         | -33.3%        |
| Other, net                            | (0.9)                  | 0.4                    | (1.3)         | -325.0%       |
| Income taxes                          | 2.6                    | 2.6                    |               | 0.0%          |
| Net income                            | \$ 8.8                 | \$ 4.9                 | \$ 3.9        | 79.6%         |

| Percent of sales:                     | October<br>27,<br>2007 | October<br>28,<br>2006 |
|---------------------------------------|------------------------|------------------------|
| Net sales                             | 100.0%                 | 100.0%                 |
| Other income                          | 0.4%                   | 0.2%                   |
| Cost of products sold                 | 79.5%                  | 82.2%                  |
| Gross margin (including other income) | 20.9%                  | 18.0%                  |
| Selling and administrative expenses   | 12.1%                  | 12.3%                  |
| Interest income, net                  | 0.5%                   | 0.8%                   |
| Other, net                            | -0.7%                  | 0.4%                   |

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|              |      |      |
|--------------|------|------|
| Income taxes | 2.0% | 2.4% |
| Net income   | 6.6% | 4.5% |

*Net Sales.* Consolidated net sales increased \$24.7 million or 22.8% to \$133.2 million for the three months ended October 27, 2007 from \$108.5 million for three months ended October 28, 2006. Of the \$24.7 million increase, \$12.4 million relates to our TST and VEP businesses purchased on February 28, 2007 and August 31 2007, respectively, and therefore, had no sales in the second quarter of fiscal 2007. The increase was also driven by organic growth from our European and Asian operations and stronger than expected North American automotive sales. Automotive segment sales additionally were impacted by price increases of \$3.7 million on previously marginally profitable and unprofitable products, which we had decided to exit at the expiration of our manufacturing commitment, however, at the request of the customer, have agreed to produce through the end of fiscal year 2008. We agreed to continue the production at higher margins, which favorably impacted revenue and margins during the quarter. Excluding TST, the Interconnect segment sales increased slightly for the three months ended October 27,

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

2007 as compared to the three months ended October 28, 2006. Excluding VEP, the Power Distribution segment sales decreased for the three months ended October 27, 2007 as compared to the three months ended October 28, 2006. Translation of foreign operations net sales in the three months ended October 27, 2007 increased reported net sales by \$1.9 million or 1.4%.

*Other Income.* Other income increased \$0.3 million or 150.0% to \$0.5 million for the three months ended October 27, 2007 from \$0.2 million for three months ended October 28, 2006. Other income consisted primarily of earnings from our automotive joint venture, engineering design fees and royalties.

*Cost of Products Sold.* Consolidated cost of products sold increased \$16.7 million or 18.7% to \$105.9 million for the three months ended October 27, 2007 from \$89.2 million for the three months ended October 28, 2006. The increase is due to the higher sales volumes in the three months ended October 27, 2007 as compared to the three months ended October 28, 2006. Consolidated cost of products sold as a percentage of sales was 79.5% for the three months ended October 27, 2007 and 82.2% for the three months ended October 28, 2006. The decrease is primarily due to shifting manufacturing efforts from the U.S. to lower cost regions in Asia, Europe and Mexico. The integration of our Scotland operation to our Malta operation has increased efficiency in our European manufacturing processes. In addition, we have previously made our North American operations more efficient and cost effective in anticipation of the forecasted lower automotive sales in the U.S. market.

*Gross Margins (including other income).* Consolidated gross margins (including other income) increased \$8.3 million or 42.6% to \$27.8 million for the three months ended October 27, 2007 as compared to \$19.5 million for the three months ended October 28, 2006. Gross margins as a percentage of net sales increased to 20.9% for the three months ended October 27, 2007 from 18.0% for the three months ended October 28, 2006. The increase is due to shifting manufacturing efforts from the U.S. and the U.K. to lower cost regions in Asia, Europe and Mexico. In addition, North American automotive sales were stronger than expected and were impacted by the price increases described above. Our North American operations were more efficient as a result of additional cost reduction efforts previously undertaken in anticipation of lower automotive sales in model year 2008 for our legacy products.

*Selling and Administrative Expenses.* Selling and administrative expenses increased \$2.8 million or 21.1% to \$16.1 million for the three months ended October 27, 2007 compared to \$13.3 million for the three months ended October 28, 2006. Of the \$2.8 million increase, \$1.3 million relates to the TST and VEP businesses, which were purchased on February 28, 2007 and August 31, 2007, respectively, and therefore, had no selling and administrative expenses in the second quarter of fiscal 2007. The majority of the additional increase relates to higher stock award amortization expense and professional fees in the three months ended October 27, 2007 as compared to the three months ended October 28, 2006. Selling and administrative expenses as a percentage of net sales decreased to 12.1% in the three months ended October 27, 2007 from 12.3% for the three months ended October 28, 2006.

*Interest Income, Net.* Net interest income decreased 33.3% in the three months ended October 27, 2007 to \$0.6 million as compared to \$0.9 million in the three months ended October 28, 2006. The average cash balance was \$79.3 million in the three months ended October 27, 2007 as compared to \$95.6 million in the three months ended October 28, 2006. The average interest rate earned in the three months ended October 27, 2007 was 3.35% as compared to 4.05% in the three months ended October 28, 2006. The average interest rate earned includes both taxable interest and tax-free municipal interest. The cash balance decreased primarily due to the acquisition of the TST and VEP businesses on February 28, 2007 and August 31, 2007, respectively. We paid approximately \$65.0 million for the purchase of TST and \$5.8 million for VEP. Interest expense was \$0.1 million for both the three months ended October 27, 2007 and the three months ended October 28, 2006.

*Other, Net.* Other, net decreased to an expense of \$0.9 million for the three months ended October 27, 2007 versus income of \$0.4 million for the three months ended October 28, 2006. The other, net consists primarily of currency exchange gains and losses at the Company's foreign operations. The functional currencies of these operations are the British pound, Chinese yuan, Czech koruna, Euro, Maltese lira, Mexican peso and Singapore dollar. The foreign operations have transactions denominated in currencies other than their functional currencies, primarily sales in U.S. dollars and Euros, creating exchange rate sensitivities.



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

*Income Taxes.* The effective income tax rate was 23.0% in the second quarter of fiscal 2008 compared with 34.3% in the second quarter of fiscal 2007. The effective tax rates for both fiscal 2008 and 2007 reflect utilization of foreign investment tax credits and the effect of lower tax rates on income of the Company's foreign earnings and higher earnings at those operations. The effective tax rate was higher in fiscal 2007 primarily due to the establishment of a valuation allowance for potentially non-deductible stock-based compensation.

*Net Income.* Net income increased \$3.9 million or 79.6% to \$8.8 million for the three months ended October 27, 2007 as compared to \$4.9 million for the three months ended October 28, 2006. The increase is attributable to higher sales with lower costs of products sold, partially offset by an increase in selling and administrative expenses. The increase is due to shifting manufacturing efforts from the U.S. and the U.K. to lower cost regions in Asia, Europe and Mexico. In addition, North American automotive sales were stronger than expected and were impacted by the price increases described above. Our North American operations were more efficient as a result of additional cost reduction efforts previously undertaken in anticipation of lower automotive segment sales in model year 2008 for our legacy products. Additionally, our effective tax rate decreased to 23.0% for the three months ended October 27, 2007 from 34.3% for the three months ended October 28, 2006. Net income as a percentage of sales increased to 6.6% for the three months ended October 27, 2007 as compared to 4.5% for the three months ended October 28, 2006.

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

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

(in millions)

|                               | October<br>27,<br>2007 | October<br>28,<br>2006 | Net<br>Change | Net<br>Change |
|-------------------------------|------------------------|------------------------|---------------|---------------|
| Net sales                     | \$ 89.8                | \$ 76.1                | \$ 13.7       | 18.0%         |
| Cost of products<br>sold      | 71.3                   | 65.2                   | 6.1           | 9.4%          |
| Gross margin                  | 18.5                   | 10.9                   | 7.6           | 69.7%         |
| Income before<br>income taxes | \$ 13.3                | \$ 5.8                 | \$ 7.5        | 129.3%        |

| Percent of sales:             | October<br>27,<br>2007 | October<br>28,<br>2006 |
|-------------------------------|------------------------|------------------------|
| Net sales                     | 100.0%                 | 100.0%                 |
| Cost of products<br>sold      | 79.4%                  | 85.7%                  |
| Gross margin                  | 20.6%                  | 14.3%                  |
| Income before<br>income taxes | 14.8%                  | 7.6%                   |

*Net Sales.* Automotive segment net sales increased \$13.7 million or 18.0% to \$89.8 million for the three months ended October 27, 2007 from \$76.1 million for the three months ended October 28, 2006. The automotive segment net sales increase was driven from organic growth from our European and Asian operations and North American automotive sales were stronger than expected. Sales were also impacted by price increases of \$3.7 million on

previously marginally profitable and unprofitable products, which we had decided to exit at the expiration of our manufacturing commitment but , at the request of the customer, have agreed to produce through the end of fiscal year 2008. We agreed to continue the production at higher margins, which favorably impacted revenues and margins during the quarter. Translation of foreign operations net sales in the three months ended October 27, 2007 increased reported net sales by \$1.7 million or 1.9%.

*Cost of Products Sold.* Automotive segment cost of products sold increased \$6.1 million to \$71.3 million for the three months ended October 27, 2007 from \$65.2 for the three months ended October 28, 2006. The increase relates to higher sales volumes for the three months ended October 27, 2007 as compared to the three months ended

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

October 28, 2006. Automotive segment costs of products sold as a percentage of sales decreased to 79.4% for the three months ended October 27, 2007 from 85.7% for the three months ended October 28, 2006. The decrease is primarily due to shifting manufacturing efforts from the U.S. to lower cost regions in Asia, Europe and Mexico. The integration of our Scotland operation to our Malta operation has increased efficiency in our European manufacturing processes. In addition, we have made our North American operations more efficient and cost effective in anticipation of the forecasted lower automotive sales in the U.S. market.

*Gross Margins.* Automotive segment gross margins increased \$7.6 million or 69.7% to \$18.5 million for the three months ended October 27, 2007 as compared to \$10.9 million for the three months ended October 28, 2006. The increase is due to shifting manufacturing efforts from the U.S. and the U.K. to lower cost regions in Asia, Europe and Mexico. In addition, North American automotive sales were stronger than expected and were impacted by the price increases described above. Our North American operations were more efficient as a result of additional cost reduction efforts previously undertaken in anticipation of lower automotive sales in model year 2008 for our legacy products. Gross margins as a percentage of net sales increased to 20.6% for the three months ended October 27, 2007 from 14.3% for the three months ended October 28, 2006.

*Income Before Income Taxes.* Automotive segment income before income taxes increased \$7.5 million or 129.3% to \$13.3 million for the three months ended October 27, 2007 compared to \$5.8 million for the three months ended October 28, 2006. The increase is due to shifting manufacturing efforts from the U.S. and the U.K. to lower cost regions in Asia, Europe and Mexico. In addition, North American automotive sales were stronger than expected and were impacted by the price increases described above. Our North American operations were more efficient as a result of additional cost reduction efforts undertaken previously in anticipation of lower automotive segment sales in model year 2008 for our legacy products.

**Interconnect Segment Results**

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

(in millions)

|                               | October<br>27,<br>2007 | October<br>28,<br>2006 | Net<br>Change | Net<br>Change |
|-------------------------------|------------------------|------------------------|---------------|---------------|
| Net sales                     | \$ 30.3                | \$ 18.4                | \$ 11.9       | 64.7%         |
| Cost of products<br>sold      | 23.6                   | 13.3                   | 10.3          | 77.4%         |
| Gross margin                  | 6.7                    | 5.1                    | 1.6           | 31.4%         |
| Income before<br>income taxes | \$ 1.2                 | \$ 1.8                 | \$ (0.6)      | -33.3%        |

| Percent of sales:        | October<br>27,<br>2007 | October<br>28,<br>2006 |
|--------------------------|------------------------|------------------------|
| Net sales                | 100.0%                 | 100.0%                 |
| Cost of products<br>sold | 77.9%                  | 72.3%                  |
| Gross margin             | 22.1%                  | 27.7%                  |
|                          | 4.0%                   | 9.8%                   |



Income before  
income taxes

*Net Sales.* Interconnect segment net sales increased \$11.9 million or 64.7% to \$30.3 million for the three months ended October 27, 2007 from \$18.4 million for the three months ended October 28, 2006. Substantially all of the increase is due to sales from our TST business, which was purchased on February 28, 2007, and therefore, had no sales in the second quarter of fiscal 2007. The other Interconnect segment businesses had slightly higher sales for the three months ended October 27, 2007 as compared to the three months ended October 28, 2006. Translation of foreign operations net sales in the three months ended October 27, 2007 increased reported net sales by \$0.2 million or 0.7%.

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

*Cost of Products Sold.* Interconnect segment cost of products sold increased \$10.3 million to \$23.6 million for the three months ended October 27, 2007 compared to \$13.3 million for the three months ended October 28, 2006. The majority of the increase is due to cost of products sold from our TST business, which was purchased on February 28, 2007, and therefore, had no cost of products sold in the second quarter of fiscal 2007. Interconnect segment cost of products sold as a percentage of net sales increased to 77.9% for the three months ended October 27, 2007 compared to 72.3% for the three months ended October 28, 2006. The increase is primarily due to the TST business, which has higher cost of products sold as a percentage of sales as compared to the other businesses in the Interconnect segment. We experienced lower sales in our data center installation business and higher costs related to the roll out of PC card adapters during the second quarter of fiscal 2008. In addition, we experienced increased costs due to overall lower sales volumes in our North American operations (excluding TST).

*Gross Margins.* Interconnect segment gross margins increased \$1.6 million or 31.4% to \$6.7 million for the three months ended October 27, 2007 as compared to \$5.1 million for the three months ended October 28, 2006. The increase is mainly driven from the products sold from our TST business, which was purchased on February 28, 2007, and therefore, had no gross margin in the second quarter of fiscal 2007. Gross margins as a percentage of net sales decreased to 22.1% for the three months ended October 27, 2007 from 27.7% for the three months ended October 28, 2006. The decrease is primarily due to the TST business, which has a higher cost of products sold as a percentage of sales as compared to the other businesses in the Interconnect segment, the lower sales in our data center installation business and the roll out of PC card adapters. In addition, we experienced increased costs due to overall lower sales volumes in our North American operations (excluding TST).

*Income Before Income Taxes.* Interconnect income before income taxes decreased \$0.6 million or 33.3% to \$1.2 million for the three months ended October 27, 2007 compared to \$1.8 million for the three months ended October 28, 2006. The TST business increased income before income taxes for the three months ended October 27, 2007 as compared to the three months ended October 28, 2006 but was more than offset by lower sales in our data installation business as well as increased costs in our North American operations (excluding TST).

**Power Distribution Segment Results**

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

(in millions)

|                               | October<br>27,<br>2007 | October<br>28,<br>2006 | Net<br>Change | Net<br>Change |
|-------------------------------|------------------------|------------------------|---------------|---------------|
| Net sales                     | \$ 11.6                | \$ 12.0                | \$ (0.4)      | -3.3%         |
| Cost of products<br>sold      | 8.5                    | 8.5                    |               | 0.0%          |
| Gross margin                  | 3.1                    | 3.5                    | (0.4)         | -11.4%        |
| Income before<br>income taxes | \$ 2.1                 | \$ 2.6                 | \$ (0.5)      | -19.2%        |

|                   | October<br>27,<br>2007 | October<br>28,<br>2006 |
|-------------------|------------------------|------------------------|
| Percent of sales: |                        |                        |
| Net sales         | 100.0%                 | 100.0%                 |
|                   | 73.3%                  | 70.8%                  |

Cost of products  
sold

|              |       |       |
|--------------|-------|-------|
| Gross margin | 26.7% | 29.2% |
|--------------|-------|-------|

Income before  
income taxes

|       |       |
|-------|-------|
| 18.1% | 21.7% |
|-------|-------|

*Net Sales.* Power Distribution segment net sales decreased \$0.4 million to \$11.6 million for the three months ended October 27, 2007 from \$12.0 million for the three months ended October 28, 2006. The majority of the decrease relates to certain projects for a customer which we are no longer the sole supplier and is partially offset by sales from our VEP business purchased on August 31, 2007.

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

*Cost of Products Sold.* Power Distribution segment cost of products sold was \$8.5 million for both the three months ended October 27, 2007 and for the three months ended October 28, 2006. The Power Distribution segment cost of products sold as a percentage of sales increased to 73.3% for the three months ended October 27, 2007 from 70.8% for the three months ended October 28, 2006. The increase is primarily due to higher material costs and price erosion at our North American operation, partially offset by margin improvement at our Shanghai, China operation.

*Gross Margins.* Power Distribution segment gross margins decreased \$0.4 million or 11.4% to \$3.1 million for the three months ended October 27, 2007 as compared to \$3.5 million for the three months ended October 28, 2006. Gross margins as a percentage of net sales decreased to 26.7% for the three months ended October 27, 2007 from 29.2% for the three months ended October 28, 2006. The decrease is primarily due to higher material costs and price erosion at our North American operation, partially offset by margin improvement at our Shanghai, China operation.

*Income Before Income Taxes.* Power Distribution segment income before income taxes decreased \$0.5 million to \$2.1 million for the three months ended October 27, 2007 compared to \$2.6 million for the three months ended October 28, 2006. The decrease is due to lower sales in the three months ended October 27, 2007 as compared to the three months ended October 28, 2007 as well as higher material costs and price erosion at our North American operation, partially offset by margin improvement at our Shanghai, China operation.

**Other Segment Results**

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

(in millions)

|                             | October<br>27,<br>2007 | October<br>28,<br>2006 | Net<br>Change | Net<br>Change |
|-----------------------------|------------------------|------------------------|---------------|---------------|
| Net sales                   | \$ 1.6                 | \$ 2.0                 | \$ (0.4)      | -20.0%        |
| Cost of products<br>sold    | 1.6                    | 1.5                    | 0.1           | 6.7%          |
| Gross margin                |                        | 0.5                    | (0.5)         | -100.0%       |
| Loss before income<br>taxes | \$ (0.4)               | \$ (0.1)               | \$ (0.3)      | 300.0%        |

|                             | October<br>27,<br>2007 | October<br>28,<br>2006 |
|-----------------------------|------------------------|------------------------|
| Percent of sales:           |                        |                        |
| Net sales                   | 100.0%                 | 100.0%                 |
| Cost of products<br>sold    | 100.0%                 | 75.0%                  |
| Gross margin                | 0.0%                   | 25.0%                  |
| Loss before income<br>taxes | -25.0%                 | -5.0%                  |

*Net Sales.* The Other segment net sales decreased \$0.4 million to \$1.6 million for the three months ended October 27, 2007 as compared to \$2.0 million for the three months ended October 28, 2006.

*Cost of Products Sold.* Other segment cost of products sold increased \$0.1 million to \$1.6 million for the three months ended October 27, 2007 compared to \$1.5 million for the three months ended October 28, 2006. The majority of the increase is due to investment initiatives in our torque-sensing business in the three months ended October 27,

2007.

*Gross Margins.* The Other segment gross margins decreased \$0.5 million to no gross profit for the three months ended October 27, 2007 as compared to \$0.5 million for the three months ended October 28, 2006. The majority of the decrease is due to investment initiatives in our torque-sensing business in the three months ended October 27, 2007.

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

*Loss Before Income Taxes.* The Other segment loss before income taxes was \$0.4 million for the three months ended October 27, 2007 compared to \$0.1 million for the three months ended October 28, 2006.

**Results of Operations for the Six Months Ended October 27, 2007 as Compared to the Six Months Ended October 28, 2006****Consolidated Results**

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

|   | October<br>27,<br>2007 | October<br>28,<br>2006 | Net<br>Change | Net<br>Change |
|---|------------------------|------------------------|---------------|---------------|
| Net sales                                 | \$ 258.3               | \$ 212.1               | \$ 46.2       | 21.8%         |
| Other income                              | 0.7                    | 0.3                    | 0.4           | 133.3%        |
|   | 259.0                  | 212.4                  | 46.6          | 21.9%         |
| Cost of products sold                     | 204.2                  | 173.2                  | 31.0          | 17.9%         |
| Gross margin (including<br>other income)  | 54.8                   | 39.2                   | 15.6          | 39.8%         |
| Selling and administrative<br>expenses    | 32.1                   | 27.0                   | 5.1           | 18.9%         |
| Interest income, net                      | 1.0                    | 1.7                    | (0.7)         | -41.2%        |
| Other, net                                | (1.2)                  | 0.3                    | (1.5)         | -500.0%       |
| Income taxes                              | 5.4                    | 5.1                    | 0.3           | 5.9%          |
| Cumulative effect of<br>accounting change |                        | 0.1                    | (0.1)         | -100.0%       |
| Net income                                | \$ 17.1                | \$ 9.2                 | \$ 7.9        | 85.9%         |

| Percent of sales:                        | October<br>27,<br>2007 | October<br>28,<br>2006 |
|--|------------------------|------------------------|
| Net sales                                | 100.0%                 | 100.0%                 |
| Other income                             | 0.3%                   | 0.1%                   |
| Cost of products sold                    | 79.1%                  | 81.7%                  |
| Gross margin (including<br>other income) | 21.2%                  | 18.5%                  |
| Selling and administrative<br>expenses   | 12.4%                  | 12.7%                  |
| Interest income, net                     | 0.4%                   | 0.8%                   |
| Other, net                               | -0.5%                  | 0.1%                   |
| Income taxes                             | 2.1%                   | 2.4%                   |

|   |      |      |
|---|------|------|
| Cumulative effect of<br>accounting change | 0.0% | 0.0% |
| Net income                                | 6.6% | 4.3% |

*Net Sales.* Consolidated net sales increased \$46.2 million or 21.8% to \$258.3 million for the six months ended October 27, 2007 from \$212.1 million for the six months ended October 28, 2006. Of the \$46.2 million increase, \$24.4 million relates to our TST and VEP businesses purchased on February 28, 2007 and August 31, 2007, respectively, and therefore, had no sales in the first half of fiscal 2007. The increase was also driven by organic growth from our European and Asian operations and stronger than expected North American automotive sales. Automotive segment sales additionally were impacted by price increases of \$5.0 million on previously marginally profitable and unprofitable products, which we had decided to exit at the expiration of our manufacturing commitment, however, at the request of the customer, have agreed to produce through the end of fiscal year 2008. We agreed to continue the production at higher margins, which favorably impacted revenue and margins during the first half of fiscal 2008. Excluding TST, the Interconnect segment sales increased slightly for the six months ended October 27,

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

2007 as compared to the six months ended October 28, 2006. Excluding VEP, the Power Distribution segment sales slightly decreased for the six months ended October 27, 2007 as compared to the six months ended October 28, 2006. Translation of foreign operations net sales in the six months ended October 27, 2007 increased reported net sales by \$3.4 million or 1.3%.

*Other Income.* Other Income increased \$0.4 million or 133.3% to \$0.7 million for the six months ended October 27, 2007 from \$0.3 million for the six months ended October 28, 2006. Other income consisted primarily of earnings from our automotive joint venture, engineering design fees and royalties.

*Cost of Products Sold.* Consolidated cost of products sold increased \$31.0 million or 17.9% to \$204.2 million for the six months ended October 27, 2007 from \$173.2 million for the six months ended October 28, 2006. The increase is due to the higher sales volumes in the six months ended October 27, 2007 as compared to the six months ended October 28, 2006. Consolidated cost of products sold as a percentage of sales was 79.1% for the six months ended October 27, 2007 and 81.7% for the six months ended October 28, 2006. The decrease is primarily due to shifting manufacturing efforts from the U.S. to lower cost regions in Asia, Europe and Mexico. The integration of our Scotland operation to our Malta operation has increased efficiency in our European manufacturing processes. In addition, we have previously made our North American operations more efficient and cost effective in anticipation of the forecasted lower automotive sales in the U.S. market.

*Gross Margins (including other income).* Consolidated gross margins (including other income) increased \$15.6 million or 39.8% to \$54.8 million for the six months ended October 27, 2007 as compared to \$39.2 million for the six months ended October 28, 2006. Gross margins as a percentage of net sales increased to 21.2% for the six months ended October 27, 2007 from 18.5% for the six months ended October 28, 2006. The increase is due to shifting manufacturing efforts from the U.S. and the U.K. to lower cost regions in Asia, Europe and Mexico. In addition, North American automotive sales were stronger than expected and were impacted by the price increases described above. Our North American operations were more efficient as a result of additional cost reduction efforts previously undertaken in anticipation of lower automotive sales in model year 2008 for our legacy products.

*Selling and Administrative Expenses.* Selling and administrative expenses increased \$5.1 million or 18.9% to \$32.1 million for the six months ended October 27, 2007 compared to \$27.0 million for the six months ended October 28, 2006. Of the \$5.1 million increase, \$2.5 million relates to the TST and VEP businesses, which were purchased on February 28, 2007 and August 31, 2007, respectively, and therefore, had no selling and administrative expenses in the first half of fiscal 2007. The majority of the additional increase relates to higher stock award amortization expense and professional fees in the six months ended October 27, 2007 as compared to the six months ended October 28, 2006. Selling and administrative expenses as a percentage of net sales decreased to 12.4% in the six months ended October 27, 2007 from 12.7% for the six months ended October 28, 2006.

*Interest Income, Net.* Net interest income decreased 41.2% in the six months ended October 27, 2007 to \$1.0 million as compared to \$1.7 million in the six months ended October 28, 2006. The average cash balance was \$73.4 million in the six months ended October 27, 2007 as compared to \$90.6 million in the six months ended October 28, 2006. The average interest rate earned in the six months ended October 27, 2007 was 3.32% as compared to 4.01% in the six months ended October 28, 2006. The average interest rate earned includes both taxable interest and tax-free municipal interest. The cash balance decreased primarily due to the acquisition of the TST and VEP businesses on February 28, 2007 and August 31, 2007, respectively. We paid approximately \$65.0 million for the purchase of TST and \$5.8 million for VEP. Interest expense was \$0.2 million for the six months ended October 27, 2007 and \$0.1 million for the six months ended October 28, 2006.

*Other, Net.* Other, Net decreased to an expense of \$1.2 million for the six months ended October 27, 2007 versus income of \$0.3 million for the six months ended October 28, 2006. The Other, net consists primarily of currency exchange gains and losses at the Company's foreign operations. The functional currencies of these operations are the British pound, Chinese yuan, Czech koruna, Euro, Maltese lira, Mexican peso and Singapore dollar. The foreign operations have transactions denominated in currencies other than their functional currencies, primarily sales in U.S. dollars and Euros, creating exchange rate sensitivities.





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

*Income Taxes.* The effective income tax rate was 24.1% in the first half of fiscal 2008 compared with 35.8% in the first half of fiscal 2007. The effective tax rates for both fiscal 2008 and 2007 reflect utilization of foreign investment tax credits and the effect of lower tax rates on income of the Company's foreign earnings and the higher earnings at those operations. The effective tax rate was higher in fiscal 2007 primarily due to the establishment of a valuation allowance for potentially non-deductible stock-based compensation.

*Net Income.* Net income increased \$7.9 million or 85.9% to \$17.1 million for the six months ended October 27, 2007 as compared to \$9.2 million for the six months ended October 28, 2006. The increase is attributable to higher sales with lower costs of products sold, partially offset by an increase in selling and administrative expenses. The increase is due to shifting manufacturing efforts from the U.S. and the U.K. to lower cost regions in Asia, Europe and Mexico. In addition, North American automotive sales were stronger than expected and were impacted by the price increases described above. Our North American operations were more efficient as a result of additional cost reduction efforts previously undertaken in anticipation of lower automotive segment sales in model year 2008 for our legacy products. Additionally, our effective tax rate decreased to 24.1% for the six months ended October 27, 2007 from 35.8% for the six months ended October 28, 2006. Net income as a percentage of sales increased to 6.6% for the six months ended October 27, 2007 as compared to 4.3% for the six months ended October 28, 2006.

**Automotive Segment Results**

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

(in millions)

|   | October<br>27,<br>2007 | October<br>28,<br>2006 | Net<br>Change | Net<br>Change |
|---|------------------------|------------------------|---------------|---------------|
| Net sales   | \$ 172.7               | \$ 150.2               | \$ 22.5       | 15.0%         |
| Cost of products sold   | 137.8                  | 127.9                  | 9.9           | 7.7%          |
| Gross margin  | 34.9                   | 22.3                   | 12.6          | 56.5%         |
| Income before income taxes and cumulative effect of accounting change | \$ 25.0                | \$ 12.3                | \$ 12.7       | 103.3%        |

|   | October 27,<br>2007 | October 28,<br>2006 |
|---|---------------------|---------------------|
| Percent of sales:   |                     |                     |
| Net sales   | 100.0%              | 100.0%              |
| Cost of products sold   | 79.8%               | 85.2%               |
| Gross margin  | 20.2%               | 14.8%               |
| Income before income taxes and cumulative effect of accounting change | 14.5%               | 8.2%                |

*Net Sales.* Automotive segment net sales increased \$22.5 million or 15.0% to \$172.7 million for the six months ended October 27, 2007 from \$150.2 million for the six months ended October 28, 2006. The increase was driven by strong organic growth from our European and Asian operations and sales in our North American operations were stronger than expected. Sales were also impacted by price increases of \$5.0 million on previously marginally profitable products, which we have decided to exit at the expiration of our manufacturing commitment but, at the request of the customer, have agreed to produce through the end of fiscal year 2008. Translation of foreign operations net sales in the six months ended October 27, 2007 increased reported net sales by \$3.1 million or 1.8%.

*Cost of Products Sold.* Automotive segment cost of products sold increased \$9.9 million to \$137.8 million for the six months ended October 27, 2007 from \$127.9 for the six months ended October 28, 2006. The increase relates to higher sales volumes for the six months ended October 27, 2007 as compared to the six months ended October 28,

2006. Automotive segment costs of products sold as a percentage of sales decreased to 79.8% for the  
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six months ended October 27, 2007 from 85.2% for the six months ended October 28, 2006. The decrease is primarily due to shifting manufacturing efforts from the U.S. to lower cost regions in Asia, Europe and Mexico. The integration of our Scotland operation to our Malta operation has increased efficiency in our European manufacturing processes. In addition, we have previously made our North American operations more efficient and cost effective in anticipation of the forecasted lower automotive sales in the U.S. market.

*Gross Margins.* Automotive segment gross margins increased \$12.6 million or 56.5% to \$34.9 million for the six months ended October 27, 2007 as compared to \$22.3 million for the six months ended October 28, 2006. The increase is due to shifting manufacturing efforts from the U.S. and the U.K. to lower cost regions in Asia, Europe and Mexico. In addition, North American automotive sales were stronger than expected and were impacted by the price increases described above. Our North American operations were more efficient as a result of additional cost reduction efforts previously undertaken in anticipation of lower automotive sales in model year 2008 for our legacy products. Gross margins as a percentage of net sales increased to 20.2% for the six months ended October 27, 2007 from 14.8% for the six months ended October 28, 2006.

*Income Before Income Taxes.* Automotive segment income before income taxes increased \$12.7 million or 103.3% to \$25.0 million for the six months ended October 27, 2007 compared to \$12.3 million for the six months ended October 28, 2007. The increase is due to shifting manufacturing efforts from the U.S. and the U.K. to lower cost regions in Asia, Europe and Mexico. In addition, North American automotive sales were stronger than expected and were impacted by the price increases described above. Our North American operations were more efficient as a result of additional cost reduction efforts previously undertaken in anticipation of lower automotive segment sales in model year 2008 for our legacy products.

**Interconnect Segment Results**

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

(in millions)

|   | October<br>27,<br>2007 | October<br>28,<br>2006 | Net<br>Change | Net<br>Change |
|---|------------------------|------------------------|---------------|---------------|
| Net sales   | \$ 61.7                | \$ 36.2                | \$ 25.5       | 70.4%         |
| Cost of products sold   | 47.3                   | 25.6                   | 21.7          | 84.8%         |
| Gross margin  | 14.4                   | 10.6                   | 3.8           | 35.8%         |
| Income before income taxes and cumulative effect of accounting change | \$ 3.6                 | \$ 3.9                 | \$ (0.3)      | -7.7%         |

|   | October 27,<br>2007 | October 28,<br>2006 |
|---|---------------------|---------------------|
| Percent of sales:   |                     |                     |
| Net sales   | 100.0%              | 100.0%              |
| Cost of products sold   | 76.7%               | 70.7%               |
| Gross margin  | 23.3%               | 29.3%               |
| Income before income taxes and cumulative effect of accounting change | 5.8%                | 10.8%               |

*Net Sales.* Interconnect segment net sales increased \$25.5 million or 70.4% to \$61.7 million for the six months ended October 27, 2007 from \$36.2 million for the six months ended October 28, 2006. Substantially all of the increase is due to sales from our TST, which was purchased on February 28, 2007, and therefore, had no sales in the first half of fiscal 2007. The other Interconnect segment businesses had slightly higher sales for the six months ended October 27, 2007 as compared to the six months ended October 28, 2006. Translation of foreign operations net sales

in the six months ended October 27, 2007 increased reported net sales by \$0.4 million or 0.6%.

*Cost of Products Sold.* Interconnect segment cost of products sold increased \$21.7 million to \$47.3 million for the six months ended October 27, 2007 compared to \$25.6 million for the six months ended October 28, 2006.

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

The majority of the increase is due to cost of products sold from our TST business, which was purchased on February 28, 2007, and therefore, had no cost of products sold in the first half of fiscal 2007. Interconnect segment cost of products sold as a percentage of net sales increased to 76.7% for the six months ended October 27, 2007 compared to 70.7% for the six months ended October 28, 2006. The increase is primarily due to the TST business, which has higher cost of products sold as a percentage of sales as compared to the other businesses in the Interconnect segment. We experienced lower sales in our data center installation business and higher costs related to the roll out of PC card adapters during the first half of fiscal 2008. In addition, we experienced increased costs due to overall lower sales volumes in our North American operations (excluding TST).

*Gross Margins.* Interconnect segment gross margins increased \$3.8 million or 35.8% to \$14.4 million for the six months ended October 27, 2007 as compared to \$10.6 million for the six months ended October 28, 2006. The increase is mainly driven from the products sold from our TST business, which was purchased on February 28, 2007, and therefore, had no gross margin in the first half of fiscal 2007. Gross margins as a percentage of net sales decreased to 23.3% for the six months ended October 27, 2007 from 29.3% for the six months ended October 28, 2006. The decrease is primarily due to the TST business, which has a higher cost of products sold as a percentage of sales as compared to the other businesses in the Interconnect segment, the lower sales in our data center installation business and the roll out of PC card adapters. In addition, we experienced increased costs due to overall lower sales volumes in our North American operations (excluding TST).

*Income Before Income Taxes.* Interconnect segment income before income taxes decreased \$0.3 million or 7.7% to \$3.6 million for the six months ended October 27, 2007 compared to \$3.9 million for the six months ended October 28, 2006. The TST business increased income before income taxes for the six months ended October 27, 2007 as compared to the six months ended October 28, 2006 but was more than offset by lower sales in our data installation business as well as increased costs in our North American operations (excluding TST).

**Power Distribution Segment Results**

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

(in millions)

|   | October<br>27,<br>2007 | October<br>28,<br>2006 | Net<br>Change | Net<br>Change |
|---|------------------------|------------------------|---------------|---------------|
| Net sales   | \$ 20.7                | \$ 22.0                | \$ (1.3)      | -5.9%         |
| Cost of products sold   | 15.0                   | 16.1                   | (1.1)         | -6.8%         |
| Gross margin  | 5.7                    | 5.9                    | (0.2)         | -3.4%         |
| Income before income taxes and cumulative effect of accounting change | \$ 4.0                 | \$ 4.3                 | \$ (0.3)      | -7.0%         |

|   | October 27,<br>2007 | October 28,<br>2006 |
|---|---------------------|---------------------|
| Percent of sales:   |                     |                     |
| Net sales   | 100.0%              | 100.0%              |
| Cost of products sold   | 72.5%               | 73.2%               |
| Gross margin  | 27.5%               | 26.8%               |
| Income before income taxes and cumulative effect of accounting change | 19.3%               | 19.5%               |

*Net Sales.* Power Distribution segment net sales decreased \$1.3 million to \$20.7 million for the six months ended October 27, 2007 from \$22.0 million for the six months ended October 28, 2006. The majority of the decrease relates to certain projects for a customer for which we are no longer the sole supplier and is partially offset by sales from our

VEP business purchased on August 31, 2007.

*Cost of Products Sold.* The Power Distribution segment cost of products sold decreased \$1.1 million or 6.8% to \$15.0 million for the six months ended October 27, 2007 as compared to \$16.1 million for both the six

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

months ended October 27, 2007 and for the six months ended October 28, 2006. The decrease relates to the lower sales volumes in the six months ended October 27, 2007 as compared to the six months ended October 28, 2006. The Power Distribution cost of products sold as a percentage of sales decreased to 72.5% for the six months ended October 27, 2007 from 73.2% for the six months ended October 28, 2006. The decrease relates to cost savings recognized from manufacturing in our lean manufacturing operation in Shanghai, China offset by higher costs and price erosion in our North American operation in six months ended October 27, 2007.

*Gross Margins.* The Power Distribution segment gross margins decreased \$0.2 million or 3.4% to \$5.7 million for the six months ended October 27, 2007 as compared to \$5.9 million for the six months ended October 28, 2006. Gross margins as a percentage of net sales increased to 27.5% for the six months ended October 27, 2007 from 26.8% for the six months ended October 28, 2006. The increase relates to cost savings recognized from manufacturing in our lean manufacturing operation in Shanghai, China offset by higher costs and price erosion in our North American operation in six months ended October 27, 2007.

*Income Before Income Taxes.* Power Distribution segment income before income taxes decreased \$0.3 million to \$4.0 million for the six months ended October 27, 2007 compared to \$4.3 million for the six months ended October 28, 2006. The decrease is due to lower sales in the six months ended October 27, 2007 as compared to the six months ended October 28, 2007.

**Other Segment Results**

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

|   | October<br>27,<br>2007 | October<br>28,<br>2006 | Net<br>Change | Net<br>Change |
|---|------------------------|------------------------|---------------|---------------|
| Net sales   | \$ 3.2                 | \$ 3.7                 | \$ (0.5)      | -13.5%        |
| Cost of products sold   | 3.1                    | 2.8                    | 0.3           | 10.7%         |
| Gross margin  | 0.1                    | 0.9                    | (0.8)         | -88.9%        |
| Loss before income taxes and cumulative effect of accounting change | \$ (0.7)               | \$ (0.2)               | \$ (0.5)      | 250.0%        |

|   | October 27,<br>2007 | October 28,<br>2006 |
|---|---------------------|---------------------|
| Percent of sales:   |                     |                     |
| Net sales   | 100.0%              | 100.0%              |
| Cost of products sold   | 96.9%               | 75.7%               |
| Gross margin  | 3.1%                | 24.3%               |
| Loss before income taxes and cumulative effect of accounting change | -21.9%              | -5.4%               |

*Net Sales.* The Other segment net sales decreased \$0.5 million to \$3.2 million for the six months ended October 27, 2007 as compared to \$3.7 million for the six months ended October 28, 2006.

*Cost of Products Sold.* Other segment cost of products sold increased \$0.3 million to \$3.1 million for the six months ended October 27, 2007 compared to \$2.8 million for the six months ended October 28, 2006. The majority of the increase is due to investment initiatives in our torque-sensing business in the six months ended October 27, 2007.

*Gross Margins.* The Other segment gross margins decreased \$0.8 million to \$0.1 million for the six months ended October 27, 2007 as compared to \$0.9 million for the six months ended October 28, 2006. The majority of the decrease is due to investment initiatives in our torque-sensing business in the six months ended October 27, 2007.





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

*Loss Before Income Taxes.* The Other segment loss before income taxes was \$0.7 million for the six months ended October 27, 2007 compared to \$0.2 million for the six months ended October 28, 2006.

**Liquidity and Capital Resources**

We have historically financed our cash requirements through cash flows from operations. Our future capital requirements will depend on a number of factors, including our future net sales and the timing and rate of expansion of our business. 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 million revolving credit facility to provide ready financing for general corporate purposes, including acquisition opportunities that may become available. The bank credit agreement requires maintenance of certain financial ratios and a minimum net worth level. At October 27, 2007, the Company was in compliance with these covenants and there were no borrowings against this credit facility.

Net cash provided by operations increased \$19.3 million or 72.6% to \$45.9 million for the first half of fiscal 2008 compared to \$26.6 million in the first half of fiscal 2007. Our net income increased \$7.9 million or 85.9% to \$17.1 million in the first half of fiscal 2008 compared to \$9.2 million for the first half of fiscal 2007. The primary factor in the Company's ability to generate cash from operations is our net income. In the first half of fiscal 2008 we received a significant non-refundable prepayment by a customer for products to be delivered during the remainder of the fiscal year. 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 half of fiscal 2008 was \$18.9 million compared to \$7.5 million for the first half of fiscal 2007. Purchases of plant and equipment were \$10.8 million and \$5.0 million for the first half of fiscal 2008 and 2007, respectively. A significant amount of the \$10.8 million of purchases of plant and equipment relate to investments to expand our Malta and Shanghai, China manufacturing operations. In the first half of fiscal 2008, we purchased VEP for \$5.8 million in cash. Also in the first half of fiscal 2008, we made additional payments of \$1.0 million relating to purchase price adjustments relating to the TST acquisition. In the first half of fiscal 2008 we also had a contingent payment of \$0.3 million related to the acquisition of Cableco Technologies. Additionally, a dividend payment of \$1.0 million was paid in the first half of fiscal 2008 relating to our automotive joint venture. In the first half of fiscal 2007, cash used in investing activities included the final contingent payment related to the acquisition of AST of \$2.7 million.

Net cash used in financing activities during the first half in fiscal 2008 was \$2.4 million compared with \$5.5 million in the first half of fiscal 2007. Proceeds from the exercise of stock options increased \$0.9 million to \$1.1 million for the first half of fiscal 2008 as compared to \$0.2 million in the first half of fiscal 2007. The increase is due to the increase in our stock price in the first half of fiscal 2008 as compared to the first half of fiscal 2007. The first half of fiscal 2007 included the purchase of 205,597 shares of our common stock pursuant to a three million-share stock repurchase plan authorized by our board of directors in September 2006.

**Off-Balance Sheet Arrangements**

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

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

Certain of our foreign operations enter into transactions in currencies other than their functional currency, primarily the U.S. dollar and the Euro. A 10% change in foreign currency exchange rates from balance sheet date levels could impact our income before income taxes by \$1.3 million and \$0.6 million at October 27, 2007 and April 28, 2007, respectively. We also have foreign currency exposure arising from the translation of our net equity investment in our foreign operations to U.S. dollars. We generally view our investments in foreign operations with

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functional currencies other than the U.S. dollar as long-term. The currencies to which we are exposed are the British pound, Chinese yuan, Czech koruna, Euro, Maltese lira, Mexican peso and Singapore dollar. A 10% change in foreign currency exchange rates from balance sheet date levels could impact our net foreign investments by \$13.0 million at October 27, 2007 and \$10.9 million at April 28, 2007.

**Item 4. Controls And Procedures**

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

There have been no changes in our internal control over financial reporting during the quarter ended October 27, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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## PART II. OTHER INFORMATION

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

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

| Period                                      | Total<br>Number of<br>Shares<br>Purchased<br>(1) | Average<br>Price<br>Paid<br>Per<br>Share | Total Number<br>of<br>Shares<br>Purchased as<br>Part of<br>Publicly<br>Announced<br>Plans<br>or Programs<br>(2) | Maximum<br>Number of<br>Shares that<br>May Yet Be<br>Purchased<br>Under the Plans<br>or<br>Programs |
|---|--|--|---|---|
| July 29, 2007 through August 25, 2007       | 4,410  | \$ 16.17                                 |   |   |
| August 26, 2007 through September 29, 2007  | 15,423   | 15.97                                    |   |   |
| September 30, 2007 through October 27, 2007 | 19,833   | \$ 16.01                                 |   |   |

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

(2) On September 14, 2006, the Company

adopted a plan  
to repurchase up  
to 3 million  
shares of its  
common stock  
through  
April 30, 2008.  
No purchases  
were made in  
the second  
quarter as part  
of this  
repurchase plan.

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

- (a) The 2007 Annual Stockholders Meeting of the Company was held on September 13, 2007.
  
- (c) At the Annual Stockholders Meeting, the common stockholders voted on the following uncontested matters.

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

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

|                        | <b>For</b> | <b>Withheld</b> |
|------------------------|------------|-----------------|
| Warren L. Batts        | 34,699,452 | 285,703         |
| J. Edward Colgate      | 34,487,402 | 497,753         |
| Darren M. Dawson       | 34,303,739 | 681,416         |
| Donald W. Duda         | 34,784,373 | 200,782         |
| Isabelle C. Goossen    | 34,300,000 | 685,155         |
| Christopher J. Hornung | 34,344,871 | 640,284         |
| Paul G. Shelton        | 34,303,651 | 681,504         |
| Lawrence B. Skatoff    | 34,302,219 | 682,936         |
| George S. Spindler     | 34,322,011 | 663,144         |

## 2. Ratification of Ernst &amp; Young LLP to serve as the Company's independent registered public accounting firm for the fiscal year ending May 3, 2008:

| <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|------------|----------------|----------------|
| 34,331,420 | 345,105        | 16,348         |

## 3. Adoption of the Methode Electronics, Inc. 2007 Cash Incentive Plan:

| <b>For</b> | <b>Against</b> | <b>Abstain</b> | <b>Broker<br/>Non-Votes</b> |
|------------|----------------|----------------|-----------------------------|
| 30,342,907 | 1,499,541      | 73,182         | 2,777,243                   |

## 4. Adoption of the Methode Electronics, Inc. 2007 Stock Plan:

| <b>For</b> | <b>Against</b> | <b>Abstain</b> | <b>Broker<br/>Non-Votes</b> |
|------------|----------------|----------------|-----------------------------|
| 28,848,928 | 3,010,545      | 56,157         | 2,777,243                   |

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Item 6. Exhibits

| Exhibit Number | Description   |
|----------------|---|
| 3.1            | Methode Electronics, Inc. By-Laws, as amended and currently in effect (1)     |
| 10.1           | Methode Electronics, Inc. 2007 Stock Plan (2)                                 |
| 10.2           | Methode Electronics, Inc. 2007 Cash Incentive Plan (2)                        |
| 10.3           | Form Performance Based RSA Award Agreement (2)                                |
| 10.4           | Form Annual Cash Bonus Award Agreement (2)                                    |
| 10.5           | Form RSA Tandem Cash Award Agreement (2)                                      |
| 10.6           | Form Director RSA Award Agreement (2)   |
| 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 |

(1) Previously filed with Registrants Form 8-K filed November 2, 2007, and incorporated herein by reference.

(2) Previously filed with Registrants Form 8-K filed September 19, 2007, and incorporated herein by reference.

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**SIGNATURES**

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

METHODE ELECTRONICS, INC.

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

Dated: December 6, 2007



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INDEX TO EXHIBITS

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