METHODE ELECTRONICS INC
Form 10-Q
March 13, 2008

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

FORM 10-Q

(Mark One)

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended February 2, 2008**

or

o **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 þ No o

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 o Accelerated filer þ Non-accelerated filer o Smaller reporting company o

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

Yes o No þ

At March 11, 2008, Registrant had 37,992,532 shares of common stock outstanding.

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PART I FINANCIAL INFORMATION
Item 1 Financial Statements
METHODE ELECTRONICS, INC AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

	February 2, 2008 (Unaudited)	April 28, 2007
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 90,526	$ 60,091
Accounts receivable, net	71,335	79,180
Inventories:		
Finished products	14,396	12,280
Work in process	23,658	20,288
Materials	21,416	21,911
	59,470	54,479
Deferred income taxes	7,038	6,868
Prepaid expenses and other current assets	6,403	8,823
TOTAL CURRENT ASSETS	234,772	209,441
PROPERTY, PLANT AND EQUIPMENT	315,059	290,882
Less allowances for depreciation	224,480	204,025
	90,579	86,857
GOODWILL	54,195	51,520
INTANGIBLE ASSETS, net	43,670	43,680
OTHER ASSETS	23,065	20,242
	120,930	115,442
	$ 446,281	$ 411,740
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 38,260	$ 41,041
Other current liabilities	31,022	31,420
TOTAL CURRENT LIABILITIES	69,282	72,461
OTHER LIABILITIES	12,073	4,898
DEFERRED COMPENSATION	7,382	10,172

SHAREHOLDERS EQUITY				
Common stock, $0.50 par value, 100,000,000 shares authorized, 38,121,184 and 37,950,829 shares issued as of February 2, 2008 and April 28, 2007, respectively		19,061		18,975
Unearned common stock issuances		(4,257)		(4,517)
Additional paid-in capital		69,414		65,512
Retained earnings		254,815		233,684
Accumulated other comprehensive income		23,966		16,010
Treasury stock, 625,342 shares as of February 2, 2008 and April 28, 2007		(5,455)		(5,455)
		357,544		324,209
	$	446,281	$	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		Nine Months Ended	
	February 2, 2008	January 27, 2007	February 2, 2008	January 27, 2007
INCOME				
Net sales	$ 138,465	$ 105,412	$ 396,713	$ 317,499
Other	313	686	986	1,020
	138,778	106,098	397,699	318,519
COSTS AND EXPENSES				
Cost of products sold	109,032	85,334	313,267	258,537
Restructuring and impairment costs	450	1,861	450	1,861
				49,778
Selling and administrative expenses	17,707	12,910		39,939
	127,189	100,105	363,495	300,337
Income from operations	11,589	5,993	34,204	18,182
Interest income, net	652	1,056	1,699	2,778
Other, net	(923)	(335)	(2,084)	(9)
Income before income taxes and cumulative effect of accounting change	11,318	6,714	33,819	20,951
Income taxes	1,561	2,010	6,984	7,100
Income before cumulative effect of accounting change	9,757	4,704	26,835	13,851
Cumulative effect of accounting change, net of taxes of $28				101
NET INCOME	$ 9,757	$ 4,704	$ 26,835	$ 13,952
Amounts per common share:				
Basic and diluted net income before cumulative effect of accounting change	$ 0.26	$ 0.13	$ 0.72	$ 0.38
Basic and diluted net income	$ 0.26	$ 0.13	$ 0.72	$ 0.38
Cash dividends:				

Common stock	$ 0.05	$ 0.05	$ 0.15	$ 0.15
Weighted average number of Common Shares outstanding:				
Basic	37,138	36,193	37,066	36,260
Diluted	37,492	36,562	37,479	36,528

See notes to condensed consolidated financial statements.

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

	Nine Months Ended	
	February 2, 2008	January 27, 2007
OPERATING ACTIVITIES		
Net income	$ 26,835	$ 13,952
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for depreciation	16,332	14,103
Amortization of intangibles	4,227	3,576
Amortization of stock awards and stock options	2,479	2,138
Changes in operating assets and liabilities	7,615	11,188
Other	77	(352)
NET CASH PROVIDED BY OPERATING ACTIVITIES	57,565	44,605
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(16,702)	(6,365)
Proceeds from sale of building	960	800
Acquisition of businesses	(7,090)	(2,678)
Joint venture dividend	(1,000)	
Other	(407)	(2,016)
NET CASH USED IN INVESTING ACTIVITIES	(24,239)	(10,259)
FINANCING ACTIVITIES		
Repurchase of common stock		(3,059)
Proceeds from exercise of stock options	1,268	263
Tax benefit from stock options and awards	291	
Cash dividends	(5,680)	(5,592)
NET CASH USED IN FINANCING ACTIVITIES	(4,121)	(8,388)
Effect of foreign currency exchange rate changes on cash	1,230	375
INCREASE IN CASH AND CASH EQUIVALENTS	30,435	26,333
Cash and cash equivalents at beginning of period	60,091	81,646
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 90,526	$ 107,979

See notes to condensed consolidated financial statements.

METHODE ELECTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
(Dollar amounts in thousands, except share data)
February 2, 2008

1. BASIS OF PRESENTATION

Methode Electronics, Inc. was incorporated in 1946 as an Illinois corporation and reincorporated in Delaware in 1966. As used herein, we , us , our , the Company or Methode means Methode Electronics, Inc. and its subsidiarie condensed consolidated financial statements and related disclosures as of February 2, 2008 and results of operations for the three months and nine months ended February 2, 2008 and January 27, 2007 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. Due to the timing of our fiscal calendar, the three months ended February 2, 2008 represent 14 weeks of results and the three months ended January 27, 2007 represent 13 weeks of results. In addition, the nine months ended February 2, 2008 represent 40 weeks of results and the nine months ended January 27, 2007 represent 39 weeks of results.

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 6 for more information regarding the impact of adopting FIN 48.

In September 2006, the FASB issued Statement of Financial Accounting Standard (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 do not believe the adoption of SFAS No. 157 will have a material impact on our financial position, results of operations or cash flows.

In February 2007, the FASB issued 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.

In December 2007, the FASB issued SFAS No. 141R, Business Combinations (SFAS 141R). The objective of this statement is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. To accomplish that, this statement establishes principles and requirements for how the acquirer: 1.) recognizes and

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

measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; 2.) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; 3.) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. This applies to our fiscal year 2010 which begins May 3, 2009. The areas that are most applicable to us with regard to this statement are (1) that the Statement requires companies to expense transaction costs as incurred, (2) that any subsequent adjustments to a recorded performance-based liability after its initial recognition will need to be adjusted through income as opposed to goodwill, and (3) any liabilities related to noncontrolling interest will be recorded at fair value. This statement will generally affect acquisitions occurring after the adoption date.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements . The objective of this statement is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. This applies to our fiscal year 2010 which begins May 3, 2009. This statement shall be applied prospectively as of the beginning of the fiscal year in which this Statement is initially applied, except for the presentation and disclosure requirements. The presentation and disclosure requirements shall be applied retrospectively for all periods presented. The areas that are most applicable to us with regard to this statement are the statement requires companies to classify expense related to noncontrolling interest s share in income below net income (earning per share will still be determined after the impact of noncontrolling interests share in our net income as is the current practice.) During the nine months ended February 2, 2008 and January 27, 2007, we recorded expense related to the noncontrolling interests share in income of $260 and $103, respectively, in other selling and administrative expenses and this statement requires the liability related to noncontrolling interests to be presented as a separate caption within shareholders equity. As of February 2, 2008, the liability related to noncontrolling interests was $3,072 and is included in other long-term liabilities. We are currently evaluating the effect of this statement to determine the impact it will have on our financial statements.

3. RESTRUCTURING

On January 24, 2008, we announced a restructuring of our U.S.-based automotive operations and a decision to discontinue producing certain legacy electronic connector products. The automotive restructuring process is expected to be completed by the end of the third quarter of fiscal 2009. The connector product exit should conclude during the first quarter of fiscal 2009. During the three months ended February 2, 2008, we recorded a restructuring charge of $450, relating to $355 for employee severance and $95 in professional fees. We estimate that we will record a pre-tax charge during the fiscal years 2008 and 2009 between $19,000 and $25,000, of which $9,000 to $12,000 relates to the cost of one-time benefits, including termination, retention, COBRA and outplacement for employees. We performed impairment testing on our assets relating to the restructuring plan and concluded that no assets were impaired as of February 2, 2008. However, we will continue to perform periodic impairment testing and will record any charges incurred as per FASB 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* .

As of February 2, 2008, we had an accrued restructuring liability of $450 reflected in the current liabilities section of our consolidated balance sheet. We expect this liability to be paid out by the end of the third quarter of fiscal year 2009.

In the third quarter of fiscal year 2007, we closed our Scotland automotive parts manufacturing plant and transferred all production lines from that facility to its automotive parts manufacturing operation in Malta. We recorded charges of $2,352 related to the closing and transfer of operations, consisting of involuntary severance of

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

$1,359 for termination of 140 employees, equipment moving and installation costs of $667, provision for the permanent impairment of assets of $174, and professional fees and lease and other obligations of $152, reduced by a cumulative currency translation credit of $491.

4. COMPREHENSIVE INCOME

The components of our comprehensive income for the three months and nine months ended February 2, 2008 and January 27, 2007 include net income and adjustments to stockholders equity for foreign currency translations. The foreign currency translation adjustment was due to exchange rate fluctuations in our foreign affiliates local currency versus the U.S. dollar.

The following table presents details of our comprehensive income:

	Three Months Ended		Nine Months Ended	
	February 2, 2008	January 27, 2007	February 2, 2008	January 27, 2007
Net income	$ 9,757	$ 4,704	$ 26,835	$ 13,952
Translation adjustment	3,895	583	7,956	1,615
Total comprehensive income	$ 13,652	$ 5,287	$ 34,791	$ 15,567

5. 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 year 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 $1,013 was recorded for the nine months ended February 2, 2008. The increase relates to adjustments for working capital and valuation of intangible assets acquired. We are finalizing the valuation of the intangible assets acquired and we anticipate that the valuations will not differ materially from our current 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.

Based on a third-party valuation report, 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 $2,900 for customer relationships, $600 for trademarks and $1,402 for goodwill. The customer relationships acquired will be amortized over a period of 196 months beginning September 2007. The trademark intangible assets are not subject to amortization but will be subject to periodic impairment testing. The accounts and transactions of the acquired business have been included in the Power Distribution segment in the consolidated financial statements from the effective date of the acquisition.

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

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

	February 2, 2008		
	Gross	Accumulated Amortization	Net
Customer relationships and agreements	$ 41,248	$ 17,470	$ 23,778
Patents and technology licenses	25,371	5,729	19,642
Covenants not to compete	2,480	2,230	250
Total	$ 69,099	$ 25,429	$ 43,670

	April 28, 2007		
	Gross	Accumulated 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 February 2, 2008, the intangible assets for customer relationships and agreements includes $2,505 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	$ 5,126
2009	3,475
2010	3,480
2011	3,181
2012	2,533

6. 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.

We recognize interest and penalties accrued related to the unrecognized tax benefits in the provision for income taxes. During the nine months ended February 2, 2008, we recognized an insignificant amount in interest and penalties. We had approximately $1,248 for the payment of interest and penalties accrued at February 2, 2008. The total unrecognized tax benefits as of February 2, 2008 was $4,451.

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 end of the quarter. 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)
6. INCOME TAXES Continued

closure of those statutes of limitation is expected to result in the recognition of uncertain tax positions in the amount of $161.

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

7. COMMON STOCK AND STOCK-BASED COMPENSATION

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

	Nine Months Ended	
	February 2, 2008	January 27, 2007
Balance at the beginning of the period	37,950,829	37,700,484
Repurchased and retired		(96,467)
Options exercised	122,469	37,893
Restricted stock awards vested	47,886	4,003
Reversal of unvested restricted stock awards upon adoption of SFAS No. 123(R)		(463,957)
Balance at the end of the period	38,121,184	37,181,956

We paid quarterly dividends in the amounts of $1,884, $1,897 and $1,898, or $0.05 per share, on July 27, 2007, October 26, 2007 and February 2, 2008, respectively. We intend to retain the remainder of our earnings not used for dividend payments to provide funds for the operation and expansion of our business 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 nine months 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 February 2, 2008 there were 1,005,877 shares still available for award 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)
7. COMMON STOCK AND STOCK-BASED COMPENSATION Continued

The following tables summarize the stock option activity and related information for the nine months ended February 2, 2008:

	Summary of Option Activity	
	Shares	Wtd. Avg. Exercise Price
Outstanding at April 28, 2007	818,918	$ 10.26
Exercised	(122,469)	10.36
Forfeited	(3,521)	8.03
Outstanding at February 2, 2008	692,928	10.25

Range of Exercise Prices	Options Outstanding at February 2, 2008 Shares	Wtd. Avg. Exercise Price	Avg. Remaining Life (Years)	Exercisable Options at February 2, 2008 Shares	Wtd. Avg. Exercise Price	Avg. Remaining Life (Years)
$5.12 $7.69	178,751	$ 6.59	3.0	178,751	$ 6.59	3.0
$8.08 $11.64	364,120	10.56	3.0	364,120	10.56	3.0
$12.11 $17.66	150,057	13.87	2.2	150,057	13.87	2.2
	692,928	10.25		692,928	10.25	

The aggregate intrinsic value for all options outstanding at February 2, 2008 was $1,998.

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 February 2, 2008, we had 692,928 unexercised stock options, all of which are fully vested and have a term of ten years. In the nine months ended February 2, 2008, we recognized pre-tax compensation expense of $11. There is no remaining unrecognized compensation expense relating to the stock options after July 28, 2007.

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

At the beginning of fiscal year 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 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 nine months ended February 2, 2008, 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 $2,469 and $2,057 in the nine months ended February 2, 2008 and January 27, 2007, 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)
7. COMMON STOCK AND STOCK-BASED COMPENSATION Continued
The following table summarizes the RSA activity for the nine months ended February 2, 2008

	Shares
Unvested at April 28, 2007	525,589
Awarded	244,123
Released	(51,715)
Forfeited	(432)
Unvested at February 2, 2008	717,565

The table below shows the Company s unvested RSAs at February 2, 2008:

Grant Fiscal Year	RSAs	Vesting Period	Weighted Average Value	Probable Unearned Compensation Expense at February 2, 2008	Target Unearned Compensation Expense at February 2, 2008
2005	532	3-year equal annual installments	$11.27	$	$
2006	27,940	3-year equal annual installments	12.30	8	8
2006	190,500	3-year cliff	12.42	312	312
2007	50,720	3-year equal annual installments	7.81	55	55
2007	227,750	3-year cliff	7.79	793	793
2008	55,450	3-year equal annual installments	15.14	418	418
2008	164,673	3-year cliff	15.14	2,137	2,137

At February 2, 2008, the aggregate unvested RSAs had a weighted average fair value of $11.45 and a weighted average vesting period of approximately 15 months.

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

8. EARNINGS PER SHARE

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

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

	Three Months Ended		Nine Months Ended	
	February 2, 2008	January 27, 2007	February 2, 2008	January 27, 2007
Numerator net income	$ 9,757	$ 4,704	$26,835	$13,952
Denominator:				
Denominator for basic earnings per share-weighted average shares	37,138	36,193	37,066	36,260
Dilutive potential common shares-employee and director stock options	354	369	413	268
Denominator for diluted earnings per share adjusted weighted average shares and assumed conversions	37,492	36,562	37,479	36,528
Basic and diluted net income per share:				
Income before cumulative effect of accounting change	$ 0.26	$ 0.13	$ 0.72	$ 0.38
Net income	$ 0.26	$ 0.13	$ 0.72	$ 0.38

Options to purchase 29,413 shares of common stock at a weighted-average exercise price of $17.66 per share were outstanding as of February 2, 2008, but were not included in the computation of diluted earnings per share because the exercise prices were greater than the average market price of the common stock and, therefore, the effect would be antidilutive.

9. SEGMENT INFORMATION

We are a global manufacturer of component and subsystem devices. We design, manufacture and market devices employing electrical, 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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9. 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.

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9. SEGMENT INFORMATION Continued

The table below presents information about our reportable segments:

	Three Months Ended February 2, 2008					
	Auto-motive	Inter-Connect	Power Dis-tribution	Other	Elimi-nations	Consoli-dated
Net sales	$ 90,145	$ 40,046	$ 14,696	$ 1,861	$ 8,283	$ 138,465
Transfers between segments	(1,530)	(4,488)	(2,211)	(54)	(8,283)	
Net sales to unaffiliated customers	$ 88,615	$ 35,558	$ 12,485	$ 1,807	$	$ 138,465
Segment income (loss) before restructuring charge	$ 13,678	$ 986	$ 2,566	$ (608)	$	$ 16,622
Restructuring and impairment costs	(379)	(71)				(450)
Segment income (loss) including restructuring charge	$ 13,299	$ 915	$ 2,566	$ (608)	$	$ 16,172
Corporate expenses, net						(4,854)
Income before income taxes						$ 11,318

	Three Months Ended January 27, 2007					
	Auto-motive	Inter-Connect	Power Dis-tribution	Other	Elimi-nations	Consoli-dated
Net sales	$ 72,836	$ 23,735	$ 12,923	$ 2,055	$ 6,137	$ 105,412
Transfers between segments	(639)	(3,951)	(1,512)	(35)	(6,137)	
Net sales to unaffiliated customers	$ 72,197	$ 19,784	$ 11,411	$ 2,020	$	$ 105,412
Segment income (loss) before restructuring charge	$ 3,976	$ 2,527	$ 2,642	$ (43)	$	$ 9,102
Restructuring and impairment costs	(1,861)					(1,861)
	$ 2,115	$ 2,527	$ 2,642	$ (43)	$	$ 7,241

Segment income (loss) including restructuring charge		
Corporate expenses, net		(527)
Income before income taxes	$	6,714

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9. SEGMENT INFORMATION Continued

	Nine Months Ended February 2, 2008					
	Auto-motive	Inter-Connect	Power Dis-tribution	Other	Elimi-nations	Consoli-dated
Net sales	$ 263,196	$ 108,353	$ 38,558	$ 5,148	$ 18,542	$ 396,713
Transfers between segments	(1,913)	(11,128)	(5,391)	(110)	(18,542)	

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