

METHODE ELECTRONICS INC  
Form 10-K  
June 28, 2012

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

FORM 10-K

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

For the fiscal year ended April 28, 2012

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)

(IRS Employer  
Identification No.)

7401 West Wilson Avenue

Chicago, Illinois

60706-4548

(Address of Principal Executive Offices)

(Zip Code)

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

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

Title of each Class

Common Stock, \$0.50 Par Value

Name of each exchange  
on which registered

New York Stock Exchange

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

None

(Title of Class)

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

x

Edgar Filing: METHODE ELECTRONICS INC - Form 10-K

The aggregate market value of common stock, \$0.50 par value, held by non-affiliates of the Registrant on October 29, 2011, based upon the average of the closing bid and asked prices on that date as reported by the New York Stock Exchange was \$339.4 million.

Registrant had 37,033,490 shares of common stock, \$0.50 par value, outstanding as of June 26, 2012.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the proxy statement for the annual shareholders meeting to be held September 13, 2012 are incorporated by reference into Part III of this Form 10-K.

---

Table of Contents

METHODE ELECTRONICS, INC.  
 FORM 10-K  
 April 28, 2012

TABLE OF CONTENTS

PART I

<u>Item 1.</u>	<u>Business</u>	<u>1</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>3</u>
<u>Item 1B.</u>	Unresolved Staff Comments	<u>7</u>
<u>Item 2.</u>	<u>Properties</u>	<u>8</u>
<u>Item 3.</u>	<u>Legal Proceedings</u>	<u>9</u>
Item 4.	Mine Safety Disclosures	<u>11</u>

PART II

<u>Item 5.</u>	<u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>11</u>
<u>Item 6.</u>	<u>Selected Financial Data</u>	<u>12</u>
<u>Item 7.</u>	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>13</u>
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>31</u>
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u>	<u>32</u>
<u>Item 9A.</u>	<u>Controls and Procedures</u>	<u>32</u>

PART III

<u>Item 10.</u>	<u>Directors, Executive Officers and Corporate Governance</u>	<u>33</u>
<u>Item 11.</u>	<u>Executive Compensation</u>	<u>33</u>
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>33</u>
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>33</u>
<u>Item 14.</u>	<u>Principal Accountant Fees and Services</u>	<u>33</u>

PART IV

<u>Item 15.</u>	<u>Exhibits and Financial Statement Schedules</u>	<u>34</u>
-----------------	---------------------------------------------------	-----------

Table of Contents

PART I

Item 1. Business

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” mean Methode Electronics, Inc. and its subsidiaries.

We are a global manufacturer of component and subsystem devices with manufacturing, design and testing facilities in China, Egypt, Germany, India, Lebanon, Malta, Mexico, the Philippines, Singapore, Switzerland, the United Kingdom and the United States. We design, manufacture and market devices employing electrical, radio remote control, electronic, wireless and sensing technologies. Our components are found in the primary end markets of the aerospace, appliance, automotive, construction, consumer and industrial equipment, communications (including information processing and storage, networking equipment, wireless and terrestrial voice/data systems), rail and other transportation industries.

We maintain our financial records on the basis of a fifty-two or fifty-three week fiscal year ending on the Saturday closest to April 30.

Segments. Our business is managed and our financial results are reported on a segment basis, with those segments being Automotive, Interconnect, Power Products and Other.

The Automotive segment supplies electronic and electro-mechanical devices and related products to automobile Original Equipment Manufacturers, ("OEMs"), either directly or through their tiered suppliers. Our products include control switches for electrical power and signals, connectors for electrical devices, integrated control components, switches and sensors that monitor the operation or status of a component or system, and packaging of electrical components.

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

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

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

Financial results by segment are summarized in Note 13 to our consolidated financial statements.

Sales. The following table reflects the percentage of net sales of the segments of the Company for the last three fiscal years.

Edgar Filing: METHODE ELECTRONICS INC - Form 10-K

	Year Ended April 28, 2012	April 30, 2011	May 1, 2010	
Automotive	58.0	% 52.8	% 53.4	%
Interconnect	27.7	% 32.4	% 33.3	%
Power Products	11.3	% 11.8	% 10.8	%
Other	3.0	% 3.0	% 2.5	%

Our sales activities are directed by sales managers who are supported by field application engineers and other engineering personnel who work with customers to design our products into their systems. Our field application engineers also help us identify emerging markets and new products. Our products are sold through in-house sales staff and through independent manufacturers' representatives with offices throughout the world. Information about our sales and operations in

1

---

Table of Contents

different geographic regions is summarized in Note 13 to our consolidated financial statements. Sales are made primarily to OEMs, either directly or through their tiered suppliers as well as selling partners and distributors.

Sources and Availability of Materials. Principal materials that we purchase include application-specific integrated circuits, coil and bar stock, ferrous and copper alloy sheets, glass, light-emitting diode (LED) displays, plastic molding materials, precious metals, and silicon die castings. All of these items are available from several suppliers and we generally rely on more than one supplier for each item. We normally do not carry inventories of raw materials or finished products in excess of those reasonably required to meet production and shipping schedules. We experienced price increases on some resins as well as silver in fiscal 2012, however copper prices remained constant. In fiscal 2011, we experienced some shortages for specific electrical components. Additionally in fiscal 2011, we experienced significant price increases for copper, precious metals and petroleum-based raw materials. We did not experience significant price increases in fiscal 2010.

Patents; Licensing Agreements. We have numerous United States and foreign patents and license agreements covering certain of our products and manufacturing processes, several of which are considered significant to our business. Our ability to compete effectively with other companies depends, in part, on our ability to maintain the proprietary nature of our technology. Although we have been awarded, have filed applications for, or have been licensed under numerous patents in the United States and other countries, there can be no assurance concerning the degree of protection afforded by these patents or the likelihood that pending patents will be issued.

Seasonality. A significant portion of our business is dependent on automotive sales and the vehicle production schedules of our customers. The automotive market is cyclical and depends on general economic conditions, interest rates, fuel prices and consumer spending patterns.

Material Customers. During the fiscal year ended April 28, 2012, shipments to Ford Motor Company ("Ford") and General Motors Corporation ("GM"), or their tiered suppliers, represented 18.7% and 18.5%, respectively, of consolidated net sales. Such shipments included a wide variety of our automotive component products.

Backlog. Our backlog of orders was approximately \$87.9 million at April 28, 2012, and \$82.2 million at April 30, 2011. We expect that most of the backlog at April 28, 2012 will be shipped within fiscal 2013.

Competitive Conditions. The markets in which we operate are highly competitive and characterized by rapid changes due to technological improvements and developments. We compete with a large number of other manufacturers in each of our product areas; many of these competitors have greater resources and sales. Price, service and product performance are significant elements of competition in the sale of our products.

Research and Development. We maintain a research and development program involving a number of professional employees who devote a majority of their time to the enhancement of existing products and to the development of new products and processes. Senior management of our Company participates directly in the program. Expenditures for such activities amounted to \$20.4 million, \$19.5 million and \$18.4 million for fiscal 2012, 2011 and 2010, respectively.

Environmental Matters. Compliance with foreign, federal, state and local provisions regulating the discharge of materials into the environment has not materially affected our capital expenditures, earnings or our competitive position. Currently, we do not have any environmental related lawsuits or material administrative proceedings pending against us. Further information as to environmental matters affecting us is presented in Note 9 to our consolidated financial statements.

Employees. At April 28, 2012 and April 30, 2011, we had 3,143 and 2,743 employees, respectively. We also from time to time employ part-time employees and hire independent contractors. As of April 28, 2012, our employees from our Malta and Mexico facilities, which account for approximately 64% of our total number of employees, are represented by collective bargaining agreements. We have never experienced a work stoppage and we believe that our employee relations are good.

Segment Information and Foreign Sales. Information about our operations by segment and in different geographic regions is summarized in Note 13 to our consolidated financial statements.

Available Information. We are subject to the informational requirements of the Securities Exchange Act of 1934 (Exchange Act) and file periodic reports, proxy statements and other information with the Securities and Exchange Commission (SEC). Such reports may be obtained by visiting the Public Reference Room of the SEC at 100 F Street, NE, Washington, D.C. 20549, or by calling the SEC at (800) SEC-0330. In addition, the SEC maintains an internet site([www.sec.gov](http://www.sec.gov)) that contains periodic reports, proxy and information statements and other information regarding Methode.

Table of Contents

Financial and other information can also be accessed on the investor relations section of our website at [www.methode.com](http://www.methode.com). We make available, free of charge, copies of our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after filing such material electronically or otherwise furnishing it to the SEC. Also posted on our website are the Company's Corporate Governance Guidelines, Code of Conduct and the charters of the Audit Committee, Compensation Committee, Nominating and Governance Committee and Technology Committee. Copies of these documents are also available free of charge by sending a request to Methode Electronics, Inc., 7401 West Wilson Avenue, Chicago, Illinois 60706, Attention: Investor Relations Department. Information on our website is not incorporated into this Form 10-K or our other securities filings and is not a part of them.

**Certifications.** As required by the rules and regulations of the New York Stock Exchange ("NYSE"), we delivered to the NYSE a certification signed by our Chief Executive Officer, Donald W. Duda, certifying that Mr. Duda was not aware of any violation by the Company of the NYSE's corporate governance listing standards as of October 20, 2011.

As required by the rules and regulations of the SEC, the Sarbanes-Oxley Act Section 302 certifications regarding the quality of our public disclosures are filed as exhibits to this Annual Report on Form 10-K.

**Item 1A. Risk Factors**

Certain statements in this report are forward-looking statements that are subject to certain risks and uncertainties. We undertake no duty to update any such forward-looking statements to conform to actual results or changes in our expectations. Our business is highly dependent upon two large automotive customers and specific makes and models of automobiles. Our results will be subject to many of the same risks that apply to the automotive, appliance, computer and communications industries, such as general economic conditions, interest rate fluctuations, consumer spending patterns and technological changes. Other factors which may result in materially different results for future periods include the following risk factors. Additional risks and uncertainties not presently known or that our management currently believe to be insignificant may also adversely affect our financial condition or results of operations. These risk factors should be considered in connection with evaluating the forward-looking statements contained in this report because these factors could cause our actual results and condition to differ materially from those projected in forward-looking statements. The forward-looking statements in this report are subject to the safe harbor protection provided under the securities laws and are made as of the date of this report.

We depend on a small number of large customers, specifically two large automotive customers. If we were to lose either of these customers or experienced a significant decline in the volume or price of products purchased by these customers, or if either of the customers declare bankruptcy, our future results could be adversely affected.

During the year ended April 28, 2012, shipments to Ford and GM, or their tiered suppliers, represented 18.7% and 18.5%, respectively, of our consolidated net sales. The contracts we have entered into with these customers provide for supplying the customers' requirements for a particular model, rather than for manufacturing a specific quantity of products. Such contracts range from one year to the life of the model, which is generally three to seven years. Therefore, the loss of a contract for a major model or a significant decrease in demand for certain key models or group of related models sold by Ford or GM could have a material adverse impact on our results of operations and financial condition. We also compete to supply products for successor models and are subject to the risk that Ford or GM will not select us to produce products on any such model, which could have a material adverse impact on our results of operations and financial condition.

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



Our components are found in the primary end markets of the automotive, communications (including information processing and storage, networking equipment, wireless and terrestrial voice/data systems), aerospace, rail and other transportation industries, appliances and the consumer and industrial equipment markets. Factors negatively affecting these industries and the demand for products also negatively affect our business, financial condition and operating results. In fiscal 2010 and 2009, we experienced slow-downs in all significant segments due to the recession. Any adverse occurrence, including additional industry slowdown, recession, rising interest rates, political instability, costly or constraining regulations, armed hostilities, terrorism, excessive inflation, prolonged disruptions in one or more of our customers' production schedules or labor disturbances, that results in significant decline in the volume of sales in these industries, or in an overall downturn in the business and operations of our customers in these industries, could materially adversely affect our business, financial condition and operating results.

## Table of Contents

Downturns in the automotive industry or the bankruptcy of certain automotive customers could reduce the sales and profitability of our business.

Currently, approximately 58% of our business is dependent on automotive sales and the vehicle production schedules of our customers. The automotive market is cyclical and depends on general economic conditions, interest rates and consumer spending patterns. Any significant reduction in vehicle production by our customers would have a material adverse effect on our business.

In addition, we have significant receivable balances related to these customers that would be at risk in the event of their bankruptcy. Prior to fiscal 2012, due to the financial stresses within the global economy, which directly affected the worldwide automotive industry, certain automakers and suppliers declared bankruptcy. In the event of the bankruptcy of any of our customers with significant receivable balances, our financial condition and operating results could be adversely affected.

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.

The markets in which we operate are highly competitive and characterized by rapid changes due to technological improvements and developments. We compete with a large number of other manufacturers in each of our product areas; many of these competitors have greater resources and sales. Price, service and product performance are significant elements of competition in the sale of our products. Competition may intensify further if more companies enter the markets in which we operate. Our failure to compete effectively could materially adversely affect our business, financial condition and operating results.

We face risks relating to our international operations

Recently, there has been global concern over the overall macroeconomic environment in Europe, the currency exchange rate fluctuations between the euro and the U.S. dollar, the banking system in the European Economic Community, the ability of European consumers to access credit to finance automobile purchases and the ability of the European Central Bank to provide enough liquidity and backing to any countries experiencing sovereign debt issues, such as Greece, Italy and Spain. Any or all of these factors could negatively impact our European operations.

In addition, because approximately 59% of our sales come from our international operations, our operating results and financial condition could be adversely affected by economic, political, health, regulatory and other factors existing in foreign countries in which we operate. Our international operations are subject to inherent risks, which may adversely affect us, including: fluctuations in exchange rates; political and economic instability; expropriation, or the imposition of government controls; changes in government regulations; export license requirements; trade restrictions; earnings expatriation restrictions; exposure to different legal standards; less favorable intellectual property laws; health conditions and standards; currency controls; increases in duties and taxes; high levels of inflation or deflation; greater difficulty in collecting our accounts receivable and longer payment cycles; changes in labor conditions and difficulties in staffing and managing our international operations; limitations on insurance coverage against geopolitical risks, natural disasters and business operations; and communication among and management of international operations. In addition, these same factors may also place us at a competitive disadvantage to some of our foreign competitors.

We are dependent on the availability and price of materials.

We require substantial amounts of materials, including petroleum-based products, glass, copper and precious metals, application-specific integrated circuits and light-emitting diode (LED) displays, and all materials we require are purchased from third party sources. The availability and prices of materials may be subject to curtailment or change

due to, among other things, new laws or regulations, suppliers' allocations to other purchasers, interruptions in production by suppliers, changes in exchange rates and worldwide price levels. Any change in the availability of, or price for, these materials could materially adversely affect our results of operations and financial condition. We experienced price increases on some resins as well as silver in fiscal 2012, however copper prices remained constant. We experienced significant price increases in fiscal 2011 for copper, precious metals and petroleum-based raw materials and shortages for certain electrical components.

Disruption of our supply chain could have an adverse effect on our business, financial condition and results of operations.

Our ability, including manufacturing or distribution capabilities, and that of our suppliers, business partners and contract manufacturers, to make, move and sell products is critical to our success. Damage or disruption to our or their

Table of Contents

manufacturing or distribution capabilities due to weather, including any potential effects of climate change, natural disaster, fire or explosion, terrorism, pandemics, strikes, repairs or enhancements at our facilities, or other reasons, could impair our ability to manufacture or sell our products. Failure to take adequate steps to mitigate the likelihood or potential impact of such events, or to effectively manage such events if they occur, could adversely affect our business, financial condition and results of operations, as well as require additional resources to restore our supply chain.

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

The technologies relating to some of our products have undergone, and are continuing to undergo, rapid and significant changes. Specifically, end markets for electronic components and assemblies are characterized by technological change, frequent new product introductions and enhancements, changes in customer requirements and emerging industry standards. These changes could render our existing products unmarketable before we can recover any or all of our research, development and other expenses. Furthermore, the life cycles of our products vary, may change and are difficult to estimate. If we are unable, for technological or other reasons, to develop and market new products or product enhancements in a timely and cost-effective manner, our business, financial condition and operating results could be materially adversely affected.

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.

Despite our quality control and quality assurance efforts, defects may occur in the products we manufacture due to a variety of factors, including design or manufacturing errors or component failure. Product defects may result in delayed shipments and reduced demand for our products. We may be subject to increased costs due to warranty claims on defective products. Product defects may result in product liability claims against us where defects cause, or are alleged to cause, property damage, bodily injury or death. We may be required to participate in a recall involving products that are, or are alleged to be, defective. We carry insurance for certain legal matters involving product liability, however, we do not have coverage for all costs related to product defects or recalls and the costs of such claims, including costs of defense and settlement, may exceed our available coverage.

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 have numerous United States and foreign patents and license agreements covering certain of our products and manufacturing processes, several of which are considered significant to our business. Our ability to compete effectively with other companies depends, in part, on our ability to maintain the proprietary nature of our technology. Although we have been awarded, have filed applications for, or have been licensed under numerous patents in the United States and other countries, there can be no assurance concerning the degree of protection afforded by these patents or the likelihood that pending patents will be issued. The loss of any significant patents and trade secrets could adversely affect our sales, margins, profitability and, as a result, share price.

We have and may become involved in litigation in the future to protect our intellectual property or because others may allege that we infringe on their intellectual property. These claims and any resulting lawsuit could subject us to liability for damages and invalidate our intellectual property rights. If an infringement claim is successfully asserted by a holder of intellectual property rights, we may be required to cease marketing or selling certain products, pay a penalty for past infringement and spend significant time and money to develop a non-infringing product or process or to obtain licenses for the technology, process or information from the holder. We may not be successful in the development of a non-infringing alternative, or licenses may not be available on commercially acceptable terms, if at all, in which case we may lose sales and profits. In addition, any litigation could be lengthy and costly and could

materially adversely affect us even if we are successful in the litigation.

We are subject to continuing pressure to lower our prices.

Over the past several years we have experienced, and we expect to continue to experience, pressure to lower our prices. In order to maintain our margins, we must strive to increase volumes and reduce our costs. Continuing pressures to reduce our prices could have a material adverse effect on our financial condition, results of operations and cash flows.

Table of Contents

We were awarded new North American automotive business in fiscal 2011 for a program that will not begin production until the end of fiscal 2013. We anticipate that it will take a significant amount of our cash and resources to launch this program.

During fiscal 2011, we were awarded a next generation center stack program for multiple GM vehicle platforms. The program is expected to be manufactured in our plant in Monterrey, Mexico. We anticipate that the center stack program for GM will require a significant amount of cash for the purchase of equipment, tooling and initial inventory as well as additional staffing for the development and launching of the program. We expect to begin production and generate sales on this program in late fiscal 2013. Therefore, we anticipate our cash balances will likely decline due to the launching of this program without a corresponding increase in sales.

We currently have a significant amount of our cash located outside the U.S.

We believe our current world-wide cash balances together with expected future cash flows to be generated from operations will be sufficient to support current operations. However, due to the shifting of operations from the U.S. to foreign locations, a significant amount of cash and expected future cash flows are located outside of the U.S. Except for a planned dividend from a foreign subsidiary, no provision has been made for income taxes on undistributed net income of foreign operations, as we currently expect them to be indefinitely reinvested in our foreign operations. However, if we change our position and the cash is repatriated back to the U.S., it may have an adverse affect on our U.S. federal and state taxes, by lowering our net operating loss positions or potentially creating a tax liability.

A significant fluctuation between the U.S. dollar and other currencies could adversely impact our operating results.

Although our financial results are reported in U.S. dollars, a significant portion of our sales and operating costs are realized in other currencies, mainly in Europe and China. Our profitability is affected by movements of the U.S. dollar against the euro and Chinese yuan in which we generate revenue and incur expenses. Significant long-term fluctuations in relative currency values, in particular an increase in the value of the U.S. dollar against foreign currencies, could have an adverse effect on our profitability and financial condition.

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

We intend to explore opportunities to acquire other businesses or technologies that could complement, enhance or expand our current business or product lines or that might otherwise offer growth opportunities. Any transactions that we are able to identify and complete may involve a number of risks, including: the diversion of our management's attention from our existing business to integrate the operations and personnel of the acquired or combined business or joint venture; possible adverse effects on our operating results during the integration process; and our possible inability to achieve the intended objectives of the transaction. In addition, we may not be able to successfully or profitably integrate, operate, maintain and manage our newly acquired operations or employees. We may not be able to maintain uniform standards, controls, procedures and policies, and this may lead to operational inefficiencies. In addition, future acquisitions may result in dilutive issuances of equity securities, a reduction of cash or the incurrence of debt.

We have in the past, and may in the future, consider divesting certain business operations. Divestitures may involve a number of risks, including the diversion of management's attention, significant costs and expenses, the loss of customer relationships and cash flow, and the disruption of operations in the affected business. Failure to timely complete or to consummate a divestiture may negatively affect the valuation of the affected business or result in restructuring charges.

We could suffer significant business interruptions.

Our operations may be vulnerable to interruption by natural disasters such as earthquakes, tsunamis, typhoons, or floods, or other disasters such as fires, explosions, acts of terrorism or war, disease or failures of our management information or other systems. If a business interruption occurs, our business could be materially and adversely affected.

Unfavorable tax law changes may adversely affect results.

We are subject to income taxes in the U.S. and in various foreign jurisdictions. Domestic and international tax liabilities are subject to the allocation of income among various tax jurisdictions. Our effective tax rate could be adversely affected by changes in the mix of earnings among countries with differing statutory tax rates or changes in the tax laws.

Table of Contents

We cannot ensure that the newly acquired Eetrex and Advanced Molding and Decoration businesses will be successful or that we can implement and profit from any new applications of the acquired technology.

We acquired 70% of Eetrex during fiscal 2011 and an additional 20% during fiscal 2012. As a result of this acquisition, we now design and manufacture chargers, inverters and battery systems for hybrid and plug-in hybrid electronic vehicles. The market for these products is competitive and rapidly developing. If we do not keep pace with technological innovations in the industry, our products may not be competitive and we may not benefit from future revenue and earnings. Furthermore, while we intend to expand the Eetrex business by integrating the technology into additional applications, we can make no guarantee that such ventures will be successful or profitable.

We acquired certain assets and liabilities from Nypro Monterrey, S. de R.L. from Nypro, Inc. in September, 2011. We operate this injection molding and painting business under the name of Advanced Molding and Decoration, S.A. de C.V. (AMD). This business provides us with high-quality injection molding, painting and decorating capabilities, however, we make no guarantee AMD will be successful or profitable.

The future trading price of our common stock could be subject to wide fluctuations in response to a variety of factors.

The market price of our common stock has fluctuated significantly in the past and is likely to fluctuate in the future. The future trading price of our common stock could be subject to wide fluctuations in response to a variety of factors, including, but not limited to:

- quarterly variations in our operating results and the operating results of other technology companies;
- actual or anticipated announcements of technical innovations or new products by us or our competitors;
- changes in analysts' estimates of our financial performance or buy/sell recommendations;
- any acquisitions or divestitures we pursue or complete;
- general conditions in the aerospace, appliance, automotive, consumer and industrial equipment markets and communications, rail and other transportation industries; and
- global economic and financial conditions.

In addition, the stock market has from time to time experienced significant price and volume fluctuations that have affected the market prices for many companies and that often have been unrelated to the operating performance of such companies. These broad market fluctuations and other factors have harmed and may harm the market price of our common stock.

Item 1B. Unresolved Staff Comments

None



Table of Contents

## Item 2. Properties

We operate the following manufacturing and other facilities, all of which we believe to be in good condition and adequate to meet our current and reasonably anticipated needs:

Location	Use	Owned/ Leased	Approximate Square Footage
Chicago, Illinois	Corporate Headquarters	Owned	15,000
Automotive Segment:			
Carthage, Illinois	Manufacturing	Owned	261,000
Monterrey, Mexico	Manufacturing	Leased	247,000
Mriehel, Malta	Manufacturing	Leased	209,000
Shanghai, China	Manufacturing	Leased	75,500
McAllen, Texas	Warehousing	Leased	38,000
Zhenjiang, China	Manufacturing	Leased	19,200
Southfield, Michigan	Sales and Engineering Design Center	Owned	17,000
Bangalore, India	Engineering Design Center	Leased	11,860
Gau-Algesheim, Germany	Sales and Engineering Design Center	Leased	8,100
Burnley, England	Engineering Design Center	Leased	5,900
Sin El Fil, Lebanon	Engineering Design Center	Leased	2,300
Interconnect Segment:			
Shanghai, China	Manufacturing	Leased	49,000
Chicago, Illinois	Manufacturing	Owned	38,400
Mriehel, Malta	Manufacturing	Leased	32,500
Oklahoma City, Oklahoma	Manufacturing/Design Center	Leased	26,100
Richardson, Texas	Manufacturing	Leased	25,700
Laguna, Philippines	Manufacturing	Leased	22,800
Wheaton, Illinois	Manufacturing	Leased	22,500
San Jose, California	Sales and Design	Leased	7,250
Singapore	Sales and Administrative	Leased	1,250
Power Products Segment:			
Rolling Meadows, Illinois	Manufacturing	Owned	52,000
Mriehel, Malta	Manufacturing	Leased	40,700
Shanghai, China	Manufacturing	Leased	35,000
Boulder, Colorado	Prototype and Design Center	Leased	9,500
San Jose, California	Prototype and Design Center	Leased	7,250
Other Segment:			
Palatine, Illinois	Test Laboratory	Owned	27,000
Hunt Valley, Maryland	Test Laboratory	Owned	16,000
Chicago, Illinois	Manufacturing	Owned	10,000

Table of Contents

Item 3. Legal Proceedings

Other than as described below, as of April 28, 2012, we were not involved in any material legal proceedings or any legal proceedings or material administrative proceedings with governmental authorities pertaining to the discharge of materials into the environment or otherwise.

On September 4, 2008, Methode and Delphi Automotive Systems LLC (“Delphi”) entered into a supply agreement pursuant to which Methode was to supply all of Delphi’s requirements for the seat bladders used in Delphi’s occupant restraint system from October 1, 2008 through September 30, 2011. On August 26, 2009, Delphi notified us that effective September 10, 2009, our supply arrangement was terminated. We are contesting Delphi’s right to terminate this long-term supply arrangement and the parties are engaged in litigation regarding this supply agreement and our related intellectual property.

In March 2010, DPH Holdings Corp. and certain of its affiliated debtors, as successors to Delphi Corporation and certain of its affiliates (“Delphi”), served the Company with a complaint seeking to recover approximately \$19.7 million in alleged preference payments that Delphi made to the Company within the 90-day period preceding Delphi’s bankruptcy filing in October 2005 (the “Complaint”). Delphi is pursuing similar preference complaints against a number of other, unrelated third-parties. The Complaint, dated September 28, 2007, was originally filed under seal with the United States Bankruptcy Court for the Southern District of New York (titled as Delphi Corporation, et al. v. Methode Electronics, Inc, Adversary Proceeding No. 07-2432) and pursuant to certain court orders, the Complaint was not unsealed and served upon the Company until March 2010. The Company has filed a joinder to third-parties’ motions to dismiss the Delphi preference complaints based on violations of due process and other defenses connected to the unusual manner that Delphi filed and served the preference complaints. Additionally, the Company possesses several other substantive defenses to the Complaint including, but not limited to, the affirmative defenses available under the Bankruptcy Code, statute of limitations, setoff, waiver and estoppel. The Bankruptcy Court ruled on July 22, 2010 that the Complaint did not satisfy certain pleading requirements and dismissed the Complaint without prejudice, granting Delphi leave to re-file an amended complaint. The Court overruled the Company’s defenses to the proposed amended complaint relating primarily to pleading issues, and ordered that other defenses would be addressed in subsequent proceedings. Although the outcome of potential legal actions and claims cannot be determined, it is the opinion of our management, 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 adverse effect on our consolidated financial statements.

Table of Contents

## Executive Officers of the Registrant

Name	Age	Offices and Positions Held and Length of Service as Officer
Donald W. Duda	56	Chief Executive Officer of the Company since 2004. President and Director of the Company since 2001. Prior thereto Mr. Duda was Vice President-Interconnect Group since 2000. Prior thereto, Mr. Duda was with Amphenol Corporation through 1998 as General Manager of its Fiber Optic Products Division since 1988.
Douglas A. Koman	62	Chief Financial Officer of the Company since 2004. Vice President, Corporate Finance, of the Company since 2001. Prior thereto Mr. Koman was Assistant Vice President-Financial Analysis since 2000. Prior thereto, Mr. Koman was with Illinois Central Corporation through 2000 as Controller since 1997 and Treasurer since 1991.
Thomas D. Reynolds	49	Chief Operating Officer, of the Company since June 2010. Senior Vice President, Worldwide Automotive Operations, of the Company since 2006. Vice President and General Manager, North American Automotive Operations, of the Company since October 2001. Prior thereto, Mr. Reynolds was with Donnelly Corporation through October 2001 as Senior Manager of Operations since 1999, and as Director of Transnational Business Unit from 1995 to 1999.
Timothy R. Glandon	48	Vice President and General Manager, North American Automotive, of the Company since 2006. Prior thereto, Mr. Glandon was General Manager of Automotive Safety Technologies since 2001. Prior thereto, Mr. Glandon was Vice President and General Manager with American Components, Inc. from 1996 to 2001.
Joseph. E. Khoury	48	Vice President and General Manager, European Automotive, of the Company since 2004. Prior thereto, Mr. Khoury was General Manager of Methode Electronics International, GMBH since 2000.
Theodore P. Kill	61	Vice President, Worldwide Automotive Sales, of the Company since 2006. Prior thereto, Mr. Kill was a principal with Kill and Associates from 2003 to 2006. Prior thereto, Mr. Kill was a principal with Kill and Bolton Associates from 1995 to 2003.
Ronald L.G. Tsoumas	51	Controller and Treasurer of the Company since 2007. Prior thereto, Mr. Tsoumas was Assistant Controller of the Company since 1998.

All executive officers are elected by the Board of Directors and serve a term of one year or until their successors are duly elected and qualified.

Table of Contents

## Item 3. Mine Safety Disclosures

Not Applicable

## PART II

## Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on the New York Stock Exchange. The following is a tabulation of high and low sales prices for the periods.

	Sales Price Per Share		Dividends
	High	Low	Paid Per Share
Fiscal Year ended April 28, 2012			
First Quarter	\$12.57	\$9.84	\$0.07
Second Quarter	10.72	7.03	0.07
Third Quarter	10.69	7.68	0.07
Fourth Quarter	10.79	8.17	0.07
Fiscal Year ended April 30, 2011			
First Quarter	\$11.78	\$9.31	\$0.07
Second Quarter	11.03	7.85	0.07
Third Quarter	13.73	9.10	0.07
Fourth Quarter	12.74	11.26	0.07

On June 21, 2012, the Board of Directors declared a dividend of \$0.07 per share of common stock, payable on July 27, 2012, to holders of record on July 13, 2012. As of June 28, 2012, the number of record holders of our common stock was 552.

## Equity Compensation Plan Information

The following table provides information about shares of our common stock that may be issued upon exercise of stock options or granting of stock awards under all of the existing equity compensation plans as of April 28, 2012.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by security holders	1,229,365	\$7.67	963,321
Equity compensation plans not approved by security holders	—	—	—
Total	1,229,365	\$7.67	963,321

Edgar Filing: METHODE ELECTRONICS INC - Form 10-K

Purchase of Equity Securities by the Company and Affiliated Purchasers

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 29, 2012 through February 25, 2012	1,400	\$ 10.44		
February 26, 2012 through March 31, 2012	—	—		
April 1, 2012 through April 28, 2012	—	\$—	—	—
	1,400	\$ 10.44	—	—

(1) The amount includes 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.

## Item 6. Selected Financial Data

The following selected financial data should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the Company’s Consolidated Financial Statements and related notes included elsewhere in this report. The consolidated statement of operations data for fiscal 2012, 2011 and 2010, and the consolidated balance sheet data as of April 28, 2012 and April 30, 2011, are derived from, and are qualified by reference to, the Company’s audited consolidated financial statements included elsewhere in this report. The consolidated statement of operations data for fiscal 2009 and 2008, and the consolidated balance sheet data as of May 1, 2010, May 2, 2009 and May 3, 2008, are derived from audited consolidated financial statements not included in this report. Due to the timing of our fiscal calendar, fiscal 2008 represents 53 weeks of results. Fiscal 2012, 2011, 2010 and 2009 represent 52 weeks of results.

	Fiscal Year Ended				
	April 28, 2012 (1)	April 30, 2011 (2)	May 1, 2010 (3)	May 2, 2009 (4)	May 3, 2008 (53wks) (5)
(In Millions, Except Percentages and Per Share Amounts)					
<b>Income Statement Data:</b>					
Net sales	\$465.1	\$428.2	\$377.6	\$428.8	\$555.0
Income/(loss) before income taxes	11.4	14.5	7.8	(110.5 )	49.8
Income tax expense/(benefit)	3.2	(4.1 )	(6.0 )	1.7	9.7
Income/(loss) from continuing operations	8.4	18.5	13.8	(112.1 )	39.8
Income from discontinued operations, net of tax	—	0.6	—	—	—
Net income/(loss) applicable to Methode Electronics, Inc.	8.4	19.5	13.7	(112.5 )	39.8
<b>Per Common Share:</b>					
Basic net income/(loss) from continuing operations	0.22	0.51	0.37	(3.05 )	1.07
Basic net income from discontinued operations	—	0.02	—	—	—
Basic net income/(loss) applicable to Methode Electronics, Inc.	0.22	0.53	0.37	(3.05 )	1.07
Diluted net income/(loss) from continuing operations	0.22	0.50	0.37	(3.05 )	1.06
Diluted net income from discontinued operations	—	0.02	—	—	—
Diluted net income/(loss) applicable to Methode Electronics, Inc.	0.22	0.52	0.37	(3.05 )	1.06
Dividends	0.28	0.28	0.28	0.26	0.20
Book Value	6.84	6.95	6.43	6.28	9.93
Long-term Debt	48.0	—	—	—	—
Retained Earnings	154.0	156.0	146.8	143.6	265.8
Fixed Assets (net)	77.2	61.5	61.9	69.9	90.3
Total Assets	403.6	334.7	310.8	305.3	470.2
Return on Average Equity	3.3	% 7.9	% 6.0	% (37.2 )	% 11.4
Pre-tax Income/(loss) as a Percentage of Sales	2.5	% 3.4	% 2.1	% (25.8 )	% 9.0
Net Income/(loss) as a Percentage of Sales	1.8	% 4.6	% 3.6	% (26.2 )	% 7.2

(1) Fiscal 2012 includes \$3.7 million of pre-tax legal expense relating to the Delphi supply agreement and patent lawsuit.

(2) Fiscal 2011 results includes an after-tax gain on the sale of a business of \$0.6 million. In addition, fiscal 2011 includes \$4.8 million of pre-tax legal expense relating to the Delphi supply agreement and patent lawsuit.

(3) Fiscal 2010 results include a pre-tax charge of \$7.8 million relating to restructuring activities. In addition, fiscal 2010 includes \$5.8 million of pre-tax legal expense relating to the Delphi supply agreement and patent lawsuit. Income tax includes a \$8.4 million loss carry-back benefit related to losses in our U.S.-based businesses.

(4) Fiscal 2009 results include a pre-tax charge of \$94.4 million relating to goodwill and other asset impairments. In

addition, fiscal 2009 results include a pre-tax charge of \$25.3 million relating to restructuring activities. The income tax expense includes a \$28.0 million valuation charge related to the uncertainty of the future realization of our deferred tax assets.

(5) Fiscal 2008 results include a pre-tax charge of \$5.2 million relating to a restructuring of our U.S.-based automotive operations and the decision to discontinue producing certain legacy products in the Interconnect segment.

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Overview

We are a global manufacturer of component and subsystem devices with manufacturing, design and testing facilities in China, Egypt, Germany, India, Lebanon, Malta, Mexico, the Philippines, Singapore, Switzerland, the United Kingdom and the United States. We design, manufacture and market devices employing electrical, radio remote control, electronic, wireless and sensing technologies. Our business is managed on a segment basis, with those segments being Automotive, Interconnect, Power Products and Other. For more information regarding the business and products of these segments, see "Item 1. Business."

Our components are found in the primary end markets of the aerospace, appliance, automotive, construction, consumer and industrial equipment, communications (including information processing and storage, networking equipment, wireless and terrestrial voice/data systems), rail and other transportation industries.

### Recent Transactions

In fiscal 2012, we paid \$1.1 million for an additional 20% investment in Eetrex Incorporated to facilitate our expansion into the power electronics and battery systems markets. We now have a 90% ownership interest in Eetrex. Eetrex is located in Boulder, Colorado and is a developer and manufacturer of chargers, inverters and battery systems for the transportation, telecommunications and computing industries.

In September 2011, we acquired certain assets and liabilities of Nypro Monterrey, S. de R.L. (Nypro Monterrey) from Nypro Inc. for \$6.4 million. We operate this injection molding and painting business under the name of Advanced Molding and Decoration, S.A. de C.V. (AMD), and it has become a part of our existing Monterrey manufacturing campus. AMD operates a state-of-the-art facility, which provides us with high-quality injection molding, painting and decorating capabilities. The AMD assets include 52 injection mold machines, three paint lines and several pad print machines. In addition, 228 employees from Nypro Monterrey were transferred to us as part of the acquisition.



## Results of Operations

Results of Operations for the Fiscal Year Ended April 28, 2012, as Compared to the Fiscal Year Ended April 30, 2011.

## Consolidated Results

Below is a table summarizing results for the fiscal years ended:

(in millions)

("N/M" equals not meaningful)

	April 28, 2012	April 30, 2011	Net Change	Net Change	
Net sales	\$465.1	\$428.2	\$36.9	8.6	%
Cost of products sold	382.0	339.0	43.0	12.7	%
Gross margins	83.1	89.2	(6.1)	(6.8)	)%
Selling and administrative expenses	69.9	70.8	(0.9)	(1.3)	)%
Amortization of intangibles	1.8	2.4	(0.6)	(25.0)	)%
Interest (income)/expense, net	(0.3)	0.2	(0.5)	N/M	)
Other expense, net	0.3	1.3	(1.0)	(76.9)	)%
Income tax (benefit)/expense	3.2	(4.1)	7.3	N/M	)
Gain on sale of discontinued business, net of tax	—	(0.6)	0.6	N/M	)
Net loss attributable to noncontrolling interest	(0.2)	(0.3)	0.1	N/M	)
Net income attributable to Methode Electronics, Inc.	\$8.4	\$19.5	\$(11.1)	(56.9)	)%
Percent of sales:	April 28, 2012	April 30, 2011			
Net sales	100.0	% 100.0	%		
Cost of products sold	82.1	% 79.2	%		
Gross margins	17.9	% 20.8	%		
Selling and administrative expenses	15.0	% 16.5	%		
Amortization of intangibles	0.4	% 0.6	%		
Interest (income)/expense, net	(0.1)	)% —	%		
Other expense, net	0.1	% 0.3	%		
Income tax (benefit)/expense	0.7	% (1.0)	)%		
Gain on sale of discontinued business, net of tax	—	% (0.1)	)%		
Net loss attributable to noncontrolling interest	—	% (0.1)	)%		
Net income attributable to Methode Electronics, Inc.	1.8	% 4.6	%		

Net Sales. Consolidated net sales increased \$36.9 million, or 8.6%, to \$465.1 million for fiscal 2012, from \$428.2 million for fiscal 2011. The Automotive segment net sales increased \$45.6 million, or 20.2%, to \$271.6 million for fiscal 2012, from \$226.0 million for fiscal 2011. The Interconnect segment net sales decreased \$11.1 million, or 8.0%, to \$127.7 million for fiscal 2012, compared to \$138.8 million for fiscal 2011. The Power Products segment net sales increased \$1.6 million, or 3.2%, to \$52.0 million for fiscal 2012, as compared to \$50.4 million for fiscal 2011. The Other segment net sales increased \$0.9 million, or 6.9%, to \$13.9 million for fiscal 2012, compared to \$13.0

million for fiscal 2011. Translation of foreign operations net sales for fiscal 2012 increased reported net sales by \$2.3 million or 0.5% due to average currency rates in fiscal 2012, compared to the average currency rates in fiscal 2011.

Cost of Products Sold. Consolidated cost of products sold increased \$43.0 million, or 12.7%, to \$382.0 million for fiscal 2012, compared to \$339.0 million for fiscal 2011. Consolidated cost of products sold as a percentage of sales were

14

---

82.1% for fiscal 2012, compared to 79.2% for fiscal 2011. In fiscal 2012, the Automotive segment experienced design, development, engineering and launch costs of \$4.6 million, compared to \$1.2 million in fiscal 2011 related to a program that launched in fiscal 2012 and new program that will not launch until the later part of fiscal 2013. In addition, this segment incurred costs of \$3.3 million related to a vendor's production and delivery issues, compared to \$2.3 million in fiscal 2011. The Power Products segment reported costs of \$2.4 million for new product development for fiscal 2012, compared to \$1.9 million for fiscal 2011. Fiscal 2011 includes a charge of \$1.3 million in our Automotive segment for negotiated program termination costs for certain products manufactured in our Malta automotive facility, as well as an inventory and equipment charge of \$0.4 million relating to the customer cancellation of certain products manufactured in the U.S. in our Power Products segment.

**Gross Margins.** Consolidated gross margins decreased \$6.1 million, or 6.8%, to \$83.1 million for fiscal 2012, as compared to \$89.2 million for fiscal 2011. Gross margins as a percentage of net sales were 17.9% for fiscal 2012, compared to 20.8% for fiscal 2011. Gross margins as a percentage of sales decreased primarily due to new program and product launch costs and increased costs related to a vendor's production and delivery issues. In addition, gross margins were negatively impacted by increased sales of automotive product that has higher material cost due to the current high percentage of purchased content. Gross margins were negatively impacted in fiscal 2011 for negotiated program termination costs for certain products as well as costs associated with the customer cancellation of certain products.

**Selling and Administrative Expenses.** Selling and administrative expenses decreased by \$0.9 million, or 1.3%, to \$69.9 million for fiscal 2012, compared to \$70.8 million for fiscal 2011. During fiscal 2011, we recorded an expense of \$2.1 million for litigation regarding unsecured claims sold to Blue Angel LLC, related to the Delphi bankruptcy. Stock award amortization expense increased by \$1.0 million, to \$4.0 million for fiscal 2012, compared with \$3.0 million for fiscal 2011. Selling and administrative expenses increased \$1.2 million in fiscal 2012 due to the acquisitions of Eetrex and AMD. Legal expenses decreased \$0.7 million, to \$6.0 million for fiscal 2012, compared to \$6.7 million in fiscal 2011, primarily due to lower Delphi litigation expenses, partially offset with legal expenses related to the AMD acquisition. Fiscal 2011 includes income of \$0.5 million received for grants at one of our Malta facilities. Selling and administrative expenses as a percentage of net sales decreased to 15.0% for fiscal 2012 from 16.5% for fiscal 2011.

**Amortization of Intangibles.** Amortization of intangibles decreased \$0.6 million, or 25.0%, to \$1.8 million for fiscal 2012, compared to \$2.4 million for fiscal 2011. The decrease is primarily due to certain intangible assets that became fully amortized by the end of fiscal 2011.

**Interest (Income)/Expense, Net.** Interest (income)/expense, net was income of \$0.3 million for fiscal 2012, compared to an expense of \$0.2 million for fiscal 2011.

**Other Expense, Net.** Other expense, net decreased \$1.0 million, or 76.9%, to \$0.3 million for fiscal 2012, as compared to \$1.3 million for fiscal 2011. Other income included income of \$0.4 million and \$1.2 million for fiscal 2012 and fiscal 2011, respectively, related to life insurance policies in connection with an employee deferred compensation plan. Fiscal 2012 includes a gain of \$0.3 million related to the acquisition of AMD. All other amounts for both periods relate to expenses for currency rate fluctuations. The functional currencies of our international operations are the British pound, Chinese yuan, Euro, Indian rupee, Mexican peso, Singapore dollar and Swiss franc. Some foreign operations have transactions denominated in currencies other than their functional currencies, primarily sales in U.S. dollars and Euros, creating exchange rate sensitivities.

**Income Tax (Benefit)/Expense.** Income tax (benefit)/expense increased by \$7.3 million to an expense of \$3.2 million for fiscal 2012, compared to a benefit of \$4.1 million for fiscal 2011. The income tax expense for fiscal 2012 relates to income taxes on foreign profits of \$3.1 million and \$2.0 million for foreign taxes on a foreign dividend. In addition, fiscal 2012 includes a benefit of \$1.9 million related to tax credits from our Malta facility. Fiscal 2011 includes a

benefit for an intraperiod tax allocation related to the sale of Optokon of \$3.5 million and a benefit of \$2.7 million related to the expiration of uncertain tax positions and interest from prior periods, partially offset by a net income tax expense on foreign profits of \$2.1 million.

Gain on the Sale of Discontinued Business, Net of Tax. In March 2011, we sold our 75% ownership in Optokon, to the minority shareholder for \$10.0 million. The net assets of our 75% ownership had a book value of \$9.9 million. We recorded a gain of \$4.1 million for sale of the net assets, primarily attributable to the cumulative translation gains since the date of the initial investment. We also recorded income taxes related to the sale of \$3.5 million, resulting in a gain net after tax of \$0.6 million. The tax expense was based on the amount sold of \$10.0 million less our initial investment of \$1.2 million, resulting in a taxable gain of \$8.8 million. In the sale, we received \$5.9 million in cash as well as a collateralized note for \$4.1 million.

Net Income Attributable to Methode Electronics, Inc. Net income attributable to Methode Electronics, Inc. decreased \$11.1 million, to \$8.4 million for fiscal 2012, compared to \$19.5 million for fiscal 2011. The decrease is primarily due to the higher expenses for new product development and product launches, increased stock award amortization expense, increased costs related to a vendor's production and delivery issues, higher tax expense, higher selling and administrative expenses due to acquisitions, the absence of a grant from our Malta facility and lower life insurance proceeds and the gain on the sale of the Optokon business in fiscal 2011, partially offset by higher sales, lower legal expenses and the absence of expense for Blue Angel claims and the absence of negotiated cancellation costs and inventory charges.

## Operating Segments

### Automotive Segment Results

Below is a table summarizing results for the fiscal years ended:  
(in millions)

	April 28, 2012	April 30, 2011	Net Change	Net Change	
Net sales	\$271.6	\$226.0	\$45.6	20.2	%
Cost of products sold	233.3	186.3	47.0	25.2	%
Gross margins	38.3	39.7	(1.4	) (3.5	)%
Selling and administrative expenses	28.3	26.4	1.9	7.2	%
Income from operations	\$10.0	\$13.3	\$(3.3	) (24.8	)%
Percent of sales:	April 28, 2012	April 30, 2011			
Net sales	100.0	% 100.0	%		
Cost of products sold	85.9	% 82.4	%		
Gross margins	14.1	% 17.6	%		
Selling and administrative expenses	10.4	% 11.7	%		
Income from operations	3.7	% 5.9	%		

Net Sales. Automotive segment net sales increased \$45.6 million, or 20.2%, to \$271.6 million for fiscal 2012, from \$226.0 million for fiscal 2011. Net sales increased in North America, Europe and Asia by 108.5%, 5.2% and 3.4%, respectively. The increase in North America is primarily due to increased sales for our Ford Center Console Program and transmission lead-frame assembly as well as sales from the AMD business acquired in September 2011. The increase in Asia is due to increases in our transmission lead-frame and steering angle sensor products and the increase in Europe is primarily due to currency fluctuations. Translation of foreign operations net sales for fiscal 2012 increased reported net sales by \$2.1 million, or 0.8%, due to average currency rates in fiscal 2012, compared to the average currency rates in fiscal 2011.

Cost of Products Sold. Automotive segment cost of products sold increased \$47.0 million, or 25.2%, to \$233.3 million in fiscal 2012, from \$186.3 million in fiscal 2011. The Automotive segment cost of products sold as a percentage of sales were 85.9% in fiscal 2012, compared to 82.4% in fiscal 2011. In fiscal 2012, the Automotive segment experienced design, development, engineering and launch costs of \$4.6 million, compared to \$1.2 million in fiscal 2011 related to a program that launched in fiscal 2012 and new program that will not launch until the later part of fiscal 2013. In addition, our North American operations experienced costs of \$3.3 million related to a vendor's

production and delivery issues, compared to \$2.3 million in fiscal 2011. The increase in costs of products sold as a percentage of sales was also affected by increased sales of product that has a higher material cost due to the current high percentage of purchased content. Fiscal 2011 includes a charge of \$1.3 million for negotiated program termination costs for certain products manufactured in our Malta facility.

Gross Margins. Automotive segment gross margins decreased \$1.4 million, or 3.5%, to \$38.3 million in fiscal 2012, as compared to \$39.7 million in fiscal 2011. The Automotive segment gross margins as a percentage of net sales were 14.1% in fiscal 2012, as compared to 17.6% in fiscal 2011. Gross margins as a percentage of sales decreased in fiscal 2012, compared to fiscal 2011, due to the design, development, engineering and launch costs related to new programs and new product launches,

as well as increased costs related to a vendor's production and delivery issues. In addition, gross margins were negatively impacted in fiscal 2012 by increased sales of product that has higher material cost due to the current high percentage of purchased content. The gross margins in fiscal 2011 were negatively impacted by the negotiated program termination costs.

**Selling and Administrative Expenses.** Selling and administrative expenses increased \$1.9 million, or 7.2%, to \$28.3 million in fiscal 2012, compared to \$26.4 million in fiscal 2011. During fiscal 2011, we recorded an expense of \$2.1 million for litigation regarding unsecured claims sold to Blue Angel LLC, related to the Delphi bankruptcy. Selling and administrative expenses increased \$1.2 million in fiscal 2012 due to the acquisition of AMD. In addition, selling and administrative expenses increased by \$1.3 million in fiscal 2012 due to additional support staff needed for the development of products not expected to begin production until the later part of fiscal 2013. Legal expenses decreased \$0.7 million, to \$6.0 million in fiscal 2012, compared to \$6.7 million in fiscal 2011, primarily due to lower Delphi litigation expenses, partially offset with legal expenses related to the AMD acquisition. Selling and administrative expenses as a percentage of net sales were 10.4% in fiscal 2012 and 11.7% in fiscal 2011.

**Income from Operations.** Automotive segment income from operations decreased \$3.3 million, or 24.8%, to \$10.0 million in fiscal 2012, compared to \$13.3 million in fiscal 2011 due to increased expenses related to new programs and new product launches, increased costs related to a vendor's production and delivery issues, partially offset with higher sales volumes and lower legal expenses and the absence of an expense for litigation regarding the Blue Angel dispute.

#### Interconnect Segment Results

Below is a table summarizing results for the fiscal years ended:  
(in millions)

	April 28, 2012	April 30, 2011	Net Change	Net Change
Net sales	\$127.7	\$138.8	\$(11.1)	(8.0)%
Cost of products sold	91.5	96.8	(5.3)	(5.5)%
Gross margins	36.2	42.0	(5.8)	(13.8)%
Selling and administrative expenses	18.1	22.0	(3.9)	(17.7)%
Income from operations	\$18.1	\$20.0	\$(1.9)	(9.5)%
Percent of sales:	April 28, 2012	April 30, 2011		
Net sales	100.0	% 100.0	%	
Cost of products sold	71.7	% 69.7	%	
Gross margins	28.3	% 30.3	%	
Selling and administrative expenses	14.2	% 15.9	%	
Income from operations	14.2	% 14.4	%	

**Net Sales.** Interconnect segment net sales decreased \$11.1 million, or 8.0%, to \$127.7 million in fiscal 2012, from \$138.8 million in fiscal 2011. Net sales decreased 5.9% in North America primarily due to weak sales for white goods and interface solutions products, partially offset by stronger sales for data and radio remote control devices. Net sales in Europe decreased 16.4% primarily due to no optical sales in fiscal 2012, due to the sale of the optical business in the fourth quarter of fiscal 2011, partially offset by higher sales for data and radio remote control devices. Net sales

in Asia decreased 4.2% primarily due to lower sales for legacy products resulting from the planned exit of a product line.

**Cost of Products Sold.** Interconnect segment cost of products sold decreased \$5.3 million, or 5.5%, to \$91.5 million in fiscal 2012, compared to \$96.8 million in fiscal 2011. Interconnect segment cost of products sold as a percentage of net sales increased to 71.7% in fiscal 2012, compared to 69.7% in fiscal 2011. The increase in cost of products sold as a percentage of sales is primarily due to lower sales volumes for white goods and interface solutions products.



**Gross Margins.** Interconnect segment gross margins decreased \$5.8 million, or 13.8%, to \$36.2 million in fiscal 2012, compared to \$42.0 million in fiscal 2011. Gross margins as a percentage of net sales decreased to 28.3% in fiscal 2012, from 30.3% in fiscal 2011. The decrease in gross margins as a percentage of net sales primarily relates to lower sales volumes for white goods and interface solutions products.

**Selling and Administrative Expenses.** Selling and administrative expenses decreased \$3.9 million, or 17.7%, to \$18.1 million in fiscal 2012, compared to \$22.0 million in fiscal 2011. Selling and administrative expenses decreased due to no selling and administrative expenses for our optical business, as well as lower salary and bonus expenses for our sensor business. Selling and administrative expenses as a percentage of net sales decreased to 14.2% in fiscal 2012, from 15.9% in fiscal 2011.

**Income from Operations.** Interconnect segment income from operations decreased \$1.9 million, or 9.5%, to \$18.1 million in fiscal 2012, compared to \$20.0 million in fiscal 2011 primarily due to lower sales of white goods products, partially offset with lower other selling and administrative expenses.

### Power Products Segment Results

Below is a table summarizing results for the fiscal years ended:  
(in millions)

	April 28, 2012	April 30, 2011	Net Change	Net Change	
Net sales	\$52.0	\$50.4	\$1.6	3.2	%
Cost of products sold	43.4	39.8	3.6	9.0	%
Gross margins	8.6	10.6	(2.0	) (18.9	)%
Selling and administrative expenses	6.9	7.0	(0.1	) (1.4	)%
Income from operations	\$1.7	\$3.6	\$(1.9	) (52.8	)%
Percent of sales:	April 28, 2012	April 30, 2011			
Net sales	100.0	% 100.0	%		
Cost of products sold	83.5	% 79.0	%		
Gross margins	16.5	% 21.0	%		
Selling and administrative expenses	13.3	% 13.9	%		
Income from operations	3.3	% 7.1	%		

**Net Sales.** Power Products segment net sales increased \$1.6 million, or 3.2%, to \$52.0 million in fiscal 2012, compared to \$50.4 million in fiscal 2011. Net sales increased by 4.1% in North America and by 3.8% in Asia, driven primarily by higher demand for our busbar products. Europe decreased by 13.8% due to lower demand for busbar products.

**Cost of Products Sold.** Power Products segment cost of products sold increased \$3.6 million, or 9.0%, to \$43.4 million in fiscal 2012, compared to \$39.8 million in fiscal 2011. The Power Products segment cost of products sold as a percentage of sales increased to 83.5% in fiscal 2012, from 79.0% in fiscal 2011. The increase in cost of products sold as a percentage of sales is primarily due to unfavorable product mix for our North American cabling business, as well as increased costs for product development in North America. The product development costs were \$2.4 million in fiscal 2012, compared to \$1.9 million in fiscal 2011. Fiscal 2011 includes an inventory and equipment write-down

charge of \$0.4 million relating to a customer cancellation of certain products manufactured in our U.S. facility.

Gross Margins. Power Products segment gross margins decreased \$2.0 million, or 18.9%, to \$8.6 million in fiscal 2012, compared to \$10.6 million in fiscal 2011. Gross margins as a percentage of net sales decreased to 16.5% in fiscal 2012, from 21.0% in fiscal 2011. The decrease in gross margins as a percentage of sales is primarily due to unfavorable product mix from our North American cabling business, as well as increased costs for product development in North America.

**Selling and Administrative Expenses.** Selling and administrative expenses decreased \$0.1 million, or 1.4%, to \$6.9 million in fiscal 2012, compared to \$7.0 million in fiscal 2011. Selling and administrative expenses decreased due to lower salary and bonuses in the North American businesses, partially offset with new product development in North America as well as selling and administrative expenses related to the Eetrex business. Selling and administrative expenses as a percentage of net sales decreased slightly to 13.3% in fiscal 2012 from 13.9% in fiscal 2011.

**Income From Operations.** Power Products segment income from operations decreased \$1.9 million, or 52.8%, to \$1.7 million in fiscal 2012, compared to \$3.6 million in fiscal 2011, due to unfavorable product mix from our North American cabling business, increased expenses for new product development, partially offset by higher sales and absence of a customer cancellation charge.

#### Other Segment Results

Below is a table summarizing results for the fiscal years ended:  
(in millions)

	April 28, 2012	April 30, 2011	Net Change	Net Change	
Net sales	\$13.9	\$13.0	\$0.9	6.9	%
Cost of products sold	10.4	12.0	(1.6	) (13.3	)%
Gross margins	3.5	1.0	2.5	250.0	%
Selling and administrative expenses	3.7	3.0	0.7	23.3	%
Loss from operations	\$(0.2	) \$(2.0	) \$1.8	(90.0	)%
Percent of sales:	April 28, 2012	April 30, 2011			
Net sales	100.0	% 100.0	%		
Cost of products sold	74.8	% 92.3	%		
Gross margins	25.2	% 7.7	%		
Selling and administrative expenses	26.6	% 23.1	%		
Loss from operations	(1.4	)% (15.4	)%		

**Net Sales.** The Other segment net sales increased \$0.9 million, or 6.9%, to \$13.9 million in fiscal 2012, compared to \$13.0 million in fiscal 2011. Net sales from our torque-sensing business increased 6.8% in fiscal 2012, compared to fiscal 2011. Net sales from our testing facilities increased 7.7% in fiscal 2012, compared to fiscal 2011.

**Cost of Products Sold.** Other segment cost of products sold decreased \$1.6 million, or 13.3%, to \$10.4 million in fiscal 2012, compared to \$12.0 million in fiscal 2011. Cost of products sold as a percentage of sales decreased to 74.8% in fiscal 2012, compared to 92.3% in fiscal 2011. The decrease in cost of products sold as a percentage of sales is primarily due to higher sales volumes as well as favorable product mix from our torque-sensing business.

**Gross Margins.** The Other segment gross margins increased \$2.5 million, or 250.0%, to \$3.5 million in fiscal 2012, compared to \$1.0 million in fiscal 2011. The increase in gross margins as a percentage of sales is primarily due to higher sales as well as favorable product mix from our torque-sensing business.

**Selling and Administrative Expenses.** Selling and administrative expenses increased \$0.7 million, or 23.3%, to \$3.7 million in fiscal 2012, compared to \$3.0 million in fiscal 2011. The increase is primarily due to expenses related to higher stock award amortization expense and severance. Selling and administrative expenses as a percentage of net sales increased to 26.6% in fiscal 2012, from 23.1% in fiscal 2011.

**Loss From Operations** The Other segment loss from operations decreased \$1.8 million, or 90.0%, to \$0.2 million in fiscal 2012, compared to \$2.0 million in fiscal 2011. The loss decreased primarily due to increased sales and favorable product

Edgar Filing: METHODE ELECTRONICS INC - Form 10-K

mix from our torque-sensing business, partially offset with higher stock award amortization expense and severance in fiscal 2012, as compared to fiscal 2011.

Results of Operations for the Fiscal Year Ended April 30, 2011, as Compared to the Fiscal Year Ended May 1, 2010.

Consolidated Results

Below is a table summarizing results for the years ended:

(in millions)

("N/M" equals not meaningful)

	April 30, 2011	May 1, 2010	Net Change	Net Change		
Net sales	\$428.2	\$377.6	\$50.6	13.4	%	
Cost of products sold	339.0	297.7	41.3	13.9	%	
Gross margins	89.2	79.9	9.3	11.6	%	
Restructuring	—	7.8	(7.8	)	N/M	
Selling and administrative expenses	70.8	62.4	8.4	13.5	%	
Amortization of intangibles	2.4	2.3	0.1	4.3	%	
Interest (income)/expense, net	0.2	0.1	0.1	100.0	%	
Other, net - (income)/expense	1.3	(0.5	)	1.8	N/M	
Income taxes benefit	(4.1	)	(6.0	)	1.9	N/M
Gain on sale of discontinued business, net of tax	(0.6	)	—	(0.6	)	N/M
Net income/(loss) attributable to noncontrolling interest	(0.3	)	0.1	(0.4	)	N/M
Net income attributable to Methode Electronics, Inc.	\$19.5	\$13.7	0\$5.8	42.3	%	
Percent of sales:	April 30, 2011	May 1, 2010				
Net sales	100.0	% 100.0	%			
Cost of products sold	79.2	% 78.8	%			
Gross margins	20.8	% 21.2	%			
Restructuring	—	% 2.1	%			
Selling and administrative expenses	16.5	% 16.5	%			
Amortization of intangibles	0.6	% 0.6	%			
Interest (income)/expense, net	—	% —	%			
Other, net - (income)/expense	0.3	% (0.1	)%			
Income taxes benefit	(1.0	)%	(1.6	)%		
Gain on sale of discontinued business, net of tax	(0.1	)%	—	%		
Net income/(loss) attributable to noncontrolling interest	(0.1	)%	—	%		
Net income attributable to Methode Electronics, Inc.	4.6	% 3.6	%			

Net Sales. Consolidated net sales increased \$50.6 million, or 13.4%, to \$428.2 million for fiscal 2011, from \$377.6 million for fiscal 2010. The Automotive segment net sales increased \$22.8 million, or 11.2%, to \$226.0 million for

fiscal 2011, from \$203.2 million for fiscal 2010. The Interconnect segment net sales increased \$14.6 million, or 11.8%, to \$138.8 million for fiscal 2011, compared to \$124.2 million for fiscal 2010. The Power Products segment net sales increased \$9.9 million, or 24.4%, to \$50.4 million for fiscal 2011, as compared to \$40.5 million for fiscal 2010. The Other segment net sales increased \$3.7 million, or 39.8%, to \$13.0 million for fiscal 2011, as compared to \$9.3 million for fiscal 2010. Included in net sales is other income, which consisted primarily of earnings from engineering design fees and royalties. Other income decreased \$0.3

million, or 6.7%, to \$4.2 million for fiscal 2011, from \$4.5 million for fiscal 2010. The decrease relates to engineering design fees in our European automotive business. Translation of foreign operations net sales for fiscal 2011 decreased reported net sales by \$4.2 million or 1.1% due to average currency rates for fiscal 2011, compared to the average currency rates for fiscal 2010.

**Cost of Products Sold.** Consolidated cost of products sold increased \$41.3 million, or 13.9%, to \$339.0 million for fiscal 2011, compared to \$297.7 million for fiscal 2010. Consolidated cost of products sold as a percentage of sales were 79.2% in fiscal 2011, compared to 78.8% in fiscal 2010. During fiscal 2011, we recorded a negotiated program termination charge of \$1.3 million for certain products manufactured in our Malta facility and \$0.4 million for customer cancellation of certain products manufactured in our U.S. facility. In addition, we incurred \$2.3 million in additional costs due to a certain vendor's production and delivery issues for new products that began ramping up production during fiscal 2011. The increases were more than offset by cost efficiencies experienced in our Asian businesses, and higher sales volumes as well as a change in sales mix within the Interconnect segment in fiscal 2011, as compared to fiscal 2010. Included in the cost of products sold for fiscal 2010 is \$0.7 million of asset write-downs related to the termination of the Delphi supply agreement.

**Gross Margins.** Consolidated gross margins increased \$9.3 million, or 11.6%, to \$89.2 million for fiscal 2011, as compared to \$79.9 million for fiscal 2010. Gross margins as a percentage of net sales decreased to 20.8% for fiscal 2011, compared to 21.2% for fiscal 2010. Gross margins as a percentage of sales declined due to loss of the Delphi business, the one-time reversal of pricing contingencies in fiscal 2010, the customer negotiated program cancellation and other customer cancellation charges, lower other income and costs due to a certain vendor's production and delivery issues, but were partially offset by higher sales volumes, a favorable change in sales mix within the Interconnect segment and cost efficiencies from our Asian businesses, for fiscal 2011, compared to fiscal 2010.

**Restructuring.** During fiscal 2010, we completed all of our planned restructuring initiatives. During fiscal 2010, we recorded a total restructuring charge of \$7.8 million, which consisted of \$4.3 million for employee severance, \$1.5 million for accelerated depreciation and \$2.0 million for other costs.

**Amortization of Intangibles.** Amortization of intangibles increased \$0.1 million, to \$2.4 million for fiscal 2011, compared to \$2.3 million for fiscal 2010.

**Selling and Administrative Expenses.** Selling and administrative expenses increased \$8.4 million, or 13.5%, to \$70.8 million for fiscal 2011, compared to \$62.4 million for fiscal 2010. During fiscal 2011, we recorded a settlement of \$2.1 million for litigation regarding unsecured claims sold to Blue Angel LLC in June 2006, related to the Delphi bankruptcy. See the Overview section for more information regarding this matter. Stock option and stock award amortization increased by \$2.1 million, to \$3.0 million in fiscal 2011, compared to \$0.9 million in fiscal 2010. Delphi litigation expenses decreased \$1.0 million, to \$4.8 million for fiscal 2011, compared to \$5.8 million for fiscal 2010. Selling and marketing expenses increased in our North American and Asian automotive businesses, partially offset by lower commissions and professional fees in fiscal 2011, compared to fiscal 2010. Selling and administrative expenses as a percentage of net sales were 16.5% for both fiscal 2011 and 2010.

**Interest Expense, Net.** Interest expense, net increased \$0.1 million, to \$0.2 million for fiscal 2011, compared to \$0.1 million for fiscal 2010. Interest income was \$0.6 million for fiscal 2011, compared to \$0.4 million for fiscal 2010. Interest expense was \$0.8 million for fiscal 2011, compared to \$0.5 million for fiscal 2010. The increase in interest expense relates to borrowings against our credit facility during fiscal 2011.

**Other, Net.** Other, net increased \$1.8 million to an expense of \$1.3 million for fiscal 2011, compared to income of \$0.5 million for fiscal 2010. Fiscal 2011 included income of \$1.2 million for life insurance policies in connection with the deferred compensation plan. In addition, fiscal 2011 includes a gain on investment of business of \$0.2 million, related to the original \$1.0 million investment in Eetrex. Fiscal 2010 included income of \$0.6 million related to an

enhanced cash fund, as well as income of \$1.1 million for life insurance policies in connection with the deferred compensation plan. All other amounts for both fiscal 2011 and fiscal 2010, relate to currency rate fluctuations. The functional currencies of these operations are the British pound, Czech koruna, Chinese yuan, Euro, Indian Rupee, Mexican peso, Singapore dollar and Swiss Franc. Some foreign operations have transactions denominated in currencies other than their functional currencies, primarily sales in U.S. dollars and Euros, creating exchange rate sensitivities.

**Income Tax Benefit.** Income tax benefit from continuing operations decreased by \$1.9 million to \$4.1 million for fiscal 2011, compared to \$6.0 million for fiscal 2010. Fiscal 2011 includes a benefit for an intraperiod tax allocation related to the sale of Optokon of \$3.5 million, a benefit of \$2.7 million related to the expiration of uncertain tax positions and interest



from prior periods, partially offset by a net income tax expense on foreign profits of \$2.1 million. Fiscal 2010 includes taxes on foreign profits of \$1.1 million, book to income tax return adjustments of \$2.8 million and other adjustments of \$1.6 million. In addition, a benefit of \$2.7 million was recorded due to the settlement of uncertain tax positions and related interest from prior periods.

**Gain on the Sale of Discontinued Business, Net of Tax.** In March 2011, we sold our 75% ownership in Optokon, to the minority shareholder for \$10.0 million. The net assets of our 75% ownership had a book value of \$9.9 million. We recorded a gain of \$4.1 million to sale of the net assets, primarily attributable to the cumulative translation gains since the date of the initial investment. We also recorded income taxes related to the sale of \$3.5 million, resulting in a gain net of taxes of \$0.6 million. The tax expense was based on the amount sold of \$10.0 million less our initial investment of \$1.2 million, resulting in a taxable gain of \$8.8 million. In the sale, we received \$5.9 million in cash as well as a collateralized note for \$4.1 million.

**Net Income Attributable to Methode Electronics, Inc.** Net income attributable to Methode Electronics, Inc. increased \$5.8 million, or 42.3%, to \$19.5 million for fiscal 2011, compared to \$13.7 million for fiscal 2010. The increase is primarily due to higher net sales and gross margins, no restructuring expenses, gain on the sale of a business, partially offset by the Blue Angel unsecured claims charge, higher stock option and stock award amortization, lower tax benefits, the one-time reversal of pricing contingencies in fiscal 2010, customer negotiated cancellation and other customer cancellation costs, costs related to a certain vendor's production and delivery issues, higher development costs and higher foreign currency exchange expenses in fiscal 2011, compared to fiscal 2010.

## Operating Segments

## Automotive Segment Results

Below is a table summarizing results for the years ended:

(in millions)

("N/M" equals not meaningful)

	April 30, 2011	May 1, 2010	Net Change	Net Change	
Net sales	\$226.0	\$203.2	\$22.8	11.2	%
Cost of products sold	186.3	166.7	19.6	11.8	%
Gross margins	39.7	36.5	3.2	8.8	%
Restructuring	—	5.6	(5.6	)	N/M
Selling and administrative expenses	26.4	19.6	6.8	34.7	%
Income from operations	\$13.3	\$11.3	\$2.0	17.7	%
Percent of sales:	April 30, 2011	May 1, 2010			
Net sales	100.0	% 100.0	%		
Cost of products sold	82.4	% 82.0	%		
Gross margins	17.6	% 18.0	%		
Restructuring	—	% 2.8	%		
Selling and administrative expenses	11.7	% 9.6	%		
Income from operations	5.9	% 5.6	%		

Below is a table showing the changes in the North America automotive net sales in fiscal 2011, compared to fiscal 2010:

North America Automotive net sales for fiscal 2010	\$55.7
Termination of certain Ford legacy products at our Reynosa, Mexico facility	(18.2 )
Termination of Delphi supply agreement	(14.1 )
Transfer of transmission lead-frame product to Shanghai, China facility	(11.4 )
Subtotal	12.0
Ford center console program	21.4
North American Automotive net sales for fiscal 2011	\$33.4

Net Sales. Automotive segment net sales increased \$22.8 million, or 11.2%, to \$226.0 million for fiscal 2011, from \$203.2 million for fiscal 2010. Net sales increased in Asia by 107.6%, to \$77.0 million and increased in Europe by 4.8%, to \$111.6 million, however, net sales from North America declined by 40.0%, to \$33.4 million in fiscal 2011, compared to fiscal 2010. The increase in Asia is primarily due to increased sales for the transmission lead-frame and steering angle sensor products. In North America, there were no sales to Delphi Corporation in fiscal 2011, as compared to net sales of \$14.1 million in fiscal 2010 due to the cancellation of the supply agreement on September 10, 2009. Net sales also declined in North America by \$11.4 million due to the planned transfer of production from our U.S. facility to our facility in Shanghai, China in the third quarter of fiscal 2010, as well as by \$18.2 million due to the termination of production of certain Ford legacy products at our Reynosa, Mexico facility at the end of the second quarter of fiscal 2010, as well as declines in sales of service parts. The decrease in North America automotive sales was partially offset by sales of \$21.4 million in fiscal 2011, compared to fiscal 2010, due to the Ford Center Console Program, which launched at the end of the first quarter. Net sales benefited by \$1.7 million in fiscal 2010, related to a

one-time reversal of pricing contingencies which were accrued over several years and were no longer required. Included in net sales is other income, which consisted primarily of earnings from engineering design fees and royalties. Other income increased \$0.1 million, or 2.6%, to \$4.0 million for fiscal 2011, from \$3.9 million for fiscal 2010. Translation of foreign operations net sales for fiscal 2011 decreased reported net sales by \$4.1 million, or 2.0%, due to average currency rates in fiscal 2011, compared to the average currency rates in fiscal 2010.

**Cost of Products Sold.** Automotive segment cost of products sold increased \$19.6 million, or 11.8%, to \$186.3 million for fiscal 2011, from \$166.7 million for fiscal 2010. Fiscal 2011 includes a charge of \$1.3 million for negotiated program termination costs for certain products manufactured in our Malta facility. In addition, we incurred \$2.3 million in additional costs due to a vendor's production and delivery issues for new products during fiscal 2011. The Automotive segment cost of products sold as a percentage of sales were 82.4% in fiscal 2011, compared to 82.0% in fiscal 2010. The increase in cost of products sold as a percentage of sales were also due to customer program cancellation charges and costs related to a certain vendor's production and delivery issues and the loss of the Delphi business, partially offset by higher sales volumes and improvements in cost of products sold in Asia. In addition, increasing costs of products sold as a percentage of sales primarily relates to the development of new products in North America, which are expected to begin shipping in future periods. Included in the cost of products sold for fiscal 2010 is \$0.7 million of asset write-downs relating to the termination of the Delphi supply agreement.

**Gross Margins.** Automotive segment gross margins increased \$3.2 million, or 8.8%, to \$39.7 million for fiscal 2011, as compared to \$36.5 million for fiscal 2010. The Automotive segment gross margins as a percentage of net sales were 17.6% for fiscal 2011, as compared to 18.0% for fiscal 2010. Gross margins as a percentage of sales decreased in fiscal 2011, compared to fiscal 2010, due to the loss of the Delphi business, increasing costs on the remaining North American business, customer program cancellation charges and costs related to a vendor's production and delivery issues, partially offset by higher sales volumes and cost efficiencies in Asia.

**Restructuring.** During fiscal 2010, we completed all of our planned restructuring initiatives. During fiscal 2010, we recorded a total restructuring charge of \$5.6 million, which consisted of \$3.4 million for employee severance, \$1.4 million for accelerated depreciation and \$0.8 million for other costs.

**Selling and Administrative Expenses.** Selling and administrative expenses increased \$6.8 million, or 34.7%, to \$26.4 million for fiscal 2011, compared to \$19.6 million for fiscal 2010. During fiscal 2011, we recorded a settlement of \$2.1 million for litigation regarding unsecured claims sold to Blue Angel LLC in June 2006, related to the Delphi bankruptcy. See the Overview section for more information regarding this matter. Delphi litigation expenses decreased \$1.0 million, to \$4.8 million for fiscal 2011, compared to \$5.8 million for fiscal 2010. In addition, selling and marketing expenses increased in our North American and Asian automotive businesses primarily due to new product development efforts in fiscal 2011, compared to fiscal 2010. Selling and administrative expenses as a percentage of net sales were 11.7% for fiscal 2011 and 9.6% for fiscal 2010.

**Income From Operations.** Automotive segment income from operations increased \$2.0 million or 17.7%, to \$13.3 million for fiscal 2011, compared to \$11.3 million for fiscal 2010 due to the lack of restructuring charges, higher sales and gross margins, partially offset by the Blue Angel unsecured claims charge, the one-time reversal of pricing contingencies in fiscal 2010, higher selling and marketing expenses, increased development costs in North America, and negotiated program termination costs in fiscal 2011, compared to fiscal 2010.

## Interconnect Segment Results

Below is a table summarizing results for the years ended:

(in millions)

("N/M" equals not meaningful)

	April 30, 2011	May 1, 2010	Net Change	Net Change	
Net sales	\$138.8	\$124.2	\$14.6	11.8	%
Cost of products sold	96.8	88.6	8.2	9.3	%
Gross margins	42.0	35.6	6.4	18.0	%
Restructuring	—	1.6	(1.6	)	N/M
Selling and administrative expenses	22.0	23.0	(1.0	)	(4.3)%
Income from operations	\$20.0	\$11.0	\$9.0	81.8	%
Percent of sales:	April 30, 2011	May 1, 2010			
Net sales	100.0	% 100.0	%		
Cost of products sold	69.7	% 71.3	%		
Gross margins	30.3	% 28.7	%		
Restructuring	—	% 1.3	%		
Selling and administrative expenses	15.9	% 18.5	%		
Income from operations	14.4	% 8.9	%		

**Net Sales.** Interconnect segment net sales increased \$14.6 million, or 11.8%, to \$138.8 million for fiscal 2011, from \$124.2 million for fiscal 2010. Net sales increased 12.5% and 19.3% in North America and Europe, respectively, however, net sales declined in Asia by 2.4% in fiscal 2011, compared to fiscal 2010. The increase in North America is due to increased sales for our data, sensor and radio remote control devices and the increase in Europe is due to increased sales for radio remote control devices. The decrease in Asia relates to lower sales for legacy products due to the planned exit of this product line in fiscal 2011, compared to fiscal 2010. Translation of foreign operations net sales in fiscal 2011 decreased reported net sales by \$0.1 million, due to average currency rates in fiscal 2011, compared to the average currency rates in fiscal 2010.

**Cost of Products Sold.** Interconnect segment cost of products sold increased \$8.2 million, or 9.3%, to \$96.8 million for fiscal 2011, compared to \$88.6 million for fiscal 2010. Interconnect segment cost of products sold as a percentage of net sales decreased to 69.7% for fiscal 2011, compared to 71.3% for fiscal 2010. The decrease is primarily due to a favorable change in sales mix within the segment as well as the overall increase in net sales in fiscal 2011, compared to fiscal 2010.

**Gross Margins.** Interconnect segment gross margins increased \$6.4 million, or 18.0%, to \$42.0 million for fiscal 2011, as compared to \$35.6 million for fiscal 2010. Gross margins as a percentage of net sales increased to 30.3% for fiscal 2011, from 28.7% for fiscal 2010. The increase in gross margins as a percentage of net sales primarily relates to higher sales volumes as well as a favorable change in sales mix within the segment in fiscal 2011, compared to fiscal 2010.

**Restructuring.** During fiscal 2010, we completed all of our planned restructuring initiatives. During fiscal 2010, we recorded a total restructuring charge of \$1.6 million, which consisted of \$0.7 million for employee severance, \$0.2

million for accelerated depreciation and \$0.7 million for other costs.

**Selling and Administrative Expenses.** Selling and administrative expenses decreased \$1.0 million, or 4.3%, to \$22.0 million for fiscal 2011, compared to \$23.0 million for fiscal 2010. The decrease is due to lower professional fees in our remote control business. Selling and administrative expenses as a percentage of net sales decreased to 15.9%, due to higher sales volumes, in fiscal 2011, from 18.5% for fiscal 2010.

Income From Operations. Interconnect segment income from operations increased \$9.0 million, or 81.8%, to \$20.0 million for fiscal 2011, compared to \$11.0 million for fiscal 2010, due to increased net sales and gross margins, no restructuring expenses and lower selling and administrative expenses.

#### Power Products Segment Results

Below is a table summarizing results for the years ended:

(in millions)

("N/M" equals not meaningful)

	April 30, 2011	May 1, 2010	Net Change	Net Change	
Net sales	\$50.4	\$40.5	\$9.9	24.4	%
Cost of products sold	39.8	30.0	9.8	32.7	%
Gross margins	10.6	10.5	0.1	1.0	%
Restructuring	—	0.6	(0.6	)	N/M
Selling and administrative expenses	7.0	6.5	0.5	7.7	%
Income from operations	\$3.6	\$3.4	\$0.2	5.9	%
Percent of sales:	April 30, 2011	May 1, 2010			
Net sales	100.0	% 100.0	%		
Cost of products sold	79.0	% 74.1	%		
Gross margins	21.0	% 25.9	%		
Restructuring	—	% 1.5	%		
Selling and administrative expenses	13.9	% 16.0	%		
Income from operations	7.1	% 8.4	%		

Net Sales. Power Products segment net sales increased \$9.9 million, or 24.4%, to \$50.4 million for fiscal 2011, compared to \$40.5 million for fiscal 2010. Net sales increased in fiscal 2011, as compared to fiscal 2010 by 4.6% in North America and by 65.2% in Asia. The increase in Asia was due to an increased demand for our busbar products. In North America, higher demand for our flexible cabling and heat sink products was offset with lower demand for our busbar products. We also began selling busbar products in Europe in fiscal 2011, which accounted for \$2.6 million in net sales, compared to no net sales in fiscal 2010.

Cost of Products Sold. Power Products segment cost of products sold increased \$9.8 million, or 32.7%, to \$39.8 million for fiscal 2011, compared to \$30.0 million for fiscal 2010. The Power Products segment cost of products sold as a percentage of sales increased to 79.0% for fiscal 2011, from 74.1% for fiscal 2010. Fiscal 2011 includes an inventory and equipment charge of \$0.4 million, relating to the customer cancellation of certain products manufactured in the U.S. The increase in the cost of products sold as a percentage of sales is primarily due to new product development, as well as customer cancellation charges, partially offset by lower costs in our Asian business.

Gross Margins. Power Products segment gross margins increased \$0.1 million, or 1.0%, to \$10.6 million for fiscal 2011, compared to \$10.5 million for fiscal 2010. Gross margins as a percentage of net sales decreased to 21.0% for fiscal 2011 from 25.9% for fiscal 2010. The decrease in gross margins as a percentage of sales is primarily due to the increased costs due to new product development for the Eetrex products, as well as customer cancellation charges, partially offset by lower costs in our Asian business.

Restructuring. During fiscal 2010, we completed all of our planned restructuring initiatives. During fiscal 2010, we recorded a restructuring charge of \$0.6 million, which consisted of \$0.1 million for employee severance and \$0.5 million related to other costs.



**Selling and Administrative Expenses.** Selling and administrative expenses increased \$0.5 million, or 7.7%, to \$7.0 million for fiscal 2011, compared to \$6.5 million for fiscal 2010. Selling and administrative expenses increased due to increased selling and professional fees in our U.S.-based busbar and heat sink businesses as well as increased expenses due to the purchase of 70% of Eetrex in fiscal 2011, as compared to fiscal 2010. Selling and administrative expenses as a percentage of net sales decreased to 13.9% in fiscal 2011, from 16.0% for fiscal 2010.

**Income From Operations.** Power Products segment income from operations increased \$0.2 million, or 5.9%, to \$3.6 million for fiscal 2011, compared to \$3.4 million for fiscal 2010, due to higher net sales and gross profit, no restructuring charges, partially offset with expenses related to new product development and expenses related to Eetrex, customer cancellation charges and higher selling and administrative expenses.

#### Other Segment Results

Below is a table summarizing results for the years ended:

(in millions)

("N/M" equals not meaningful)

	April 30, 2011	May 1, 2010	Net Change	Net Change	
Net sales	\$13.0	\$9.3	\$3.7	39.8	%
Cost of products sold	12.0	9.5	2.5	26.3	%
Gross margins	1.0	(0.2 )	1.2	N/M	
Selling and administrative expenses	3.0	2.1	0.9	42.9	%
Loss from operations	\$(2.0 )	\$(2.3 )	\$0.3	N/M	
Percent of sales:	April 30, 2011	May 1, 2010			
Net sales	100.0	% 100.0	%		
Cost of products sold	92.3	% 102.2	%		
Gross margins	7.7	% (2.2 )	%		
Selling and administrative expenses	23.1	% 22.6	%		
Loss from operations	(15.4	)% (24.7	)%		

**Net Sales.** The Other segment net sales increased \$3.7 million, or 39.8%, to \$13.0 million for fiscal 2011, compared to \$9.3 million for fiscal 2010. Net sales from our torque-sensing business increased 178.2% in fiscal 2011, compared to fiscal 2010. Net sales from our testing facilities decreased 13.8% in fiscal 2011, compared to fiscal 2010.

**Cost of Products Sold.** Other segment cost of products sold increased \$2.5 million to \$12.0 million for fiscal 2011, compared to \$9.5 million for fiscal 2010. Cost of products sold as a percentage of sales decreased to 92.3% in fiscal 2011, compared to 102.2% in fiscal 2010 primarily due to increased sales from our torque-sensing business.

**Gross Margins.** The Other segment gross margins increased to \$1.0 million for fiscal 2011, compared to a loss of \$0.2 million for fiscal 2010. Gross margins as a percentage of sales increased to 7.7% in fiscal 2011, compared to negative 2.2% in fiscal 2010 primarily due to increased sales from our torque-sensing business.

**Selling and Administrative Expenses.** Selling and administrative expenses increased \$0.9 million, or 42.9%, to \$3.0 million for fiscal 2011, compared to \$2.1 million for fiscal 2010. Selling and administrative expenses as a percentage

of net sales increased to 23.1% for fiscal 2011, from 22.6% for fiscal 2010.

Loss from Operations. The Other segment loss from operations decreased \$0.3 million, to \$2.0 million for fiscal 2011, compared to \$2.3 million for fiscal 2010, due to increased sales and gross profit, partially offset by higher selling and administrative expenses.

## Financial Condition, Liquidity and Capital Resources

We believe our current world-wide cash balances together with expected future cash flows to be generated from operations will be sufficient to support current operations. However, due to the shifting of operations from the U.S. to foreign locations, a significant amount of cash and expected future cash flows are located outside of the U.S. Of the total cash and cash equivalents, as of April 28, 2012, \$79.3 million was held in subsidiaries outside the U.S. of which the majority of this amount is deemed to be permanently reinvested and therefore not available to fund our domestic operations. We currently have \$65.4 million of net operating loss carry-forwards in the U.S. which would reduce the cash tax obligation upon any future repatriation of funds.

During fiscal 2011, we were awarded a next generation center stack program for multiple GM vehicle platforms. The program will be manufactured in our plant in Monterrey, Mexico. We anticipate this program will require a significant amount of cash for the purchase of equipment, tooling and initial inventory as well as additional staffing for the development and launching of the program. We expect to begin production and generate sales on these programs in late fiscal 2013. Therefore, we anticipate our cash balances will likely decline due to the launching of this programs without a corresponding increase in sales.

Our Amended and Restated Credit Agreement with Bank of America, N.A., as administrative agent, and certain other financial institutions, has a maturity of February 25, 2016. The new credit facility is in the aggregate principal amount of \$75.0 million, with an option to increase the principal amount by an additional \$25.0 million subject to customary conditions and approval of the lender(s) providing new commitment(s). The credit facility provides for variable rates of interest based on the type of borrowing and the Company's debt to EBITDA financial ratio. The Amended and Restated Credit Agreement is guaranteed by certain of our U.S. subsidiaries. The interest rate on the credit agreement is 1.5% plus LIBOR. At April 28, 2012, we were in compliance with the covenants of the agreement. During fiscal 2012, we had borrowings of \$52.0 million and payments of \$4.7 million, under this credit facility, which included \$0.7 million of interest payments. As of April 28, 2012, there was an outstanding balance of \$48.0 million against the credit facility. There was \$27.0 million available to borrow under the credit agreement as of April 28, 2012, which does not include the option to increase the principal amount.

Operating cash flow is summarized below (in millions):

	Fiscal Year Ended		
	April 28, 2012	April 30, 2011	May 1, 2010
Net income	\$8.1	\$19.2	\$13.8
Depreciation and amortization	16.2	15.8	19.4
Changes in operating assets and liabilities	(1.9	) (16.1	) (11.5
Other non-cash items	2.4	(1.9	) 5.7
Cash flow from operations	\$24.8	\$17.0	\$27.4

## Operating Activities — Fiscal 2012 Compared to Fiscal 2011

Net cash provided by operating activities increased \$7.8 million to \$24.8 million for fiscal 2012, compared to \$17.0 million for fiscal 2011, despite net income decline of \$11.1 million, to \$8.1 million, compared to \$19.2 million for fiscal 2011. The increase in operating cash flow was primarily attributable to the increase in cash generated from the changes in operating assets and liabilities. Our trade accounts receivable used \$13.5 million of cash in fiscal 2012 due to the timing of sales in the fourth quarter of fiscal 2012, compared to the fourth quarter of fiscal 2011. Inventory and prepaid and other expenses used cash of \$4.4 million and accounts payable and accrued expenses generated \$25.2 million, due to the timing of accounts payable payments in the fourth quarter of fiscal 2012 and the increase in deferred income tax liabilities. In fiscal 2011, cash flow from operations increased by \$13.2 million due to tax refunds received relating to prior periods.

Operating Activities — Fiscal 2011 Compared to Fiscal 2010

Net cash provided by operating activities decreased \$10.4 million to \$17.0 million for fiscal 2011, compared to \$27.4 million for fiscal 2010. The decrease in operating cash flow was primarily attributable to the increase in cash use related to the changes in operating assets and liabilities and lower depreciation and amortization non-cash add-back, partially offset by an increase in net income in fiscal 2011, as compared to fiscal 2010. Our trade accounts receivable, inventory and accounts payable in aggregate used \$27.0 million of cash flow during fiscal 2011, compared to \$11.5 million of cash used for fiscal

2010. The increased use of cash reflects increased accounts receivable levels, partially offset by increased accounts payable levels, associated with increased business activity, as well as management's decision to increase inventory levels on some raw material and components that historically we have experienced shortages in the marketplace. In fiscal 2011, cash flow from operations increased by \$13.2 million due to tax refunds received relating to prior periods.

#### Investing Activities — Fiscal 2012 Compared to Fiscal 2011

Net cash used in investing activities increased \$15.9 million to \$32.1 million for fiscal 2012, compared to \$16.2 million for fiscal 2011. Purchases of property, plant and equipment increased by \$10.5 million, to \$25.7 million for fiscal 2012, compared to \$15.2 million for fiscal 2011. The increase is primarily due to equipment purchased for new programs that launched in fiscal 2012 and for the programs scheduled to launch in late fiscal 2013. In addition, property, plant and equipment increased due to plant expansions in Europe, China and in the U.S. In fiscal 2012, we purchased a business, Advanced Molding and Decoration, for \$6.6 million. In fiscal 2011, we made an additional investment of \$2.4 million in Eetrex, for a total ownership in the business of 70%. Also in fiscal 2011, we received \$1.5 million for life insurance proceeds in connection with the deferred compensation plan.

#### Investing Activities — Fiscal 2011 Compared to Fiscal 2010

Net cash used in investing activities increased \$8.3 million to \$16.1 million for fiscal 2011, compared to \$7.8 million for fiscal 2010. Purchases of property, plant and equipment increased by \$5.8 million, to \$15.2 million for fiscal 2011, compared to \$9.4 million for fiscal 2010. In fiscal 2011, we made an additional investment of \$2.4 million in Eetrex, for a total ownership in the business of 70%. Also in fiscal 2011, we received \$1.5 million for life insurance proceeds in connection with the deferred compensation plan, compared to \$2.4 million in fiscal 2010.

#### Financing Activities — Fiscal 2012 Compared to Fiscal 2011

Net cash provided by/(used in) financing activities increased \$47.2 million to cash provided of \$37.9 million in fiscal 2012, compared to a cash use of \$9.3 million in fiscal 2011. During fiscal 2012, the Company had net borrowings against the credit facility of \$48.0 million, compared to no net borrowings in fiscal 2011. We paid dividends of \$10.4 million and \$10.3 million for fiscal 2012 and 2011, respectively. In addition, fiscal 2012 included \$0.3 million of proceeds for the exercise of stock options, compared to \$1.0 million for fiscal 2011.

#### Financing Activities — Fiscal 2011 Compared to Fiscal 2010

Net cash used for financing activities decreased \$1.0 million to \$9.3 million for fiscal 2011, compared to \$10.3 million for fiscal 2010. We paid dividends of \$10.3 million and \$10.4 million for fiscal 2011 and 2010, respectively. In addition, fiscal 2011 included \$1.0 million of proceeds for the exercise of stock options, compared to \$0.2 million for fiscal 2010.

#### Contractual Obligations

The following table summarizes contractual obligations and commitments, as of April 28, 2012 (in thousands):

	Payments Due By Period				
	Total	Less than 1 year	1-3 years	4-5 years	More than 5 years
Operating leases	\$9,781	\$3,751	\$3,880	\$593	\$1,557
Long term debt	48,000	—	—	48,000	—
Purchase obligations	54,352	54,303	49	—	—
Deferred compensation	4,922	218	1,907	311	2,486

Edgar Filing: METHODE ELECTRONICS INC - Form 10-K

Total	\$ 117,055	\$ 58,272	\$ 5,836	\$ 48,904	\$ 4,043
-------	------------	-----------	----------	-----------	----------

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, other than the operating leases and purchase obligations noted in the preceding table.

## Critical Accounting Policies and Estimates

Management's discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions; however, we do not believe that it is reasonably likely that changes will occur. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

**Revenue Recognition.** We recognize revenue on product sales when (i) persuasive evidence of an agreement exists, (ii) the price is fixed or determinable, (iii) delivery has occurred or services have been rendered, and (iv) collection of the sales proceeds is reasonably assured. Revenue from our product sales not requiring installation, net of trade discounts and estimated sales allowances, is recognized when title passes, which is generally upon shipment. We do not have any additional obligations or customer acceptance provisions after shipment of such products. We handle returns by replacing, repairing or issuing credit for defective products when returned. Revenue from cabling infrastructure systems installations is recognized when the installation is completed, tested and accepted by the customer.

**Allowance for Doubtful Accounts.** We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of customers to make required payments. The amount of the allowance is based on the age of unpaid amounts, information about the creditworthiness of customers, and other relevant information. Estimates of uncollectible amounts are revised each period, and changes are recorded in the period they become known. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

In addition, our revenues and accounts receivable are concentrated in a relatively small number of customers. A significant change in the liquidity or financial position of any one of these customers or a deterioration in the economic environment or automotive industry, in general, could have a material adverse impact on the collectability of our accounts receivable and our future operating results, and additional allowances for doubtful accounts.

**Allowance for Excess and Obsolete Inventory.** Inventories are valued at the lower of cost or market value and have been reduced by allowances for excess and obsolete inventories. The estimated allowances are based on our review of inventories on hand compared to estimated future usage and sales, using assumptions about future product life cycles, product demand and market conditions. If actual product life cycles, product demand and market conditions are less favorable than those projected by us, additional inventory write-downs may be required.

**Goodwill and Indefinite-Lived Intangible Assets.** Goodwill represents the excess of cost over fair market value of identifiable net assets acquired through business purchases. In accordance with FASB ASC Topic 350 - Intangibles-Goodwill and Other, we review goodwill for impairment on at least an annual basis by applying a fair-value-based test. In evaluating the recoverability of the carrying value of goodwill, we must make assumptions regarding the fair value of our reporting units, as defined under FASB ASC Topic 350. Goodwill is evaluated using a two-step impairment test at the reporting unit level. The first step compares the book value of a reporting unit, including goodwill, with its fair value, as determined by its discounted cash flows. If the book value of a reporting unit exceeds its fair value, we complete the second step to determine the amount of goodwill impairment loss that we should record. In the second step, we determine an implied fair value of the reporting unit's goodwill by allocating the fair value of the reporting unit to all of the assets and liabilities other than goodwill (including any unrecognized intangible assets). The amount of impairment loss is equal to the excess of the book value of the goodwill over the implied fair value of goodwill.

In performing our annual review of goodwill balances for impairment, we estimate the fair value of each of our reporting units based on projected future operating results and cash flows, market assumptions and comparative market multiple methods. Determining fair value requires significant estimates and assumptions based on an evaluation of a number of factors, such as marketplace participants, relative market share, future expansion or contraction expectations, amount and timing of future cash flows and the discount rate applied to the cash flows. Projected future operating results and cash flows used for valuation purposes may reflect considerable improvements relative to historical periods with respect to, among other things, revenue growth and operating margins. Although we believe our projected future operating results and cash flows and related estimates regarding fair values are based on reasonable assumptions, historically projected operating results and cash flows have not always been achieved. The failure of one of our reporting units to achieve projected operating results and cash flows in the near term or long term may reduce the estimated fair value of the reporting unit below its carrying value and result in the recognition of a goodwill impairment charge. Significant management judgment is necessary to evaluate the impact of



operating and macroeconomic changes and to estimate future cash flows. Assumptions used in our impairment evaluations, such as forecasted growth rates and our cost of capital, are based on the best available market information and are consistent with our internal forecasts and operating plans. In addition to cash flow estimates, our valuations are sensitive to the rate used to discount cash flows and future growth assumptions. These assumptions could be adversely impacted by certain of the risks discussed in "Risk Factors" in Item 1A.

As of April 28, 2012, we had goodwill of \$11.1 million for one business in the Interconnect segment and goodwill of \$5.3 million for two businesses in the Power Products segment, for a total of \$16.4 million. The fair values of reporting units exceeded their carrying values a range of approximately 50% to 200% and thus, did not indicate a significant risk of goodwill impairment based on current projections and valuations. The assumptions used in the valuation of these reporting units were made using management's best projections. We continue to monitor the operating results and cash flows of our reporting units on a quarterly basis for indicators of impairment of possible declines in estimated fair value and goodwill impairment.

The fair value of our trademarks are estimated and compared to the carrying value. We estimate the fair value of the intangible assets using the relief-from-royalty method, which requires assumptions related to a projected revenues from our annual operating budgets; assumed royalty rates that could be payable if we did not own the trademarks; and a discount rate. An impairment loss would be recognized if the estimated fair value of the indefinite-lived intangible asset is less than its carrying value.

Based on our results of our impairment test performed on one business in the Interconnect segment as of April 28, 2012, no impairment of trademarks was determined to exist. The fair values of the trademarks tested exceeded their carrying value by approximately 100%.

**Income Taxes.** As part of the process of preparing our Consolidated Financial Statements, we are required to calculate income taxes in each of the jurisdictions in which we operate. The process involves determining actual current tax expense along with assessing temporary differences resulting from differing treatment of items for book and tax purposes. These temporary differences result in deferred tax assets and liabilities, which are included in our consolidated balance sheet. We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. We have considered future taxable income and tax planning strategies in assessing the need for the valuation allowance. The tax laws of Malta provide for investment tax credits of 30% of certain qualified expenditures. Unused credits of \$24.3 million as of April 28, 2012 can be carried forward indefinitely. We have accumulated investment tax credits in excess of amounts more likely than not to be realized based upon projections of taxable income to be generated within a reasonable time period. Valuation allowances of \$17.6 million as of April 28, 2012 have been provided for this excess.

**Contingencies.** We are subject to various investigations, claims, legal and administrative proceedings covering a wide range of matters that arise in the ordinary course of business activities. A significant amount of judgment and use of estimates is required to quantify our ultimate exposure in these matters. For those matters that we can estimate a range of loss, we have established reserves at levels within that range to provide for the most likely scenario based upon available information. The valuation of reserves for contingencies is reviewed on a quarterly basis to assure that the Company is properly reserved. Reserve balances are adjusted to account for changes in circumstances for ongoing issues and the establishment of additional reserves for emerging issues. While we believe that the current level of reserves is adequate, changes in the future could impact these determinations.

#### Item 7A. 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 \$3.4 million and \$3.8 million at April 28, 2012 and April 30, 2011, respectively. We also have foreign currency exposure arising from the translation of our net equity investment in our

foreign operations to U.S. dollars. We generally view our investments in foreign operations with functional currencies other than the U.S. dollar as long-term. The currencies to which we are exposed are the British pound, Chinese yuan, Indian rupee, Mexican peso, Singapore dollar and Swiss Franc. A 10% change in foreign currency exchange rates from balance sheet date levels could impact our net foreign investments by \$21.3 million at April 28, 2012 and \$17.9 million at April 30, 2011.

We are exposed to market risk from changes in interest rates. Our exposure to interest rate risk from our credit agreement, under which we had \$48.0 million of net borrowings at April 28, 2012. We estimate that a one percentage point change in interest rates would not have a material impact on our results of operations for fiscal 2013 based upon our current and expected levels of our debt.

## Table of Contents

### Item 8. Financial Statements and Supplementary Data

See Item 15 for an Index to Financial Statements and Financial Statement Schedule. Such Financial Statements and Schedule are incorporated herein by reference.

### Item 9A. Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this annual report on Form 10-K, we performed an evaluation under the supervision and with the participation of our 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 “Exchange Act”). Our disclosure controls and procedures are designed to ensure that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act 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, our disclosure controls and procedures were effective.

#### Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of April 28, 2012 based on the guidelines established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Our internal control over financial reporting includes policies and procedures that provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

Based on the results of our evaluation, our management concluded that our internal control over financial reporting was effective as of April 28, 2012. Management reviewed the results of its assessment with the Audit Committee. Our independent registered public accounting firm, Ernst and Young LLP, has issued an attestation report on our internal control over financial reporting. This report is included on page F-2 of this annual report on Form 10-K.

#### Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that was conducted during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### Inherent Limitations on Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, do not expect that our disclosure controls or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of

fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by a management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Table of Contents

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information regarding our directors will be included under the captions “Proposal One: Election of Directors” and “Corporate Governance” in the definitive proxy statement for our 2012 annual meeting to be held on September 13, 2012, and is incorporated herein by reference. Information regarding our executive officers is included under a separate caption in Part I hereof, and is incorporated herein by reference, in accordance with General Instruction G(3) to Form 10-K and Instruction 3 to Item 401(b) of Regulation S-K. Information regarding compliance with Section 16(a) of the Exchange Act and information regarding our Audit Committee will be included under the captions “Section 16(a) Beneficial Ownership Reporting Compliance” and “Audit Committee Matters,” respectively, in the definitive proxy statement for our 2012 annual meeting and is incorporated herein by reference.

We have adopted a Code of Business Conduct (the “Code”) that applies to our directors, our principal executive officer, principal financial officer, principal accounting officer or controller and persons performing similar functions, as well as other employees. The Code is publicly available on our website at [www.methode.com](http://www.methode.com). If we make any substantive amendments to the Code or grant any waiver, including any implicit waiver, from a provision of the Code to our principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions, we will disclose the nature of such amendment or waiver on our website or in a report on Form 8-K in accordance with applicable rules and regulations.

Item 11. Executive Compensation

Information regarding the above will be included under the caption “Compensation Discussion and Analysis,” “Compensation Committee Report,” “Executive Compensation Tables” and “Director Compensation” in the definitive proxy statement for our 2012 annual meeting to be held on September 13, 2012, and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information regarding the above will be included under the caption “Security Ownership” in the definitive proxy statement for our 2012 annual meeting to be held on September 13, 2012, and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information regarding the above will be included under the caption “Corporate Governance” in the definitive proxy statement for our 2012 annual meeting to be held on September 13, 2012, and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

Information regarding the above will be included under the caption “Audit Committee Matters” in the definitive proxy statement for our 2012 annual meeting to be held on September 13, 2012, and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) The documents included in the following indexes are filed as part of this annual report on Form 10-K.

(1) (2) The response to this portion of Item 15 is included in this report under the captions “Financial Statements” and “Financial Statement Schedule” below, which is incorporated herein by reference.

(3) See “Index to Exhibits” immediately following the financial statement schedule.

(b) See “Index to Exhibits” immediately following the financial statement schedule.

(c) See “Financial Statements” and “Financial Statement Schedule.”

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant has duly caused this annual report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

METHODE ELECTRONICS, INC.  
(Registrant)

By: /s/ DOUGLAS A. KOMAN  
Douglas A. Koman  
Chief Financial Officer  
(Principal Accounting and Financial Officer)

Dated: June 28, 2012

Edgar Filing: METHODE ELECTRONICS INC - Form 10-K

Pursuant to the requirements of the Securities Exchange Act of 1934, this report annual report on Form 10-K has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s / WARREN L. BATTS Warren L. Batts	Chairman of the Board	June 28, 2012
/s / CHRISTOPHER J. HORNING Christopher J. Hornung	Vice Chairman of the Board	June 28, 2012
/s/ DONALD W. DUDA Donald W. Duda	Chief Executive Officer, President & Director (Principal Executive Officer)	June 28, 2012
/s / DOUGLAS A. KOMAN Douglas A. Koman	Chief Financial Officer	June 28, 2012
/s / WALTER J. ASPATORE Walter J. Aspatore	Director	June 28, 2012
/s/ J. EDWARD COLGATE J. Edward Colgate	Director	June 28, 2012
/s/ DARREN M. DAWSON Darren M. Dawson	Director	June 28, 2012
/s / STEPHEN F. GATES Stephen F. Gates	Director	June 28, 2012
/s / ISABELLE C. GOOSSEN Isabelle C. Goossen	Director	June 28, 2012
/s / PAUL G. SHELTON Paul G. Shelton	Director	June 28, 2012
/s / LAWRENCE B. SKATOFF Lawrence B. Skatoff	Director	June 28, 2012



METHODE ELECTRONICS, INC. AND SUBSIDIARIES

FORM 10-K

ITEM 15 (a) (1) and (2)

(1) Financial Statements

The following consolidated financial statements of Methode Electronics, Inc. and Subsidiaries are included in Item 8:

Report of Independent Registered Public Accounting Firm F-1

Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting F-2

Consolidated Balance Sheets — April 28, 2012 and April 30, 2011 F-3

Consolidated Statements of Operations — Years Ended April 28, 2012, April 30, 2011 and May 1, 2010 F-4

Consolidated Statements of Comprehensive Income — Years Ended April 28, 2012, April 30, 2011 and May 1, 2010 F-5

Consolidated Statements of Shareholders' Equity — Years Ended April 28, 2012, April 30, 2011 and May 1, 2010 F-6

Consolidated Statements of Cash Flows — Years Ended April 28, 2012, April 30, 2011 and May 1, 2010 F-7

Notes to Consolidated Financial Statements F-8

(2) Financial Statement Schedule

Schedule II — Valuation and Qualifying Accounts F-35

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are immaterial and, therefore, have been omitted.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders  
Methode Electronics, Inc.

We have audited the accompanying consolidated balance sheets of Methode Electronics, Inc. and Subsidiaries as of April 28, 2012 and April 30, 2011, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for each of the three fiscal years in the period ended April 28, 2012. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Methode Electronics, Inc. and Subsidiaries at April 28, 2012 and April 30, 2011, and the consolidated results of their operations and their cash flows for each of the three fiscal years in the period ended April 28, 2012, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Methode Electronics, Inc. and Subsidiaries' internal control over financial reporting as of April 28, 2012, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 28, 2012 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Chicago, Illinois  
June 28, 2012

F-1

---

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders  
Methode Electronics, Inc.

We have audited Methode Electronics, Inc. and Subsidiaries' internal control over financial reporting as of April 28, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Methode Electronics, Inc. and Subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Methode Electronics, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of April 28, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Methode Electronics, Inc. and Subsidiaries as of April 28, 2012 and April 30, 2011, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for each of the three fiscal years in the period ended April 28, 2012 and our report dated June 28, 2012 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Chicago, Illinois  
June 28, 2012



METHODE ELECTRONICS, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(in thousands, except share data)

	April 28, 2012	April 30, 2011
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$86,797	\$57,445
Accounts receivable, less allowance (2012 — \$1,279; 2011 — \$1,140)	98,359	88,036
Inventories:		
Finished products	7,001	6,271
Work in process	14,235	10,981
Materials	22,325	21,305
	43,561	38,557
Deferred income taxes	3,529	3,778
Prepaid and refundable income taxes	1,015	851
Prepaid expenses and other current assets	7,172	7,294
<b>TOTAL CURRENT ASSETS</b>	<b>240,433</b>	<b>195,961</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Land	3,135	3,135
Buildings and building improvements	44,051	45,522
Machinery and equipment	230,265	249,597
	277,451	298,254
Less allowances for depreciation	200,299	236,743
	77,152	61,511
<b>OTHER ASSETS</b>		
Goodwill	16,422	16,422
Other intangibles, less accumulated amortization	16,620	18,423
Cash surrender value of life insurance	8,802	10,028
Deferred income taxes	15,072	4,456
Pre-production costs	16,215	14,645
Other	12,932	13,298
	86,063	77,272
<b>TOTAL ASSETS</b>	<b>\$403,648</b>	<b>\$334,744</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$54,775	\$37,152
Salaries, wages and payroll taxes	9,554	8,996
Other accrued expenses	14,964	16,003
Deferred income taxes	9,131	—
Income tax payable	3,453	1,336
<b>TOTAL CURRENT LIABILITIES</b>	<b>91,877</b>	<b>63,487</b>
<b>LONG-TERM DEBT</b>	<b>48,000</b>	<b>—</b>
<b>OTHER LIABILITIES</b>	<b>3,413</b>	<b>5,619</b>
<b>DEFERRED COMPENSATION</b>	<b>4,801</b>	<b>4,494</b>
<b>NON-CONTROLLING INTEREST</b>	<b>333</b>	<b>—</b>
<b>SHAREHOLDERS' EQUITY</b>		
Common stock, \$0.50 par value, 100,000,000 shares authorized, 38,375,678 and 38,312,243 shares issued as of April 28, 2012 and April 30, 2011, respectively	19,188	19,156
Additional paid-in capital	77,652	72,113

Edgar Filing: METHODE ELECTRONICS INC - Form 10-K

Accumulated other comprehensive income	15,573	23,152
Treasury stock, 1,342,188 as of April 28, 2012 and April 30, 2011	(11,377	) (11,377 )
Retained earnings	154,008	155,989
<b>TOTAL METHODE ELECTRONICS, INC. SHAREHOLDERS' EQUITY</b>	<b>255,044</b>	<b>259,033</b>
Noncontrolling interest	180	2,111
<b>TOTAL EQUITY</b>	<b>255,224</b>	<b>261,144</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$403,648</b>	<b>\$334,744</b>

See notes to consolidated financial statements.

F-3

---

METHODE ELECTRONICS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

	Fiscal Year Ended			
	April 28, 2012	April 30, 2011	May 1, 2010	
Net sales	\$465,095	\$428,215	\$377,646	
Cost of products sold	381,981	339,042	297,711	
Gross margins	83,114	89,173	79,935	
Restructuring	—	(21	) 7,770	
Selling and administrative expenses	69,946	70,848	62,427	
Amortization of intangibles	1,811	2,402	2,297	
Income from operations	11,357	15,944	7,441	
Interest (income)/expense, net	(288	) 198	139	
Other (income)/expense, net	272	1,284	(515	)
Income before income taxes	11,373	14,462	7,817	
Income tax expense/(benefit)	3,236	(4,076	) (5,964	)
Income from continuing operations	8,137	18,538	13,781	
Gain on sale of discontinued operation, net of tax (\$4,148 less taxes of \$3,493)	—	655	—	
Net income	8,137	19,193	13,781	
Less: Net income/(loss) attributable to noncontrolling interest	(246	) (307	) 126	
NET INCOME ATTRIBUTABLE TO METHODE ELECTRONICS, INC.	\$8,383	\$19,500	\$13,655	
Basic income per share:				
Continuing operations	\$0.22	\$0.51	\$0.37	
Discontinued operations	\$—	\$0.02	\$—	
Basic income per share	\$0.22	\$0.53	\$0.37	
Diluted income per share:				
Continuing operations	\$0.22	\$0.50	\$0.37	
Discontinued operations	\$—	\$0.02	\$—	
Diluted income per share	\$0.22	\$0.52	\$0.37	
Cash dividends per share:				
Common stock	\$0.28	\$0.28	\$0.28	

See notes to consolidated financial statements.





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

	Fiscal Year Ended		
	April 28, 2012	April 30, 2011	May 1, 2010
Net income	\$8,137	\$19,193	\$13,781
Foreign currency translation adjustment	(7,579)	) 7,187	682
Comprehensive income	558	26,380	14,463
Less: Comprehensive income/(loss) attributable to non-controlling interest	(256)	) (25	) 236
Comprehensive income attributable to Methode shareholders	\$814	\$26,405	\$14,227

See notes to consolidated financial statements.

F-5

---

METHODE ELECTRONICS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years Ended April 28, 2012, April 30, 2011 and May 1, 2010 - (Dollar amounts in thousands, except share data)

	Common Stock Shares	Common Stock \$	Unearned Common Stock Issuances	Additional Paid-in Capital	Accumulated Other Comprehen- sive Income	Treasury Stock	Retained Earnings	Non-Controlling Interest	Total Shareholders' Equity
Balance at May 2, 2009	38,290,776	\$ 19,145	\$(3,632)	\$ 68,506	\$ 15,675	\$(11,495)	\$ 143,577	\$ 3,125	\$ 234,901
Cancellation of shares pursuant to acquisition	(239,695 )	(120 )	3,307	(3,187 )	—	—	—	—	—
Release of restriction pursuant to acquisition	—	—	325	—	—	—	—	—	325
Earned portion of restricted stock awards	62,140	31	—	(31 )	—	—	—	—	—
Stock award and stock option amortization expense	—	—	—	871	—	—	—	—	871
Vested stock awards withheld for payroll taxes	(10,923 )	(5 )	—	(99 )	—	—	—	—	(104 )
Exercise of options	17,648	9	—	176	—	—	—	—	185
Treasury shares issued for minority shares purchased	30,000	15	—	(214 )	—	118	—	—	(81 )
Purchase of non-controlling interest in Hetric Asia	—	—	—	—	—	—	—	150	150
Sale of minority interest in Hetric Asia	—	—	—	—	—	—	—	(324 )	(324 )
Tax expense from stock options	—	—	—	(31 )	—	—	—	—	(31 )
Foreign currency translation adjustments	—	—	—	—	572	—	—	111	683
Net income for year	—	—	—	—	—	—	13,655	126	13,781
Cash dividends on common stock	—	—	—	—	—	—	(10,414 )	—	(10,414 )

Edgar Filing: METHODE ELECTRONICS INC - Form 10-K

Balance at May 1, 2010	38,149,946	\$ 19,075	\$—	\$ 65,991	\$ 16,247	\$(11,377)	\$ 146,818	\$ 3,188	\$ 239,942
Earned portion of restricted stock awards	47,600	24	—	(46 )	—	—	—	—	(22 )
Stock award and stock option amortization expense	—	—	—	3,006	—	—	—	—	3,006
Vested stock awards withheld for payroll taxes	(5,378 )	(3 )	—	3	—	—	—	—	—
Exercise of options	150,075	75	—	953	—	—	—	—	1,028
Treasury shares issued for minority shares purchased	(30,000 )	(15 )	—	15	—	—	—	—	—
Purchase of non-controlling interest - Hetronic Swiss	—	—	—	—	—	—	—	29	29
Sale of Optokon	—	—	—	—	(4,057 )	—	—	(3,256 )	(7,313 )
Purchase of Eetrex	—	—	—	2,191	—	—	—	2,175	4,366
Foreign currency translation adjustments	—	—	—	—	10,962	—	—	282	11,244
Net income/(loss) for year	—	—	—	—	—	—	19,500	(307 )	19,193
Cash dividends on common stock	—	—	—	—	—	—	(10,329 )	—	(10,329 )
Balance at April 30, 2011	38,312,243	\$ 19,156	\$—	\$ 72,113	\$ 23,152	\$(11,377)	\$ 155,989	\$ 2,111	\$ 261,144
Earned portion of restricted stock awards	32,860	18	—	(28 )	—	—	—	—	(10 )
Stock award and stock option amortization expense	—	—	—	3,976	—	—	—	—	3,976
Vested stock awards withheld for payroll taxes	(1,400 )	(2 )	—	2	—	—	—	—	—
Exercise of options	31,975	16	—	247	—	—	—	—	263
Purchase of Eetrex	—	—	—	1,342	—	—	—	(1,342 )	—
Transfer non-controlling interest in Eetrex	—	—	—	—	—	—	—	(615 )	(615 )

to mezzanine equity									
Foreign currency translation adjustments	—	—	—	—	(7,579 )	—	—	(10 )	(7,589 )
Net income/(loss) for year	—	—	—	—	—	—	8,383	36	8,419
Cash dividends on common stock	—	—	—	—	—	—	(10,364 )	—	(10,364 )
Balance at April 28, 2012	38,375,678	\$19,188	\$—	\$77,652	\$15,573	\$(11,377)	\$154,008	\$180	\$255,224
See notes to consolidated financial statements									

F-6

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

	Fiscal Year Ended			
	April 28, 2012	April 30, 2011	May 1, 2010	
<b>OPERATING ACTIVITIES</b>				
Net income	\$8,137	\$19,193	\$13,781	
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:				
Loss on sale of fixed assets	118	73	—	
Gain on the sale of discontinued business	—	(4,148	) —	
Gain on investment in business	—	(165	) —	
Gain on bargain purchase	(255	) —	—	
Provision for depreciation	14,348	13,354	17,112	
Amortization of intangible assets	1,811	2,402	2,297	
Impairment of tangible assets	—	1,299	710	
Stock-based compensation	3,976	3,006	871	
Provision for bad debt	495	249	142	
Deferred income taxes	(1,939	) (5,207	) 3,992	
Changes in operating assets and liabilities:				
Accounts receivable	(13,525	) (17,846	) (12,436	)
Inventories	(3,278	) (8,710	) 645	)
Prepaid expenses and other current assets	(10,255	) 13,841	(39	)
Accounts payable and accrued expenses	25,192	(301	) 291	)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>24,825</b>	<b>17,040</b>	<b>27,366</b>	
<b>INVESTING ACTIVITIES</b>				
Purchases of property, plant and equipment	(25,744	) (15,223	) (9,379	)
Acquisition of businesses	(6,353	) (2,470	) (325	)
Acquisition of technology licenses	—	—	(530	)
Proceeds from life insurance policies	—	1,515	2,464	)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(32,097</b>	<b>) (16,178</b>	<b>) (7,770</b>	<b>)</b>
<b>FINANCING ACTIVITIES</b>				
Proceeds from exercise of stock options	263	1,028	185	
Tax expense from stock options and awards	—	—	(31	)
Cash dividends	(10,364	) (10,329	) (10,414	)
Proceeds from borrowings	52,000	—	—	
Repayment of borrowings	(4,000	) —	—	
<b>NET CASH PROVIDED BY/ (USED IN) FINANCING ACTIVITIES</b>	<b>37,899</b>	<b>(9,301</b>	<b>) (10,260</b>	<b>)</b>
Effect of foreign currency exchange rate changes on cash	(1,275	) 2,063	455	
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>29,352</b>	<b>(6,376</b>	<b>) 9,791</b>	
Cash and cash equivalents at beginning of year	57,445	63,821	54,030	
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$86,797</b>	<b>\$57,445</b>	<b>\$63,821</b>	

See notes to consolidated financial statements.



METHODE ELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share data)

1. Significant Accounting Policies

**Principles of Consolidation.** The consolidated financial statements include the accounts and operations of Methode Electronics, Inc. and its subsidiaries (the "Company"). As used herein, "we," "us," "our," the "Company" or "Methode" means Methode Electronics, Inc. and its Subsidiaries.

**Financial Reporting Periods.** We maintain our financial records on the basis of a fifty-two or fifty-three week fiscal year ending on the Saturday closest to April 30. Fiscal 2012, 2011 and 2010 all represent fifty-two weeks of results.

**Cash Equivalents.** All highly liquid investments with a maturity of three months or less when purchased are carried at their fair value and classified in the consolidated balance sheets as cash equivalents.

**Accounts Receivable and Allowance for Doubtful Accounts.** We carry accounts receivable at their face amounts less an allowance for doubtful accounts. On a regular basis, we record an allowance for uncollectible receivables based upon past transaction history with customers, customer payment practices and economic conditions. Actual collection experience may differ from the current estimate of net receivables. A change to the allowance for uncollectible amounts may be required if a future event or other change in circumstances results in a change in the estimate of the ultimate collectability of a specific account. We do not require collateral for our accounts receivable balances. Accounts are written off against the allowance account when they are determined to be no longer collectible.

**Inventories.** Inventories are stated at the lower-of-cost (first-in, first-out method) or market.

**Property, Plant and Equipment.** Properties are stated on the basis of cost. We amortize such costs by annual charges to income, computed on the straight-line method using estimated useful lives of 5 to 40 years for buildings and improvements and 3 to 15 years for machinery and equipment for financial reporting purposes. Accelerated methods are generally used for income tax purposes. We wrote off \$39,082 of fully-depreciated gross property, plant and equipment during fiscal 2012.

**Income Taxes.** Deferred tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

**Revenue Recognition.** We recognize revenue on product sales when i) persuasive evidence of an agreement exists, ii) the price is fixed or determinable, iii) delivery has occurred or services have been rendered, and iv) collection of the sales proceeds is reasonably assured. Revenue from our product sales not requiring installation, net of trade discounts and estimated sales allowances, is recognized when title passes, which is generally upon shipment. Revenue from cabling infrastructure systems installations is recognized when the installation is completed, tested and accepted by the customer. We do not have any additional obligations or customer acceptance provisions after shipment of such products. We handle returns by replacing, repairing or issuing credit for defective products when returned. Return costs were not significant in fiscal 2012, 2011 or 2010.

**Shipping and Handling Fees and Costs.** Shipping and handling fees billed to customers are included in net sales, and the related costs are included in cost of products sold.

Foreign Currency Translation. The functional currencies of the majority of our foreign subsidiaries are in their local currencies. The results of operations of these foreign subsidiaries are translated into U.S. dollars using average exchange rates during the year, while the assets and liabilities are translated using period-end exchange rates. Adjustments from the translation process are classified as a component of shareholders' equity. Exchange gains and losses arising from transactions denominated in a currency other than the functional currency of the foreign subsidiary are included in the Consolidated Statements of Operations in other, net. In fiscal 2012, 2011 and 2010, we had foreign exchange losses of \$991, \$2,280 and \$1,151, respectively.

Long-Lived Assets. We continually evaluate whether events and circumstances have occurred which indicate that the remaining estimated useful lives of our intangible assets, excluding goodwill, and other long-lived assets, may warrant revision or that the remaining balance of such assets may not be recoverable. In the event that the undiscounted cash flows resulting

F-8

---



METHODE ELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share data)

from the use of the asset group is less than the carrying amount, an impairment loss equal to the excess of the asset's carrying amount over its fair value is recorded.

**Goodwill and Intangibles.** Goodwill represents the excess of cost over fair market value of identifiable net assets acquired through business purchases. In accordance with FASB ASC Topic 350 - Intangibles-Goodwill and Other, we review goodwill for impairment on at least an annual basis by applying a fair-value-based test. In evaluating the recoverability of the carrying value of goodwill, we must make assumptions regarding the fair value of our reporting units, as defined under FASB ASC Topic 350. Goodwill is evaluated using a two-step impairment test at the reporting unit level. The first step compares the book value of a reporting unit, including goodwill, with its fair value, as determined by its discounted cash flows. If the book value of a reporting unit exceeds its fair value, we complete the second step to determine the amount of goodwill impairment loss that we should record. In the second step, we determine an implied fair value of the reporting unit's goodwill by allocating the fair value of the reporting unit to all of the assets and liabilities other than goodwill (including any unrecognized intangible assets). The amount of impairment loss is equal to the excess of the book value of the goodwill over the implied fair value of goodwill. In performing our annual review of goodwill balances for impairment, we estimate the fair value of each of our reporting units based on projected future operating results and cash flows, market assumptions and comparative market multiple methods. Determining fair value requires significant estimates and assumptions based on an evaluation of a number of factors, such as marketplace participants, relative market share, future expansion or contraction expectations, amount and timing of future cash flows and the discount rate applied to the cash flows. Projected future operating results and cash flows used for valuation purposes may reflect considerable improvements relative to historical periods with respect to, among other things, revenue growth and operating margins. Although we believe our projected future operating results and cash flows and related estimates regarding fair values are based on reasonable assumptions, historically projected operating results and cash flows have not always been achieved. The failure of one of our reporting units to achieve projected operating results and cash flows in the near term or long term may reduce the estimated fair value of the reporting unit below its carrying value and result in the recognition of a goodwill impairment charge. Significant management judgment is necessary to evaluate the impact of operating and macroeconomic changes and to estimate future cash flows. Assumptions used in our impairment evaluations, such as forecasted growth rates and our cost of capital, are based on the best available market information and are consistent with our internal forecasts and operating plans. In addition to cash flow estimates, our valuations are sensitive to the rate used to discount cash flows and future growth assumptions.

**Research and Development Costs.** Costs associated with the enhancement of existing products and the development of new products are charged to expense when incurred. Research and development costs for the fiscal years ended April 28, 2012, April 30, 2011 and May 1, 2010 amounted to \$20,360, \$19,506 and \$18,412, respectively.

**Stock-Based Compensation.** See Note 5, Shareholders' Equity for a description of our stock-based compensation plans.

**Use of Estimates.** The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Fair Value of Other Financial Instruments.** The carrying values of our short-term financial instruments, including cash and cash equivalents, accounts receivable and accounts payable approximate their fair values because of the short

maturity of these instruments.

#### Recently Adopted Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU"), 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. Generally Accepted Accounting Principles, ("GAAP") and International Financial Reporting Standards, ("IFRS"), which results in common fair value measurement and disclosure requirements in U.S. GAAP and IFRS. Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011,

F-9

---

METHODE ELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share data)

which was our fiscal 2012 fourth quarter which began January 29, 2012. The adoption of this standard did not have a material impact on our financial statements.

In June 2011, the FASB issued ASU No. 2011-05, "Comprehensive Income", which requires companies to present the components of net income and other comprehensive income either as one continuous statement or as two consecutive statements. It eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. We adopted this pronouncement for fiscal 2012, which began on May 1, 2011. The adoption of ASU No. 2011-05 did not have a material impact on our financial statements.

In October 2009, the FASB, issued ASU, 2009-13, "Revenue Recognition - Multiple-Deliverable Revenue Arrangements - a consensus of the FASB Emerging Issues Task Force," which amends FASB Accounting Standards Codification ("ASC") 605, "Revenue Recognition", by modifying the criteria used to separate elements in a multiple-element arrangement, introducing the concept of "best estimate of selling price" for determining the selling price of a deliverable, requiring use of the relative selling price method and prohibiting use of the residual method to allocate arrangement consideration among units of accounting, and expanding the disclosure requirements for all multiple-element arrangements within the scope of FASB ASC 605-25. The amended guidance is effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, which is our 2012 fiscal year that began May 1, 2011. The adoption of this guidance did not have a material impact on our financial statements.

In December 2010, the FASB issued authoritative guidance regarding ASC No. 805, "Business Combinations," on the disclosure of supplementary pro forma information for business combinations. ASC No. 805 requires a public entity to disclose pro forma information for business combinations that occurred in the current reporting period. The disclosures include pro forma revenue and earnings of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period. This guidance specifies that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combinations that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. This guidance is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after May 1, 2011, the beginning of our 2012 fiscal year. The adoption of this guidance did not have a material impact on our financial statements.

#### Recently Issued Accounting Pronouncements

In September 2011, the FASB issued ASU 2011-08, "Intangibles - Goodwill and Other." The objective of this standard is to simplify how entities test goodwill for impairment. This standard permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The standard is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, which will be our fiscal year 2013, that began on April 29, 2012. The adoption of ASU 2011-08 is not expected to have a material impact on our financial statements.

## 2. Restructuring

During fiscal 2010, we recorded a restructuring charge of \$7,770, which consisted of \$4,209 for employee severance, \$279 in the cancellation of lease agreements, \$1,564 for accelerated depreciation for buildings and equipment and \$1,718 for other costs.

As of April 30, 2011, we had an accrued restructuring liability of \$280 reflected in the current liabilities section of our consolidated balance sheet. This liability was paid during fiscal 2012.

F-10

---

## METHODE ELECTRONICS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share data)

The table below reflects the activity related to restructuring for fiscal 2012, 2011 and 2010.

	One-Time Employee Severance	Asset Write-Downs	Other Costs	Total
Accrued balance at May 2, 2009	\$217	\$—	\$79	\$296
FY 2010 restructuring charges	4,209	1,564	1,997	7,770
Payments and asset write-downs	(4,309)	) (1,564	) (1,656	) (7,529)
Accrued balance at May 1, 2010	\$117	\$—	\$420	\$537
FY 2011 restructuring reversals	(21)	) —	—	(21)
Fiscal 2011 payments	(96)	) —	(140)	) (236)
Accrued balance at April 30, 2011	\$—	\$—	\$280	\$280
Payments	—	—	(280)	) (280)
Accrued balance at April 28, 2012	\$—	\$—	\$—	\$—

## 3. Acquisitions and Divestitures

## Fiscal 2012 Acquisitions

At the beginning of fiscal 2012, we had an investment in Eetrex Incorporated of \$2,720, representing ownership of 70% of their stock. Eetrex is located in Boulder, Colorado and is a developer and manufacturer of stationary storage chargers, inverters and battery systems for the transportation, telecommunications and computing industries. In July 2011 and October 2011, we paid an additional \$600 and \$480, respectively, and acquired an additional 20% of their stock, for a total ownership interest of 90%. Each of the other stockholders of Eetrex has the right to exercise put options, requiring us to purchase their remaining shares after the end of fiscal 2014 or 2016, and we will have an option to purchase any remaining shares after the end of fiscal 2016. The purchase price will be based on a percentage of net sales recorded in either fiscal 2014 or fiscal 2016 of between 2.0% and 2.5%. In accordance with ASC 480, "Distinguishing Liabilities from Equity," our non-controlling interest previously reported in equity has been reclassified to "mezzanine equity" as the ability to exercise the remaining 10% put option is now outside of our control. The calculated redemption amount is presently below the recorded carrying value of the noncontrolling interest. However, future adjustments to our non-controlling interest may be required which could affect earnings per share. The accounts and transactions of Eetrex have been included in the Power Products segment in the consolidated financial statements since March 2011, the date which control was obtained.

During fiscal 2012, we transferred \$615 to mezzanine equity. In addition, a net loss of \$282 attributable to the noncontrolling interest was recorded, resulting in a mezzanine equity balance of \$333 at April 28, 2012.

On September 9, 2011, we acquired certain assets and liabilities of Nypro Monterrey, S. de R.L. (Nypro Monterrey) from Nypro Inc. for \$6,353. We operate this injection molding and painting business under the name of Advanced Molding and Decoration, S.A. de C.V. (AMD), and it has become a part of our existing Monterrey manufacturing campus. AMD operates a state-of-the-art facility, which provides us with high-quality injection molding, painting and decorating capabilities. The AMD assets include 52 injection mold machines, three paint lines and several pad print machines. In addition, 228 employees from Nypro Monterrey were transferred to us as part of the acquisition.

F-11

---

METHODE ELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share data)

Based on a third-party valuation report, management determined that the business had a fair value of \$6,608, consisting primarily of fixed assets and inventory. We recorded a gain of \$255 in the second quarter of fiscal 2012 related to the transaction, in other income, which represents the amount paid for the assets, compared to the fair market value at the time of acquisition due to the distressed nature of the business. The accounts and transactions of AMD have been included in the Automotive segment in the consolidated financial statements from the effective date of the acquisition. The proforma impact of this acquisition as if it were made at the beginning of the earliest period presented would not have had a material impact on the historical reported results of the Company.

Fiscal 2011 Acquisitions

In May 2010, we paid \$1,000 for an 15% equity investment in Eetrex to facilitate our entry into the electric vehicle market. In March 2011, we paid an additional \$1,070, for a total investment of \$2,070, to acquire an additional 36% of the stock of Eetrex. In April 2011, we paid an additional \$650 and acquired an additional 19% of their stock, for a total 70% ownership. In March 2011, we recognized a gain of \$165 on our initial investment of \$1,000, at the date control was obtained.

Based on a third-party valuation report, management determined that 100% of the net assets of Eetrex had a fair value of \$6,600 as of the date that control was obtained in March 2011. Additionally in March 2011, we also recorded \$3,234 of non-controlling interest related to the transaction. The fair values assigned to intangible assets acquired were \$2,000 for the technology valuation, and tangible net assets of \$274, resulting in \$4,326 of goodwill. The technology valuation will be amortized over 10 years. We do not expect any of the goodwill of \$4,326 to be deductible for income tax purposes.

Fiscal 2011 Divestitures

In March 2011, we sold our 75% ownership interest in Optokon, a manufacturer of optical cabling and test equipment, located in the Czech Republic, to the minority shareholder for \$9,950. The net assets of our 75% ownership interest had a book value of \$9,859. We recorded a gain of \$4,148 related to sale of the net assets, primarily attributable to the cumulative translation gains since the date of the initial investment. We recorded income taxes related to the sale of \$3,493, resulting in a gain net of taxes of \$655. We received \$5,896 in cash as well as a collateralized note for \$4,054. The note is a 15-year, interest bearing note.

We concluded the Optokon results of operations for fiscal 2011 and 2010 were not material to the consolidated or segment level financial statements for those periods presented to be separately reported as a discontinued operations in accordance with ASC 205-20, "Presentation of Financial Statements".

4. Intangible Assets and Goodwill

As of April 28, 2012, we had goodwill of \$11,146 for one business in the Interconnect segment and goodwill of \$5,276 for two businesses in the Power Products segment, for a total of \$16,422. The fair values of reporting units exceeded their carrying values by approximately 50% to 200%. The assumptions used in the valuation of these reporting units were made using management's best projections. We continue to monitor the operating results and cash flows of our reporting units on a quarterly basis for signs of possible declines in estimated fair value and goodwill impairment.

The fair value of our trademarks are estimated and compared to the carrying value. We estimate the fair value of the intangible assets using the relief-from-royalty method, which requires assumptions related to a projected revenues from our annual operating budgets; assumed royalty rates that could be payable if we did not own the trademarks; and a discount rate. An impairment loss would be recognized if the estimated fair value of the indefinite-lived intangible asset is less than its carrying value. Based on our results of our impairment test performed on one business in the Interconnect segment as of April 28, 2012, no impairment was determined to exist. The fair values of the trademarks tested exceeded their carrying value by approximately 100%.

F-12

---



## METHODE ELECTRONICS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share data)

Goodwill increased \$4,326 in fiscal 2011 related to the purchase a controlling interest in Eetrex. See Note 3 for more information.

Goodwill increased \$325 in fiscal 2010 related to a final payout for the 2005 acquisition of Cableco Technologies Corporation. We had originally issued 623,526 shares of restricted common stock in connection with the contingent payments related to this transaction. The contingent payments were to be earned if certain operational and financial milestones were met, depending on certain factors. In fiscal 2010, the sellers earned 27,567 of the restricted shares. Since acquisition, including the 27,567 shares earned in fiscal 2010, the sellers earned a total of 383,831 of the restricted shares. The remaining 239,695 restricted shares were canceled in fiscal 2010.

The following table shows the roll-forward of goodwill in the financial statements resulting from our acquisition activities for fiscal 2011 and 2010. There was no goodwill activity during fiscal 2012.

	Interconnect	Power Products	Total
Balance as of May 2, 2009	\$ 11,146	\$ 625	\$ 11,771
Adjustments due to earn-out	—	325	325
Balance as of May 1, 2010	\$ 11,146	\$ 950	\$ 12,096
Attributable to 2011 acquisitions	—	4,326	4,326
Balance as of April 30, 2011	\$ 11,146	\$ 5,276	\$ 16,422
No activity	—	—	—
Balance as of April 28, 2012	\$ 11,146	\$ 5,276	\$ 16,422

## Intangible Assets

The following tables present details of our remaining identifiable intangible assets:

	As of April 28, 2012			Wtd. Avg. Remaining Amortization Periods (Years)
	Gross	Accumulated Amortization	Net	
Customer relationships and agreements	\$ 14,995	\$ 13,720	\$ 1,275	11.7
Trade names, patents and technology licenses	25,774	10,429	15,345	11.8
Covenants not to compete	480	480	—	—
Total	\$ 41,249	\$ 24,629	\$ 16,620	
	As of April 30, 2011			Wtd. Avg. Remaining Amortization
	Gross	Accumulated Amortization	Net	

Edgar Filing: METHODE ELECTRONICS INC - Form 10-K

				Periods (Years)
Customer relationships and agreements	\$14,995	\$13,417	\$1,578	12.7
Trade names, patents and technology licenses	25,774	8,978	16,796	12.4
Covenants not to compete	480	431	49	0.8
Total	\$41,249	\$22,826	\$18,423	

F-13

---

## METHODE ELECTRONICS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share data)

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

2013	\$1,525
2014	1,481
2015	1,469
2016	1,317
2017	1,302

As of April 28, 2012, the trade names, patents and technology licenses include \$1,800 of trade names that are not subject to amortization.

#### 5. Shareholders' Equity

**Preferred Stock.** We have 50,000 authorized shares of Series A Junior Participating Preferred Stock, par value \$100 per share, of which none were outstanding during any of the periods presented.

**Common Stock.** The number of shares of common stock, par value \$0.50 per share, authorized, issued and in treasury, was as follows:

	April 28, 2012	April 30, 2011
Authorized	100,000,000	100,000,000
Issued	38,375,678	38,312,243
In treasury	1,342,188	1,342,188

#### Dividends

We paid quarterly dividends totaling \$10,364, \$10,329 and \$10,414 during fiscal 2012, 2011 and 2010, 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.

#### 2010 Stock Plan

The 2010 Stock Plan permits a total of 2,000,000 shares of our common stock to be awarded to participants in the form of nonqualified stock options, incentive stock options, restricted stock awards, restricted stock units, stock appreciation rights, and performance share units. The 2010 Stock Plan is designed to allow for "performance-based compensation" under Section 162(m) of the Internal Revenue Code of 1986, as amended ("Code"). As such, qualified awards payable pursuant to the 2010 Stock Plan should be deductible for federal income tax purposes under most circumstances. As of April 28, 2012, there were 716,000 shares still available for award under the 2010 Stock Plan.

#### Stock Options Awarded Under the 2010 Stock Plan

During each of fiscal 2012 and fiscal 2011, the Compensation Committee approved the award of options to purchase 128,000 shares of our common stock to our executive officers. The stock options have a ten-year term and will vest 33.3% each year over a three-year period. The exercise price is the closing price on the date granted.

F-14

---

## METHODE ELECTRONICS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share data)

The following tables summarize the stock option activity and related information for the stock options granted under the 2010 Stock Plan for fiscal 2012 and 2011:

	Summary of Option Activity	
	Shares	Wtd. Avg. Exercise Price
Outstanding at May 1, 2010	—	\$ —
Awarded	128,000	9.24
Exercised	—	—
Cancelled	—	—
Outstanding at April 30, 2011	128,000	\$ 9.24
Awarded	128,000	\$ 10.70
Exercised	—	—
Cancelled	(16,000)	9.97
Outstanding at April 28, 2012	240,000	\$ 9.97

Options Outstanding  
at April 28, 2012

Shares	Exercise Price	Avg. Remaining Life (Years)
120,000	\$9.24	8.5
120,000	\$10.70	9.2
240,000	\$9.97	

Options Exercisable  
at April 28, 2012

Shares	Exercise Price	Avg. Remaining Life (Years)
40,000	\$9.24	8.5

The options outstanding had no intrinsic value at April 28, 2012. The intrinsic value represents the total pre-tax intrinsic value (the difference between the Company's closing stock price on the last trading day of fiscal 2012 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all options holders exercised their options on April 28, 2012. Since the April 28, 2012 closing stock price was lower than the average exercise prices, the options had no intrinsic value.

We estimated the fair value of these stock options on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	2010 Stock Plan			
	Fiscal 2012	Fiscal 2011		
Average expected volatility	52.76	% 85.83	%	
Average risk-free interest rate	0.63	% 0.60	%	
Dividend yield	2.66	% 3.49	%	
Expected life of options	7.03 years	7.03 years		
Weighted-average grant-date fair value	\$4.27	\$5.19		

Expected volatility was based on the monthly changes in our historical common stock prices over the expected life of the award. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of the grant corresponding to the expected life of the options. Our dividend yield is based on the average dividend yield for the previous two years from the date of grant. The expected life of options is based on historical stock option exercise patterns and the terms of the options.

F-15

---

METHODE ELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share data)

Restricted Stock Awards and Restricted Stock Units Awarded Under the 2010 Stock Plan

During fiscal 2012, our Compensation Committee awarded 100,000 shares of common stock subject to performance-based restricted stock awards ("RSAs") to certain non-executive members of management during the second quarter of fiscal 2012. The performance measure is the Company's internal enterprise value at the end of fiscal 2015. The internal enterprise value shall equal the product of (i) fiscal 2015 EBITDA and (ii) 7.5 (the historic multiple of EBITDA), subject to an adjustment for cash, short-term investments, debt, preferred stock, certain equity issuances, certain acquisitions and the changes in the dividend rate. The restricted stock awards will vest, i.e., the restrictions will lapse, one-third as of the end of fiscal 2015, one-third as of the end of fiscal 2016 and the final one-third as of the end of fiscal 2017, based on the enterprise value as of the end of fiscal 2015, to the extent the performance goals have been achieved and provided the employee remains employed. The remaining shares will be forfeited.

During fiscal 2011, the Compensation Committee awarded 640,000 shares of RSAs to certain executive officers. The performance measure will be the Company's internal enterprise value at the end of fiscal 2015. The internal enterprise value shall equal the product of (i) fiscal 2015 EBITDA and (ii) 7.5 (the historic multiple of EBITDA), subject to an adjustment for cash, short-term investments, debt, preferred stock, certain equity issuances, certain acquisitions and the changes in the dividend rate. The restricted stock awards will vest, i.e., the restrictions will lapse, at the end of fiscal 2015 to the extent the performance goals have been achieved. The remaining shares will be forfeited.

During fiscal 2011, our Compensation Committee awarded 320,000 shares of common stock subject to time-based restricted stock units ("RSUs") to certain executive officers. The restricted stock units will vest 20% each year on the last day of our fiscal year and be 100% vested on the last day of fiscal 2015, provided the executive remains employed. The shares of common stock underlying the vested RSUs will not be delivered to the employee until after the employee terminates employment from the Company.

Below are key elements related to the stock options, performance-based restricted stock awards and time-based restricted stock units issued in fiscal 2012 and 2011 under the 2010 Stock Plan:

**Bonus in Lieu of Dividends** - For the performance-based restricted stock awards, bonuses in lieu of dividends will not be paid until the restrictions lapse (i.e., not in first 5 years). At such time as the restrictions lapse, the executive will be paid a "dividend catch-up" bonus calculated based on the dividends declared during the restricted period and the number of shares earned. For the time-based restricted stock units, once the restricted stock units vest and until the shares are delivered, the executive will be paid a quarterly bonus in lieu of dividends calculated based on declared dividends and the total number of vested restricted stock units held.

**Tandem Cash Award** - The executives were also granted RSA Tandem Cash Awards. These cash incentive awards will become payable if performance under the RSAs described above exceeds target performance. If the performance measure target for the RSAs is exceeded, the amount payable under the RSA tandem cash bonus will equal the product of the closing price of our common stock as of May 1, 2015 and the number of shares awarded to such executive officer not to exceed 40% of the awarded shares.

**Change of Control (Performance-based Restricted Stock Awards)** - In the event of a change of control, employee shall vest in the percentage of restricted shares that, extrapolated from the Company's external enterprise value as of the date of the change of control, would have vested on the vesting date. External enterprise value equals the fair market

value per share of the Company's common stock as determined by the bona fide offer for the Company's common stock causing the change of control.

Change of Control (Time-based Restricted Stock Units) - In the event of a change in control prior to the end of the 5-year period, the vesting accelerates and the restrictions on any unvested shares will lapse.

Change of Control (Stock Options) - In the event of a change in control, the vesting of all outstanding option awards will be accelerated.

F-16

---



## METHODE ELECTRONICS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share data)

The following table summarizes the RSA and RSU activity for fiscal 2012 and 2011 under the 2010 Stock Plan:

			RSA Shares	RSU Shares	
Unvested and unissued at May 1, 2010			—	—	
Awarded			640,000	320,000	
Vested			—	(64,000)	)
Forfeited and Cancelled			—	—	
Unvested and unissued at April 30, 2011			640,000	256,000	
Awarded			100,000	—	
Vested			—	(60,000)	)
Forfeited and Cancelled			—	(16,000)	)
Unvested and unissued at April 28, 2012			740,000	180,000	
			Weighted	Probable	Target
			Average Value	Unearned	Unearned
				Compensation	Compensation
Grant Fiscal	Number of	Vesting Period		Expense at	Expense at
Year	Shares			April 28, 2012	April 28, 2012
2011	640,000	5-year RSA cliff, performance based	\$9.70	\$3,886	\$3,886
2011	320,000	5-year RSU, equal annual installments	9.70	955	N/A
2012	100,000	One-third per year, beginning in fiscal 2015, performance based	8.10	648	648

## 2007 Stock Plan

The 2007 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 canceled or forfeited as to any number of shares of common stock, new awards may be granted 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 April 28, 2012, there were 247,321 shares still available for award under the 2007 Stock Plan.

Upon adoption of the 2010 plan, the Board of Directors has determined that the 2007 Stock Plan will only be used for equity awards to our independent directors and non-executive employees.

## Stock Options Awarded Under the 2007 Stock Plan

In fiscal 2012, our Compensation Committee awarded options to purchase 52,500 shares of our common stock to certain non-executive members of the management team that vest one-third per year on each anniversary of the date of the grant. The stock options awarded under the 2007 Stock Plan have a ten-year term. The exercise price is the closing price on the date granted.

In fiscal 2011, the Compensation Committee approved the award of options to purchase 125,000 shares of our common stock to certain non-executive members of the management team that vest on the third anniversary of the date of grant. The stock options awarded under the 2007 Stock Plan have a ten-year term.

In fiscal 2010, the Compensation Committee approved the award of options to purchase 275,000 shares of our common stock to our executive officers and other members of management. The awards vest one-third per year on each anniversary of the date of grant. Additionally, the Compensation Committee approved the award of options to purchase 35,500 shares of our common stock to some members of the management team that vest on the third anniversary of the date of grant.

F-17

---

## METHODE ELECTRONICS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share data)

The following tables summarize the stock option activity and related information for the stock options granted under the 2007 Stock Plan as of April 28, 2012:

	Summary of Option Activity	
	Shares	Wtd. Avg. Exercise Price
Outstanding at May 2, 2009	285,000	\$2.72
Awarded	310,500	6.65
Exercised	—	—
Cancelled	—	—
Outstanding at May 1, 2010	595,500	\$4.77
Awarded	125,000	10.55
Exercised	—	—
Cancelled	—	—
Outstanding at April 30, 2011	720,500	\$5.77
Awarded	52,500	8.10
Exercised	(10,000)	) 6.46
Cancelled	(25,000)	) 9.73
Outstanding at April 28, 2012	738,000	\$5.79

Options Outstanding  
at April 28, 2012

Shares	Exercise Price	Avg. Remaining Life (Years)
285,000	\$2.72	6.9
260,000	6.46	7.2
35,500	8.13	7.6
105,000	10.55	8.2
52,500	8.10	9.4
738,000	\$5.79	

Options Exercisable  
at April 28, 2012

Shares	Exercise Price	Avg. Remaining Life (Years)
285,000	\$2.72	6.9
183,334	6.46	7.2
468,334	\$4.18	



## METHODE ELECTRONICS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share data)

We estimated the fair value of these stock options on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	Fiscal 2012 Awards	Fiscal 2011 Awards	Fiscal 2010 Awards	
Average expected volatility	63.55	% 85.59	% 86.88	%
Average risk-free interest rate	0.35	% 1.09	% 1.43	%
Dividend yield	2.84	% 3.63	% 2.77	%
Expected life of options	7.03 years	7.03 years	6.87 years	
Weighted-average grant-date fair value	\$ 3.75	\$ 5.88	\$ 4.02	

The options outstanding had an intrinsic value of \$2,294 at April 28, 2012.

## Restricted Stock Awards Awarded Under the 2007 Stock Plan

In April 2007, 225,000 shares of common stock subject to performance-based RSAs granted to our CEO in fiscal 2006 and 2007 were converted to RSUs. The RSUs were subject to the same vesting schedule and other major provisions of the RSAs they replaced, except the shares for stock underlying the RSUs will not be issued and delivered 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 Code. The RSUs are not entitled to voting rights or the payment of dividends. The RSU's were fully vested as of April 28, 2012. As of April 28, 2012, no shares have been delivered in connection with the RSUs.

At the beginning of fiscal 2012, there were no RSAs outstanding under the 2007 Stock Plan. During fiscal 2012, we awarded 28,860 restricted shares to our independent directors, all of which vested immediately upon grant. During fiscal 2011, the Compensation Committee awarded 24,000 restricted shares to our independent directors, all of which vested immediately upon grant.

During fiscal 2010, it was determined that based on the current economic environment, the performance shares granted in fiscal 2008 and 2009 were not meeting the revenue growth and return on invested capital targets. Due to the performance shares not meeting financial targets, all of the 382,769, performance-based stock awards granted in fiscal 2008 and fiscal 2009 were canceled. There was no adjustment to the pre-tax compensation expense to reflect the performance shares not meeting current and future anticipated revenue growth and return on invested capital targets because the compensation expense was fully reversed in fiscal 2009.

The following table summarizes the RSA activity under the 2007 Stock Plan:

	Fiscal 2012	Fiscal 2011	Fiscal 2010	
Unvested at beginning of fiscal year	—	25,350	453,287	
Awarded	28,860	24,000	24,000	
Vested	(28,860	) (47,600	) (62,140	)
Cancelled	—	—	(382,769	)
Forfeited	—	(1,750	) (7,028	)
Unvested at end of period	—	—	25,350	



## METHODE ELECTRONICS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share data)

## 2000 and 2004 Stock Plans

## Stock Options Outstanding Under the 2000 and 2004 Stock Plans

Options to purchase 251,365 shares of our common stock were granted in previous years under the 2000 and 2004 Stock Plans and are outstanding and exercisable as of April 28, 2012. Options to purchase 96,934 shares of our common stock expired during fiscal 2011.

The following tables summarize the stock option activity and related information for the stock options granted under the 2000 and 2004 Stock Plans for fiscal 2012, 2011 and 2010:

	Options Outstanding		Exercisable Options	
	Shares	Wtd. Avg. Exercise Price	Shares	Wtd. Avg. Exercise Price
May 2, 2009	625,633	\$10.36	625,633	\$10.36
Granted	—	—		
Exercised	(17,648	) 10.62		
Cancelled	(78,209	) 12.08		
May 1, 2010	529,776	\$10.10	529,776	\$10.10
Granted	—	—		
Exercised	(150,075	) 6.85		
Cancelled	(96,934	) 13.03		
April 30, 2011	282,767	10.82	282,767	10.82
Granted	—	—		
Exercised	(21,975	) 9.02		
Cancelled	(9,427	) 11.32		
April 28, 2012	251,365	\$10.96	251,365	\$10.96

Options Outstanding  
at April 28, 2012

Shares	Wtd. Avg. Exercise Price	Avg. Remaining Life (Years)
128,355	\$10.50	0.1
123,010	11.44	1.1
251,365	\$10.96	

## METHODE ELECTRONICS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share data)

## Stock-based Compensation

We recognize pre-tax compensation expense for stock options, RSA's and RSU's under our 2010, 2007, 2004 and 2000 stock plans in the selling and administrative section of our consolidated statement of operations. Our awards subject to graded vesting are recognized using the accelerated recognition method. As of April 28, 2012, we had \$6,329 of unrecognized equity-based compensation cost that we expect to recognize over a weighted average period of 3.2 years.

The table below summarizes the expense for fiscal 2012, 2011 and 2010.

	Compensation Expense		
	Fiscal 2012	Fiscal 2011	Fiscal 2010
2010 Stock Plan:			
RSA's	\$1,415	\$642	\$—
RSUs	924	1,033	—
Stock options	553	200	—
Total 2010 Stock Plan	\$2,892	\$1,875	\$—
2007 Stock Plan:			
RSA's	\$309	\$343	\$421
Stock options	775	788	450
Total 2007 Stock Plan	\$1,084	\$1,131	\$871
Total Compensation Expense	\$3,976	\$3,006	\$871

## 6. Employee 401(k) Savings Plan

We have an Employee 401(k) Savings Plan covering substantially all U.S. employees to which we make contributions equal to 3% of eligible compensation. Our contributions to the Employee 401(k) Savings Plan were \$1,326, \$1,261 and \$1,429 in fiscal 2012, 2011 and 2010, respectively.



## METHODE ELECTRONICS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share data)

## 7. Income Taxes

Significant components of our deferred tax assets and liabilities were as follows:

	April 28, 2012	April 30, 2011
Deferred tax liabilities:		
Accelerated tax depreciation	\$2,664	\$2,731
Unremitted earnings	9,539	2,679
Deferred income	1,212	1,417
	13,415	6,827
Deferred tax assets:		
Deferred compensation and stock award amortization	4,472	2,845
Inventory valuation differences	1,488	1,200
Property valuation differences	5,282	4,523
Accelerated book amortization	15,112	17,447
Environmental reserves	1,152	1,868
Bad debt reserves	591	494
Vacation accruals	963	926
Restructuring accruals	—	150
Foreign investment tax credit	24,303	26,411
Net operating loss carryovers	24,520	12,404
Foreign tax credits	1,393	—
Other accruals	888	808
	80,164	69,076
Less valuation allowance	57,279	54,015
Total deferred tax assets	22,885	15,061
Net deferred tax assets	\$9,470	\$8,234
Balance sheet classification:		
Current asset	\$3,529	\$3,778
Non-current asset	15,072	4,456
Current liability	(9,131)	)
	\$9,470	\$8,234

In addition to the deferred tax assets listed in the table above, the Company had an unrecorded tax benefit of \$345 at April 28, 2012, primarily attributable to the difference between the amount of the financial statement expense and the allowable tax deduction for the Company's common stock issued under the Company's stock compensation plans. Although not recognized for financial reporting purposes, this unrecognized tax benefit is available to reduce future income and is incorporated into our federal and state net operating loss carry forwards, which are discussed below.

At April 28, 2012, we had valuation allowances against our deferred tax assets of \$57,279. In accordance with ASC No. 740, "Income Taxes", a valuation allowance is required to be recorded when it is more likely than not that deferred tax assets will not be realized. In fiscal 2010, we utilized all ability to carry-back federal U.S. losses to prior years. Future realization depends on the existence of sufficient taxable income within the carry forward period available under the tax law. Sources of future taxable income include future reversals of taxable temporary differences, future

taxable income exclusive of reversing taxable differences, taxable income in carry back years and tax planning strategies. These sources of positive evidence of realizability must be weighed against negative evidence, such as cumulative losses in recent years.

In forming a judgment about the future realization of our deferred tax assets, we considered both the positive and negative evidence of realizability and gave significant weight to the negative evidence from our recent cumulative loss. We

F-22

---

## METHODE ELECTRONICS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share data)

will continue to assess this situation and make appropriate adjustments to the valuation allowance based on our evaluation of the positive and negative evidence existing at the time. We are currently unable to forecast when there will be sufficient positive evidence for us to reverse the remainder of the valuation allowances that we have recorded.

The federal and state NOL carry forwards relate to the current and prior years' NOLs, which may be used to reduce tax liabilities in future years. If not realized, the federal tax benefits of \$20,989 expire over a twenty year period. If not realized, the state tax benefits of \$3,532 expire over a twelve to twenty year period.

The foreign tax credit carry-forward relates to the current year, which may be used to reduce tax liabilities in future years. If not realized, the federal tax benefits of \$1,393 expire over a ten-year period.

The tax laws of Malta provide for investment tax credits of 30% of certain qualified expenditures. Unused credits of \$24.4 million as of April 28, 2012 can be carried forward indefinitely. We have accumulated investment tax credits in excess of amounts more likely than not to be realized based upon projections of taxable income to be generated within a reasonable time period. Valuation allowances of \$17.6 million as of April 28, 2012 have been provided for this excess.

In the fourth quarter of fiscal 2012, we recorded \$9,012 of deferred U.S. tax, net of associated foreign tax credits, to recognize deferred tax on undistributed foreign earnings of \$38,000 that we previously intended to permanently reinvest in foreign operations. We offset this deferred tax expense by reducing our valuation allowance by an equal amount of \$9,012.

Components of income/(loss) before income taxes are as follows:

	Fiscal Year Ended		
	April 28, 2012	April 30, 2011	May 1, 2010
Domestic source	\$ (32,418	) \$ (20,658	) \$ (20,018
Foreign source	43,791	35,120	27,835
Income/(loss) before income tax	\$ 11,373	\$ 14,462	\$ 7,817

Income taxes from continuing operations consisted of the following:

	Fiscal Year Ended		
	April 28, 2012	April 30, 2011	May 1, 2010
Current			
Federal	\$ 36	\$ (2,703	) \$ (11,356
Foreign	5,672	4,179	1,339
State	(533	) (345	) 61
Subtotal	5,175	1,131	(9,956
Deferred			
Federal and state	119	(3,198	) 4,827
Foreign	(2,058	) (2,009	) (835

Edgar Filing: METHODE ELECTRONICS INC - Form 10-K

Subtotal	(1,939	) (5,207	) 3,992	
Total income tax/(benefit)	\$3,236	\$(4,076	) \$(5,964	)

F-23

---

## METHODE ELECTRONICS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share data)

A reconciliation of the consolidated provisions for income taxes from continuing operations to amounts determined by applying the prevailing statutory federal income tax rate to pre-tax earnings is as follows:

	Fiscal Year Ended								
	April 28, 2012			April 30, 2011			May 1, 2010		
Income tax at statutory rate	\$4,067	35.0	%	\$5,169	35.0	%	\$2,693	35.0	%
Effect of:									
State income taxes, net of federal benefit	29	0.3	%	84	0.6	%	637	8.3	%
Foreign operations with lower statutory rates	(10,955 )	(94.3 )	%	(10,640 )	(72.1 )	%	(4,723 )	(61.4 )	%
Foreign losses with no tax benefit	845	7.3	%	289	2.0	%	532	6.9	%
Foreign investment tax credit (FTC)	(791 )	(6.8 )	%	(1,276 )	(8.6 )	%	(337 )	(4.4 )	%
Change in tax contingency reserve	(251 )	(2.2 )	%	(2,716 )	(18.4 )	%	(3,344 )	(43.5 )	%
Research and development credit	—	—	%	—	—	%	(293 )	(3.8 )	%
Adjustment of prior years' income taxes	—	—	%	—	—	%	1,714	22.3	%
Change in permanent reinvestment assertion	9,613	82.7	%						
Change in valuation allowance	392	3.4	%	5,613	38.0	%	(2,975 )	(38.6 )	%
Other, net	287	2.5	%	(599 )	(4.1 )	%	132	1.7	%
Income tax provision	\$3,236	27.9	%	\$(4,076 )	(27.6 )	%	\$(5,964 )	(77.5 )	%

We paid income taxes of \$4,028 in fiscal 2012, \$5,187 in 2011 and \$1,392 in fiscal 2010. In fiscal 2011 and 2010, we received tax refunds of \$13,208 and \$9,334, respectively in the U.S. No provision has been made for income taxes on undistributed net income of foreign operations, as we expect them to be indefinitely reinvested in our foreign operations. If the undistributed net income of \$93,158 were distributed as dividends, we would be subject to foreign tax withholdings and incur additional income tax expense of approximately \$32,605, before available foreign tax credits. It is not practical to estimate the amount of foreign tax withholdings or foreign tax credits that may be available. We record investment tax credits using the "flow through" method.

Income tax provision (benefit) allocated to continuing operations and discontinued operations were as follows for the years ended:

	Fiscal Year		
	2012	2011	2010
Continuing operations	\$3,236	\$(4,076 )	\$(5,964 )
Discontinued operations	—	3,493	—
Total tax provision	\$3,236	\$(583 )	\$(5,964 )

As of April 28, 2012, our gross unrecognized tax benefits totaled \$66. After considering the federal impact on the state issues, \$66 of this total would favorably affect the effective tax rate if resolved in our favor.

The following table presents a reconciliation of the beginning and ending amounts of unrecognized tax benefits:

Balance at April 30, 2011 \$ 375

Edgar Filing: METHODE ELECTRONICS INC - Form 10-K

Increases for positions related to the current year	—	
Decreases for positions related to the prior years	(272	)
Lapsing of statutes of limitations	(37	)
Balance at April 28, 2012	\$66	

F-24

---

## METHODE ELECTRONICS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share data)

We believe that it is reasonably possible that the total amount of unrecognized tax benefits will change within the next twelve months. We have certain tax return years subject to statutes of limitation, which will close within twelve months from the end of the fiscal 2012. Unless challenged by tax authorities, the closure of those statutes of limitation is expected to result in the recognition of uncertain tax positions of \$36.

The U.S. federal statute of limitations remains open for fiscal year ended May 2, 2009. Generally, the fiscal years ended May 2, 2009 and forward remain open under the state statute of limitations.

The continuing practice of the Company is to recognize interest and penalties related to income tax matters in the provision for income taxes. We had \$59 accrued for interest and no accrual for penalties at April 28, 2012. We recorded an interest expense reversal related to unrecognized tax provision of \$265 in fiscal 2012 and no expense for penalties.

#### 8. Earnings Per Share Attributable to Methode Shareholders

Basic earnings per share attributable to Methode shareholders ("basic earnings per share") is calculated by dividing net earnings by the weighted average number of common shares outstanding for the applicable period. Diluted income per share attributable to Methode shareholders ("diluted earnings per share") is calculated after adjusting the denominator of the basic income per share 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:

	Fiscal Year Ended		
	April 28, 2012	April 30, 2011	May 1, 2010
Numerator:			
Income from continuing operations, net of tax	\$8,383	\$18,845	\$13,655
Income from discontinued operations, net of tax	—	655	—
Net income attributable to Methode Electronics, Inc.	\$8,383	\$19,500	\$13,655
Denominator:			
Denominator for basic earnings per share-weighted average shares	37,366,505	37,128,157	36,711,925
Dilutive potential common shares-employee and director stock options, restricted stock awards and restricted stock units	225,475	710,511	219,679
Denominator for diluted earnings per share adjusted weighted average shares and assumed conversions	37,591,980	37,838,668	36,931,604
Basic income per share:			
Continuing operations	\$0.22	\$0.51	\$0.37
Discontinued operations	\$—	\$0.02	\$—
Basic income per share	\$0.22	\$0.53	\$0.37
Diluted income per share:			
Continuing operations	\$0.22	\$0.50	\$0.37

Edgar Filing: METHODE ELECTRONICS INC - Form 10-K

Discontinued operations	\$—	\$0.02	\$—
Diluted income per share	\$0.22	\$0.52	\$0.37

Options to purchase 834,412, 135,990 and 369,651 shares of common stock were outstanding at April 28, 2012, April 30, 2011 and May 1, 2010, respectively, but were not included in the computation of diluted earnings per share because the exercise price was greater than the average market price of the common shares; therefore, the effect would have been anti-dilutive.

F-25

---



METHODE ELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share data)

9. Environmental Matters

We are not aware of any potential unasserted environmental claims that may be brought against us. We are involved in environmental investigation and/or remediation at two of our plant sites no longer used for operations. We use environmental consultants to assist us in evaluating our environmental liabilities in order to establish appropriate accruals in our financial statements. Accruals are recorded when environmental remediation is probable and the costs can be reasonably estimated. A number of factors affect the cost of environmental remediation, including the determination of the extent of contamination, the length of time remediation may require, the complexity of environmental regulations and the advancement of remediation technology. Considering these factors, we have estimated (without discounting) the costs of remediation, which will be incurred over a period of several years. Recovery from insurance or other third parties is not anticipated. We are not yet able to determine when such remediation activity will be complete, but estimates for certain remediation efforts are projected through fiscal 2015.

At April 28, 2012 and April 30, 2011, we had accruals, primarily based upon independent engineering studies, for environmental matters of \$2,881 and \$4,669, respectively, of which \$500 was classified in other accrued expenses and the remainder was included in other long-term liabilities on our consolidated balance sheet. We believe the provisions made for environmental matters are adequate to satisfy liabilities relating to such matters, however it is reasonably possible that costs could exceed accrued amounts if the selected methods of remediation do not reduce the contaminants at the sites to levels acceptable to federal and state regulatory agencies.

In fiscal 2012, we spent \$1,501 on remediation cleanups and related studies compared with \$527 in fiscal 2011 and \$474 in fiscal 2010. The costs associated with environmental matters as they relate to day-to-day activities were not material in fiscal 2012, 2011 or 2010.

10. Pending Litigation

Certain litigation arising in the normal course of business is pending against us. We, from time to time, are 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 the opinion of our management, 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 adverse effect on our consolidated financial statements.

Delphi Related Litigation

On September 4, 2008, Methode and Delphi Automotive Systems LLC ("Delphi") entered into a supply agreement pursuant to which Methode was to supply all of Delphi's requirements for the seat bladders used in Delphi's occupant restraint system from October 1, 2008 through September 30, 2011. On August 26, 2009, Delphi notified us that effective September 10, 2009, our supply arrangement was terminated. We are contesting Delphi's right to terminate this long-term supply arrangement and the parties are engaged in litigation regarding this supply agreement and our related intellectual property.

In March 2010, DPH Holdings Corp. and certain of its affiliated debtors, as successors to Delphi Corporation and certain of its affiliates (“Delphi”), served the Company with a complaint seeking to recover approximately \$19.7 million in alleged preference payments that Delphi made to the Company within the 90-day period preceding Delphi’s bankruptcy filing in October 2005 (the “Complaint”). Delphi is pursuing similar preference complaints against a number of other, unrelated third-parties. The Complaint, dated September 28, 2007, was originally filed under seal with the United States Bankruptcy Court for the Southern District of New York (titled as Delphi Corporation, et al. v. Methode Electronics, Inc, Adversary Proceeding No. 07-2432) and pursuant to certain court orders, the Complaint was not unsealed and served upon the Company until March 2010. The Company has filed a joinder to third-parties’ motions to dismiss the Delphi preference complaints based on violations of due process and other defenses connected to the unusual manner that Delphi filed and served the preference complaints. Additionally, the Company possesses several other substantive defenses to the Complaint including, but not limited to, the affirmative defenses available under the Bankruptcy Code, statute of limitations, setoff, waiver

F-26

---

METHODE ELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share data)

and estoppel. The Bankruptcy Court ruled on July 22, 2010 that the Complaint did not satisfy certain pleading requirements and dismissed the Complaint without prejudice, granting Delphi leave to re-file an amended complaint. The Court overruled the Company's defenses to the proposed amended complaint relating primarily to pleading issues, and ordered that other defenses would be addressed in subsequent proceedings. Although the outcome of potential legal actions and claims cannot be determined, it is the opinion of our management, 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 adverse effect on our consolidated financial statements.

11. Material Customers

Sales to two customers in the Automotive segment, either directly or through their tiered suppliers, represented a significant portion of our business. Net sales to these two customers approximated 18.7% and 18.5% of consolidated net sales in fiscal 2012; two customers accounted for 17.9% and 17.6% of consolidated net sales, respectively in fiscal 2011 and two customers accounted for 18.2% and 13.9% of consolidated net sales in fiscal 2010.

At April 28, 2012 and April 30, 2011, accounts receivable from customers in the automotive industry were approximately \$31,850 and \$44,428, respectively, which included \$8,260 and \$8,077, respectively, at our Maltese subsidiary. Accounts receivable are generally due within 30 to 60 days. Credit losses relating to all customers generally have been within management's expectation.

12. Line of Credit

We are party to an Amended and Restated Credit Agreement with Bank of America, N.A., as administrative agent, and certain other financial institutions, which reflects the maturity of February 25, 2016. The credit facility is in the aggregate principal amount of \$75,000, with an option to increase the principal amount by an additional \$25,000 subject to customary conditions and approval of the lender(s) providing new commitment(s). The credit facility provides for variable rates of interest based on the type of borrowing and the Company's debt to EBITDA financial ratio. The Amended and Restated Credit Agreement is guaranteed by certain of our U.S. subsidiaries. The interest rate on the credit agreement is 1.5% plus LIBOR. At April 28, 2012, we were in compliance with the covenants of the agreement. During fiscal 2012, we had borrowings of \$52,000 and payments of \$4,700, which includes \$700 of interest under this credit facility. As of April 28, 2012, there were outstanding balances against the credit facility of \$48,000. There was \$27,000 available to borrow under the credit agreement as of April 28, 2012, which does not include the option to increase the principal amount. We believe the fair value approximates the carrying amount as of April 28, 2012.

F-27

---

METHODE ELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share data)

13. Segment Information and Geographic Area 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 storage, networking equipment, wireless and terrestrial voice/data systems), aerospace, rail and other transportation industries; and the consumer and industrial equipment markets.

ASC No. 280, "Segment Reporting" ("ASC No. 280"), establishes annual and interim reporting standards for an enterprise's operating segments and related disclosures about its products, services, geographic areas and major customers. An operating segment is defined as a component of an enterprise that engages in business activities from which it may earn revenues and incur expenses, and about which separate financial information is regularly evaluated by the Chief Operating Decision Maker ("CODM") in deciding how to allocate resources. The CODM, as defined by ASC No. 280, is the Company's President and Chief Executive Officer ("CEO").

We have multiple operating segments that are aggregated in four reportable segments. Those segments are Automotive, Interconnect, Power Products and Other.

The Automotive segment supplies electronic and electromechanical devices and related products to automobile Original Equipment Manufacturers, ("OEMs"), either directly or through their tiered suppliers. Our products include control switches for electrical power and signals, connectors for electrical devices, integrated control components, switches and sensors that monitor the operation or status of a component or system, and packaging of electrical components.

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

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

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

The accounting policies of the segments are the same as those described in the summary of significant accounting policies in Note 1 above. We allocate resources to and evaluate performance of segments based on operating income.

Transfers between segments are recorded using internal transfer prices set by us.

F-28

---

## METHODE ELECTRONICS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share data)

The tables below presents information about our reportable segments:

	Fiscal Year Ended April 28, 2012					Consolidated
	Automotive	Inter-Connect	Power Products	Other	Eliminations/Corporate	
Net sales	\$274,681	\$130,572	\$52,447	\$14,036	\$ (6,641 )	\$465,095
Transfers between segments	(3,074 )	(2,864 )	(434 )	(105 )	6,477	—
Net sales to unaffiliated customers	\$271,607	\$127,708	\$52,013	\$13,931	\$ (164 )	\$465,095
Income/(loss) from operations	\$10,045	\$18,127	\$1,698	\$(217 )	\$ (18,296 )	\$11,357
Interest (income)/expense, net	(504 )	(108 )	7	—	317	(288 )
Other (income)/expense, net	(474 )	1,636	94	52	(1,036 )	272
Income/(loss) before income taxes	\$11,023	\$16,599	\$1,597	\$(269 )	\$ (17,577 )	\$11,373
Depreciation and amortization	\$9,012	\$3,011	\$2,281	\$784	\$ 1,071	\$16,159
Identifiable assets	\$225,814	\$135,549	\$36,490	\$5,827	\$ (32 )	\$403,648
	Fiscal Year Ended April 30, 2011					
	Automotive	Inter-Connect	Power Products	Other	Eliminations/Corporate	Consolidated
Net sales	\$228,362	\$139,877	\$50,768	\$13,052	\$ (3,844 )	\$428,215
Transfers between segments	(2,315 )	(1,096 )	(353 )	(71 )	3,835	—
Net sales to unaffiliated customers	\$226,047	\$138,781	\$50,415	\$12,981	\$ (9 )	\$428,215
Income/(loss) from operations	\$13,325	\$19,989	\$3,630	\$(2,032 )	\$ (18,968 )	\$15,944
Interest (income)/expense, net	(311 )	(121 )	1	—	629	198
Other (income)/expense, net	2,067	(593 )	174	4	(368 )	1,284
Income/(loss) before income taxes	\$11,569	\$20,703	\$3,455	\$(2,036 )	\$ (19,229 )	\$14,462
Depreciation and amortization	\$7,704	\$3,579	\$2,283	\$698	\$ 1,492	\$15,756
Identifiable assets	\$167,991	\$122,687	\$42,330	\$8,726	\$ (6,990 )	\$334,744



## METHODE ELECTRONICS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share data)

	Fiscal Year Ended May 1, 2010					Consolidated
	Automotive	Inter-Connect	Power Products	Other	Eliminations/Corporate	
Net sales	\$203,229	\$124,619	\$40,871	\$9,388	\$ (461 )	\$377,646
Transfers between segments	—	(355 )	(342 )	(55 )	752	—
Net sales to unaffiliated customers	\$203,229	\$124,264	\$40,529	\$9,333	\$ 291	\$377,646
Segment income (loss) from operations before restructuring charge	\$16,971	\$12,589	\$3,919	\$(2,298 )	\$ (15,970 )	\$15,211
Restructuring	(5,649 )	(1,552 )	(569 )	—	—	(7,770 )
Segment income (loss) from operations	\$11,322	\$11,037	\$3,350	\$(2,298 )	\$ (15,970 )	\$7,441
Interest, (income)/expense, net	(87 )	(185 )	—	—	411	139
Other (income)/expense	232	925	(7 )	1	(1,666 )	(515 )
Income/(loss) before income taxes	11,177	10,297	3,357	(2,299 )	(14,715 )	\$7,817
Depreciation and amortization	\$10,691	\$4,756	\$1,672	\$760	\$ 1,530	\$19,409
Identifiable assets	\$127,613	\$125,133	\$31,081	\$7,659	\$ 19,337	\$310,823



## METHODE ELECTRONICS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share data)

The following table sets forth certain geographic financial information for fiscal years ended April 28, 2012, April 30, 2011 and May 1, 2010. Geographic net sales and income are determined based our sales and income from our various operational locations.

	Fiscal Year Ended		
	April 28, 2012	April 30, 2011	May 1, 2010
Net Sales:			
North America	\$204,697	\$172,082	\$168,121
Asia Pacific	111,550	109,049	70,159
Europe	148,848	147,084	139,366
	\$465,095	\$428,215	\$377,646
Income (loss) before income taxes:			
North America	\$(31,992)	\$(33,953)	\$(18,183)
Asia Pacific	31,052	34,306	14,657
Europe	12,025	14,307	11,482
Income and expenses not allocated	288	(198)	(139)
	\$11,373	\$14,462	\$7,817
Property, Plant and Equipment:			
North America	\$39,742	\$26,505	\$23,085
Asia Pacific	8,819	7,867	8,968
Europe	28,591	27,139	29,823
	\$77,152	\$61,511	\$61,876

## 14. Lease Commitments

We lease certain office and manufacturing properties under non-cancelable operating leases expiring at various dates through fiscal 2015. Rental expense under non-cancelable operating leases amounted to \$4,713, \$4,313 and \$4,191 in fiscal 2012, 2011 and 2010, respectively.

Our aggregate minimum rental commitments under all non-cancelable operating leases are summarized in the table below for the next succeeding five fiscal years:

2013	\$3,751
2014	2,920
2015	1,174
2016	1,901
2017	35

## METHODE ELECTRONICS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share data)

## 15. Pre-Production Costs Related to Long-Term Supply Arrangements

We incur pre-production tooling costs related to products produced for our customers under long-term supply agreements. We had \$16,215 and \$14,645 as of the fiscal year ended April 28, 2012 and April 30, 2011, respectively, of pre-production tooling costs related to customer-owned tools for which reimbursement is contractually guaranteed by the customer or for which the customer has provided a non-cancelable right to use the tooling. Engineering, testing and other costs incurred in the design and development of production parts are expensed as incurred, unless the costs are reimbursable, as specified in a customer contract.

## 16. Fair Value Measurements

Accounting standards define fair value based on an exit price model, establish a framework for measuring fair value where our assets and liabilities are required to be carried at fair values and provide for certain disclosures related to the valuation methods used within a valuation hierarchy as established by the accounting standards. The hierarchy prioritizes the inputs into three broad levels as follows:

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

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

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

Below is a table that summarizes the fair value of assets and liabilities as of April 28, 2012:

	Fair Value Measurement Used			
	Recorded Value	Quoted prices in active markets for identical instruments (Level 1)	Quoted prices in active markets for similar instruments (Level 2)	Other unobservable inputs (Level 3)
<b>Assets:</b>				
Cash and cash equivalents (1)	\$86,797	\$86,797	\$—	\$—
Assets related to deferred compensation plan	3,965	3,965	—	—
Total assets at fair value	\$90,762	\$90,762	\$—	\$—
<b>Liabilities:</b>				
Liabilities related to deferred compensation plan	\$2,798	\$2,798	\$—	\$—
Total liabilities at fair value	\$2,798	\$2,798	\$—	\$—

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

F-32

---

Table of Contents

Below is a table that summarizes the fair value of assets and liabilities as of April 30, 2011:

	Fair Value Measurement Used			
	Recorded Value	Quoted prices in active markets for identical instruments (Level 1)	Quoted prices in active markets for similar instruments (Level 2)	Other unobservable inputs (Level 3)
<b>Assets:</b>				
Cash and cash equivalents (1)	\$57,445	\$57,445	\$—	\$—
Assets related to deferred compensation plan	4,051	4,051	—	—
Total assets at fair value	\$61,496	\$61,496	\$—	\$—
<b>Liabilities:</b>				
Liabilities related to deferred compensation plan	\$3,085	\$3,085	\$—	\$—
Total liabilities at fair value	\$3,085	\$3,085	\$—	\$—

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

## METHODE ELECTRONICS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share data)

## 17. Summary of Quarterly Results of Operations (Unaudited)

The following is a summary of unaudited quarterly results of operations for the two years ended April 28, 2012 and April 30, 2011:

	Fiscal 2012 Quarter Ended			
	July 30	October 29	January 28	April 28
Net sales	\$ 110,804	\$ 115,890	\$ 112,000	\$ 126,401
Gross profit	19,980	20,918	19,254	22,962
Net income attributable to Methode Electronics, Inc.	1,494	311	809	5,769
Net income per basic and diluted common share	\$0.04	\$0.01	\$0.02	\$0.15

	Fiscal 2011 Quarter Ended			
	July 31	October 30	January 29	April 30
Net sales	\$98,973	\$107,716	\$102,102	\$119,424
Gross profit	19,444	23,643	19,434	26,652
Income/(loss) from continuing operations, net of tax	4,065	(513 )	5,883	9,410
Income from discontinued operations, net of tax	—	—	—	655
Net income/(loss) attributable to Methode Electronics, Inc.	\$4,065	\$(513 )	\$5,883	\$10,065
Basic income/(loss) per share:				
Continuing operations	\$0.11	\$(0.01 )	\$0.16	\$0.25
Discontinued operations	\$—	\$—	\$—	\$0.02
Basic income/(loss) per share	\$0.11	\$(0.01 )	\$0.16	\$0.27
Diluted income/(loss) per share:				
Continuing operations	\$0.11	\$(0.01 )	\$0.16	\$0.24
Discontinued operations	\$—	\$—	\$—	\$0.02
Diluted income/(loss) per share	\$0.11	\$(0.01 )	\$0.16	\$0.26

## Significant Items for Fiscal 2012

The first, second, third and fourth quarter of fiscal 2012 includes pre-tax legal fees relating to the Delphi supply agreement and patent lawsuit of \$1,047, \$1,185, \$530 and \$940, respectively.

## Significant Items for Fiscal 2011

The second quarter of fiscal 2011 includes a pre-tax charge of \$3,834 for litigation regarding unsecured claims related to the Delphi bankruptcy. The litigation was settled in the third quarter of fiscal 2011 for \$2,068, resulting in a reversal of expense of \$1,766. The fourth quarter of fiscal 2011 includes an after tax gain on the sale of a business of \$655. In addition, the first, second, third and fourth quarter of fiscal 2011 includes pre-tax legal fees relating to the Delphi supply agreement and patent lawsuit of \$1,474, \$924, \$1,123 and \$1,247, respectively.

F-34

---

Table of Contents

## SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

## METHODE ELECTRONICS, INC. AND SUBSIDIARIES

(in thousands)

COL. A Description	COL. B Balance at Beginning of Period	COL. C Additions Charged to Costs and Expenses	Charged to Other Accounts— Describe	COL. D. Deductions— Describe	COL. E Balance at End of Period
YEAR ENDED APRIL 28, 2012:					
Reserves and allowances deducted from asset accounts:					
Allowance for uncollectible accounts	\$ 1,140	\$ 495	\$ (48	) (1) \$ 308	(2) \$ 1,279
Deferred tax valuation allowance	54,015	14,792	(4) (1,306	) (1) 10,222	(5) 57,279
YEAR ENDED APRIL 30, 2011:					
Reserves and allowances deducted from asset accounts:					
Allowance for uncollectible accounts	\$ 1,102	\$ 249	\$ 304	(1) \$ 515	(2) \$ 1,140
Deferred tax valuation allowance	48,402	7,088	(4) 582	(1) 2,057	54,015
YEAR ENDED MAY 1, 2010:					
Reserves and allowances deducted from asset accounts:					
Allowance for uncollectible accounts	\$ 1,444	\$ 142	\$ 25	(1) \$ 509	(2) \$ 1,102
Deferred tax valuation allowance	51,377	943	1,880	(1) 5,798	(3) 48,402

(1) Impact of foreign currency translation and other reclassifications.

(2) Uncollectible accounts written off, net of recoveries.

(3) Reduction of valuation allowances on foreign tax assets with no effect on net income.

(4) Primarily due to increased net operating losses in the U.S.

(5) Primarily due to the change in permanent reinvestment assertion for a planned discrete dividend from a foreign subsidiary.

F-35

---



Table of Contents

## INDEX TO EXHIBITS

Exhibit Number	Description
3.1	Certificate of Incorporation of Registrant, as amended and currently in effect <sup>(1)</sup>
3.2	Bylaws of Registrant, as amended and currently in effect <sup>(2)</sup>
4.1	Article Fourth of Certificate of Incorporation of Registrant, as amended and currently in effect (included in Exhibit 3.1) <sup>(1)</sup>
4.2	Rights Agreement dated as of January 8, 2004 between Methode Electronics, Inc. and Mellon Investor Services LLC, which includes as Exhibit A thereto, the Certificate of Designation of Series A Junior Participating Preferred Stock of Methode Electronics, Inc.; as Exhibit B thereto, the Form of Right Certificate; as Exhibit C thereto, the Summary of Rights to Purchase Preferred Shares. <sup>(3)</sup>
10.2*	Methode Electronics, Inc. 2000 Stock Plan <sup>(4)</sup>
10.3*	Methode Electronics, Inc. 2004 Stock Plan <sup>(5)</sup>
10.10*	Change in Control Agreement dated September 1, 2006 between Methode Electronics, Inc. and Donald W. Duda <sup>(6)</sup>
10.11*	Change in Control Agreement dated September 1, 2006 between Methode Electronics, Inc. and Douglas A. Koman <sup>(6)</sup>
10.12*	Change in Control Agreement dated September 1, 2006 between Methode Electronics, Inc. and Thomas D. Reynolds <sup>(6)</sup>
10.14*	Change in Control Agreement dated September 14, 2006 between Methode Electronics, Inc. and Theodore P. Kill <sup>(7)</sup>
10.15*	Change in Control Agreement dated September 14, 2006 between Methode Electronics, Inc. and Timothy R. Glandon <sup>(7)</sup>
10.16*	First Amendment to Methode Electronics, Inc. 2000 Stock Plan effective as of December 14, 2006 <sup>(8)</sup>
10.17*	Amended and Restated Restricted Stock Unit Award Agreement (Executive Award/Performance Based) effective as of June 18, 2004 between Methode Electronics, Inc. and Donald W. Duda <sup>(8)</sup>
10.18*	Amended and Restated Restricted Stock Unit Award Agreement (Executive Award/Cliff Vesting) effective as of June 18, 2004 between Methode Electronics, Inc. and Donald W. Duda <sup>(8)</sup>
10.21*	Amended and Restated Restricted Stock Unit Award Agreement (Executive Award/Performance Based) effective as of June 15, 2005 between Methode Electronics, Inc. and Donald W. Duda <sup>(9)</sup>
10.22*	Amended and Restated Restricted Stock Unit Award Agreement (Executive Award/Performance Based) effective as of August 7, 2006 between Methode Electronics, Inc. and Donald W. Duda <sup>(9)</sup>
10.23*	Methode Electronics, Inc. 2007 Stock Plan <sup>(10)</sup>
10.27*	Form Director RSA Award Agreement <sup>(10)</sup>
10.28*	Change in Control Agreement dated July 15, 2008 between Methode Electronics, Inc. and Ronald L. G. Tsoumas <sup>(11)</sup>
10.32*	Form of Amendment to Change in Control Agreement <sup>(12)</sup>
10.33*	Methode Electronics, Inc. 2010 Cash Incentive Plan <sup>(13)</sup>
10.34*	Methode Electronics, Inc. 2010 Stock Plan <sup>(13)</sup>
10.35*	Under the 2010 Stock Plan, Form of Methode Electronics, Inc. Non-Qualified Stock Option Form Award Agreement <sup>(13)</sup>
10.36*	Under the 2010 Stock Plan, Form of Methode Electronics, Inc. Performance Based Restricted Stock Form Award Agreement <sup>(14)</sup>
10.37*	Under the 2010 Stock Plan, Form of Methode Electronics, Inc. Restricted Stock Unit Form Award Agreement <sup>(14)</sup>
10.38*	Under the 2010 Stock Plan, Form of Methode Electronics, Inc. RSA Tandem Cash Award Form Award Agreement <sup>(14)</sup>
10.39*	Under the 2010 Stock Plan, Form of Methode Electronics, Inc. Cash Bonus Form Award Agreement <sup>(14)</sup>

- 10.40\* Under the 2010 Stock Plan, Form of Methode Electronics, Inc. Form of Amendment to Change in Control Agreement <sup>(14)</sup>
- 10.42 Amended and Restated Credit Agreement dated as of February 25, 2011 among Methode Electronics, Inc. as the Borrower, Bank of America N.A., as Administrative Agent and Other Lenders party thereto <sup>(15)</sup>
-

Table of Contents

Exhibit Number	Description
21	Subsidiaries of Methode Electronics, Inc.
23	Consent of Ernst & Young LLP
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
101**	Interactive Data File

- 
- (1) Previously filed with Registrant's Form 8-K filed January 9, 2004, and incorporated herein by reference.
  - (2) Previously filed with Registrant's Form 8-K filed December 17, 2010, and incorporated herein by reference.
  - (3) Previously filed with Registrant's Form 8-A filed January 8, 2004, and incorporated herein by reference.
  - (4) Previously filed with Registrant's Form 10-Q for the three months ended October 31, 2000, and incorporated herein by reference.
  - (5) Previously filed with Registrant's Form 8-K filed December 7, 2004, and incorporated herein by reference.
  - (6) Previously filed with Registrant's Form 8-K filed September 6, 2006, and incorporated herein by reference.
  - (7) Previously filed with Registrant's Form 8-K filed September 18, 2006, and incorporated herein by reference.
  - (8) Previously filed with Registrant's Form 10-Q for the three months ended January 27, 2007, and incorporated herein by reference.
  - (9) Previously filed with Registrant's Form 8-K filed April 6, 2007, and incorporated herein by reference.
  - (10) Previously filed with Registrant's Form 8-K filed September 19, 2007, and incorporated herein by reference.
  - (11) Previously filed with Registrant's Form 10-K filed July 17, 2008, and incorporated herein by reference.
  - (12) Previously filed with Registrant's Form 8-K filed July 20, 2009, and incorporated herein by reference.
  - (13) Previously filed with Registrant's Form 8-K filed October 20, 2010, and incorporated herein by reference.
  - (14) Previously filed with Registrant's Form 8-K filed November 12, 2010, and incorporated herein by reference.
  - (15) Previously filed with Registrant's Form 10-Q filed March 3, 2011, and incorporated herein by reference.

---

\* Management Compensatory Plan

\*\* As provided in Rule 406 of Regulation S-T, this information is deemed not filed as part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, and is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and is otherwise not subject to liability under those sections.