

METHODE ELECTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Property, Plant and Equipment. Property, plant and equipment is stated at cost. Maintenance and repair costs are expensed as incurred. Depreciation is calculated using the straight-line method using estimated useful lives of 5 to 40 years for buildings and building improvements and 3 to 15 years for machinery and equipment. A summary of property, plant and equipment is shown below:

(Dollars in Millions)	April 27, 2019	April 28, 2018
Land	\$ 3.7	\$ 0.8
Buildings and Building Improvements	81.2	69.2
Machinery and Equipment	390.7	364.7
Total Property, Plant and Equipment, Gross	475.6	434.7
Less: Accumulated Depreciation	283.7	272.5
Property, Plant and Equipment, Net	<u>\$ 191.9</u>	<u>\$ 162.2</u>

Depreciation expense was \$27.2 million, \$22.5 million and \$22.0 million in fiscal 2019, fiscal 2018 and fiscal 2017, respectively. As of April 27, 2019 and April 28, 2018, capital expenditures recorded in accounts payable totaled \$6.4 million and \$9.0 million, respectively.

Income Taxes. Deferred tax assets and liabilities are determined based on differences between the 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.

The Tax Cuts and Jobs Act ("U.S. Tax Reform") includes a new global intangible low-taxed income ("GILTI") provision which requires the Company to include foreign subsidiary earnings in its U.S. tax return starting in fiscal 2019. The FASB Staff Q&A, Topic 740 No. 5, "Accounting for Global Intangible Low-Taxed Income," states that an entity can make an accounting policy election to either recognize deferred taxes for temporary differences expected to reverse in future years or provide for the tax expense in the year the tax is incurred. The Company has elected to recognize the tax on GILTI as a period expense in the period the tax is incurred and therefore has not included any deferred tax impacts of GILTI in its consolidated financial statements for its fiscal year ended April 27, 2019.

Revenue Recognition. On April 29, 2018, the Company adopted Accounting Standards Codification ("ASC") 606, "Revenue from Contracts with Customers," using the modified retrospective transition method. Under the new standard, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. The cumulative effect of initially applying the new standard was recorded as an adjustment to the opening balance of retained earnings. In accordance with the modified retrospective transition method, the historical information within the financial statements has not been restated and continues to be reported under the accounting standard in effect for those periods. As a result, the Company has disclosed the accounting policies in effect prior to April 29, 2018, as well as the policies it has applied starting April 29, 2018. See Note 2, "Revenue," for further details.

Periods prior to April 29, 2018

Revenue was recognized in accordance with ASC 605, "Revenue Recognition." Revenue was recognized upon either shipment or delivery (depending on shipping terms) of product to customers and is recorded net of returns, allowances, customer discounts, and incentives. Sales taxes collected from customers and remitted to governmental authorities were accounted for on a net (excluded from revenues) basis.

Periods commencing on or after April 29, 2018

The majority of the Company's revenue is recognized at a point in time. The Company has determined that the most definitive demonstration that control has transferred to a customer is physical shipment or delivery, depending on the contractual shipping terms, with the exception of consignment transactions. Consignment transactions are arrangements where the Company transfers product to a customer location but retains ownership and control of such product until it is used by the customer. Revenue for consignment arrangements is recognized upon the customer's usage.