

STRATTEC SECURITY CORP

Form 10-Q

February 07, 2013

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended December 30, 2012

or

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

For the transition period from _____ to _____

Commission File Number 0-25150

STRATTEC SECURITY CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

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Wisconsin **39-1804239**
(State of (I.R.S. Employer
Incorporation) Identification No.)
3333 West Good Hope Road, Milwaukee, WI 53209
(Address of Principal Executive Offices)
(414) 247-3333
(Registrant's Telephone Number, Including Area Code)

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 (§232.405 of this chapter) 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the 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 (Do not check if a smaller reporting company) Smaller Reporting Company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

Common stock, par value \$0.01 per share: 3,318,640 shares outstanding as of December 30, 2012

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STRATTEC SECURITY CORPORATION

FORM 10-Q

December 30, 2012

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PROSPECTIVE INFORMATION	

A number of the matters and subject areas discussed in this Form 10-Q contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements may be identified by the use of forward-looking words or phrases such as anticipate, believe, would, expect, intend, may, planned, potential, should, will, and could, or the negative of these terms or words of similar meaning. These statements include expected future financial results, product offerings, global expansion, liquidity needs, financing ability, planned capital expenditures, management's or the Company's expectations and beliefs, and similar matters discussed in this Form 10-Q. The discussions of such matters and subject areas are qualified by the inherent risks and uncertainties surrounding future expectations generally, and also may materially differ from the Company's actual future experience.

The Company's business, operations and financial performance are subject to certain risks and uncertainties, which could result in material differences in actual results from the Company's current expectations. These risks and uncertainties include, but are not limited to, general economic conditions, in particular relating to the automotive industry, consumer demand for the Company's and its customers' products, competitive and technological developments, customer purchasing actions, foreign currency fluctuations, fluctuations in costs of operations (including fluctuations in the cost of raw materials) and other matters described in the section titled "Risk Factors" in the Company's Form 10-K report filed on September 6, 2012 with the Securities and Exchange Commission for the year ended July 1, 2012.

Shareholders, potential investors and other readers are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements made herein are only made as of the date of this Form 10-Q and the Company undertakes no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances occurring after the date of this Form 10-Q.

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Item 1 Financial Statements

STRATTEC SECURITY CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Operations and Comprehensive Income

(In Thousands, Except Per Share Amounts)

(Unaudited)

	Three Months Ended		Six Months Ended	
	December 30, 2012	January 1, 2012	December 30, 2012	January 1, 2012
Net sales	\$ 72,243	\$ 65,886	\$ 143,050	\$ 132,263
Cost of goods sold	59,936	54,646	117,030	109,519
Gross profit	12,307	11,240	26,020	22,744
Engineering, selling and administrative expenses	8,481	7,979	17,601	16,187
Income from operations	3,826	3,261	8,419	6,557
Interest income	10	15	13	32
Equity loss of joint ventures	(99)	(192)	(111)	(312)
Interest expense	(10)	(23)	(15)	(54)
Other income (expense), net	187	503	169	(365)
Income before provision for income taxes	3,914	3,564	8,475	5,858
Provision for income taxes	1,074	1,260	2,320	1,581
Net income	2,840	2,304	6,155	4,277
Net income attributed to non-controlling interest	446	756	1,091	1,447
Net income attributable to STRATTEC SECURITY CORPORATION	\$ 2,394	\$ 1,548	\$ 5,064	\$ 2,830
Comprehensive Income:				
Net income	\$ 2,840	\$ 2,304	\$ 6,155	\$ 4,277
Change in cumulative translation adjustments, net	(46)	304	686	(2,645)
Comprehensive income	2,794	2,608	6,841	1,632
Comprehensive income attributed to non-controlling interest	437	755	1,107	1,366
Comprehensive income attributable to STRATTEC SECURITY CORPORATION	\$ 2,357	\$ 1,853	\$ 5,734	\$ 266
Earnings Per Share:				
Basic	\$ 0.71	\$ 0.47	\$ 1.50	\$ 0.86
Diluted	\$ 0.70	\$ 0.47	\$ 1.48	\$ 0.85
Average Shares Outstanding:				
Basic	3,317	3,301	3,313	3,298
Diluted	3,353	3,329	3,346	3,328
Cash dividends declared per share	\$ 0.30	\$ 0.10	\$ 0.40	\$ 0.20

The accompanying notes are an integral part of these condensed consolidated statements of operations and comprehensive income.

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STRATTEC SECURITY CORPORATION AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(In Thousands, Except Share Amounts)

	December 30, 2012 (Unaudited)	July 1, 2012
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 18,569	\$ 17,487
Receivables, net	40,709	44,496
Inventories		
Finished products	8,774	5,313
Work in process	6,203	5,659
Purchased materials	12,987	11,564
Excess and obsolete reserve	(1,428)	(1,300)
Inventories, net	26,536	21,236
Other current assets	16,195	18,072
Total current assets	102,009	101,291
Deferred income taxes	9,735	9,742
Investment in joint ventures	8,400	8,139
Other long-term assets	486	536
Property, plant and equipment	157,164	152,014
Less: accumulated depreciation	(108,879)	(105,684)
Net property, plant and equipment	48,285	46,330
	\$168,915	\$ 166,038
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 22,483	\$ 24,149
Borrowings under credit facility	2,250	
Accrued Liabilities:		
Payroll and benefits	16,056	19,233
Environmental reserve	1,421	1,436
Warranty	4,992	4,958
Other	8,254	7,197
Total current liabilities	55,456	56,973
Accrued pension obligations	18,006	18,202
Accrued postretirement obligations	3,149	3,465
Shareholders' Equity:		
Common stock, authorized 12,000,000 shares, \$.01 par value, issued 6,946,357 shares at December 30, 2012 and 6,932,457 shares at July 1, 2012	69	69
Capital in excess of par value	81,151	80,621
Retained earnings	175,304	171,590
Accumulated other comprehensive loss	(35,087)	(35,757)
Less: treasury stock, at cost (3,627,717 shares at December 30, 2012 and 3,628,673 shares at July 1, 2012)	(135,955)	(135,971)

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Total STRATTEC SECURITY CORPORATION shareholders' equity	85,482	80,552
Non-controlling interest	6,822	6,846
Total shareholders' equity	92,304	87,398
	\$ 168,915	\$ 166,038

The accompanying notes are an integral part of these condensed consolidated balance sheets.

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STRATTEC SECURITY CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(In Thousands)

(Unaudited)

	Six Months Ended	
	December 30, 2012	January 1, 2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 6,155	\$ 4,277
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,531	3,331
Foreign currency transaction loss (gain)	313	(1,605)
Stock based compensation expense	470	371
Equity loss of joint ventures	111	312
Unrealized (gain) loss on foreign currency option contracts	(349)	1,716
Change in operating assets and liabilities:		
Receivables	3,689	4,172
Inventories	(5,300)	(1,170)
Other assets	1,953	(1,975)
Accounts payable and accrued liabilities	(4,536)	(4,235)
Other, net	(61)	16
Net cash provided by operating activities	5,976	5,210
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in joint ventures	(200)	(200)
Purchase of property, plant and equipment	(5,188)	(6,289)
Proceeds received on sale of property, plant and equipment	61	
Net cash used in investing activities	(5,327)	(6,489)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under credit facility	2,250	
Dividends paid to non-controlling interests of subsidiaries	(1,131)	
Dividends paid	(688)	(670)
Exercise of stock options and employee stock purchases	71	64
Repayment of loan from related parties		(850)
Net cash provided by (used in) financing activities	502	(1,456)
Foreign currency impact on cash	(69)	248
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,082	(2,487)
CASH AND CASH EQUIVALENTS		
Beginning of period	17,487	17,250
End of period	\$ 18,569	\$ 14,763
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Income taxes paid	\$ 1,776	\$ 1,080
Interest paid	23	73

The accompanying notes are an integral part of these condensed consolidated statements of cash flows.

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STRATTEC SECURITY CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Basis of Financial Statements

STRATTEC SECURITY CORPORATION designs, develops, manufactures and markets automotive access control products, including mechanical locks and keys, electronically enhanced locks and keys, steering column and instrument panel ignition lock housings, latches, power sliding door systems, power lift gate systems, power deck lid systems, door handles and related products for primarily North American automotive customers. We also supply global automotive manufacturers through a unique strategic relationship with WITTE Automotive of Velbert, Germany, and ADAC Automotive of Grand Rapids, Michigan. Under this relationship, STRATTEC, WITTE and ADAC market each company's products to global customers under the VAST brand name (as more fully described herein). STRATTEC products are shipped to customer locations in the United States, Canada, Mexico, Europe, South America, Korea and China, and we provide full service and aftermarket support for our products.

The accompanying condensed consolidated financial statements reflect the consolidated results of STRATTEC SECURITY CORPORATION, its wholly owned Mexican subsidiary, STRATTEC de Mexico, and its majority owned subsidiaries, ADAC-STRATTEC, LLC and STRATTEC POWER ACCESS LLC. STRATTEC SECURITY CORPORATION is located in Milwaukee, Wisconsin. STRATTEC de Mexico is located in Juarez, Mexico. ADAC-STRATTEC, LLC and STRATTEC POWER ACCESS LLC have operations in El Paso, Texas and Juarez, Mexico. Equity investments in Vehicle Access Systems Technology LLC (VAST LLC) for which we exercise significant influence but do not control and are not the primary beneficiary, are accounted for using the equity method. VAST LLC consists primarily of three wholly owned subsidiaries in China and one joint venture in Brazil. We have only one reporting segment.

In the opinion of management, the accompanying condensed consolidated balance sheet as of July 1, 2012, which has been derived from our audited financial statements, and the related unaudited interim condensed consolidated financial statements contain all adjustments, consisting only of normal recurring items, necessary for their fair presentation in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) and in accordance with Rule 10-01 of Regulation S-X. All significant intercompany transactions have been eliminated.

Interim financial results are not necessarily indicative of operating results for an entire year. The information included in this Form 10-Q should be read in conjunction with Management's Discussion and Analysis and the financial statements and notes thereto included in the STRATTEC SECURITY CORPORATION 2012 Annual Report, which was filed with the Securities and Exchange Commission as an exhibit to our Form 10-K on September 6, 2012.

Derivative Instruments

We own and operate manufacturing operations in Mexico. As a result, a portion of our manufacturing costs are incurred in Mexican pesos, which causes our earnings and cash flows to fluctuate due to changes in the U.S. dollar/Mexican peso exchange rate. We have contracts with Bank of Montreal that provide for two weekly Mexican peso currency option contracts for a portion of our estimated peso denominated operating costs. Current contracts with Bank of Montreal extend through June 28, 2013. The two weekly option contracts are for equivalent notional amounts. The contracts that were effective in fiscal 2012 and expired on July 6, 2012 provided for the purchase of Mexican pesos at a U.S. dollar / Mexican peso exchange rate of 11.85 if the spot rate at the weekly expiry date was below 11.85 or for the purchase of Mexican pesos at a U.S. dollar / Mexican peso exchange rate of 12.85 if the spot rate at the weekly expiry date was above 12.85. Contracts that are effective during the period July 6, 2012 through June 28, 2013 provide for the purchase of Mexican pesos at an average U.S. dollar / Mexican peso exchange rate of 12.40 if the spot rate at the weekly expiry date is below an average of 12.40 or for the purchase of Mexican pesos at an average U.S. dollar / Mexican peso exchange rate of 13.40 if the spot rate at the weekly expiry date is above an average of 13.40. Our objective in entering into these currency option contracts is to minimize our earnings volatility resulting from changes in exchange rates affecting the U.S. dollar cost of our Mexican operations. The Mexican peso option contracts are not used for speculative purposes and are not designated as hedges. As a result, all currency option contracts are recognized in our accompanying condensed consolidated financial statements at fair value and changes in the fair value are reported in current earnings as part of Other Income (Expense), net. The premiums to be paid and received under the weekly Mexican peso currency option contracts net to zero. As a result, premiums related to the contracts did not impact our earnings during the periods presented herein.

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The following table quantifies the outstanding Mexican peso currency option contracts as of December 30, 2012 (thousands of dollars):

	Effective Dates		Notional Amount	Average Option Contractual Exchange Rate	Fair Value
Buy MXP/Sell USD	July 6, 2012	June 28, 2013	\$ 5,400	12.40	\$ 20
Buy MXP/Sell USD	July 6, 2012	June 28, 2013	\$ 5,400	13.40	\$ (67)

The fair market value of all outstanding Mexican peso option contracts in the accompanying Condensed Consolidated Balance Sheets was as follows (thousands of dollars):

	December 30, 2012	July 1, 2012
Not Designated as Hedging Instruments:		
Other Current Liabilities:		
Mexican Peso Option Contracts	\$ (47)	\$ (395)

The pre-tax effects of the Mexican peso option contracts on the accompanying Condensed Consolidated Statements of Operations and Comprehensive Income for the three and six months ended December 30, 2012 and January 1, 2012 consisted of the following (thousands of dollars):

	Other Income (Expense), net			
	Three Months Ended		Six Months Ended	
	December 30, 2012	January 1, 2012	December 30, 2012	January 1, 2012
Not Designated as Hedging Instruments:				
Realized Gain	\$	\$	\$	\$ 18
Realized (Loss)	\$	\$ (192)	\$ (34)	\$ (206)
Unrealized Gain (Loss)	\$ 38	\$ 589	\$ 349	\$ (1,716)

Fair Value of Financial Instruments

The fair value of our cash and cash equivalents, accounts receivable, accounts payable and borrowings under our credit facility approximated book value as of December 30, 2012 and July 1, 2012. Fair value is defined as the exchange price that would be received for an asset or paid for a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. The following table summarizes our financial assets and liabilities measured at fair value on a recurring basis as of December 30, 2012 (in thousands of dollars):

	Fair Value Inputs		
	Level 1 Assets: Quoted Prices In Active Markets	Level 2 Assets: Observable Inputs Other Than Market Prices	Level 3 Assets: Unobservable Inputs
Assets:			
Rabbi Trust Assets:			
Stock Index Funds:			
Small Cap	\$ 222	\$	\$
Mid Cap	219		
Large Cap	667		
U.S. Treasury Securities	1,635		
Cash and Cash Equivalents	1,683		

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Mexican Peso Option Contracts			20	
Total Assets at Fair Value	\$ 4,426	\$	20	\$
Liabilities:				
Mexican Peso Option Contracts	\$	\$	67	\$

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The Rabbi Trust assets fund our supplemental executive retirement plan and are included in Other Current Assets in the accompanying Condensed Consolidated Balance Sheets. The Rabbi Trust assets are classified as Level 1 assets. Refer to the discussion of Mexican peso option contracts under Derivative Instruments above. The fair value of the Mexican Peso option contracts are based on an option pricing model that considers the remaining term, current exchange rate and volatility of the underlying foreign currency base. There were no transfers between Level 1 and Level 2 assets during the six months ended December 30, 2012.

Equity Loss of Joint Ventures

We hold a one-third interest in a joint venture company, Vehicle Access Systems Technology LLC (VAST LLC), with WITTE Automotive of Velbert, Germany (WITTE), and ADAC Automotive of Grand Rapids, Michigan (ADAC). VAST LLC exists to seek opportunities to manufacture and sell all three companies' products in areas of the world outside of North America and Europe. VAST LLC consists primarily of three wholly owned subsidiaries in China and one joint venture in Brazil. Our investment in VAST LLC, for which we exercise significant influence but do not control and are not the primary beneficiary, is accounted for using the equity method. The following are summarized statements of operations for VAST LLC (thousands of dollars):

	Three Months Ended		Six Months Ended	
	December 30, 2012	January 1, 2012	December 30, 2012	January 1, 2012
Net Sales	\$ 22,684	\$ 17,009	\$ 43,965	\$ 38,412
Cost of Goods Sold	18,662	13,918	35,903	33,136
Gross Profit	4,022	3,091	8,062	5,276
Engineering, Selling and Administrative Expenses	4,679	3,874	8,721	6,623
Loss from Operations	(657)	(783)	(659)	(1,347)
Other Income, net	259	100	299	297
Loss Before Income				
Tax Benefit	(398)	(683)	(360)	(1,050)
Income Tax Benefit	(94)	(96)	(14)	(96)
Net Loss	\$ (304)	\$ (587)	\$ (346)	\$ (954)
STRATTEC's Share of VAST LLC				
Net Loss	\$ (101)	\$ (196)	\$ (115)	\$ (318)
Intercompany Profit Eliminations	2	4	4	6
STRATTEC's Equity Loss of Joint Ventures	\$ (99)	\$ (192)	\$ (111)	\$ (312)

Credit Facilities and Guarantees

STRATTEC has a \$25 million secured revolving credit facility (the STRATTEC Credit Facility) with BMO Harris Bank N.A. The STRATTEC Credit Facility expires August 1, 2014. ADAC-STRATTEC LLC has a \$5 million secured revolving credit facility (the ADAC-STRATTEC Credit Facility) with BMO Harris Bank N.A, which is guaranteed by STRATTEC. The ADAC-STRATTEC Credit Facility expires June 28, 2015. Any borrowings under the credit facilities will be secured by our U.S. cash balances, accounts receivable, inventory and fixed assets located in the U.S. Interest on borrowings under the STRATTEC Credit Facility is at varying rates based, at our option, on the London Interbank Offering Rate plus 1.0 percent or the bank's prime rate. Interest on borrowings under the ADAC-STRATTEC Credit Facility is at varying rates based, at our option, on the London Interbank Offering Rate plus 1.75 percent or the bank's prime rate. Both credit facilities contain a restrictive financial covenant that requires the maintenance of a minimum net worth level. The ADAC-STRATTEC credit facility includes an additional restrictive financial covenant that requires the maintenance of a minimum fixed charge coverage ratio. There were no outstanding borrowings under the STRATTEC Credit Facility at December 30, 2012 or July 1, 2012. There were no borrowings under the STRATTEC Credit Facility during fiscal 2013 to date or during fiscal 2012. Borrowings under the ADAC-STRATTEC Credit Facility totaled \$2,250,000 at December 30, 2012. The average outstanding borrowings and weighted average interest rate on the ADAC-STRATTEC Credit Facility loans were approximately \$1.9 million and 2.0 percent, respectively, during the six months ended December 30, 2012. There were no borrowings under the

ADAC-STRATTEC Credit Facility during fiscal 2012.

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In 1995, we recorded a provision of \$3 million for estimated costs to remediate an environmental contamination site at our Milwaukee facility. The site was contaminated by a solvent spill, which occurred in 1985, from a former above ground solvent storage tank located on the east side of the facility. The reserve was originally established based on third party estimates to adequately cover the cost for active remediation of the contamination. Due to changing technology and related costs associated with active remediation of the contamination, an updated analysis and estimate was obtained during fiscal 2010. As a result of this analysis, the reserve was reduced by approximately \$1.1 million, to \$1.5 million in 2010, to reflect the revised monitoring and remediation cost estimate. From 1995 through December 30, 2012, costs of approximately \$450,000 have been incurred related to the installation of monitoring wells on the property and ongoing monitoring costs. We continue to monitor and evaluate the site with the use of these groundwater monitoring wells. An environmental consultant samples these wells one or two times a year to determine the status of the contamination, the potential for remediation of the contamination by natural attenuation, and the dissipation of the contamination over time to concentrations below applicable standards. If such sampling evidences a sufficient degree of and trend toward natural attenuation of the contamination, we may be able to obtain a closure letter from the regulatory authorities resolving the issue without the need for active remediation. If a sufficient degree and trend toward natural attenuation is not evidenced by sampling, a more active form of remediation beyond natural attenuation may be required. The sampling has not yet satisfied all of the requirements for closure by natural attenuation. As a result, sampling continues and the reserve remains at an amount to reflect the estimated cost of active remediation. The reserve is not measured on a discounted basis. We believe, based on findings-to-date and known environmental regulations, that the remaining environmental reserve of \$1.4 million at December 30, 2012, is adequate.

Shareholders Equity

A summary of activity impacting shareholders equity for the six month period ended December 30, 2012 is as follows (in thousands):

	Total Shareholders Equity	Equity Attributed to STRATTEC	Equity Attributed to Non-Controlling Interest
Balance, July 1, 2012	\$ 87,398	\$ 80,552	\$ 6,846
Net Income	6,155	5,064	1,091
Dividend Declared	(1,350)	(1,350)	
Dividend Declared Non-controlling Interests of Subsidiaries	(1,131)		(1,131)
Translation adjustments	686	670	16
Stock Based Compensation	470	470	
Tax Benefit Dividend Paid on Restricted Shares	4	4	
Employee Stock Purchases and Stock Option Exercises	72	72	
Balance, December 30, 2012	\$ 92,304	\$ 85,482	\$ 6,822

Other Income (Expense), net

Net other income (expense) included in the accompanying Condensed Consolidated Statements of Operations and Comprehensive Income primarily includes foreign currency transaction gains and losses, unrealized gains and losses on our Mexican Peso option contracts, and Rabbi Trust gains and losses. Foreign currency transaction gains and losses are the result of foreign currency transactions entered into by our Mexican subsidiaries and fluctuations in foreign currency cash balances. We entered into the Mexican Peso currency option contracts to minimize earnings volatility resulting from changes in exchange rates affecting the U.S. dollar cost of our Mexican operations. The Rabbi Trust assets fund our supplemental executive retirement plan. The investments held in the Trust are considered trading securities. The impact of these items for each of the periods presented was as follows (in thousands):

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	Three Months Ended		Six Months Ended	
	December 30, 2012	January 1, 2012	December 30, 2012	January 1, 2012
Foreign Currency Transaction Gain (Loss)	\$ 142	\$ (95)	\$ (313)	\$ 1,605
Rabbi Trust (Loss) Gain	(11)	144	53	(97)
Unrealized Gain (Loss) on Mexican Peso Option Contracts	38	589	349	(1,716)
Realized Loss on Mexican Peso Option Contracts, net		(192)	(34)	(188)
Other	18	57	114	31
	\$ 187	\$ 503	\$ 169	\$ (365)

Income Taxes

The income tax provisions for the three and six month periods ended December 30, 2012 and January 1, 2012 were affected by the non-controlling interest portion of our pre-tax income and a lower statutory tax rate for income subject to tax in Mexico as compared to the statutory tax rate for income subject to tax in the U.S.

Earnings Per Share (EPS)

Basic earnings per share is computed on the basis of the weighted average number of shares of common stock outstanding during the applicable period. Diluted earnings per share is computed on the basis of the weighted average number of shares of common stock plus the potential dilutive common shares outstanding during the applicable period using the treasury stock method. Potential dilutive common shares include outstanding stock options and restricted stock awards. A reconciliation of the components of the basic and diluted per-share computations follows (in thousands, except per share amounts):

	Three Months Ended		Six Months Ended	
	December 30, 2012	January 1, 2012	December 30, 2012	January 1, 2012
Net Income	\$ 2,394	\$ 1,548	\$ 5,064	\$ 2,830
Less: Income Attributable to Participating Securities	43		94	
Net Income Attributable to Common Shareholders	\$ 2,351	\$ 1,548	\$ 4,970	\$ 2,830
Weighted Average Shares of Common Stock Outstanding	3,317	3,301	3,313	3,298
Incremental Shares Stock based Compensation	36	28	33	30
Diluted Weighted Average Shares of Common Stock Outstanding	3,353	3,329	3,346	3,328
Basic Earnings Per Share	\$ 0.71	\$ 0.47	\$ 1.50	\$ 0.86
Diluted Earnings Per Share	\$ 0.70	\$ 0.47	\$ 1.48	\$ 0.85

Net earnings available to participating securities were not significant for the three or six months ended January 1, 2012. We consider unvested restricted stock that provides the holder with a non-forfeitable right to receive dividends to be a participating security.

As of December 30, 2012, options to purchase 206,000 shares of common stock at a weighted-average exercise price of \$38.29 were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive. As of January 1, 2012, options to purchase 250,000 shares of common stock at a weighted-average exercise price of \$33.78 were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive.

Table of Contents**Stock-based Compensation**

We maintain an omnibus stock incentive plan. This plan provides for the granting of stock options, shares of restricted stock and stock appreciation rights. The Board of Directors has designated 1,700,000 shares of common stock available for the grant of awards under the plan. Remaining shares available to be granted under the plan as of December 30, 2012 were 112,793. Awards that expire or are canceled without delivery of shares become available for re-issuance under the plan. We issue new shares of common stock to satisfy stock option exercises.

Nonqualified and incentive stock options and shares of restricted stock have been granted to our officers, outside directors and specified employees under our stock incentive plan. Stock options granted under the plan may not be issued with an exercise price less than the fair market value of the common stock on the date the option is granted. Stock options become exercisable as determined at the date of grant by the Compensation Committee of the Board of Directors. The options expire 5 to 10 years after the grant date unless an earlier expiration date is set at the time of grant. The options vest 1 to 4 years after the date of grant. Shares of restricted stock granted under the plan are subject to vesting criteria determined by the Compensation Committee of the Board of Directors at the time the shares are granted and have a minimum vesting period of three years from the date of grant. Restricted shares granted have voting and dividend rights, regardless if the shares are vested or unvested. The restricted stock grants issued to date vest 3 years after the date of grant.

The fair value of each stock option grant was estimated as of the date of grant using the Black-Scholes pricing model. The resulting compensation cost for fixed awards with graded vesting schedules is amortized on a straight line basis over the vesting period for the entire award. The fair value of each restricted stock grant was based on the market price of the underlying common stock as of the date of grant. The resulting compensation cost is amortized on a straight line basis over the vesting period.

A summary of stock option activity under our stock incentive plan for the six months ended December 30, 2012 was as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Outstanding, July 1, 2012	332,800	\$ 28.19		
Granted	40,000	\$ 25.64		
Exercised	(3,500)	\$ 12.83		
Expired	(2,000)	\$ 44.93		
Forfeited	(3,000)	\$ 17.59		
Outstanding, December 30, 2012	364,300	\$ 28.05	5.4	\$ 1,690
Exercisable, December 30, 2012	202,200	\$ 32.74	4.2	\$ 1,163

The intrinsic value of stock options exercised and the fair value of stock options vesting during the three and six month periods presented is as follows (in thousands):

	Three Months Ended		Six Months Ended	
	December 30, 2012	January 1, 2012	December 30, 2012	January 1, 2012
Intrinsic Value of Options Exercised	\$ 28	\$ 26	\$ 34	\$ 26
Fair Value of Stock Options Vesting	\$ 142	\$ 197	\$ 142	\$ 197

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The grant date fair value and assumptions used to determine compensation expense for the options granted during each period presented were as follows:

	Six Months Ended	
	December 30, 2012	January 1, 2012
Weighted Average Grant Date Fair Value:		
Options Issued at Grant Date Market Value	n/a	n/a
Options Issued Above Grant Date Market Value	\$ 10.48	\$ 10.29
Assumptions:		
Risk Free Interest Rate	0.95%	1.23%
Expected Volatility	57.58%	59.88%
Expected Dividend Yield	1.69%	1.74%
Expected Term (in years)	6.0	6.0

A summary of restricted stock activity under our omnibus stock incentive plan for the six months ended December 30, 2012 was as follows:

	Shares	Weighted Average
		Grant Date Fair Value
Nonvested Balance, July 1, 2012	49,400	\$ 20.45
Granted	24,150	\$ 23.69
Vested	(10,400)	\$ 15.44
Forfeited	(1,200)	\$ 27.53
Nonvested Balance, December 30, 2012	61,950	\$ 22.42

As of December 30, 2012, there was \$871,000 of total unrecognized compensation cost related to stock options granted under our omnibus stock incentive plan. This cost is expected to be recognized over a weighted average period of 11 months. As of December 30, 2012, there was approximately \$567,000 of total unrecognized compensation cost related to restricted stock grants under the plan. This cost is expected to be recognized over a weighted average period of 9 months. Total unrecognized compensation cost will be adjusted for any future changes in estimated and actual forfeitures of awards granted under our omnibus stock incentive plan.

Pension and Other Postretirement Benefits

We have a qualified, noncontributory defined benefit pension plan covering substantially all U.S. associates. Benefits are based on years of service and final average compensation. Our policy is to fund at least the minimum actuarially computed annual contribution required under the Employee Retirement Income Security Act of 1974 (ERISA). Plan assets consist primarily of listed equity and fixed income securities. Effective January 1, 2010, an amendment to the qualified defined benefit pension plan discontinued the benefit accruals for salary increases and credited service rendered after December 31, 2009.

We have a noncontributory supplemental executive retirement plan (SERP), which is a nonqualified defined benefit plan that essentially mirrors the qualified plan, but provides benefits in excess of certain limits placed on our qualified retirement plan by the Internal Revenue Code. The SERP will pay supplemental pension benefits to certain key employees upon retirement based upon the employees' years of service and compensation. The SERP is being funded through a Rabbi trust with BMO Harris Bank N.A. During our fiscal 2013 third quarter, it is anticipated that SERP benefits of approximately \$5.7 million will be cash settled using primarily Rabbi trust assets and current cash balances. We currently estimate that we will incur a related settlement charge to operations of approximately \$2.1 million pre-tax in our third quarter as a result of the requirement to expense a portion of the unrealized actuarial losses due to the settlement of the SERP obligation. The charge will have no effect on equity because the unrealized actuarial losses are already recognized in accumulated other comprehensive loss. Accordingly, the effect on retained earnings will be offset by a corresponding reduction in accumulated other comprehensive loss.

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We also sponsor a postretirement health care plan for all of our U.S. associates hired prior to June 2, 2001. The expected cost of retiree health care benefits is recognized during the years that the associates who are covered under the plan render service. Effective January 1, 2010, an amendment to the postretirement health care plan limited the benefit for future eligible retirees to \$4,000 per plan year and is subject to a maximum five year coverage period based on the associate's retirement date and age. The postretirement health care plan is unfunded.

The following tables summarize the net periodic benefit cost recognized for each of the periods indicated under these plans (in thousands):

	Pension Benefits Three Months Ended		Postretirement Benefits Three Months Ended	
	December 30, 2012	January 1, 2012	December 30, 2012	January 1, 2012
Service cost	\$ 52	\$ 37	\$ 3	\$ 3
Interest cost	1,123	1,196	46	57
Expected return on plan assets	(1,532)	(1,603)		
Amortization of prior service cost	3	3	(191)	(191)
Amortization of unrecognized net loss	1,131	604	224	168
Net periodic benefit cost	\$ 777	\$ 237	\$ 82	\$ 37

	Pension Benefits Six Months Ended		Postretirement Benefits Six Months Ended	
	December 30, 2012	January 1, 2012	December 30, 2012	January 1, 2012
Service cost	\$ 104	\$ 75	\$ 7	\$ 5
Interest cost	2,246	2,392	91	114
Expected return on plan assets	(3,064)	(3,205)		
Amortization of prior service cost	6	6	(382)	(382)
Amortization of unrecognized net loss	2,262	1,207	449	337
Net periodic benefit cost	\$ 1,554	\$ 475	\$ 165	\$ 74

Contributions made to the qualified pension plan totaled \$1,750,000 during the six month period ending December 30, 2012 and \$1.0 million during the six month period ending January 1, 2012. Additional contributions of \$1,250,000 are anticipated to be made during the remainder of the third and the fourth quarters of fiscal 2013.

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Item 2

STRATTEC SECURITY CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis should be read in conjunction with STRATTEC SECURITY CORPORATION's accompanying Condensed Consolidated Financial Statements and Notes thereto and its 2012 Annual Report which was filed with the Securities and Exchange Commission as an exhibit to its Form 10-K on September 6, 2012. Unless otherwise indicated, all references to years refer to fiscal years.

Analysis of Results of Operations

Three months ended December 30, 2012 compared to the three months ended January 1, 2012

	Three Months Ended	
	December 30, 2012	January 1, 2012
Net Sales (in millions)	\$ 72.2	\$ 65.9

Net sales to each of our customers or customer groups in the current year quarter and prior year quarter were as follows (in millions):

	Three Months Ended	
	December 30, 2012	January 1, 2012
Chrysler Group LLC	\$ 23.0	\$ 22.4
General Motors Company	13.5	14.4
Ford Motor Company	10.5	8.1
Tier 1 Customers	15.0	11.4
Commercial and Other OEM Customers	7.7	5.9
Hyundai / Kia	2.5	3.7
Total	\$ 72.2	\$ 65.9

Increased sales to Chrysler Group LLC and Ford Motor Company in the current quarter were primarily due to increased customer vehicle production volumes on models for which we supply components. New product content also contributed to the increased sales to Ford Motor Company. The reduction in sales to General Motors Company in the current quarter was primarily attributed to business we lost to other suppliers during the latter half of the 2012 model year, partially offset by higher production on other General Motors vehicles for which we continue to supply components. Increased sales to Tier 1, Commercial and Other OEM customers during the current quarter relates to market growth and the increasing impact of other vehicle access control products such as latches, fobs, and driver controls that have been developed in recent years to complement our historic core business of locks and keys. The reduction in sales to Hyundai / Kia in the current quarter was principally due to lower customer vehicle production volume and the discontinuation of a vehicle model for which we had been supplying components.

	Three Months Ended	
	December 30, 2012	January 1, 2012
Gross Profit as a Percentage of Net Sales	17.0%	17.1%

The benefits of higher volumes on gross profit margin in the current quarter were negatively impacted by a less favorable product sales mix, an unfavorable Mexico Peso to U.S. Dollar exchange rate which negatively affected the U.S. dollar cost of our Mexican operations in the current year quarter, and higher expense provisions for our pension plan and for the accrual of bonuses earned under our incentive bonus plan. We froze

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our Defined Benefit Pension Plan for future benefit accruals effective January 1, 2010. Therefore, the increase in pension expense during the current year is attributed to a lower discount rate and the corresponding lower expected return on invested assets that are measured at the end of fiscal year 2012. The average U.S. dollar/Mexican peso exchange rate decreased to approximately 13.00 pesos to the dollar in the current year quarter from approximately 13.70 pesos to the dollar in the prior year quarter. This resulted in increased U.S. dollar costs related to our Mexican operations of approximately \$458,000 in the current year quarter compared to the prior year quarter.

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Engineering, selling and administrative expenses as a percent of net sales in the current quarter decreased to 11.7 percent from 12.1 percent in comparison to the prior year quarter. These expenses as a percent of net sales would have declined further except for increased costs primarily for our pension and incentive bonus plans as discussed above. During our fiscal 2013 third quarter, it is anticipated that SERP benefits of approximately \$5.7 million will be cash settled using primarily Rabbi trust assets and current cash balances. We currently estimate that we will incur a related settlement charge to operations of approximately \$2.1 million pre-tax in our third quarter as a result of the requirement to expense a portion of the unrealized actuarial losses due to the settlement of the SERP obligation. The charge will have no effect on equity because the unrealized actuarial losses are already recognized in accumulated other comprehensive loss. Accordingly, the effect on retained earnings will be offset by a corresponding reduction in accumulated other comprehensive loss.

Income from operations in the current year quarter was \$3.8 million compared to \$3.3 million in the prior year quarter. This change was the result of the increase in sales, which was partially offset by lower gross profit margins in the current year quarter over the prior year quarter as discussed above.

Equity loss of joint ventures was \$99,000 during the current year quarter compared \$192,000 in the prior year quarter. During the prior fiscal year our joint ventures in China and Brazil continued to incur relocation costs associated with moves to new facilities and start-up costs associated with a new product line. These relocation costs and start-up costs continued for VAST China in the current quarter. These costs resulted in STRATTEC incurring an equity loss from joint ventures in both the current year and prior year quarters. The facility moves have been completed, but we anticipate the start-up costs and related losses to continue for VAST China over the remainder of the 2013 fiscal year.

Included in other income (expense), net in the current year quarter and prior year quarter were the following items (in thousands):

	Three Months Ended	
	December 30, 2012	January 1, 2012
Foreign Currency Transaction Gain (Loss)	\$ 142	\$ (95)
Rabbi Trust (Loss) Gain	(11)	144
Unrealized Gain on Mexican Peso Option Contracts	38	589
Realized Loss on Mexican Peso Option Contracts, net		(192)
Other	18	57
	\$ 187	\$ 503

Foreign currency transaction gains and losses resulted from foreign currency transactions entered into by our Mexican subsidiaries and fluctuations in foreign currency cash balances. In September of the prior fiscal year, the Mexican peso devalued significantly to the U.S. dollar creating unrealized losses on our Mexican peso currency option contracts. In the prior year December quarter, realized losses were generated on the weekly commitments due under the contracts. Our objective in entering into these currency option contracts was to minimize our earnings volatility resulting from changes in exchange rates affecting the U.S. dollar cost of our Mexican operations. Unrealized losses recognized as a result of mark-to-market adjustments as of December 30, 2012 totaled approximately \$47,000, all of which may or may not be realized, depending upon the actual Mexican peso to U.S. dollar exchange rates experienced during the balance of the option contract period. Our Rabbi Trust assets fund our supplemental executive retirement plan. The investments held in the Trust are considered trading securities.

Our income tax provision for each of the three month periods ended December 30, 2012 and January 1, 2012 was affected by the non-controlling interest portion of our pre-tax income and a lower statutory tax rate for income subject to tax in Mexico as compared to the statutory tax rate for income subject to tax in the U.S.

Six months ended December 30, 2012 compared to the six months ended January 1, 2012

	Six Months Ended	
	December 30, 2012	January 1, 2012
Net Sales (in millions)	\$ 143.0	\$ 132.2

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Net Sales to each of our customers or customer groups in the current year period and prior year period were as follows (in millions):

	Six Months Ended	
	December 30, 2012	January 1, 2012
Chrysler Group LLC	\$ 45.4	\$ 42.2
General Motors Company	28.6	30.4
Ford Motor Company	20.1	16.4
Tier 1 Customers	28.9	22.8
Commercial and Other OEM Customers	14.7	12.9
Hyundai / Kia	5.3	7.5
Total	\$ 143.0	\$ 132.2

Increased sales to Chrysler Group LLC and Ford Motor Company in the current year period were primarily due to increased customer vehicle production volumes on models for which we supply components. New product content also contributed to the increased sales to Ford Motor Company. The reduction in sales to General Motors Company in the current year period was primarily attributed to business we lost to other suppliers during the latter half of the 2012 model year, partially offset by higher production on other General Motors vehicles for which we continue to supply components. Increased sales to Tier 1, Commercial and Other OEM customers in the current year period relates to market growth and the increasing impact of other vehicle access control products such as latches, fobs and driver controls that have been developed in recent years to complement our historic core business of locks and keys. The reduction in sales to Hyundai / Kia in the current year period was principally due to lower customer vehicle production volume and the discontinuation of a vehicle model for which we had been supplying components.

	Six Months Ended	
	December 30, 2012	January 1, 2012
Gross Profit as a Percentage of Net Sales	18.2%	17.2%

The higher gross profit margin in the current year period was primarily the result of favorable increased overhead absorption of our fixed manufacturing costs resulting from favorable customer production volumes of most of the vehicles for which we supply components. This was partially offset by a less favorable product content sales mix and higher expense provisions for our pension plan and for the accrual of bonuses earned under our incentive bonus plans. We froze our Defined Benefit Pension Plan for future benefit accruals effective January 1, 2010. Therefore, the increase in pension expense during the current year period was attributable to a lower discount rate and the corresponding lower expected return on invested assets that are measured at the end of fiscal year 2012.

Engineering, selling and administrative expenses as a percent of net sales were 12.3 percent in the current year period compared to 12.2 percent in the prior year period. These expenses as a percent of net sales would have declined except for increased costs for product development, higher medical costs, and increased costs for our pension and incentive bonus plans as discussed above. During our fiscal 2013 third quarter, it is anticipated that SERP benefits of approximately \$5.7 million will be cash settled using primarily Rabbi trust assets and current cash balances. We currently estimate that we will incur a related settlement charge to operations of approximately \$2.1 million pre-tax in our third quarter as a result of the requirement to expense a portion of the unrealized actuarial losses due to the settlement of the SERP obligation. The charge will have no effect on equity because the unrealized actuarial losses are already recognized in accumulated other comprehensive loss. Accordingly, the effect on retained earnings will be offset by a corresponding reduction in accumulated other comprehensive loss.

Income from operations in the current year-to-date period was \$8.4 million compared to \$6.6 million in the prior year-to-date period. This change was the result of the increase in sales and gross profit margin in the current year-to-date period over the same period in the prior year as discussed above.

Equity loss of joint ventures was \$111,000 during the current year-to-date period compared to \$312,000 in the prior year-to-date period. During the prior fiscal year our joint ventures in China and Brazil continued to incur relocation costs associated with moves to new facilities and start-up costs associated with a new product line. These relocation costs and start-up costs continued for VAST China in the current period. These costs resulted in STRATTEC incurring an equity loss from joint ventures in both the current year-to-date and prior year-to-date periods. The facility moves have been completed, but we anticipate the start-up costs and related losses to continue for VAST China over the remainder of the 2013 fiscal year.

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Included in net other income (expense) in the current year-to-date period and prior year-to-date period were the following items (in thousands):

	Six Months Ended	
	December 30, 2012	January 1, 2012
Foreign Currency Transaction (Loss) Gain	\$ (313)	\$ 1,605
Rabbi Trust Gain (Loss)	53	(97)
Unrealized Gain (Loss) on Mexican Peso Option Contracts	348	(1,716)
Realized Loss on Mexican Peso Option Option Contracts	(34)	(188)
Other	115	31
	\$ 169	\$ (365)

Foreign currency transaction gains and losses resulted from foreign currency transactions entered into by our Mexican subsidiaries and fluctuations in foreign currency cash balances. Our Rabbi Trust assets fund our supplemental executive retirement plan. The investments held in the Trust are considered trading securities. In September of the prior fiscal year, the Mexican peso devalued significantly to the U.S. dollar creating both foreign currency transaction gains and unrealized losses on our Mexican peso currency option contracts. Our objective in entering into these currency option contracts was to minimize our earnings volatility resulting from changes in exchange rates affecting the U.S. dollar cost of our Mexican operations. Unrealized losses recognized as a result of mark-to-market adjustments as of December 30, 2012 totaled approximately \$47,000 all of which may or may not be realized, depending upon the actual Mexican peso to U.S. dollar exchange rates experienced during the balance of the option contract period.

Our income tax provision for each of the six month periods ended December 30, 2012 and January 1, 2012 was affected by the non-controlling interest portion of our pre-tax income and a lower effective and statutory tax rate for income subject to tax in Mexico as compared to the effective and statutory tax rate for income subject to tax in the U.S.

Liquidity and Capital Resources

Our primary source of cash flow is from our major customers, which include Chrysler Group LLC, General Motors Company and Ford Motor Company. As of the date of filing this Form 10-Q with the Securities and Exchange Commission, all of our customers are making payments on their outstanding accounts receivable in accordance with the payment terms included on their purchase orders. A summary of our outstanding receivable balances from our major customers as of December 30, 2012 was as follows (in thousands of dollars):

Chrysler	\$ 13,320
General Motors	\$ 7,282
Ford	\$ 5,826

We earn a portion of our operating income in Mexico, which is deemed to be permanently reinvested. As of December 30, 2012, \$9.3 million of our \$18.6 million cash and cash equivalents balance was held by our foreign subsidiaries in Mexico. We currently do not intend nor foresee a need to repatriate these funds. We expect existing domestic cash and cash equivalents and cash flows from operations to continue to be sufficient to fund our operating activities and cash commitments for investing and financing activities, such as regular quarterly dividends and capital expenditures, for at least the next 12 months and thereafter for the foreseeable future. Should we require more capital in the U.S. than is generated by our operations domestically, for example to fund significant discretionary activities, such as acquisitions of businesses and share repurchases, we could elect to repatriate future earnings from foreign jurisdictions or raise capital in the U.S. through borrowings under our revolving credit facility. These alternatives could result in higher effective tax rates, increased interest expense, or other dilution of our earnings.

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Cash flow provided by operating activities was \$6.0 million during the six months ended December 30, 2012, compared to \$5.2 million during the six months ended January 1, 2012. Cash flows from operating activities increased in the current year-to-date period compared to the prior year-to-date period primarily due to an improvement in our overall financial results. This increase was partially reduced by increased working capital requirements in the current year-to-date period as compared to the prior year-to-date period. Net income adjusted for non-cash items such as depreciation, unrealized gains and losses on foreign currency contracts and foreign currency transaction gains and losses increased approximately \$1.8 million in the current year-to-date period as compared to the prior year-to-date period. Cash used for working capital requirements increased approximately \$1.0 million in the current year-to-date period as compared to the prior year-to-date period. Our working capital requirements during the current period were impacted by a significant increase in inventory. During our fiscal 2013 first quarter we increased inventory levels in support of production shipment requirements for new model year launches. Toward the end of our fiscal 2013 second quarter, customer sales weakened as our customers, primarily General Motors and Chrysler, reduced their production build schedules for certain models we supply to work off excess dealer vehicle inventory. This resulted in a further increase in our inventory levels as of the end of our 2013 fiscal second quarter. During the current year quarter, the other current assets balance was reduced by approximately \$1.5 million as a result of billings made for customer tooling balances. Current year-to-date operating cash flow was also impacted by an August 2012 payment of approximately \$5.2 million in bonuses, which were earned during fiscal 2012 under our incentive bonus plans. Bonus payments totaled approximately \$4.3 million in the prior year-to-date period. Contributions made to our qualified pension plan totaled \$1,750,000 during the current year-to-date period and \$1 million during the prior year-to-date period.

During our fiscal 2013 third quarter, it is anticipated that SERP benefits of approximately \$5.7 million will be cash settled using primarily Rabbi trust assets and current cash balances. We currently estimate that we will incur a related settlement charge to operations of approximately \$2.1 million pre-tax in our third quarter as a result of the requirement to expense a portion of the unrealized actuarial losses due to the settlement of the SERP obligation. The charge will have no effect on equity because the unrealized actuarial losses are already recognized in accumulated other comprehensive loss. Accordingly, the effect on retained earnings will be offset by a corresponding reduction in accumulated other comprehensive loss.

During the six months ended December 30, 2012, our portion of capital contributions made to VAST LLC in support of general operating expenses totaled \$200,000. During both the current year-to-date and prior year-to-date periods the VAST joint venture in China incurred relocation costs associated with moves to new facilities and start-up costs associated with a new product line. These relocation costs and start-up costs have been financed internally by VAST LLC. We anticipate these transition costs and related losses to continue for VAST China over the remainder of the 2013 fiscal year. In addition, we anticipate that VAST China capital expenditures will total approximately \$7 million during calendar year 2013 in support of the new product line and new programs. As a result, we estimate that our portion of additional capital contributions to VAST LLC could be \$1 million to \$3 million during calendar year 2013.

Capital expenditures during the current year-to-date period totaled \$5.2 million compared to \$6.3 million in the prior year-to-date period. We anticipate that capital expenditures will be approximately \$10 million in fiscal 2013, primarily relating to expenditures in support of requirements for new product programs and the upgrade and replacement of existing equipment.

Our Board of Directors has authorized a stock repurchase program to buy back outstanding shares of our common stock. Shares authorized for buy back under the program totaled 3,839,395 at December 30, 2012. A total of 3,655,322 shares have been repurchased over the life of the program through December 30, 2012, at a cost of approximately \$136.4 million. No shares were repurchased during the six month period ended December 30, 2012. Additional repurchases may occur from time to time and are expected to continue to be funded by cash flow from operations and current cash balances. Based on the current economic environment and our preference to conserve cash for other uses, we anticipate modest or no stock repurchase activity for the remainder of fiscal year 2013.

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We have a \$25 million secured revolving credit facility (the STRATTEC Credit Facility) with BMO Harris Bank N.A. The STRATTEC Credit Facility expires August 1, 2014. As of September 30, 2012, ADAC-STRATTEC LLC had a \$5 million secured revolving credit facility (the ADAC-STRATTEC Credit Facility) with BMO Harris Bank N.A, which is guaranteed by STRATTEC. The ADAC-STRATTEC Credit Facility expires June 28, 2015. Any borrowings under the credit facilities will be secured by our U.S. cash balances, accounts receivable, inventory and fixed assets located in the U.S. Interest on borrowings under these credit facilities is at varying rates based, at our option, on the London Interbank Offering Rate plus 1.0 to 1.75 percent or the bank's prime rate. Both credit facilities contain a restrictive financial covenant that requires the maintenance of a minimum net worth level. The ADAC-STRATTEC credit facility includes an additional restrictive financial covenant that requires the maintenance of a minimum fixed charge coverage ratio. There were no outstanding borrowings under the STRATTEC Credit Facility at December 30, 2012 or July 1, 2012. There were no borrowings under the STRATTEC Credit Facility during fiscal 2013 to date or during fiscal 2012. Borrowings under the ADAC-STRATTEC Credit Facility totaled \$2,250,000 at December 30, 2012. The average outstanding borrowings and weighted average interest rate on the ADAC-STRATTEC Credit Facility loans were approximately \$1.9 million and 2.0 percent, respectively, during the six months ended December 30, 2012. There were no borrowings under the ADAC-STRATTEC Credit Facility during fiscal 2012. We believe that these credit facilities are adequate, along with existing cash balances and cash flow from operations, to meet our anticipated capital expenditure, working capital, dividend and operating expenditure requirements.

Over the past several years, we have been impacted by rising health care costs, which have increased our cost of associate medical coverage. A portion of these increases have been offset by plan design changes and associate wellness initiatives. We have also been impacted by increases in the market price of zinc and brass and inflation in Mexico, which impacts the U. S. dollar costs of our Mexican operations. We have negotiated raw material price adjustment clauses with certain, but not all, of our customers to offset some of the market price fluctuations in the cost of zinc. Moreover, in January 2011 and August 2011, we entered into agreements with Bank of Montreal that provide for two weekly Mexican peso currency option contracts for a portion of our estimated peso denominated operating costs. Current contracts with Bank of Montreal extend through June 28, 2013. The two weekly option contracts are for equivalent notional amounts. The contracts that were effective in fiscal 2012 and expired on July 6, 2012 provided for the purchase of Mexican pesos at a U.S. dollar / Mexican peso exchange rate of 11.85 if the spot rate at the weekly expiry date was below 11.85 or for the purchase of Mexican pesos at a U.S. dollar / Mexican peso exchange rate of 12.85 if the spot rate at the weekly expiry date was above 12.85. Contracts that are effective during the period July 6, 2012 through June 28, 2013 provide for the purchase of Mexican pesos at an average U.S. dollar / Mexican peso exchange rate of 12.40 if the spot rate at the weekly expiry date is below an average of 12.40 or for the purchase of Mexican pesos at an average U.S. dollar / Mexican peso exchange rate of 13.40 if the spot rate at the weekly expiry date is above an average of 13.40. Our objective in entering into these currency option contracts is to minimize our earnings volatility resulting from changes in exchange rates affecting the U.S. dollar cost of our Mexican operations. The Mexican peso option contracts are not used for speculative purposes and are not designated as hedges. As a result, all currency option contracts are recognized in our accompanying condensed consolidated financial statements at fair value and changes in the fair value of the currency option contracts are reported in current earnings as part of Other Income (Expense), net. The premiums to be paid and received under the weekly Mexican peso currency option contracts net to zero. As a result, premiums related to the contracts did not impact our earnings during the periods presented herein.

The following table quantifies the outstanding Mexican peso currency option contracts as of December 30, 2012 (thousands of dollars):

	Notional Amount	Average Option Contractual Exchange Rate	Fair Value	Foreign Exchange Gain/(Loss) From:	
				10% Appreciation of U.S. Dollar	10% Depreciation of U.S. Dollar
Contracts Effective July 6, 2012					
June 28, 2013					
Buy MXP/Sell USD	\$ 5,400	12.40	\$ 20	\$ (20)	\$ 268
Buy MXP/Sell USD	\$ 5,400	13.40	\$ (67)	\$ (321)	\$ 64

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The fair market value of all outstanding Mexican peso option contracts in the accompanying Condensed Consolidated Balance Sheets was as follows (thousands of dollars):

	December 30, 2012	July 1, 2012
Not Designated as Hedging Instruments:		
Other Current Liabilities:		
Mexican Peso Option Contracts	\$ (47)	\$ (395)

The pre-tax effects of the Mexican peso option contracts on the accompanying Condensed Consolidated Statements of Operations and Comprehensive Income for the three and six months ended December 30, 2012 and January 1, 2012 consisted of the following (thousands of dollars):

	Other Income (Expense), net			
	Three Months Ended		Six Months Ended	
	December 30, 2012	January 1, 2012	December 30, 2012	January 1, 2012
Not Designated as Hedging Instruments:				
Realized Gain	\$	\$	\$	\$ 18
Realized (Loss)	\$	\$ (192)	\$ (34)	\$ (206)
Unrealized Gain (Loss)	\$ 38	\$ 589	\$ 348	\$ (1,716)

Joint Ventures

We participate in certain Alliance Agreements with WITTE Automotive (WITTE) and ADAC Automotive (ADAC). WITTE, of Velbert, Germany, is a privately held automotive supplier. WITTE designs, manufactures and markets automotive components, including locks and keys, hood latches, rear compartment latches, seat back latches, door handles and specialty fasteners. WITTE's primary market for these products has been Europe. ADAC, of Grand Rapids, Michigan, is a privately held automotive supplier and manufactures engineered products, including door handles and other automotive trim parts, utilizing plastic injection molding, automated painting and various assembly processes.

The Alliance Agreements include a set of cross-licensing agreements for the manufacture, distribution and sale of WITTE products by STRATTEC and ADAC in North America, and the manufacture, distribution and sale of STRATTEC and ADAC products by WITTE in Europe. Additionally, a joint venture company, Vehicle Access Systems Technology LLC (VAST LLC), in which WITTE, STRATTEC and ADAC each hold a one-third interest, exists to seek opportunities to manufacture and sell the companies' products in areas of the world outside of North America and Europe.

VAST do Brasil, a joint venture between VAST LLC and Ifer do Brasil Ltda., services customers in South America. VAST Fuzhou, VAST Great Shanghai and VAST Shanghai Co. (collectively known as VAST China), provides a base of operations to service our automotive customers in the Asian market. VAST LLC also maintains branch offices in South Korea and Japan in support of customer sales and engineering requirements.

The VAST LLC investments are accounted for using the equity method of accounting. The activities related to the VAST LLC joint ventures resulted in equity loss of joint ventures to STRATTEC of approximately \$111,000 during the six months ended December 30, 2012 and equity loss of joint ventures to STRATTEC of approximately \$312,000 during the six months ended January 1, 2012. During the prior fiscal year our joint ventures in China and Brazil continued to incur relocation costs associated with moves to new facilities and start-up costs associated with a new product line. These relocation costs and start-up costs continued for VAST China in the current period-to-date. These items resulted in STRATTEC incurring an equity loss from joint ventures in both the current year-to-date and prior year-to-date periods. We anticipate these transition costs and related losses to continue for VAST China over the remainder of the 2013 fiscal year. During the six months ended December 30, 2012, cash capital contributions totaling \$600,000 were made to VAST LLC in support of general operating expenses. STRATTEC's portion of the cash capital contributions totaled \$200,000. During the six months ended January 1, 2012, capital contributions totaling \$600,000 were made to VAST LLC in support of general operating expenses. STRATTEC's portion of these capital contributions also totaled \$200,000.

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In fiscal year 2007, we entered into a joint venture with ADAC forming ADAC-STRATTEC LLC, a Delaware limited liability company. The joint venture was created to establish injection molding and door handle assembly operations in Mexico. STRATTEC originally held a 50.1 percent interest in ADAC-STRATTEC LLC. Effective June 28, 2010, STRATTEC purchased an additional .9 percent interest from ADAC and now owns 51 percent. A Mexican entity, ADAC-STRATTEC de Mexico, exists and is wholly owned by ADAC-STRATTEC LLC. ADAC-STRATTEC LLC's financial results are consolidated with the financial results of STRATTEC and resulted in increased net income to STRATTEC of approximately \$620,000 during the six months ended December 30, 2012 and approximately \$696,000 during the six months ended January 1, 2012.

Effective November 30, 2008, STRATTEC established a new entity, STRATTEC POWER ACCESS LLC (SPA), which is 80 percent owned by STRATTEC and 20 percent owned by WITTE. SPA operates the North American portion of the Power Products business which was acquired from Delphi Corporation. The financial results of SPA are consolidated with the financial results of STRATTEC and resulted in increased net income to STRATTEC of approximately \$657,000 during the six months ended December 30, 2012 and approximately \$1.1 million during the six months ended January 1, 2012.

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Item 3 Quantitative and Qualitative Disclosures About Market Risk

Our exposure to market risk is limited to fluctuations in raw material commodity prices, interest rate fluctuations on borrowings under our secured revolving credit facilities and foreign currency exchange rate risk associated with STRATTEC's foreign operations. We do not utilize financial instruments for trading purposes.

Interest Rates: We are subject to interest rate fluctuations on borrowings under our revolving credit facilities. At December 30, 2012, we had \$2,250,000 of outstanding borrowings under our credit facilities. The interest expense related to borrowings under the credit facilities during the six months ended December 30, 2012 was \$15,000. A 10% increase or decrease in the interest rate on borrowings would not have a material effect on our financial position, results of operations or cash flows.

Foreign Currency: We are subject to foreign currency exchange rate exposure related to the U.S. dollar costs of our manufacturing operations in Mexico. A portion of our manufacturing costs are incurred in Mexican pesos. Our earnings and cash flows are subject to fluctuations as a result of changes in the U.S. dollar / Mexican peso exchange rate. In January 2011 and August 2011, we entered into agreements with Bank of Montreal that provide for two weekly Mexican peso currency option contracts for a portion of our estimated peso denominated operating costs. Current contracts with Bank of Montreal extend through June 28, 2013. The two weekly option contracts are for equivalent notional amounts. The contracts that were effective in fiscal 2012 and expired on July 6, 2012 provided for the purchase of Mexican pesos at a U.S. dollar / Mexican peso exchange rate of 11.85 if the spot rate at the weekly expiry date was below 11.85 or for the purchase of Mexican pesos at a U.S. dollar / Mexican peso exchange rate of 12.85 if the spot rate at the weekly expiry date was above 12.85. Contracts that are effective during the period July 6, 2012 through June 28, 2013 provide for the purchase of Mexican pesos at an average U.S. dollar / Mexican peso exchange rate of 12.40 if the spot rate at the weekly expiry date is below an average of 12.40 or for the purchase of Mexican pesos at an average U.S. dollar / Mexican peso exchange rate of 13.40 if the spot rate at the weekly expiry date is above an average of 13.40. Our objective in entering into these currency option contracts is to minimize our earnings volatility resulting from changes in exchange rates affecting the U.S. dollar cost of our Mexican operations. The Mexican peso option contracts are not used for speculative purposes and are not designated as hedges. As a result, all currency option contracts are recognized in our accompanying condensed consolidated financial statements at fair value and changes in the fair value of the currency option contracts are reported in current earnings as part of Other Income (Expense), net. The premiums to be paid and received under the weekly Mexican peso currency option contracts net to zero. As a result, premiums related to the contracts did not impact our earnings during the periods presented herein.

The following table quantifies the outstanding Mexican peso currency option contracts as of December 30, 2012 (thousands of dollars):

	Effective Dates		Notional Amount	Average Option Contractual Exchange Rate	Fair Value
Buy MXP/Sell USD	July 6, 2012	June 28, 2013	\$ 5,400	12.40	\$ 20
Buy MXP/Sell USD	July 6, 2012	June 28, 2013	\$ 5,400	13.40	\$ (67)

The fair market value of all outstanding Mexican peso option contracts in the accompanying Condensed Consolidated Balance Sheets was as follows (thousands of dollars):

	December 30, 2012	July 1, 2012
Not Designated as Hedging Instruments:		
Other Current Liabilities:		
Mexican Peso Option Contracts	\$ (47)	\$ (395)

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The pre-tax effects of the Mexican peso option contracts on the accompanying Condensed Consolidated Statements of Operations and Comprehensive Income for the three and six months ended December 30, 2012 and January 1, 2012 consisted of the following (thousands of dollars):

	Other Income (Expense), net			
	Three Months Ended		Six Months Ended	
	December 30,	January 1,	December 30,	January 1,
	2012	2012	2012	2012
Not Designated as Hedging Instruments:				
Realized Gain	\$	\$	\$	\$ 18
Realized (Loss)	\$	\$ (192)	\$ (34)	\$ (206)
Unrealized Gain (Loss)	\$ 38	\$ 589	\$ 348	\$ (1,716)

Raw Materials Commodity Prices: Our primary raw materials are high-grade zinc, brass, nickel silver, aluminum, steel and plastic resins. These materials are generally available from a number of suppliers, but we have chosen to concentrate our sourcing with one primary vendor for each commodity or purchased component. We believe our sources of raw materials are reliable and adequate for our needs. However, the development of future sourcing issues related to using existing or alternative raw materials and the global availability of these materials as well as significant fluctuations in the market prices of these materials may have an adverse effect on our financial results if the increased raw material costs cannot be recovered from our customers. Given the significant financial impact on us relating to changes in the cost of our primary raw materials, commencing with fiscal 2008, we began quoting quarterly material price adjustments for changes in our zinc costs in our negotiations with our customers. Our success in obtaining these quarterly price adjustments in our customer contracts is dependent on separate negotiations with each customer. It is not a standard practice for our customers to include such price adjustments in their contracts. We have been successful in obtaining quarterly price adjustments in some of our customer contracts. However, we have not been successful in obtaining the adjustments with all of our customers.

Item 4 Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) that are designed to ensure that information required to be disclosed in the Company's reports filed or submitted under the Exchange Act, are recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that the information required to be disclosed by the Company in reports that it files or submits under the Exchange Act are accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of such period, our disclosure controls and procedures were effective at reaching a level of reasonable assurance. It should be noted that in designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost benefit relationship of possible controls and procedures. We have designed our disclosure controls and procedures to reach a level of reasonable assurance of achieving the desired control objectives.

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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Part II

Other Information

Item 1 Legal Proceedings

In the normal course of business, we may be involved in various legal proceedings from time to time. We do not believe we are currently involved in any claim or action the ultimate disposition of which would have a material adverse effect on our financial statements.

Item 1A Risk Factors

There have been no material changes to the risk factors disclosed in our Form 10-K as filed with the Securities and Exchange Commission on September 6, 2012.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

Our Board of Directors authorized a stock repurchase program on October 16, 1996, and the program was publicly announced on October 17, 1996. The Board of Directors has periodically increased the number of shares authorized for repurchase under the program, most recently in August 2008. The program currently authorizes the repurchase of up to 3,839,395 shares of our common stock from time to time, directly or through brokers or agents, and has no expiration date. Over the life of the repurchase program through December 30, 2012, a total of 3,655,322 shares have been repurchased at a cost of approximately \$136.4 million. No shares were repurchased during the six month period ended December 30, 2012.

Item 3 Defaults Upon Senior Securities None

Item 4 Mine Safety Disclosures None

Item 5 Other Information None

Item 6 Exhibits

(a) Exhibits

- 10.1 ⁽¹⁾ Amended STRATTEC SECURITY CORPORATION Employee Stock Purchase Plan
- 31.1 Rule 13a-14(a) Certification for Frank J. Krejci, Chairman and Chief Executive Officer
- 31.2 Rule 13a-14(a) Certification for Patrick J. Hansen, Chief Financial Officer
- 32 ⁽²⁾ 18 U.S.C. Section 1350 Certifications
- 101* The following materials from STRATTEC SECURITY CORPORATION's Quarterly Report on Form 10-Q for the fiscal quarter ended December 30, 2012 formatted in XBRL (eXtensible Business Reporting Language) and furnished electronically herewith: (i) Condensed Consolidated Statements of Operations and Comprehensive Income; (ii) Condensed Consolidated Balance Sheets; (iii) Condensed Consolidated Statements of Cash Flows; and (iv) Notes to Condensed Consolidated Financial Statements*

* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files in Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

⁽¹⁾ Incorporated by reference from the exhibit to the Form 8-K filed on January 2, 2013.

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This certification is not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

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SIGNATURE

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

STRATTEC SECURITY CORPORATION (Registrant)

Date: February 7, 2013

By /s/ Patrick J. Hansen
Patrick J. Hansen
Senior Vice President,

Chief Financial Officer,

Treasurer and Secretary

(Principal Accounting and Financial Officer)