STRATTEC SECURITY CORP
Form 10-Q
February 01, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended December 30, 2007

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)

| | |
|---|---|
| Wisconsin | 39-1804239 |
| (State of Incorporation) | (I.R.S. Employer 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 X NO ___

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

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

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: 3,493,906 shares outstanding as of December 30, 2007.

1

STRATTEC SECURITY CORPORATION
FORM 10-Q
December 30, 2007

INDEX



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, “will” and “could.” 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, customer demand for the Company’s and its customers’ products, competitive and technological developments, customer purchasing actions, foreign currency fluctuations, costs of operations and other matters described under the caption “Risk Factors” in the Management’s Discussion and Analysis of Financial Condition and Results of Operations section of this Form 10-Q and in the section titled “Risk Factors” in the Company’s Form 10-K report filed with the Securities and Exchange Commission for the year ended July 1, 2007.

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.

Item 1 Financial Statements

STRATTEC SECURITY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In Thousands, Except Per Share Amounts)
(Unaudited)

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | December 30, 2007 | December 31, 2006 | December 30, 2007 | December 31, 2006 |
| Net sales | $ 39,908 | $ 37,913 | $ 82,647 | $ 75,963 |
| Cost of goods sold | 33,002 | 32,873 | 67,347 | 65,641 |
| Gross profit | 6,906 | 5,040 | 15,300 | 10,322 |
| Engineering, selling and administrative expenses | 5,838 | 4,852 | 11,631 | 9,908 |
| Income from operations | 1,068 | 188 | 3,669 | 414 |
| Interest income | 814 | 905 | 1,727 | 1,827 |
| Other income, net | 158 | 121 | 466 | 149 |
| Minority interest | 69 | - | 118 | - |
| Income before provision for income taxes | 2,109 | 1,214 | 5,980 | 2,390 |
| Provision for income taxes | 786 | 120 | 2,238 | 555 |
| Net income | $ 1,323 | $ 1,094 | $ 3,742 | $ 1,835 |
| | | | | |
| Earnings per share: | | | | |
| Basic | $ 0.38 | $ 0.31 | $ 1.07 | $ 0.51 |
| Diluted | $ 0.38 | $ 0.31 | $ 1.06 | $ 0.51 |
| | | | | |
| Average Shares Outstanding: | | | | |
| Basic | 3,506 | 3,539 | 3,513 | 3,568 |
| Diluted | 3,512 | 3,542 | 3,518 | 3,571 |
| | | | | |
| Cash dividends per share | $ 0.15 | - | $ 1.30 | - |

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

STRATTEC SECURITY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Share Amounts)

| ASSETS | December 30, 2007 (Unaudited) | July 1, 2007 |
|---|---|---|
| Current Assets: | | |
| Cash and cash equivalents | $ 60,242 | $ 65,491 |
| Receivables, net | 20,090 | 26,890 |
| Inventories- | | |
| Finished products | 4,386 | 2,660 |
| Work in process | 5,084 | 4,522 |
| Purchased Materials | 5,623 | 4,813 |
| LIFO adjustment | (4,367) | (4,829) |
| Total inventories | 10,726 | 7,166 |
| Other current assets | 13,308 | 13,017 |
| Total current assets | 104,366 | 112,564 |
| Deferred income taxes | 2,420 | 2,117 |
| Investment in joint ventures | 3,201 | 2,813 |
| Prepaid pension obligations | 6,948 | 4,385 |
| Other long-term assets | 35 | 41 |
| | | |
| Property, plant and equipment | 116,675 | 112,920 |
| Less: accumulated depreciation | (89,196) | (86,394) |
| Net property, plant and equipment | 27,479 | 26,526 |
| | $ 144,449 | $ 148,446 |

| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
|---|---|---|
| Current Liabilities: | | |
| Accounts payable | $ 12,524 | $ 16,575 |
| Accrued Liabilities: | | |
| Payroll and benefits | 6,903 | 6,280 |
| Environmental reserve | 2,650 | 2,655 |
| Other | 6,496 | 5,971 |
| Total current liabilities | 28,573 | 31,481 |
| Accrued pension obligations | 3,016 | 2,855 |
| Accrued postretirement obligations | 10,623 | 10,576 |
| | | |
| Minority interest | 775 | 574 |
| | | |
| Shareholders' Equity: | | |
| Common stock, authorized 12,000,000 shares, $.01 par value, issued 6,887,757 shares at December 30, 2007 and July 1, 2007 | 69 | 69 |
| Capital in excess of par value | 78,633 | 78,122 |
| Retained earnings | 165,053 | 165,928 |
| Accumulated other comprehensive loss | (14,333) | (14,341) |
| Less: treasury stock, at cost (3,393,851 shares at December 30, 2007 and 3,368,619 shares at July 1, 2007) | (127,960) | (126,818) |
| Total shareholders' equity | 101,462 | 102,960 |

| | | |
|---|---|---|
| | $ 144,449 | $ 148,446 |

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

STRATTEC SECURITY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

| | Six Months Ended December 30, 2007 | December 31, 2006 (Unaudited) |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $ 3,742 | $ 1,835 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Minority interest | (148) | - |
| Depreciation | 3,496 | 3,517 |
| Stock based compensation expense | 492 | 379 |
| Change in operating assets and liabilities: | | |
| Receivables | 6,788 | 6,735 |
| Inventories | (3,560) | 1,197 |
| Other assets | (3,171) | (2,424) |
| Accounts payable and accrued liabilities | (3,457) | (4,522) |
| Other, net | (342) | 132 |
| Net cash provided by operating activities | 3,840 | 6,849 |
| | | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Investment in joint ventures | - | (100) |
| Purchase of property, plant and equipment | (4,474) | (2,292) |
| Proceeds received on sale of property, plant and equipment | - | 21 |
| Net cash used in investing activities | (4,474) | (2,371) |
| | | |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Purchase of treasury stock | (1,146) | (3,922) |
| Dividends paid | (4,081) | - |
| Exercise of stock options and employee stock purchases | 13 | 17 |
| Loan from Minority Interest | 250 | - |
| Contribution from minority interest | 349 | - |
| Net cash used in financing activities | (4,615) | (3,905) |
| | | |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (5,249) | 573 |
| | | |
| CASH AND CASH EQUIVALENTS | | |
| Beginning of period | 65,491 | 65,712 |
| End of period | $ 60,242 | $ 66,285 |
| | | |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Income taxes paid | $ 2,732 | $ 1,790 |
| Interest paid | - | - |

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

STRATTEC SECURITY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Basis of Financial Statements

STRATTEC SECURITY CORPORATION designs, develops, manufactures and markets mechanical locks and keys, electronically enhanced locks and keys, steering column and instrument panel ignition lock housings, latches, door handles and related access control products for North American automotive customers, and for global automotive manufacturers through the VAST Alliance in which we participate with WITTE Automotive of Velbert, Germany and ADAC Automotive of Grand Rapids, Michigan. STRATTEC's history in the automotive business spans nearly 100 years. The accompanying financial statements reflect the consolidated results of STRATTEC SECURITY CORPORATION, its wholly owned Mexican subsidiaries, STRATTEC de Mexico and STRATTEC Componentes Automotrices, and its majority owned subsidiary, ADAC-STRATTEC, LLC. STRATTEC SECURITY CORPORATION is located in Milwaukee, Wisconsin. STRATTEC de Mexico and STRATTEC Componentes Automotrices are located in Juarez, Mexico. ADAC-STRATTEC, LLC has operations in El Paso, Texas and Juarez, Mexico. Equity investments relating to the VAST Alliance for which we exercise significant influence but do not control and are not the primary beneficiary are accounted for using the equity method.

In the opinion of management, the accompanying condensed consolidated balance sheet as of July 1, 2007, 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"). 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 2007 Annual Report, which was filed with the Securities and Exchange Commission as an exhibit to our Form 10-K on August 30, 2007.

Certain reclassifications have been made to the 2007 interim financial statements to conform to the 2008 presentation.

In December 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment to ARB No. 51". SFAS No. 160 establishes accounting and reporting standards that require the ownership interest in subsidiaries held by parties other than the parent be clearly identified and presented in the consolidated balance sheets within equity, but separate from the parent's equity, the amount of consolidated net income attributable to the parent and the noncontrolling interest be clearly identified and presented on the face of the consolidated statements of income, and changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently. This statement is effective for fiscal years beginning after December 15, 2008 and will be effective for us beginning in fiscal 2010. We do not expect the new standard to have a material impact on our financial position or results of operations.

Income Taxes

We adopted the provisions for FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes, on July 2, 2007. As a result of the implementation of FIN 48, we did not recognize a significant change in the liability for unrecognized tax benefits. The total liability for unrecognized tax benefits was $1.1 million as of July 2, 2007. This liability includes approximately $87,000 of accrued interest. The liability does not include an amount for accrued penalties. The amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate is approximately $760,000. We recognize interest and penalties related to unrecognized tax benefits in the provision for income taxes. We do not expect a significant increase or decrease to the total amounts of unrecognized tax benefits within the next 12 months. There was no material change in the amount of unrecognized tax benefits during the six months ended December 30, 2007.

We or one of our subsidiaries files income tax returns in the United States (Federal), Wisconsin (state), Michigan (state) and various other states, Mexico and other foreign jurisdictions. We are not currently subject to income tax examinations in any of our significant tax jurisdictions. Tax years open to examination by tax authorities under the statute of limitations include fiscal 2004 through 2007 for Federal, fiscal 2003 through 2007 for most states and calendar 2002 through 2007 for foreign jurisdictions.

The provision for income taxes for the three and six month periods ended December 31, 2006 includes a state refund claim recovery. The claim recovery, net of the federal income tax impact, was $329,000.

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 period. Diluted earnings per share is computed on the basis of the weighted average number of shares of common stock plus the dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential 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 | | | | | |
|---|---|---|---|---|---|---|
| | December 30, 2007 | | | December 31, 2006 | | |
| | Net Income | Weighted Average Shares | Per Share Amount | Net Income | Weighted Average Shares | Per Share Amount |
| Basic Earnings Per Share | $ 1,323 | 3,506 | $ 0.38 | $ 1,094 | 3,539 | $ 0.31 |
| Stock-Based Compensation | | 6 | | | 3 | |
| Diluted Earnings Per Share | $ 1,323 | 3,512 | $ 0.38 | $ 1,094 | 3,542 | $ 0.31 |

| | Six Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | December 30, 2007 | | | December 31, 2006 | | |
| | Net Income | Weighted Average Shares | Per-Share Amount | Net Income | Weighted Average Shares | Per-Share Amount |
| Basic Earnings Per Share | $ 3,742 | 3,513 | $ 1.07 | $ 1,835 | 3,568 | $ 0.51 |
| Stock-Based Compensation | | 5 | | | 3 | |
| Diluted Earnings Per Share | $ 3,742 | 3,518 | $ 1.06 | $ 1,835 | 3,571 | $ 0.51 |

As of December 30, 2007, options to purchase 182,680 shares of common stock at a weighted-average exercise price of $59.29 were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive. As of December 31, 2006, options to purchase 242,820 shares of common stock at a weighted-average exercise price of $58.99 were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive.

Comprehensive Income

Comprehensive income is presented in the following table (in thousands):

| | Three Months Ended | Six Months Ended |
|---|---|---|

| | December 30, 2007 | December 31, 2006 | December 30, 2007 | December 31, 2006 |
|---|---|---|---|---|
| Net Income | $ 1,323 | $ 1,094 | $ 3,742 | $ 1,835 |
| Change in Cumulative Translation | | | | |
| Adjustments, net | (83) | 179 | (8) | 380 |
| Total Comprehensive Income | $ 1,240 | $ 1,273 | $ 3,734 | $ 2,215 |

7

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, 2007 were 380,463. 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 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 3 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. The restricted stock grants issued to date vest 3 years after the date of grant.

We account for stock options and restricted stock issued under our stock incentive plan in accordance with Statement of Financial Accounting Standards ('SFAS') No. 123(R), "Share-based Payments". 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 the plan for the six months ended December 30, 2007 is as follows:

| | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (years) | Aggregate Intrinsic Value (in thousands) |
|---|---|---|---|---|
| Outstanding, July 1, 2007 | 235,420 | $ 58.71 | | |
| Granted | - | - | | |
| Exercised | - | - | | |
| Expired | (47,640) | $ 58.59 | | |
| Forfeited | - | - | | |
| Outstanding, December 30, 2007 | 187,780 | $ 58.74 | 3.8 | $20 |
| Exercisable, December 30, 2007 | 143,440 | $ 58.16 | 4.0 | $20 |

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, 2007 | December 31, 2006 | December 30, 2007 | December 31, 2006 |
| Intrinsic Value of Options Exercised | $ - | $ - | $ - | $ - |
| Fair Value of Stock Options Vesting | $ - | $ | | |