STRATTEC SECURITY CORP
Form 10-Q
February 06, 2015

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 28, 2014

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 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 x 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	x
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 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: 3,587,151 shares outstanding as of December 28, 2014 (which number includes all restricted shares previously awarded that have not vested as of such date).

STRATTEC SECURITY CORPORATION

FORM 10-Q

December 28, 2014

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,” 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 5, 2014 with the Securities and Exchange Commission for the year ended June 29, 2014.

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 and Comprehensive Income

(In Thousands, Except Per Share Amounts)

(Unaudited)

	Three Months Ended		Six Months Ended	
	December 28, 2014	December 29, 2013	December 28, 2014	December 29, 2013
Net sales	$101,990	$ 81,484	$224,232	$ 161,079
Cost of goods sold	83,538	65,541	177,723	130,621
Gross profit	18,452	15,943	46,509	30,458
Engineering, selling and administrative expenses	10,490	9,250	23,677	18,720
Income from operations	7,962	6,693	22,832	11,738
Interest income	43	21	65	27
Equity (loss) earnings of joint ventures	(121)	297	69	591
Interest expense	(11)	(15)	(22)	(29)
Other income (expense), net	1,823	(54)	2,611	225
Income before provision for income taxes and non-controlling interest	9,696	6,942	25,555	12,552
Provision for income taxes	2,795	2,261	8,314	4,017
Net income	6,901	4,681	17,241	8,535
Net income attributable to non-controlling interest	1,123	808	2,163	1,451
Net income attributable to STRATTEC SECURITY CORPORATION	$5,778	$ 3,873	$15,078	$ 7,084
Comprehensive Income:				
Net income	$6,901	$ 4,681	$17,241	$ 8,535
Pension and postretirement plans, net of tax	428	434	856	869
Currency translation adjustments	(2,590)	197	(3,442)	(139)
Other comprehensive (loss) income, net of tax	(2,162)	631	(2,586)	730
Comprehensive income	4,739	5,312	14,655	9,265
Comprehensive income attributable to non-controlling interest	965	817	1,941	1,440
Comprehensive income attributable to STRATTEC SECURITY CORPORATION	$3,774	$ 4,495	$12,714	$ 7,825
Earnings per share attributable to STRATTEC SECURITY CORPORATION:				
Basic	$1.62	$ 1.11	$4.25	$ 2.05
Diluted	$1.58	$ 1.09	$4.13	$ 2.00

Average shares outstanding:				
Basic	3,518	3,413	3,507	3,397
Diluted	3,612	3,487	3,603	3,473
Cash dividends declared per share	$0.12	$ 0.11	$0.24	$ 0.22

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

STRATTEC SECURITY CORPORATION AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(In Thousands, Except Share Amounts)

	December 28, 2014 (Unaudited)	June 29, 2014
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 19,843	$ 19,756
Receivables, net	61,537	68,822
Inventories		
Finished products	12,536	9,034
Work in process	8,181	7,386
Purchased materials	20,471	16,232
Excess and obsolete reserve	(2,295)	(2,150)
Inventories, net	38,893	30,502
Other current assets	16,143	16,559
Total current assets	136,416	135,639
Investment in joint ventures	10,687	9,977
Other long-term assets	12,862	11,639
Property, plant and equipment	187,107	172,717
Less: accumulated depreciation	(119,832)	(116,936)
Net property, plant and equipment	67,275	55,781
	$ 227,240	$ 213,036
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 33,179	$ 36,053
Accrued Liabilities:		
Payroll and benefits	19,667	18,058
Environmental	1,389	1,397
Warranty	3,640	3,462
Other	6,455	6,293
Total current liabilities	64,330	65,263
Deferred income taxes	5,184	5,127
Borrowings under credit facility	3,500	2,500
Accrued pension obligations	1,684	1,619
Accrued postretirement obligations	1,863	2,223
Other long-term liabilities	1,440	1,401
Shareholders' Equity:		
Common stock, authorized 12,000,000 shares, $.01 par value, issued 7,144,678 shares at December 28, 2014 and 7,110,308 shares at June 29, 2014	71	71
Capital in excess of par value	88,464	87,054
Retained earnings	208,722	194,498
Accumulated other comprehensive loss	(22,562)	(20,198)

Less: treasury stock, at cost (3,625,027 shares at December 28, 2014 and 3,625,492 shares at June 29, 2014)	(135,912)	(135,919)
Total STRATTEC SECURITY CORPORATION shareholders’ equity	138,783	125,506
Non-controlling interest	10,456	9,397
Total shareholders’ equity	149,239	134,903
	$ 227,240	$ 213,036

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)

(Unaudited)

	Six Months Ended December 28, 2014	December 29, 2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$17,241	$ 8,535
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,261	4,167
Foreign currency transaction gain	(2,421)	(38)
Stock based compensation expense	700	630
Equity earnings of joint ventures	(69)	(591)
Change in operating assets and liabilities:		
Receivables	6,780	3,153
Inventories	(8,391)	(5,723)
Other assets	207	(3,712)
Accounts payable and accrued liabilities	(781)	272
Other, net	157	74
Net cash provided by operating activities	17,684	6,767
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in joint ventures	(384)	-
Loan to joint ventures	(215)	-
Purchase of property, plant and equipment	(16,955)	(6,450)
Proceeds received on sale of property, plant and equipment	-	21
Net cash used in investing activities	(17,554)	(6,429)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under credit facility	1,500	750
Repayments of borrowings under credit facility	(500)	-
Dividends paid to non-controlling interests of subsidiaries	(882)	(984)
Dividends paid	(854)	(764)
Exercise of stock options and employee stock purchases	714	789
Net cash used in financing activities	(22)	(209)
Foreign currency impact on cash	(21)	(48)
NET INCREASE IN CASH AND CASH EQUIVALENTS	87	81
CASH AND CASH EQUIVALENTS		
Beginning of period	19,756	20,307
End of period	$19,843	$ 20,388
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		

Income taxes	$10,207	$ 1,582
Interest	$17	$ 23
Non-cash investing activities:		
Change in capital expenditures in accounts payable	$274	$ -

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 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 the products of each company to global customers under the "VAST" brand name. 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.

During 2013, we acquired a 51 percent ownership interest in NextLock LLC, a newly formed joint venture which will introduce a new generation of biometric security products based upon the designs of Actuator Systems LLC, our partner and the owner of the remaining ownership interest. We anticipate shipment of new biometric security products to begin in the second half of our 2015 fiscal year through this new NextLock joint venture.

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") and NextLock 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 in Brazil. NextLock LLC is located in El Paso, Texas. We have only one reporting segment.

In the opinion of management, the accompanying condensed consolidated balance sheet as of June 29, 2014, which has been derived from our audited financial statements, and the related unaudited interim condensed consolidated financial statements included herein 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 2014 Annual Report, which was filed with the Securities and Exchange Commission as an exhibit to our Form 10-K on September 5, 2014.

New Accounting Standard

In May 2014, the FASB issued an update to the accounting guidance for the recognition of revenue arising from contracts with customers. The update supersedes most current revenue recognition guidance and outlines a single comprehensive model for revenue recognition based on the principle that an entity should recognize revenue in an amount that reflects the expected consideration to be received in the exchange of goods and services. The guidance update also required additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. The guidance update is effective for annual reporting periods beginning after December 15, 2016 and becomes effective for us at the beginning of our 2018 fiscal year. Early adoption is not permitted. We are currently assessing the impact that this guidance will have on our consolidated financial statements.

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 28, 2014 and June 29, 2014. 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 28, 2014 (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	$353	$ -	$ -
Mid Cap	241	-	-
Large Cap	482	-	-
International	410	-	-
Fixed Income Funds	753	-	-
Cash and Cash Equivalents	-	28	-
Total Assets at Fair Value	$2,239	$ 28	$ -

The Rabbi Trust assets fund our amended and restated supplemental executive retirement plan and are included in Other Long-term Assets in the accompanying Condensed Consolidated Balance Sheets. There were no transfers between Level 1 and Level 2 assets during the three or six month periods ended December 28, 2014.

Equity Earnings 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 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 28, 2014	December 29, 2013	December 28, 2014	December 29, 2013
Net Sales	$35,663	$ 27,135	$ 66,661	$ 51,664
Cost of Goods Sold	30,469	22,943	56,552	43,358

Gross Profit	5,194	4,192	10,109	8,306
Engineering, Selling and Administrative Expenses	4,590	2,791	8,788	6,281
Income From Operations	604	1,401	1,321	2,025
Other Income (Expense), net	183	(19)	656	(21)
Income before Provision for Income taxes	787	1,382	1,977	2,004
Provision for (Benefit from) Income Taxes	376	219	435	(235)
Net Income	$411	$ 1,163	$ 1,542	$ 2,239
STRATTEC's Share of VAST LLC Net Income	$137	$ 387	514	$ 746
Intercompany Profit Elimination	5	2	4	(4)
STRATTEC's Equity Earnings of VAST LLC	$142	$ 389	$ 518	$ 742

During 2013, we acquired a 51% ownership interest in a newly formed joint venture company, NextLock LLC, which will introduce a new generation of biometric security products based upon designs of Actuator Systems LLC, our partner. We anticipate shipment of the biometric security products to begin during the second half of our 2015 fiscal year through this new joint venture. Our investment in NextLock LLC, for which we exercise significant influence but do not control, is accounted for using the equity method.

The following are summarized statements of operations for NextLock LLC (thousands of dollars):

	Three Months Ended		Six Months Ended	
	December 28, 2014	December 29, 2013	December 28, 2014	December 29, 2013
Engineering, Selling and Administrative Expenses	$516	$ 181	$880	$ 297
Loss From Operations	(516)	(181)	(880)	(297)
Net Loss	$(516)	$ (181)	$(880)	$ (297)
STRATTEC's Equity Loss of NextLock LLC	$(263)	$ (92)	$(449)	$ (151)

We have sales of component parts to VAST LLC and NextLock LLC, purchases of component parts from VAST LLC, expenses charged to VAST LLC for engineering and accounting services and expenses charged to us from VAST LLC for general headquarters expenses. The following tables summarize these related party transactions with VAST LLC and NextLock LLC for the periods indicated below (thousands of dollars):

	Three Months Ended		Six Months Ended	
	December 28, 2014	December 29, 2013	December 28, 2014	December 29, 2013
Sales to VAST LLC	$657	$ 55	$771	$ 95
Sales to NextLock LLC	$27	$ -	$32	$ -
Purchases from VAST LLC	$41	$ 43	$80	$ 158
Expenses Charged to VAST LLC	$245	$ 159	$404	$ 399
Expenses Charged from VAST LLC	$457	$ 303	$940	$ 585

Credit Facilities and Guarantees

STRATTEC has a $25 million secured revolving credit facility (the "STRATTEC Credit Facility") with BMO Harris Bank N.A. 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 credit facilities both expire August 1, 2016. Borrowings under either credit facility are secured by our U.S. cash balances, accounts receivable, inventory and fixed assets located in the U.S. Interest on borrowings under the ADAC-STRATTEC Credit Facility for periods prior to January 22, 2014 was at varying rates based, at our option, on LIBOR plus 1.75 percent or the bank's prime rate. Interest on borrowings under the STRATTEC credit facility and effective on or after January 22, 2014 under the ADAC-STRATTEC Credit Facility is at varying rates based, at our option, on LIBOR plus 1.0 percent or the bank's prime rate. Both credit facilities contain a restrictive financial covenant that requires the applicable borrower to maintain 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. As of December 28, 2014, we were in compliance with all financial covenants.

Outstanding borrowings under the credit facilities were as follows (thousands of dollars):

	December 28, 2014	June 29, 2014
STRATTEC Credit Facility	$ -	$ -
ADAC-STRATTEC Credit Facility	$ 3,500	$ 2,500

Average outstanding borrowings and the weighted average interest rate under each credit facility were as follows for each period presented (thousands of dollars):

	Six Months Ended			
	Average Outstanding Borrowings		Weighted Average Interest Rate	
	December 28, 2014	December 29, 2013	December 28, 2014	December 29, 2013
STRATTEC Credit Facility	$ -	$ -	- %	- %
ADAC-STRATTEC Credit Facility	$ 3,819	$ 2,800	1.2 %	1.9 %

8

Environmental Reserve

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 28, 2014, costs of approximately $486,000 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 and the potential for remediation of the contamination by natural attenuation, 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 at the site, 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 28, 2014, is adequate.

Shareholders' Equity

A summary of activity impacting shareholders' equity for the six month period ended December 28, 2014 was as follows (in thousands):

	Total Shareholders' Equity	Equity Attributable to STRATTEC	Equity Attributable to Non-Controlling Interest
Balance, June 29, 2014	$ 134,903	$ 125,506	$ 9,397
Net Income	17,241	15,078	2,163
Dividend Declared	(854)	(854)	-
Dividend Declared – Non-controlling Interests of Subsidiaries	(882)	-	(882)
Translation adjustments	(3,442)	(3,220)	(222)
Stock Based Compensation	700	700	-
Tax Benefit – Dividend Paid on Restricted Shares	3	3	-
Pension and Postretirement Adjustment, Net of tax	856	856	-
Employee Stock Purchases and Stock Option Exercises	714	714	-
Balance, December 28, 2014	$ 149,239	$ 138,783	$ 10,456

Other Income (Expense), net

Net other income (expense) included in the accompanying Condensed Consolidated Statements of Income and Comprehensive Income primarily included foreign currency transaction gains and losses and Rabbi Trust gains and losses. Foreign currency transaction gains and losses resulted from activity associated with foreign denominated assets held by our Mexican subsidiaries. The Rabbi Trust assets fund our amended and restated supplemental executive retirement plan. The investments held in this Trust are considered trading securities.

The impact of these items for each of the periods presented was as follows (in thousands):

	Three Months Ended		Six Months Ended	
	December 28, 2014	December 29, 2013	December 28, 2014	December 29, 2013
Foreign Currency Transaction Gain (Loss)	$1,635	$ (174)	$2,421	$ 38
Rabbi Trust Gain	45	57	18	105
Other	143	63	172	82
	$1,823	$ (54)	$2,611	$ 225

Income Taxes

The income tax provisions for the three and six month periods ended December 28, 2014 and December 29, 2013 were affected by the non-controlling interest portion of our pre-tax income. The income tax provision for the three and six month periods ended December 28, 2014 and December 29, 2013 were also affected by 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 unvested 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 28, 2014	December 29, 2013	December 28, 2014	December 29, 2013
Net Income Attributable to STRATTEC SECURITY CORPORATION	$5,778	$ 3,873	$15,078	$ 7,084
Less: Income Attributable to Participating Securities	71	69	191	129
Net Income Attributable to Common Shareholders	$5,707	$ 3,804	$14,887	$ 6,955
Basic Weighted Average Shares of Common Stock Outstanding	3,518	3,413	3,507	3,397
Incremental Shares – Stock based Compensation	94	74	96	76
Diluted Weighted Average Shares of Common Stock Outstanding	3,612	3,487	3,603	3,473
Basic Earnings Per Share	$1.62	$ 1.11	$4.25	$ 2.05
Diluted Earnings Per Share	$1.58	$ 1.09	$4.13	$ 2.00

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 28, 2014, options to purchase 9,010 shares of common stock were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive. As of December 29, 2013, options to purchase 67,340 shares of common stock were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive.

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. As of December 28, 2014, the Board of Directors had designated 1,850,000 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 28, 2014 were 253,139. 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 rights, regardless if the shares are vested or unvested. Restricted shares granted prior to August 2014 have dividend rights, regardless if the shares are vested or unvested. Commencing in August 2014 and thereafter, shares of restricted stock are not entitled to receive any cash dividends if they are unvested as of the record date. 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 28, 2014 was as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Outstanding, June 29, 2014	185,242	$ 24.73		
Granted	10,000	$ 79.73		
Exercised	(16,570)	$ 21.84		
Forfeited	(8,589)	$ 37.43		
Outstanding, December 28, 2014	170,083	$ 27.61	6.2	$ 9,695
Exercisable, December 28, 2014	97,279	$ 19.75	4.5	$ 6,310

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

	Three Months Ended		Six Months Ended	
	December 28, 2014	December 29, 2013	December 28, 2014	December 29, 2013
Intrinsic Value of Options Exercised	$ 290	$ 623	$ 990	$ 678
Fair Value of Stock Options Vesting	$ -	$ 142	$ 382	$ 415

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

	Six Months Ended	
	December 28, 2014	December 29, 2013
Weighted Average Grant Date Fair Value:		
Options Issued at Grant Date Market Value	n/a	n/a
Options Issued Above Grant Date Market Value	$ 34.93	$ 17.58
Assumptions:		
Risk Free Interest Rate	1.90 %	2.06 %
Expected Volatility	57.83 %	58.75 %
Expected Dividend Yield	0.62 %	1.11 %
Expected Term (in years)	6.0	6.0

11

A summary of restricted stock activity under our omnibus stock incentive plan for the six months ended December 28, 2014 was as follows:

	Shares	Weighted Average Grant Date Fair Value
Nonvested Balance, June 29, 2014	63,600	$ 28.64
Granted	25,000	$ 70.90
Vested	(17,800)	$ 23.01
Forfeited	(3,300)	$ 44.92
Nonvested Balance, December 28, 2014	67,500	$ 44.98

As of December 28, 2014, there was $658,000 of total unrecognized compensation cost related to outstanding stock options granted under our omnibus stock incentive plan. This cost is expected to be recognized over a remaining weighted average period of 1.0 years. As of December 28, 2014, there was approximately $1.7 million of total unrecognized compensation cost related to unvested restricted stock grants outstanding under the plan. This cost is expected to be recognized over a remaining weighted average period of 1.2 years. 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 Postretirement Benefits

We have a qualified, noncontributory defined benefit pension plan (“Qualified 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 December 31, 2009, an amendment to the Qualified Pension Plan discontinued the benefit accruals for salary increases and credited service rendered after that date. On April 2, 2014, our Board of Directors approved a resolution to terminate the Qualified Pension Plan. The termination of the Qualified Pension Plan is subject to the Internal Revenue Service’s (“IRS”) determination that the Qualified Pension Plan is qualified on termination. We believe it will take 18 to 24 months to finalize the complete termination of the Qualified Pension Plan after obtaining IRS approval. Additionally, we have amended the Qualified Pension Plan to provide that participants are 100 percent vested in their accrued benefits as of the effective date of the plan termination, to adopt a new standard for disability benefits that will apply when the plan’s assets are distributed due to the termination, to add a lump sum distribution for employees and terminated vested participants who are not in payment status when Qualified Pension Plan assets are distributed due to the termination and to make certain other conforming amendments to the Qualified Pension Plan to comply with applicable laws that may be required by the IRS or may be deemed necessary or advisable to improve the administration of the Qualified Pension Plan or facilitate its termination and liquidation. We also intend to make contributions to the Trust Fund for the Qualified Pension Plan to ensure that there are sufficient assets to provide all Qualified Pension Plan benefits as of the anticipated distribution date. The financial impact of the plan termination will be recognized as a settlement of the Qualified Pension Plan liabilities. The settlement date and related financial impact have not yet been determined.

We have historically had in place a noncontributory supplemental executive retirement plan ("SERP"), which was a nonqualified defined benefit plan that essentially mirrored the Qualified Pension Plan, but provided benefits in excess of certain limits placed on our Qualified Pension Plan by the Internal Revenue Code. We froze our Qualified Pension Plan effective as of December 31, 2009 and the SERP provided benefits to participants as if the Qualified Pension Plan had not been frozen. Because the Qualified Pension Plan was frozen and because new employees were not eligible to participate in the Qualified Pension Plan, our Board of Directors adopted amendments to the SERP on October 8, 2013 that were effective as of December 31, 2013 to simplify the SERP calculation. The SERP is funded through a Rabbi Trust with BMO Harris Bank N.A. Under the amended SERP, participants received an accrued lump-sum benefit as of December 31, 2013 which was credited to each participant's account. Going forward, each eligible participant will receive a supplemental retirement benefit equal to the foregoing lump-sum benefit, plus an annual benefit accrual equal to 8 percent of the participant's base salary and cash bonus, plus annual credited interest on the participant's account balance. All current participants are fully vested in their account balances with any new individuals participating in the SERP effective on or after January 1, 2014 being subject to a five year vesting schedule. The SERP, which is considered a defined benefit plan under applicable rules and regulations, will continue to be funded through the use of a Rabbi Trust to hold investment assets to be used in part to fund any future required lump sum benefit payments to participants. The foregoing amendments to the SERP did not have a material effect on our financial statements. The Rabbi Trust assets had a value of $2.3 million at December 28, 2014 and $2.2 million at June 29, 2014, respectively, and are included in Other Long-Term Assets in the accompanying Condensed Consolidated Balance Sheets.

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.

Net periodic benefit costs are allocated between Cost of Goods Sold and Engineering, Selling and Administrative Expenses in the accompanying Condensed Consolidated Statements of Income and Comprehensive Income.

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

	Pension Benefits		Postretirement Benefits	
	Three Months Ended		Three Months Ended	
	December 28, 2014	December 29, 2013	December 28, 2014	December 29, 2013
Service cost	$16	$ 55	$3	$ 3
Interest cost	1,043	1,101	29	40
Expected return on plan assets	(1,544)	(1,611)	-	-
Amortization of prior service cost (credit)	3	3	(191)	(191)
Amortization of unrecognized net loss	694	667	174	211
Net periodic benefit cost	$212	$ 215	$15	$ 63

	Pension Benefits		Postretirement Benefits	
	Six Months Ended		Six Months Ended	
	December 28, 2014	December 29, 2013	December 28, 2014	December 29, 2013
Service cost	$32	$ 109	$7	$ 7
Interest cost	2,086	2,203	57	79
Expected return on plan assets	(3,087)	(3,221)	-	-
Amortization of prior service cost (credit)	6	6	(382)	(382)
Amortization of unrecognized net loss	1,387	1,333	347	423
Net periodic benefit cost	$424	$ 430	$29	$ 127

No contributions were made to the Qualified Pension Plan during the six month period ended December 28, 2014. Contributions of $1.5 million were made to the Qualified Pension Plan during the six month period ended December 29, 2013. Voluntary contributions of $3.0 million are anticipated to be made during the remainder of fiscal 2015.

Accumulated Other Comprehensive Loss

The following table summarizes the changes in accumulated other comprehensive loss ("AOCL") for each period presented (in thousands):

	Six Months Ended December 28, 2014		
	Foreign Currency Translation Adjustments	Retirement and Postretirement Benefit Plans	Total
Balance, June 29, 2014	$ 3,411	$ 16,787	$20,198
Other comprehensive loss before reclassifications	3,442	-	3,442
Income tax	-	-	-
Net other comprehensive loss before reclassifications	3,442	-	3,442
Reclassifications:			
Prior service credits (A)	-	376	376
Actuarial gains (A)	-	(1,734)	(1,734)
Total reclassifications before tax	-	(1,358)	(1,358)
Income tax	-	502	502
Net reclassifications	-	(856)	(856)
Other comprehensive loss (income)	3,442	(856)	2,586
Other comprehensive loss attributable to non-controlling interest	222	-	222
Balance, December 28, 2014	$ 6,631	$ 15,931	$22,562

	Six Months Ended December 29, 2013		
	Foreign Currency Translation Adjustments	Retirement and Postretirement Benefit Plans	Total
Balance, June 30, 2013	$ 3,268	$ 18,944	$22,212
Other comprehensive loss before reclassifications	139	-	139
Income tax	-	-	-
Net other comprehensive loss before reclassifications	139	-	139
Reclassifications:			
Prior service credits (A)	-	376	376
Unrecognized net loss (A)	-	(1,756)	(1,756)
Total reclassifications before tax	-	(1,380)	(1,380)
Income tax	-	511	511
Net reclassifications	-	(869)	(869)
Other comprehensive loss (income)	139	(869)	(730)
Other comprehensive loss attributable to non-controlling interest	11	-	11
Balance, December 29, 2013	$ 3,396	$ 18,075	$21,471

(A) Amounts reclassified are included in the computation of net periodic benefit cost, which is included in Cost of Goods Sold and Engineering, Selling and Administrative expenses in the accompanying Condensed Consolidated Statements of Income and Comprehensive Income. See Pension and Postretirement Benefits note to these condensed consolidated financial statements above.

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 2014 Annual Report which was filed with the Securities and Exchange Commission as an exhibit to its Form 10-K on September 5, 2014. Unless otherwise indicated, all references to years refer to fiscal years.

Outlook

Chrysler has announced that they are planning an extended downtime or slowdown from February 16, 2015 through May 24, 2015 for their Windsor, Canada Assembly Plant in preparation of their changeover to the production of the new Chrysler minivan. In the event this shutdown does occur for the time period previously announced, the shutdown is expected to result in lost power access and lockset product sales estimated to be between $15 million and $17 million.

Analysis of Results of Operations

Three months ended December 28, 2014 compared to the three months ended December 29, 2013

	Three Months Ended	
	December 28, 2014	December 29, 2013
Net Sales (in millions)	$102.0	$ 81.5

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 28, 2014	December 29, 2013
Chrysler Group LLC	$32.8	$ 28.7
General Motors Company	23.7	16.0
Ford Motor Company	11.6	11.3
Tier 1 Customers	17.1	15.2
Commercial and Other OEM Customers	8.9	8.6
Hyundai / Kia	7.9	1.7
	$102.0	$ 81.5

The increase in sales to General Motors Company in the current year quarter was primarily attributed to incremental service parts sales of $6.0 million related to a recall campaign. The incremental sales are expected to adjust to more normal levels during the second half of our 2015 fiscal year. Higher vehicle production volumes and greater product content on vehicle models for which we supply components that were introduced for the 2015 model year also attributed to the sales increase. Increased sales to Chrysler Group LLC in the current year quarter were the result of higher customer vehicle production volumes and increased content on models for which we supply components. Sales to Ford Motor Company in the current year quarter were flat compared to the prior year quarter. Sales to Tier 1 Customers during the current year quarter increased in comparison to the prior year quarter. These customers primarily represent purchasers of vehicle access control products, such as latches, fobs, and driver controls, that we have developed in recent years to complement our historic core business of locks and keys. The increase in sales to Hyundai / Kia in the current year quarter was due to the ramp-up of a new model introduction for which we supply components.

	Three Months Ended	
	December 28, 2014	December 29, 2013
Cost of Goods Sold (in millions)	$83.5	$ 65.5

15

Direct material costs are the most significant component of our cost of goods sold and comprised $55.7 million or 66.7 percent of cost of goods sold in the current year quarter compared to $43.4 million or 66.3 percent of cost of goods sold in the prior year quarter. The increase in material costs of $18.0 million or 27.5 percent was due to increased sales volumes in the current year quarter over the prior year quarter as discussed above. The increase in material costs as a percent of cost of goods sold is the result of increased sales of product with higher purchased part content in the current year quarter as compared to the prior year quarter, partially offset by increased sales of service parts as discussed above, which typically have lower material cost percentages as compared to parts sold for new vehicle production.

The remaining components of cost of goods sold consist of labor and overhead costs which increased $5.7 million or 25.8 percent in the current year quarter over the prior year quarter as the variable portion of these costs increased due to the increase in sales volumes during the current year quarter. In addition, the current year quarter includes higher costs associated with new product launches and higher costs to meet expedited customer timelines, which were partially offset by the benefits of favorable absorption of the fixed portion of our labor and overhead costs resulting from increased sales volumes between periods and a favorable Mexican Peso to U.S. dollar exchange rate affecting the U.S. dollar cost of our Mexican operations. The average U.S. dollar/Mexican Peso exchange rate increased to approximately 13.82 in the current year quarter from approximately 13.08 in the prior year quarter, which resulted in decreased U.S. dollar costs related to our Mexican operations of approximately $645,000 in the current year quarter compared to the prior year quarter.

	Three Months Ended	
	December 28, 2014	December 29, 2013
Gross Profit (in millions)	$18.5	$ 15.9
Gross Profit as a percentage of net sales	18.1%	19.6 %

The improvement in gross profit in the current year quarter over the prior year quarter was the result of the increase in sales, partially offset by the increase in cost of goods sold as discussed above. The reduction in gross profit as a percentage of net sales in the current year quarter as compared to the prior year quarter was the result of increased sales of product with higher purchased part content, which have lower overall profit margins, higher costs associated with new product launches and higher costs to meet expedited customer timelines, partially offset by increased sales of service parts related to the General Motors recall campaign, which sales typically have higher gross profit margins as compared to gross profit margins on parts sold for new vehicle production, increased customer production volumes resulting in more favorable absorption of our fixed manufacturing costs and a favorable Mexican Peso to U.S. dollar exchange rate affecting the U.S. dollar cost of our Mexican operations.

Engineering, selling and administrative expenses in the current year quarter and prior year quarter were as follows (in millions):

	Three Months Ended	
	December 28, 2014	December 29, 2013
Expenses (in millions)	$10.5	$ 9.3
Expenses as a percentage of net sales	10.3%	11.4 %

Engineering, selling and administrative expenses increased approximately $1.2 million between periods while decreasing as a percentage of net sales. The increase in these costs in the current year quarter over the prior year quarter was due to higher outside service costs to support sales and engineering activities for current product programs as well as new product programs under development and higher outside service costs in support of the move to our new Auburn Hills, Michigan sales and engineering facility.

Income from operations in the current year quarter was $8.0 million compared to $6.7 million in the prior year quarter. This increase was the result of the increased sales in the current year quarter over the prior year quarter, partially offset by a reduction in gross profit margins and an increase in engineering, selling and administrative expenses between periods, all as discussed above.

Equity loss of joint ventures was $121,000 during the current year quarter compared to equity earnings of joint ventures of $297,000 in the prior year quarter. Included in equity loss and earnings of joint ventures were start-up costs associated with our new joint venture, NextLock LLC. Our portion of these start-up costs totaled $263,000 in the current year quarter and $92,000 in the prior year quarter.

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

	Three Months Ended	
	December 28, 2014	December 29, 2013
Foreign Currency Transaction Gain (Loss)	$1,635	$ (174)
Rabbi Trust (Loss) Gain	45	57
Other	143	63
	$1,823	$ (54)

Foreign currency transaction gains during the current year quarter resulted from activity associated with foreign denominated assets held by our Mexican subsidiaries. Our Rabbi Trust assets fund our amended and restated 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 28, 2014 and December 29, 2013 was affected by the non-controlling interest portion of our pre-tax income. Our effective tax rate was 28.8 percent for the current year quarter as compared to 32.6 percent for the prior year quarter.

Six months ended December 28, 2014 compared to the six months ended December 29, 2013

	Six Months Ended	
	December 28, 2014	December 29, 2013
Net Sales (in millions)	$224.2	$ 161.1

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 28, 2014	December 29, 2013
Chrysler Group LLC	$64.8	$ 55.3
General Motors Company	68.6	31.0
Ford Motor Company	23.4	22.7
Tier 1 Customers	34.0	31.0
Commercial and Other OEM Customers	18.0	17.2
Hyundai / Kia	15.4	3.9
	$224.2	$ 161.1

The increase in sales to General Motors Company in the current year period was primarily attributed to incremental service parts sales of $34.0 million related to a recall campaign. The incremental sales are expected to adjust to more normal levels during the second half of our 2015 fiscal year. Higher vehicle production volumes and greater product content on vehicle models for which we supply components that were introduced for the 2015 model year also attributed to the sales increase. Increased sales to Chrysler Group LLC in the current year period were the result of higher customer vehicle production volumes and increased content on models for which we supply components. Sales to Ford Motor Company in the current year period were flat compared to the prior year to date period. Sales to Tier 1 Customers during the current year period increased in comparison to the prior year period. These customers primarily represent purchasers of vehicle access control products, such as latches, fobs, and driver controls, that we have developed in recent years to complement our historic core business of locks and keys. The increase in sales to Hyundai / Kia in the current year period was due to the ramp-up of a new model introduction for which we supply components.

	Six Months Ended	
	December 28, 2014	December 29, 2013
Cost of Goods Sold (in millions)	$177.7	$ 130.6

Direct material costs are the most significant component of our cost of goods sold and comprised $115.8 million or 65.2 percent of cost of goods sold in the current year period compared to $85.9 million or 65.8 percent of cost of goods sold in the prior year period. The increase in material costs of $29.9 million or 45.9 percent was due to increased sales volumes in the current year period over the prior year period as discussed above. The reduction in material costs as a percent of cost of goods sold is the result of increased sales of service parts as discussed above, which typically have lower material cost percentages as compared to parts sold for new vehicle production, partially offset by increased sales of product with higher purchased part content in the current year period as compared to the prior year period.

The remaining components of cost of goods sold consist of labor and overhead costs which increased $17.2 million or 38.5 percent in the current year period over the prior year period as the variable portion of these costs increased due to the increase in sales volumes during the current year period. In addition, the current year period includes benefits of favorable absorption of the fixed portion of our labor and overhead costs resulting from increased sales volumes between periods and a favorable Mexican Peso to U.S. dollar exchange rate affecting the U.S. dollar cost of our Mexican operations, partially offset by higher costs associated with new product launches, higher costs to meet expedited customer timelines, an increase of $3.4 million in expense provisions for the accrual of bonuses under our incentive bonus plans as a result of improved financial results for fiscal 2015 to date and a lump sum bonus totaling $311,000 paid to the Company’s Milwaukee represented hourly workers resulting from a new 4-year labor contract ratified on September 18, 2014. The average U.S. dollar/Mexican Peso exchange rate increased to approximately 13.48 in the current year period from approximately 13.05 in the prior year period, which resulted in decreased U.S. dollar costs related to our Mexican operations of approximately $760,000 in the current year period compared to the prior year period.

	Six Months Ended December 28, 2014	Six Months Ended December 29, 2013
Gross Profit (in millions)	$46.5	$ 30.5
Gross Profit as a percentage of net sales	20.7%	18.9%

The improvement in gross profit in the current year period over the prior year period was the result of the increase in sales, partially offset by the increase in cost of goods sold as discussed above. The improvement in gross profit as a percentage of net sales in the current year period as compared to the prior year period was the result of increased sales of service parts related to the General Motors recall campaign, which sales typically have higher gross profit margins as compared to gross profit margins on parts sold for new vehicle production, increased customer production volumes resulting in more favorable absorption of our fixed manufacturing costs and a favorable Mexican Peso to U.S. dollar exchange rate affecting the U.S. dollar cost of our Mexican operations. These favorable impacts to the gross profit margin as a percentage of net sales were partially offset by increased sales of product with higher purchased part content in the current year period as compared to the prior year period, higher costs associated with new product launches, higher costs to meet expedited customer timelines, an increase in expense provisions for the accrual of bonuses under our incentive bonus plans and a lump sum bonus paid to the Company’s Milwaukee represented hourly workers resulting from the ratification of a new 4-year labor contract, all as discussed above.

Engineering, selling and administrative expenses in the current year period and prior year period were as follows (in millions):

	Six Months Ended	
	December 28, 2014	December 29, 2013
Expenses (in millions)	$ 23.7	