STRATTEC SECURITY CORP
Form 10-Q
May 10, 2018

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 April 1, 2018

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 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth 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
Emerging growth company		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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: 3,703,991 shares outstanding as of April 2, 2018 (which number includes all restricted shares previously awarded that have not vested as of such date).

STRATTEC SECURITY CORPORATION

FORM 10-Q

April 1, 2018

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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," "will," and "could," or the negative of these terms or words of similar meaning. These include statements regarding 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 discussion of such matters and subject areas contained herein is 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, changes in warranty provisions and customers' product recall policies, foreign currency fluctuations, costs of operations, the volume and scope of product returns and warranty claims and other matters described in the section titled "Risk Factors" in the Company's Form 10-K report filed on September 7, 2017 with the Securities and Exchange Commission for the year ended July 2, 2017.

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		Nine Months Ended	
	April 1, 2018	April 2, 2017	April 1, 2018	April 2, 2017
Net sales	$116,823	$109,706	$322,465	$308,895
Cost of goods sold	101,626	92,105	281,159	262,797
Gross profit	15,197	17,601	41,306	46,098
Engineering, selling and administrative expenses	10,839	11,782	31,033	34,308
Income from operations	4,358	5,819	10,273	11,790
Interest income	1	52	8	132
Equity earnings (loss) of joint ventures	619	(163)	3,118	128
Interest expense	(305)	(100)	(761)	(276)
Other income, net	158	1,192	354	1,376
Income before provision for income taxes and non-controlling interest	4,831	6,800	12,992	13,150
Provision for income taxes	899	1,752	1,956	4,060
Net income	3,932	5,048	11,036	9,090
Net income attributable to non-controlling Interest	963	1,566	2,729	3,668
Net income attributable to STRATTEC SECURITY CORPORATION	$2,969	$3,482	$8,307	$5,422
Comprehensive Income:				
Net income	$3,932	$5,048	$11,036	$9,090
Pension and postretirement plans, net of tax	338	475	893	1,424
Currency translation adjustments	3,487	3,357	1,193	(1,674)
Other comprehensive loss, net of tax	3,825	3,832	2,086	(250)
Comprehensive income	7,757	8,880	13,122	8,840
Comprehensive income attributable to non-controlling interest	1,894	2,638	2,709	3,737
Comprehensive income attributable to STRATTEC SECURITY CORPORATION	$5,863	$6,242	$10,413	$5,103

Earnings per share attributable to STRATTEC SECURITY CORPORATION:				
Basic	$0.82	$0.97	$2.29	$1.51
Diluted	$0.80	$0.95	$2.24	$1.48
Average shares outstanding:				
Basic	3,634	3,592	3,625	3,586
Diluted	3,708	3,671	3,702	3,666
Cash dividends declared per share	$0.14	$0.14	$0.42	$0.42

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)

	April 1, 2018 (Unaudited)	July 2, 2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 7,037	$ 8,361
Receivables, net	70,527	64,933
Inventories:		
Finished products	9,665	9,976
Work in process	9,655	9,328
Purchased materials	28,339	20,682
Excess and obsolete reserve	(4,678)	(4,510)
Inventories, net	42,981	35,476
Other current assets	27,401	20,235
Total current assets	147,946	129,005
Investment in joint ventures	21,367	16,840
Deferred income taxes	1,620	256
Other long-term assets	17,598	16,022
Property, plant and equipment	268,246	251,519
Less: accumulated depreciation	(149,697)	(139,928)
Net property, plant and equipment	118,549	111,591
	$ 307,080	$ 273,714
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 44,268	$ 39,679
Accrued Liabilities:		
Payroll and benefits	12,371	13,055
Environmental	1,295	1,308
Warranty	6,297	5,550
Other	7,498	8,303
Total current liabilities	71,729	67,895
Borrowings under credit facility	48,000	30,000
Accrued pension obligations	1,580	1,492
Accrued postretirement obligations	802	1,003
Other long-term liabilities	1,787	610
Shareholders' Equity:		
Common stock, authorized 12,000,000 shares, $.01 par value, 7,251,937	72	72

issued shares at April 1, 2018 and 7,216,103 issued shares at

July 2, 2017		
Capital in excess of par value	94,869	93,813
Retained earnings	232,695	225,913
Accumulated other comprehensive loss	(30,782)	(32,888)
Less: treasury stock, at cost (3,617,471 shares at April 1, 2018 and 3,619,487 shares at July 2, 2017)	(135,790)	(135,822)
Total STRATTEC SECURITY CORPORATION shareholders' equity	161,064	151,088
Non-controlling interest	22,118	21,626
Total shareholders' equity	183,182	172,714
	$ 307,080	$ 273,714

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)

	Nine Months Ended April 1, 2018	April 2, 2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$11,036	$9,090
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,551	8,454
Foreign currency transaction loss (gain)	173	(1,775)
Unrealized loss (gain) on peso forward contracts	687	(1,147)
Stock based compensation expense	871	1,154
Equity earnings of joint ventures	(3,118)	(128)
Deferred income taxes	(1,710)	—
Change in operating assets and liabilities:		
Receivables	(5,206)	(6,978)
Inventories	(7,505)	473
Other assets	(8,277)	(4,674)
Accounts payable and accrued liabilities	6,244	7,831
Other, net	(44)	(143)
Net cash provided by operating activities	3,702	12,157
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in joint ventures	(125)	(250)
Loan to joint ventures	—	(1,925)
Repayment from loan to joint ventures	300	75
Purchase of property, plant and equipment	(19,382)	(26,642)
Proceeds received on sale of property, plant, and equipment	12	—
Net cash used in investing activities	(19,195)	(28,742)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under credit facility	21,000	30,000
Repayments of borrowings under credit facility	(3,000)	(24,000)
Contribution from non-controlling interest of subsidiaries	—	2,940
Dividends paid to non-controlling interests of subsidiaries	(2,217)	(1,764)
Dividends paid	(1,525)	(1,509)
Exercise of stock options and employee stock purchases	217	187
Net cash provided by financing activities	14,475	5,854
Foreign currency impact on cash	(306)	245
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,324)	(10,486)

CASH AND CASH EQUIVALENTS

Beginning of period	8,361	15,477
End of period	$7,037	$4,991
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Income taxes	$2,356	$1,512
Interest	$716	$263
Non-cash investing activities:		
Change in capital expenditures in accounts payable	$(1,825)	$(650)

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 ("WITTE") of Velbert, Germany, and ADAC Automotive ("ADAC") of Grand Rapids, Michigan. Under this relationship, STRATTEC, WITTE and ADAC market the products of each company to global customers under the "VAST Automotive Group" brand name (as more fully described herein). STRATTEC products are shipped to customer locations in the United States, Canada, Mexico, Europe, South America, Korea, China and India, and we provide full service and aftermarket support for each VAST Automotive Group partner's products. We also maintain a 51 percent interest in a joint venture, STRATTEC Advanced Logic, LLC ("SAL LLC"), which was formed to introduce a new generation of biometric security products based on the designs of Actuator Systems, our partner and the owner of the remaining ownership interest. Currently, we, along with our joint venture partner, are winding down operating the business of SAL LLC.

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 and Leon, Mexico. Equity investments in Vehicle Access Systems Technology LLC ("VAST LLC") and SAL 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, one wholly owned subsidiary in Brazil and one joint venture entity in India. SAL LLC is located in El Paso, Texas. We have only one reporting segment.

In the opinion of management, the accompanying condensed consolidated balance sheets as of April 1, 2018 and July 2, 2017, which have 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 the financial statements and notes thereto included in the STRATTEC SECURITY CORPORATION 2017 Annual Report, which was filed with the Securities and Exchange Commission as an exhibit to our Form 10-K on September 7, 2017.

New Accounting Standards

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 requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. The guidance permits two methods of adoption: the full retrospective method, which requires retrospective restatement of each prior reporting period presented, or the modified retrospective method, which requires the cumulative effect of initially applying the guidance be recognized at the date of initial application. Currently, we do not expect the adoption of this standard to have a material impact on our results of operations or financial position; however, we expect to expand disclosures in line with the requirements of the new standard. We currently do not expect any changes to how we account for reimbursable pre-production costs, which are currently accounted for as a cost reduction. We expect revenue related to parts shipped under our production contracts to remain unchanged. We will adopt this standard as of July 2, 2018, the first day of our 2019 fiscal year. We currently plan to adopt the new standard using the modified retrospective approach.

In August 2014, the FASB issued an update to the accounting guidance on determining when and how to disclose going-concern uncertainties in the financial statements. The new guidance requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern. This accounting update is effective for annual and interim periods beginning on or after December 15, 2016, with early adoption permitted. The adoption of this pronouncement did not have a material impact on our consolidated financial statements.

In July 2015, the FASB issued an accounting standard to simplify the measurement of inventory by changing the subsequent measurement guidance from the lower of cost or market to the lower of cost and net realizable value for inventory. The standard update is effective for fiscal years beginning after December 15, 2016 and interim periods within those years, and early adoption was permitted. The standard is to be applied prospectively. The adoption of this pronouncement did not have a material impact on our consolidated financial statements.

In February 2016, the FASB issued an update to the accounting guidance for leases. The update increases the transparency and comparability among organizations by requiring lessees to recognize lease assets and lease liabilities on the balance sheet and to disclose key information about leasing arrangements. The guidance is effective for fiscal years beginning after December 15, 2018 and interim periods within those years. We do not expect that the adoption of this pronouncement will have a material impact on our consolidated financial statements.

In March 2016, the FASB issued an update to the accounting guidance for share-based payments. The update simplifies several aspects of the accounting for employee share-based payment transactions including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification of such items in the statement of cash flows. The guidance is effective for fiscal years beginning after December 15, 2016 and interim periods within those years. The adoption of this pronouncement did not have a material impact on our consolidated financial statements.

In August 2016, the FASB issued an update to the accounting guidance on the classification of certain cash receipts and cash payments. The update aims to eliminate diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those years. We do not expect that the adoption of this pronouncement will have a material impact on our consolidated financial statements.

In March 2017, the FASB issued an update to the accounting guidance for the presentation of net periodic pension cost and net periodic postretirement benefit cost. The update requires the service cost component of net periodic benefit cost be reported in the same line items as other compensation costs arising from services rendered by the pertinent employees during the applicable period. The remaining components of net periodic benefit cost are required to be presented separately from the service cost component outside a subtotal of income from operations. Additionally, the update allows only the service cost component to be eligible for capitalization when applicable. The

guidance requires retrospective restatement for each period presented for the presentation of the service cost component and the other components of net periodic benefit cost in the income statement and prospective application for the capitalization of the service cost component of net periodic benefit cost. The guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those years, with early adoption permitted. We elected early adoption beginning with the interim periods of our fiscal 2018. The adoption of this guidance resulted in the reclassification of expense within our Condensed Consolidated Statements of Income and Comprehensive Income for the three and nine months ended April 2, 2017 of $198,000 and $595,000, respectively, from cost of goods sold to Other income, net and $87,000 and $260,000, respectively, from engineering, selling and administrative expenses to Other Income, net.

In February 2018, the FASB issued guidance on the reclassification of certain tax effects from accumulated other comprehensive income. The guidance will permit entities to reclassify tax effects stranded in accumulated other comprehensive income as a result of U.S. tax reform to retained earnings. The guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within these fiscal years. We do not expect that the adoption of this pronouncement will have a material impact on our consolidated financial statements.

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 executed contracts with Bank of Montreal that provide for bi-weekly and monthly Mexican peso currency forward contracts for a portion of our estimated peso denominated operating costs. The peso currency forward contracts include settlement dates that began on October 16, 2015 and end on June 15, 2018. Our objective in entering into these currency forward 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 forward contracts are not used for speculative purposes and are not designated as hedges. As a result, all currency forward 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, net.

The following table quantifies the outstanding Mexican peso forward contracts as of April 1, 2018 (thousands of dollars, except average forward contractual exchange rates):

	Effective Dates	Notional Amount	Average Forward Contractual Exchange Rate	Fair Value
Buy MXP/Sell USD	April 13, 2018 - June 15, 2018	$ 4,500	20.08	$ 434

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

	April 1, 2018	July 2, 2017
Not Designated as Hedging Instruments:		
Other Current Assets:		
Mexican Peso Forward Contracts	$434	$1,121

The pre-tax effects of the Mexican peso forward contracts are included in Other Income, net on the accompanying Condensed Consolidated Statements of Income and Comprehensive Income and consisted of the following (thousands of dollars):

	Three Months Ended		Nine Months Ended	
	April 1, 2018	April 2, 2017	April 1, 2018	April 2, 2017
Not Designated as Hedging Instruments:				

Realized Gain (Loss)	$322	$(692)	$981	$(1,498)
Unrealized Gain (Loss)	$392	$2,710	$(687)	$1,147

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 April 1, 2018 and July 2, 2017. Fair value is defined as the exchange price that would be received for an asset or paid for a liability (an exit price) 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 April 1, 2018 (in thousands):

	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	$281	$ —	$ —
Mid Cap	279	—	—
Large Cap	543	—	—
International	819	—	—
Fixed Income Funds	855	—	—
Mexican Peso Forward Contracts	—	434	—
Total Assets at Fair Value	$2,777	$ 434	$ —

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. Refer to discussion of Mexican peso forward contracts under Derivative Instruments above. The fair value of the Mexican peso forward contracts considers the remaining term, current exchange rate, and interest rate differentials between the two currencies. There were no transfers between Level 1 and Level 2 assets during the nine month period ended April 1, 2018.

Equity Earnings (Loss) of Joint Ventures

We hold a one-third interest in a joint venture company, VAST LLC, with WITTE and 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. 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 (in thousands):

	Three Months Ended		Nine Months Ended	
	April 1, 2018	April 2, 2017	April 1, 2018	April 2, 2017
Net Sales	$44,133	$30,967	$127,976	$89,983
Cost of Goods Sold	34,063	24,776	98,339	71,993
Gross Profit	10,070	6,191	29,637	17,990
Engineering, Selling and Administrative Expenses	7,429	5,067	19,775	14,294
Income From Operations	2,641	1,124	9,862	3,696
Other Income, net	163	259	949	1,430
Income before Provision for Income Taxes	2,804	1,383	10,811	5,126
Provision for Income Taxes	683	50	1,367	627
Net Income	$2,121	$1,333	$9,444	$4,499
STRATTEC's Share of VAST LLC Net Income	$707	$445	$3,148	$1,500
Intercompany Profit Elimination	(4)	6	(6)	(17)
STRATTEC's Equity Earnings of VAST LLC	$703	$451	$3,142	$1,483

We hold a 51% ownership interest in a joint venture company, SAL LLC, which was formed to introduce a new generation of biometric security products based upon the designs of Actuator Systems LLC, our partner. SAL LLC is considered a variable interest entity based on loans from STRATTEC as discussed below. STRATTEC is not the primary beneficiary and does not control the entity. Accordingly, our investment in SAL LLC is accounted for using the equity method.

SAL LLC maintains a license agreement with Westinghouse allowing SAL LLC to do business as Westinghouse Security. Payments due Westinghouse under the license agreement were guaranteed by STRATTEC. As of April 1, 2018 and July 2, 2017, STRATTEC has a recorded liability equal to the estimated fair value of the future payments due under this guarantee of $250,000, which is payable by June 30, 2018. The liability is included in Accrued Liabilities: Other in the accompanying Condensed Consolidated Balance Sheets.

Loans were made from STRATTEC to SAL LLC in support of operating expenses and working capital needs. The outstanding loan amounts totaled $2.6 million as of April 1, 2018 and July 2, 2017. As of each balance sheet date, the outstanding loan amount was eliminated against STRATTEC's Investment in SAL LLC in the preparation of the consolidated financial statements.

Even though we maintain a 51 percent ownership interest in SAL LLC, effective with our fiscal 2015 fourth quarter, 100 percent of the funding for SAL LLC was being made by loans from STRATTEC to SAL LLC. Therefore, STRATTEC recognized 100 percent of the losses of SAL LLC up to our committed financial support through Equity Earnings (Loss) of Joint Ventures in the accompanying Condensed Consolidated Statements of Income and Comprehensive Income for all periods presented in this report. The equity loss reported for the year to date period ended April 1, 2018 reflects a reduction in our estimated required financial support needed to satisfy the liabilities of SAL LLC.

The following are summarized statements of operations for SAL LLC (in thousands):

	Three Months Ended		Nine Months Ended	
	April 1, 2018	April 2, 2017	April 1, 2018	April 2, 2017
Net Sales	$—	$102	$227	$298
Cost of Goods Sold	—	244	408	428
Gross (Loss) Profit	—	(142)	(181)	(130)
Engineering, Selling and Administrative Expenses	19	425	(6)	1,131
Loss From Operations	(19)	(567)	(175)	(1,261)
Other Expense, net	(65)	(47)	(194)	(94)
Net Loss	$(84)	$(614)	$(369)	$(1,355)
STRATTEC's Equity Loss of SAL LLC	$(84)	$(614)	$(24)	$(1,355)

Currently, we, along with our joint venture partner, are winding down operating the business of SAL LLC.

We have sales of component parts to VAST LLC and SAL 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 table summarizes these related party transactions with VAST LLC and SAL LLC for the periods indicated below (in thousands):

	Three Months Ended		Nine Months Ended	
	April 1, 2018	April 2, 2017	April 1, 2018	April 2, 2017
Sales to VAST LLC	$507	$501	$2,090	$1,041
Sales to SAL LLC	$—	$63	$182	$190
Purchases from VAST LLC	$29	$27	$158	$129
Expenses Charged to VAST LLC	$232	$341	$615	$567
Expenses Charged from VAST LLC	$176	$375	$706	$724

Credit Facilities and Guarantees

STRATTEC has a $30 million secured revolving credit facility (the “STRATTEC Credit Facility”) with BMO Harris Bank N.A. ADAC-STRATTEC LLC has a $30 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 borrowing limit decreases to $25 million effective July 1, 2019. The credit facilities both expire August 1, 2020. 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 both credit facilities is at varying rates based, at our option, on the London Interbank Offering Rate (“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. The ADAC-STRATTEC Credit Facility also required that a capital contribution to ADAC-STRATTEC LLC of $6 million collectively from STRATTEC and ADAC be completed by September 30, 2016. This capital contribution was completed as required. STRATTEC’s portion of the capital contribution totaled $3.06 million. As of April 1, 2018, we were in compliance with all financial covenants required by these credit facilities.

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

	April 1, 2018	July 2, 2017
STRATTEC Credit Facility	$23,000	$16,000
ADAC-STRATTEC Credit Facility	$25,000	$14,000

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

	Nine Months Ended			
	Average Outstanding Borrowings		Weighted Average Interest Rate	
	April 1, 2018	April 2, 2017	April 1, 2018	April 2, 2017
STRATTEC Credit Facility	$21,223	$12,416	2.4 %	1.6 %
ADAC-STRATTEC Credit Facility	$23,989	$9,821	2.5 %	1.6 %

Commitments and Contingencies

We are from time to time subject to various legal actions and claims incidental to our business, including those arising out of alleged defects, alleged breaches of contracts, product warranties, intellectual property matters and employment related matters. It is our opinion that the outcome of such matters will not have a material adverse impact on our consolidated financial position, results of operations or cash flows. With respect to warranty matters, although we cannot ensure that future costs of warranty claims by customers will not be material, we believe our established reserves are adequate to cover potential warranty settlements.

In 1995, we recorded a provision of $3 million for estimated costs to remediate an environmental contamination site at our Milwaukee facility. The facility 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, in fiscal 2010, the reserve was adjusted based on updated third party estimates to adequately cover the cost for active remediation of the contamination. Additionally, in fiscal 2016, we obtained updated third party estimates for adequately covering the cost for active remediation of this contamination. Based upon the updated estimates, no further adjustment to the reserve was required. From 1995 through April 1, 2018, costs of approximately $580,000 have been incurred related to the installation of monitoring wells on the property and ongoing monitoring costs. We 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 our 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 $1.3 million at April 1, 2018 is adequate.

Shareholders’ Equity

A summary of activity impacting shareholders’ equity for the nine month period ended April 1, 2018 was as follows (in thousands):

	Total Shareholders’ Equity	Equity Attributable to STRATTEC	Equity Attributable to Non-Controlling Interest
Balance, July 2, 2017	$ 172,714	$ 151,088	$ 21,626
Net Income	11,036	8,307	2,729
Dividend Declared	(1,525)	(1,525)	—
Dividend Declared – Non-controlling Interests of Subsidiaries	(2,217)	—	(2,217)
Translation adjustments	1,193	1,213	(20)
Stock Based Compensation	871	871	—
Pension and Postretirement Adjustment, Net of Tax	893	893	—
Employee Stock Purchases and Stock Option Exercises	217	217	—
Balance, April 1, 2018	$ 183,182	$ 161,064	$ 22,118

Other Income, net

Net other income included in the accompanying Condensed Consolidated Statements of Income and Comprehensive Income primarily included foreign currency transaction gains and losses, realized and unrealized losses on our Mexican peso currency forward contracts, net periodic pension and postretirement benefit (costs) credits, other than the service cost component, 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. We entered into the Mexican Peso currency forward contracts to minimize earnings volatility resulting from changes in exchange rates affecting the U.S. dollar cost of our Mexican operations. Pension and postretirement plan impacts include the components of net periodic benefit cost other than the service cost component. 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		Nine Months Ended	
	April 1,	April 2,	April 1,	April 2,
	2018	2017	2018	2017
Foreign Currency Transaction (Loss) Gain	$(592)	$(722)	$(173)	$1,775
Unrealized Gain (Loss) on Peso Forward Contracts	392	2,710	(687)	1,147
Realized Gain (Loss) on Peso Forward Contracts	322	(692)	981	(1,498)
Pension and Postretirement Plans Credit (Cost)	111	(285)	335	(855)
Rabbi Trust (Loss) Gain	(14)	112	178	227
Other	(61)	69	(280)	580
	$158	$1,192	$354	$1,376

Income Taxes

Our income tax provisions for the three and nine month periods ended April 1, 2018 were impacted by the Tax Cuts and Jobs Act of 2017 (“the Act”), which was signed into law on December 22, 2017 with an effective date of January 1, 2018. The Act makes broad and complex changes to the U.S. tax code that will affect our fiscal year ending July 1, 2018, including but not limited to (1) a reduction in the U.S. statutory tax rate to 21 percent following its effective date and a change in the measurement of our deferred tax assets and deferred tax liabilities resulting from the reduction in the statutory rate, (2) requiring a one-time transition tax on certain repatriated earnings of foreign subsidiaries that is payable over eight years, and (3) bonus depreciation that will allow for full expensing of qualified property. Section 15 of the Internal Revenue Code stipulates that for our fiscal year ending July 1, 2018, we will have a blended statutory corporate tax rate of 28%, which is based on the applicable statutory tax rates before and after the Act and the number of days in our fiscal year.

The SEC staff issued SAB 118, which provides guidance on accounting for the tax effects of the Act. SAB 118 provides a measurement period that should not extend beyond one year from the Act's enactment date for companies to complete the accounting under ASC 740. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Act for which the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the Act is incomplete but it is still able to determine a reasonable estimate of the tax effect, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provision of the tax laws that were in effect immediately before the enactment of the Act.

In connection with our analysis of the impact of the Act, we have recorded a discrete net tax benefit of $309,000 and $854,000 for the three and nine month periods ended April 1, 2018, respectively. This net tax benefit primarily consists of (1) the impact of the change in measurement of our deferred tax assets and liabilities, (2) the one-time transition tax on non-previously taxed post 1986 accumulated foreign earnings, and (3) the impact of changing our annualized effective tax rate. For various reasons that are discussed more fully below, we have not completed our accounting for the income tax effects for certain elements of the Act. However, we were able to make reasonable estimates of certain effects and, therefore, we recorded provisional adjustments of these elements in the accompanying condensed financial statements. We identified these items as provisional since our analysis of the items is not complete.

The Act reduces the corporate tax rate to 21 percent, effective January 1, 2018. For certain of our net deferred tax assets, we have recorded a provisional adjustment to reflect the reduction in the corporate tax rate. While we are able to make a reasonable estimate of the impact of the reduction in the corporate rate, it may be affected by other analyses related to the Act, including, but not limited to, the impact of our calculation of deemed repatriation of deferred foreign income and the impact of full expensing for certain assets.

The Deemed Repatriation Transition Tax ("Transition Tax") is a tax on previously untaxed accumulated and current earnings and profits (E&P) of certain of our foreign subsidiaries. To determine the amount of the Transition Tax, we must determine, in addition to other factors, the amount of post-1986 E&P of the relevant subsidiaries, as well as the amount of non-U.S. income taxes paid on such earnings. We were able to make a reasonable estimate of the Transition Tax and recorded a provisional Transition Tax obligation in the accompanying condensed financial statements. However, we are continuing to gather additional information to more precisely compute the amount of the Transition Tax.

We must assess whether our valuation allowance analyses are affected by various aspects of the Act (e.g., deemed repatriation of deferred foreign income, Global Intangible Low-Taxed Income ("GILTI") inclusions, and new categories of Foreign Tax Credits). Since, as discussed herein, we have recorded provisional amounts related to certain portions of the Act, any corresponding determination of the need for or change in a valuation allowance is also provisional.

Our accounting for the following elements of the Act is incomplete, and we were not yet able to make reasonable estimates of the effects. Therefore, no provisional adjustments were recorded for the following elements in our accompanying condensed financial statements.

Because of the complexity of the new GILTI tax rules, we are continuing to evaluate this provision of the Act and the application of ASC 740. Under U.S. GAAP, we are allowed to make an accounting policy choice of either (1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the "period cost method") or (2) factoring such amounts into a company's measurement of its deferred taxes (the "deferred method"). Our selection of an accounting policy with respect to the new GILTI tax rules will depend, in part, on analyzing our global income to determine whether we expect to have future U.S. inclusions in taxable income related to GILTI and, if so, what the impact is expected to be. Because whether we expect to have future U.S. inclusions in taxable income related to GILTI depends on not only our current structure and estimated future results of global operations but also our intent and ability to modify our structure and/or our business, we are not yet able to reasonably estimate the effect of this provision of the Act. Therefore, we have not made any adjustments related to potential GILTI tax in our financial statements and have not made a policy decision regarding whether to record deferred taxes on GILTI.

Our income tax provision for the nine month period ended April 2, 2017 was impacted by the recognition of a $424,000 deferred tax liability resulting from a change in assertion regarding the permanent reinvestment of earnings from two of our Mexican subsidiaries. Prior to our fiscal 2017 second quarter, the accumulated undistributed earnings from such subsidiaries were considered to be permanently reinvested in Mexico. Accordingly, we did not previously record deferred income taxes on these earnings in our financial statements. During our fiscal 2017 second quarter, the strength of the U.S. dollar to the Mexican peso significantly decreased the U.S. tax cost associated with a distribution from the Mexican entities as compared to the U.S. tax cost associated with such a distribution in prior periods. Consequently, we changed our assertion regarding the permanent reinvestment of earnings from these Mexican subsidiaries. Such earnings were no longer considered permanently reinvested as of January 1, 2017. As a result, we repatriated $15 million from Mexico to the U.S. during the quarter ended January 1, 2017, recognized the deferred tax liability resulting from the change in assertion, and concluded that, with some restrictions and tax implications, the remaining current and future accumulated undistributed earnings of these subsidiaries will be available for repatriation in future periods as deemed necessary.

Additionally, our income tax provisions for the three and nine month periods ended April 1, 2018 and April 2, 2017 were affected by the non-controlling interest portion of our pre-tax income. The non-controlling interest impacts the effective tax rate as ADAC-STRATTEC LLC and STRATTEC POWER ACCESS LLC entities are taxed as partnerships for U.S. tax purposes.

We are currently subject to a U.S. Federal income tax examination related to our fiscal year 2016.

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					
	April 1, 2018			April 2, 2017		
	Net income	Shares	Per-Share Amount	Net income	Shares	Per-Share Amount
Basic Earnings Per Share	$2,969	3,634	$ 0.82	$3,482	3,592	$ 0.97
Stock Option and Restricted Stock Awards	—	74		—	79	
Diluted Earnings Per Share	$2,969	3,708	$ 0.80	$3,482	3,671	$ 0.95

	Nine Months Ended					
	April 1, 2018			April 2, 2017		
	Net income	Shares	Per-Share Amount	Net income	Shares	Per-Share Amount
Basic Earnings Per Share	$8,307	3,625	$ 2.29	$5,422	3,586	$ 1.51
Stock Option and Restricted Stock Awards	—	77		—	80	
Diluted Earnings Per Share	$8,307	3,702	$ 2.24	$5,422	3,666	$ 1.48

The calculation of earnings per share excluded 41,200 and 14,010 share-based payment awards as of April 1, 2018 and April 2, 2017, respectively, 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 April 1, 2018, 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 April 1, 2018 were 180,864. 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 associates 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 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 as determined by the Compensation Committee of the Board of Directors. 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 one year from the date of grant. Unvested restricted shares granted have voting rights, regardless of whether the shares are vested or unvested, but only have the right to receive cash dividends after such shares become vested. Prior to August 2016, the restricted stock grants issued vest 3 to 5 years after the date of grant. As of August 2016, restricted stock grants issued vest 1 to 5 years after the date of grant as determined by the Compensation Committee of the Board of Directors.

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

A summary of stock option activity under our stock incentive plan for the nine months ended April 1, 2018 was as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Outstanding, July 2, 2017	138,508	$ 29.23		
Exercised	(5,434)	$ 25.64		
Outstanding, April 1, 2018	133,074	$ 29.37	3.6	$ 1,450
Exercisable, April 1, 2018	133,074	$ 29.37	3.6	$ 1,450

The intrinsic value of stock options exercised and the fair value of stock options that vested during the three and nine month periods presented below were as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	April 1,	April 2,	April 1,	April 2,

	2018	2017	2018	2017
Intrinsic Value of Options Exercised	$ —	$ —	$110	$97
Fair Value of Stock Options Vesting	$ —	$ —	$315	$566

No options were granted during the nine month periods ended April 1, 2018 or April 2, 2017.

A summary of restricted stock activity under our omnibus stock incentive plan for the nine months ended April 1, 2018 was as follows:

	Shares	Weighted Average Grant Date Fair Value
Nonvested Balance, July 2, 2017	75,850	$ 60.61
Granted	27,950	$ 33.30
Vested	(30,400)	$ 62.99
Forfeited	(3,875)	$ 52.80
Nonvested Balance, April 1, 2018	69,525	$ 49.02

As of April 1, 2018, all compensation cost related to outstanding stock options granted under our omnibus stock incentive plan has been recognized. As of April 1, 2018, there was approximately $1.3 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 year. 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 employed by us prior to January 1, 2010. Benefits under the Qualified Pension Plan are based on credited years of service and final average compensation. Our policy is to fund the Qualified Pension Plan with 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, the Board of Directors amended the Qualified Pension Plan to freeze benefit accruals and future eligibility. The Board of Directors has approved the termination of the Qualified Pension Plan with a proposed termination date of December 31, 2017. The termination of the Qualified Pension Plan is contingent upon (1) receipt of an IRS determination letter that the Qualified Pension Plan was qualified upon termination and (2) approval by the Pension Benefit Guaranty Corporation (“PBGC”). The date the termination will be approved and benefits can be distributed will not be known until we receive all required regulatory approvals. We submitted a request to the IRS for a determination letter that the Qualified Pension Plan is qualified upon termination prior to the end of the 2017 calendar year. We are still waiting for receipt of such notification from the IRS. Depending on the time of receipt of IRS and PBGC approval, we intend to distribute Qualified Pension Plan assets prior to the end of the 2018 calendar year. Additionally, in connection with preparing for the termination of the Qualified Pension Plan, we have amended the 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 will contribute to the Trust Fund for the Qualified Pension Plan as necessary to ensure there are sufficient assets to provide all Qualified Pension Plan benefits as required by the PBGC. The financial impact of the Qualified Pension 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 prior to January 1, 2014 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. As noted above, 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. Subsequent to December 31, 2013, each eligible participant receives 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 then current participants as of December 31, 2013 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 period. The SERP, which is considered a defined benefit plan under applicable rules and regulations of the Internal Revenue Code, will continue to be funded through 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 Rabbi Trust assets had a value of $2.8 million at April 1, 2018 and $2.6 million at July 2, 2017, 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 U.S. associates hired prior to June 1, 2001. The expected cost of retiree health care benefits is recognized during the years 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 the benefit is further 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 service cost component of the net periodic benefit costs under these plans is allocated between Cost of Goods Sold and Engineering, Selling and Administrative Expenses while the remaining components of the net periodic benefit costs are included in Other Income, net in the accompanying Condensed Consolidated Statements of Income and Comprehensive Income.

The following table summarizes 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	
	April 1, 2018	April 2, 2017	April 1, 2018	April 2, 2017
Service cost	$17	$13	$3	$4
Interest cost	965	981	11	13
Expected return on plan assets	(1,528)	(1,463)	—	—
Amortization of prior service cost (credit)	3	3	(191)	(191)
Amortization of unrecognized net loss	509	807	119	134
Net periodic benefit (credit) cost	$(34)	$341	$(58)	$(40)

	Pension Benefits Nine Months Ended		Postretirement Benefits Nine Months Ended	
	April 1, 2018	April 2, 2017	April 1, 2018	April 2, 2017
Service cost	$50	$40	$10	$11
Interest cost	2,893	2,943	33	40
Expected return on plan assets	(4,583)	(4,390)	—	—
Amortization of prior service cost (credit)	9	9	(573)	(573)
Amortization of unrecognized net loss	1,526	2,421	359	403
Net periodic benefit (credit) cost	$(105)	$1,023	$(171)	$(119)

No voluntary contributions were made to the Qualified Pension Plan during the nine month period ended April 1, 2018. Voluntary contributions of $5 million were made to the Qualified Pension Plan during the nine month period ended April 2, 2017. No additional contributions are anticipated to be made during the remainder of fiscal 2018.

Accumulated Other Comprehensive Loss

The following tables summarize the changes in accumulated other comprehensive loss (“AOCL”) for each period presented (in thousands):

	Nine Months Ended April 1, 2018		
	Foreign Currency Translation Adjustments	Retirement and Postretirement Benefit Plans	Total
Balance, July 2, 2017	$14,138	$ 18,750	$32,888
Other comprehensive loss before reclassifications	(1,193)	—	(1,193)
Income tax	—	—	—
Net other comprehensive loss before Reclassifications	(1,193)	—	(1,193)
Reclassifications:			
Prior service credits (A)	—	564	564
Actuarial gains (A)	—	(1,885)	(1,885)
Total reclassifications before tax	—	(1,321)	(1,321)
Income tax	—	428	428
Net reclassifications	—	(893)	(893)
Other comprehensive loss (income)	(1,193)	(893)	(2,086)
Other comprehensive loss attributable to non-controlling interest	20	—	20
Balance, April 1, 2018	$12,925	$ 17,857	$30,782

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	Nine Months Ended April 2, 2017		
	Foreign Currency Translation Adjustments	Retirement and Postretirement Benefit Plans	Total
Balance, July 3, 2016	$13,155	$ 24,518	$37,673
Other comprehensive loss before reclassifications	1,948	—	1,948
Income tax	(274)	—	(274)
Net other comprehensive loss before Reclassifications	1,674	—	1,674
Reclassifications:			
Prior service credits (A)	—	564	564
Unrecognized net loss (A)	—	(2,825)	(2,825)
Total reclassifications before tax	—	(2,261)	(2,261)
Income tax	—	837	837
Net reclassifications	—	(1,424)	(1,424)
Other comprehensive loss (income)	1,674	(1,424)	250
Other comprehensive loss attributable to non-controlling interest	(69)	—	(69)
Balance, April 2, 2017	$14,898	$ 23,094	$37,992

(A) Amounts reclassified are included in the computation of net periodic benefit cost, which is included in Other Income, net in the accompanying Condensed Consolidated Statements of Income and Comprehensive Income. See Pension and Postretirement Benefits note to these Notes to 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 2017 Annual Report which was filed with the Securities and Exchange Commission as an exhibit to its Form 10-K on September 7, 2017. Unless otherwise indicated, all references to quarters and years refer to fiscal quarters and fiscal years.

Outlook

During the fiscal year ended July 2, 2017, we experienced stronger sales demand for our components from our major North American automotive customers, Fiat Chrysler Automobiles, General Motors Company and Ford Motor Company, as it relates to light trucks and both sport and car based utility vehicles in comparison to passenger cars, which was likely influenced by both lower gas prices and consumer preferences. If gas prices continue to remain low over the next few years, we anticipate this consumer buying trend will continue. As we look out over the remainder of calendar 2018, the current sales projections from our third party forecasting service indicate that North American light vehicle production will remain flat or slightly lower than the levels experienced during calendar year 2017. However, our capital spending will remain high through our fiscal year 2018 as we continue to support several new customer program launches, in particular production at our new paint and door handle assembly facility in Leon, Mexico.

Analysis of Results of Operations

Three months ended April 1, 2018 compared to the three months ended April 2, 2017

	Three Months Ended	
	April 1, 2018	April 2, 2017
Net Sales (in millions)	$116.8	$109.7

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	
	April 1,	April 2,

	2018	2017
Fiat Chrysler Automobiles	$31.3	$28.0
General Motors Company	22.4	21.9
Ford Motor Company	18.1	16.8
Tier 1 Customers		