STRATTEC SECURITY CORP
Form 10-Q
November 03, 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 September 27, 2015

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: 3,636,556 shares outstanding as of September 25, 2015 (which number includes all restricted shares previously awarded that have not vested as of such date).

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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 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, 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 4, 2015 with the Securities and Exchange Commission for the year ended June 28, 2015.

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 September 27, 2015			September 28, 2014		
Net sales	$	96,513		$	122,242	
Cost of goods sold		80,014			94,185	
Gross profit		16,499			28,057	
Engineering, selling and administrative expenses		10,574			13,187	
Income from operations		5,925			14,870	
Interest income		7			22	
Equity (loss) earnings of joint ventures		(293	)		190	
Interest expense		(21	)		(11	)
Other (expense) income, net		(32	)		788	
Income before provision for income taxes and non-controlling interest		5,586			15,859	
Provision for income taxes		1,754			5,519	
Net income		3,832			10,340	
Net income attributable to non-controlling interest		559			1,040	
Net income attributable to STRATTEC SECURITY CORPORATION	$	3,273		$	9,300	
Comprehensive Income:						
Net income	$	3,832		$	10,340	
Pension and postretirement plans, net of tax		364			428	
Currency translation adjustments		(2,867	)		(852	)
Other comprehensive loss, net of tax		(2,503	)		(424	)

Comprehensive income		1,329		9,916
Comprehensive income attributable to non-controlling interest		400		976
Comprehensive income attributable to STRATTEC SECURITY CORPORATION	$	929	$	8,940
Earnings per share attributable to STRATTEC SECURITY CORPORATION:				
Basic	$	0.92	$	2.63
Diluted	$	0.90	$	2.55
Average shares outstanding:				
Basic		3,543		3,497
Diluted		3,617		3,593
Cash dividends declared per share	$	0.13	$	0.12

The accompanying notes are an integral part of these Condensed Consolidated Statements of Income and Comprehensive Income.

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STRATTEC SECURITY CORPORATION AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(In Thousands, Except Share Amounts)

	September 27, 2015 (Unaudited)	June 28, 2015
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 19,967	$ 25,695
Receivables, net	56,701	58,807
Inventories		
Finished products	10,924	11,358
Work in process	8,454	7,746
Purchased materials	25,210	17,982
Excess and obsolete reserve	(2,576)	(2,300)
Inventories, net	42,012	34,786
Other current assets	18,468	18,873
Total current assets	137,148	138,161
Investment in joint ventures	14,936	15,326
Other long-term assets	10,930	10,816
Property, plant and equipment	197,131	194,567
Less: accumulated depreciation	(125,517)	(123,441)
Net property, plant and equipment	71,614	71,126
	$ 234,628	$ 235,429
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 34,050	$ 27,838
Accrued Liabilities:		
Payroll and benefits	11,379	16,107
Environmental	1,382	1,383
Warranty	11,787	11,835
Other	8,589	7,572
Total current liabilities	67,187	64,735
Deferred income taxes	4,574	4,595
Borrowings under credit facility	6,500	10,000
Accrued pension obligations	1,357	1,331
Accrued postretirement obligations	1,575	1,657
Other long-term liabilities	757	710
Shareholders' Equity:		
Common stock, authorized 12,000,000 shares, $.01 par value, issued 7,185,863 shares at September 27, 2015 and 7,151,154 shares at June 28, 2015	71	71
Capital in excess of par value	90,536	89,560
Retained earnings	216,250	213,442

Accumulated other comprehensive loss	(29,203)	(26,859)
Less: treasury stock, at cost (3,624,107 shares at September 27, 2015 and 3,624,454 shares at June 28, 2015)	(135,897)	(135,902)
Total STRATTEC SECURITY CORPORATION shareholders' equity	141,757	140,312
Non-controlling interest	10,921	12,089
Total shareholders' equity	152,678	152,401
	$ 234,628	$ 235,429

The accompanying notes are an integral part of these Condensed Consolidated Balance Sheets.

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STRATTEC SECURITY CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(In Thousands)

(Unaudited)

	Three Months Ended September 27, 2015	Three Months Ended September 28, 2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$3,832	$10,340
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,396	2,112
Foreign currency transaction gain	(957)	(786)
Unrealized loss on peso forward contracts	896	-
Stock based compensation expense	498	389
Equity loss (earnings) of joint ventures	293	(190)
Change in operating assets and liabilities:		
Receivables	1,998	(10,618)
Inventories	(7,226)	(1,545)
Other assets	610	(890)
Accounts payable and accrued liabilities	1,636	10,298
Other, net	35	125
Net cash provided by operating activities	4,011	9,235
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loan to joint ventures	(150)	(215)
Purchase of property, plant and equipment	(3,865)	(6,963)
Net cash used in investing activities	(4,015)	(7,178)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under credit facility	1,000	1,500
Repayments of borrowings under credit facility	(4,500)	-
Dividends paid to non-controlling interests of subsidiaries	(1,568)	(882)
Dividends paid	(466)	(427)
Exercise of stock options and employee stock purchases	483	440
Net cash (used in) provided by financing activities	(5,051)	631
Foreign currency impact on cash	(673)	101
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(5,728)	2,789
CASH AND CASH EQUIVALENTS		
Beginning of period	25,695	19,756
End of period	$19,967	$22,545
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		

Cash paid during the period for:		
Income taxes	$954	$1,102
Interest	$12	$5
Non-cash investing activities:		
Change in capital expenditures in accounts payable	$(35)	$516
Guarantee of joint venture revolving credit facility	$55	$-

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" brand name. 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 our products. We also maintain a 51 percent interest in a joint venture, STRATTEC Advanced Logic LLC, which exists 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.

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 STRATTEC Advanced Logic, LLC ("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 sheet as of September 27, 2015, 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 2015 Annual Report, which was filed with the Securities and Exchange Commission as an exhibit to our Form 10-K on September 4, 2015.

New Accounting Standards

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 standard 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. We do not expect that the adoption of this pronouncement will have a material impact on our consolidated financial statements.

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 update is effective for annual reporting periods beginning after December 15, 2017 and becomes effective for us at the beginning of our 2019 fiscal year. We are currently assessing the impact that this guidance will have on our consolidated financial statements.

In February 2015, the FASB issued an update to the accounting guidance that amends current consolidation guidance by modifying the evaluation of whether limited partnerships and similar legal entities are variable interest entities or voting interest entities, eliminating the presumption that a general partner should consolidate a limited partnership, and affects the consolidation analysis of reporting entities that are involved with variable interest entities. The update is effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. 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 have contracts with Bank of Montreal that provide for bi-weekly Mexican peso currency forward contracts for a portion of our estimated peso denominated operating costs. The current peso currency forward contracts, which were effective as of September 27, 2015, include settlement dates that begin on October 16, 2015 and end on June 21, 2016. The contracts provide for the purchase of Mexican pesos at an average U.S. dollar / Mexican peso exchange rate of 16.00. The total outstanding U.S. dollar notional amount of the forward contracts totaled $13.5 million at September 27, 2015. No forward contracts were in place during fiscal 2015 or outstanding as of June 28, 2015. 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 (Expense) Income, net.

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

	September 27, 2015	June 28, 2015
Not Designated as Hedging Instruments:		
Other Current Liabilities:		
Mexican Peso Forward Contracts	$ 896	$ -

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

	Three Months Ended	
	September 27,	September 28,

	2015	2014
Not Designated as Hedging Instruments:		
Unrealized Loss	$ 896	$ -

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 September 27, 2015 and June 28, 2015. 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 September 27, 2015 (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
Rabbi Trust Assets:			
Stock Index Funds:			
Small Cap	$ 333	$ -	$ -
Mid Cap	336	-	-
Large Cap	450	-	-
International	377	-	-
Fixed Income Funds	681	-	-
Cash and Cash Equivalents	-	3	-
Total Assets at Fair Value	$ 2,177	$ 3	$ -

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 month period ended September 27, 2015.

Equity (Loss) Earnings 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 September 27, 2015	Three Months Ended September 28, 2014
Net Sales	$26,348	$ 30,998
Cost of Goods Sold	21,914	26,083
Gross Profit	4,434	4,915
Engineering, Selling and Administrative Expenses	3,625	4,198
Income From Operations	809	717
Other Income (Expense), net	(312)	473
Income before Provision for Income taxes	497	1,190
Provision for Income Taxes	94	59

Net Income	$403	$ 1,131
STRATTEC's Share of VAST LLC Net Income	$134	$ 377
Intercompany Profit Elimination	(1)	(1)
STRATTEC's Equity Earnings of VAST LLC	$133	$ 376

During 2013, we acquired a 51% ownership interest in a newly formed joint venture company, SAL LLC, which was formed to introduce a new generation of biometric security products based upon designs of Actuator Systems LLC, our partner.

SAL LLC has a $1.5 million revolving credit facility (the “SAL Credit Facility”) with BMO Harris Bank N.A., which is fully guaranteed by STRATTEC. The SAL Credit Facility has a maturity date of February 16, 2016. Outstanding borrowings under the SAL Credit Facility as of September 27, 2015 and June 28, 2015 totaled $1.05 million and $995,000, respectively. SAL LLC is considered a variable interest entity based on the STRATTEC guarantee. 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. STRATTEC had a recorded liability related to the guarantee of $1.05 million and $995,000 at September 27, 2015 and June 28, 2015, respectively, which amounts were equal to the estimated fair value of the guarantee as of these balance sheet dates. The guarantee liability is included in Other Current Liabilities in the accompanying Condensed Consolidated Balance Sheets. STRATTEC’s proportionate share of the guarantee based on our ownership percentage in SAL LLC totaled $536,000 and $507,000, respectively, as of September 27, 2015 and June 28, 2015, and accordingly, our investment in SAL LLC included these amounts at these balance sheet dates. Our joint venture partner did not guarantee their proportionate share of the SAL Credit Facility. As a result, we recorded a loss equal to our partner’s proportionate share of the fair value of the STRATTEC guarantee based upon their ownership interest in the joint venture of $488,000 during the fourth quarter of fiscal 2015 and $27,000 during the three months ended September 27, 2015.

SAL LLC maintains a license agreement with Westinghouse allowing SAL LLC to do business as Westinghouse Security. Payments under the license agreement were guaranteed by STRATTEC. As of September 27, 2015 and June 28, 2015, STRATTEC has a recorded liability equal to the estimated fair value of the future payments due under this guarantee of $250,000. The liability is included in Other Long-term Liabilities in the accompanying Condensed Consolidated Balance Sheets. STRATTEC’s proportionate share of the guarantee of these payments based on our ownership percentage in SAL LLC totals $127,000, and accordingly, our investment in SAL LLC as of September 27, 2015 and June 28, 2015 included this amount. Our joint venture partner did not guarantee their proportionate share of the payments required under the license agreement. As a result, we recorded a loss of $123,000 during the fourth quarter of fiscal 2015 which was equal to our partner’s proportionate share, based upon their ownership interest in the joint venture, of the fair value of the STRATTEC guarantee.

During fiscal 2015 and during the three months ended September 27, 2015, loans were made from STRATTEC to SAL LLC in support of operating expenses and working capital needs. The outstanding loan amount totaled $250,000 and $100,000 as of September 27, 2015 and June 28, 2015, respectively. A valuation reserve of $250,000 and $100,000 was recorded as of September 27, 2015 and June 28, 2015, respectively, in connection with these loans. The corresponding loss related to this valuation reserve was included in Equity (Loss) Earnings of Joint Ventures in the accompanying Condensed Consolidated Statements of Income and Comprehensive Income in each respective period.

Notwithstanding the existence of the SAL Credit Facility described herein, as a result of STRATTEC’s guarantee of such credit facility and as a result of borrowing limitations imposed by the bank under such credit facility, effective with our fiscal 2015 fourth quarter, 100 percent of the funding for SAL LLC was being made by STRATTEC through loans and guarantees. Therefore, effective with our fiscal 2015 fourth quarter, STRATTEC began recognizing 100 percent of the losses of SAL LLC through Equity (Loss) Earnings of Joint Ventures in the accompanying Condensed Consolidated Statements of Income and Comprehensive Income.

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

	Three Months Ended	
	September 27, 2015	September 28,

		2014
Net Sales	$60	$ -
Cost of Goods Sold	55	-
Gross Profit	5	-
Engineering, Selling and Administrative Expenses	246	364
Loss From Operations	(241)	(364)
Other Income (Expense), net	(8)	-
Net Loss	$(249)	$ (364)
STRATTEC's Share of Equity Loss of SAL LLC	$(249)	$ (186)
Loss on Loan to SAL LLC	(150)	-
Loss on SAL LLC Credit Facility Guarantee	(27)	-
STRATTEC's Equity Loss of SAL LLC	$(426)	$ (186)

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	
	September 27, 2015	September 28, 2014
Sales to VAST LLC	$138	$ 114
Sales to SAL, LLC	$17	$ 5
Purchases from VAST LLC	$25	$ 39
Expenses Charged to VAST LLC	$235	$ 159
Expenses Charged from VAST LLC	$392	$ 483

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 $10 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, 2018. Borrowings under either credit facility are secured by our 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. As of September 27, 2015, we were in compliance with all financial covenants.

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

	September 27, 2015	June 28, 2015
STRATTEC Credit Facility	$ 3,000	$7,000
ADAC-STRATTEC Credit Facility	$ 3,500	$3,000

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

Three Months Ended
Average Outstanding Borrowings

			Weighted Average Interest Rate	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
STRATTEC Credit Facility	$3,747	$ -	1.2%	- %
ADAC-STRATTEC Credit Facility	$3,137	$ 3,481	1.2%	1.2 %

SAL LLC has a $1.5 million revolving credit facility (the “SAL Credit Facility’) with BMO Harris Bank N.A., which is fully guaranteed by STRATTEC. Interest on borrowings under the SAL Credit Facility is at varying rates based, at SAL LLC’s option, on LIBOR plus 1.0 percent or the bank’s prime rate. The SAL Credit Facility has a maturity date of February 16, 2016. Outstanding borrowings under the SAL Credit Facility as of September 27, 2015 totaled $1.05 million. As of September 27, 2015, STRATTEC had a recorded liability related to its guarantee of this credit facility of $1.05 million, which amount is equal to the estimated fair value of the guarantee as of September 27, 2015.

SAL LLC maintains a license agreement with Westinghouse allowing SAL LLC to do business as Westinghouse Security. STRATTEC guaranteed payments under the Westinghouse agreement. As of September 27, 2015, STRATTEC has a recorded liability related to this guarantee of $250,000, which amount is equal to the amount of future payments required under the agreement and the estimated fair value of the guarantee as of September 27, 2015. See further discussion under Equity (Loss) Earnings of Joint Ventures included herein.

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 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, 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 September 27, 2015, costs of approximately $493,000 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 September 27, 2015 is adequate.

Shareholders' Equity

A summary of activity impacting shareholders' equity for the three month period ended September 27, 2015 was as follows (in thousands):

	Total Shareholders' Equity	Equity Attributable to STRATTEC	Equity Attributable to Non-Controlling Interest
Balance, June 28, 2015	$ 152,401	$ 140,312	$ 12,089
Net Income	3,832	3,273	559
Dividend Declared	(466)	(466)	-
Dividend Declared – Non-controlling Interests of Subsidiaries	(1,568)	-	(1,568)
Translation adjustments	(2,867)	(2,708)	(159)

Stock Based Compensation	498	498	-
Tax Benefit – Dividend Paid on Restricted Shares	1	1	-
Pension and Postretirement Adjustment, Net of tax	364	364	-
Employee Stock Purchases and Stock Option Exercises	483	483	-
Balance, September 27, 2015	$ 152,678	$ 141,757	$ 10,921

Other (Expense) Income, net

Net other (expense) income included in the accompanying Condensed Consolidated Statements of Income and Comprehensive Income primarily included foreign currency transaction gains and losses, unrealized losses on peso forward contracts 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. 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	
	September 27, 2015	September 28, 2014
Foreign Currency Transaction Gain	$957	$ 786
Unrealized Loss on Peso Forward Contracts	(896)	-
Rabbi Trust Loss	(164)	(27)
Other	71	29
	$(32)	$ 788

Income Taxes

The income tax provisions for the three month periods ended September 27, 2015 and September 28, 2014 were affected by the non-controlling interest portion of our pre-tax income and a lower statutory tax rate for income subject to tax in Mexico as compared to the statutory tax rate for income subject to tax in the U.S.

Earnings Per Share (EPS)

Basic earnings per share is computed on the basis of the weighted average number of shares of common stock outstanding during the applicable period. Diluted earnings per share is computed on the basis of the weighted average number of shares of common stock plus the potential dilutive common shares outstanding during the applicable period using the treasury stock method. Potential dilutive common shares include outstanding stock options and 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	
	September 27, 2015	September 28, 2014
Net Income Attributable to STRATTEC SECURITY CORPORATION	$3,273	$ 9,300
Less: Income Attributable to Participating Securities	21	120
Net Income Attributable to Common Shareholders	$3,252	$ 9,180
Basic Weighted Average Shares of Common Stock Outstanding	3,543	3,497
Incremental Shares – Stock based Compensation	74	96
Diluted Weighted Average Shares of Common Stock Outstanding	3,617	3,593
	$0.92	$ 2.63

Basic Earnings Per Share		
Diluted Earnings Per Share	$0.90	$ 2.55

We consider unvested restricted stock that provides the holder with a non-forfeitable right to receive dividends to be a participating security.

As of September 27, 2015 and September 28, 2014, options to purchase 10,000 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 September 27, 2015, 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 September 27, 2015 were 225,239. 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 generally 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 awarded to participants 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 to 5 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 three months ended September 27, 2015 was as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Outstanding, June 28, 2015	163,907	$ 27.97		
Exercised	(14,409)	$ 22.47		
Outstanding, September 27, 2015	149,498	$ 28.50	6.1	$ 5,097
Exercisable, September 27, 2015	108,298	$ 21.20	5.3	$ 4,364

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

	Three Months Ended September 27, 2015	September 28, 2014
Intrinsic Value of Options Exercised	$414	$ 500
Fair Value of Stock Options Vesting	$331	$ 382

No options were granted during the three month period ended September 27, 2015. The grant date fair value and assumptions used to determine compensation expense for the options granted during the three month period ended

September 28, 2014 were as follows:

Weighted Average Grant Date Fair Value:	
Options Issued at Grant Date Market Value	n/a
Options Issued Above Grant Date Market Value	$34.93
Assumptions:	
Risk Free Interest Rate	1.90 %
Expected Volatility	57.83 %
Expected Dividend Yield	0.62 %
Expected Term (in years)	6.0

A summary of restricted stock activity under our omnibus stock incentive plan for the three months ended September 27, 2015 was as follows:

	Shares	Weighted Average Grant Date Fair Value
Nonvested Balance, June 28, 2015	66,350	$ 45.03
Granted	28,750	$ 69.02
Vested	(20,300)	$ 23.69
Nonvested Balance, September 27, 2015	74,800	$ 36.57

As of September 27, 2015, there was $368,000 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 0.8 years. As of September 27, 2015, there was approximately $2.7 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 1.4 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. We have not yet received IRS approval that the qualified plan is qualified on termination. 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 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. 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, 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 foregoing amendments to the SERP did not have a material effect on our financial statements. The Rabbi Trust assets had a value of $2.2 million at September 27, 2015 and $2.3 million at June 28, 2015, 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 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 under these plans 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 Three Months Ended		Postretirement Benefits Three Months Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
Service cost	$12	$ 16	$3	$ 4
Interest cost	1,076	1,043	21	28
Expected return on plan assets	(1,351)	(1,543)	-	-
Amortization of prior service cost (credit)	3	3	(187)	(191)
Amortization of unrecognized net loss	599	693	151	173
Net periodic benefit cost	$339	$ 212	$(12)	$ 14

No contributions were made to the Qualified Pension Plan during the three month periods ended September 27, 2015 or September 28, 2014. Voluntary contributions of $3.0 million are anticipated to be made during the remainder of fiscal 2016.

Accumulated Other Comprehensive Loss

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

	Three Months Ended September 27, 2015		
	Foreign Currency Translation Adjustments	Retirement and Postretirement Benefit Plans	Total

Balance, June 28, 2015	$8,221	$ 18,638	$26,859
Other comprehensive loss before reclassifications	2,867	-	2,867
Income tax	-	-	-
Net other comprehensive loss before reclassifications	2,867	-	2,867
Reclassifications:			
Prior service credits (A)	-	188	188
Actuarial gains (A)	-	(765)	(765)
Total reclassifications before tax	-	(577)	(577)
Income tax	-	213	213
Net reclassifications	-	(364)	(364)
Other comprehensive loss (income)	2,867	(364)	2,503
Other comprehensive loss attributable to non-controlling interest	159	-	159
Balance, September 27, 2015	$10,929	$ 18,274	$29,203

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	Three Months Ended September 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	852	-	852
Income tax	-		