STRATTEC SECURITY CORP
Form 10-Q
February 05, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended December 28, 2008

or

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

For the transition period from ____________ to ____________

Commission File Number 0-25150

STRATTEC SECURITY CORPORATION
(Exact Name of Registrant as Specified in Its Charter)

Wisconsin	39-1804239
(State of Incorporation)	(I.R.S. Employer Identification No.)

3333 West Good Hope Road, Milwaukee, WI 53209
(Address of Principal Executive Offices)

(414) 247-3333
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES X NO ___

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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: 3,259,581 shares outstanding as of December 28, 2008.

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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 which may materially differ from the Company's actual future experience.

The Company's business, operations and financial performance are subject to certain risks and uncertainties, which could result in material differences in actual results from the Company's current expectations. These risks and uncertainties include, but are not limited to, general economic conditions, in particular relating to the automotive industry, customer demand for the Company’s and its customers’ products, competitive and technological developments, customer purchasing actions, foreign currency fluctuations, costs of operations and other matters described under “Risk Factors” in the Management’s Discussion and Analysis of Financial Condition and Results of Operations section of this Form 10-Q and in the section titled “Risk Factors” in the Company’s Form 10-K report filed with the Securities and Exchange Commission for the year ended June 29, 2008.

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

Item 1 Financial Statements

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

	Three Months Ended		Six Months Ended	
	December 28, 2008	December 30, 2007	December 28, 2008	December 30, 2007
Net sales	$ 33,799	$ 39,908	$ 68,530	$ 82,647
Cost of goods sold	30,919	33,002	60,208	67,347
Gross profit	2,880	6,906	8,322	15,300
Engineering, selling and administrative expenses	6,669	5,838	12,621	11,631
(Loss) Income from operations	(3,789)	1,068	(4,299)	3,669
Interest income	284	814	602	1,727
Other income, net	557	158	780	466
Minority interest	293	69	111	118
Income before provision for income taxes	(2,655)	2,109	(2,806)	5,980
(Benefit) Provision for income taxes	(1,422)	786	(1,611)	2,238
Net (Loss) income	$ (1,233)	$ 1,323	$ (1,195)	$ 3,742
(Loss) Earnings per share:				
Basic	$ (0.38)	$ 0.38	$ (0.36)	$ 1.07
Diluted	$ (0.38)	$ 0.38	$ (0.36)	$ 1.06
Average Shares Outstanding:				
Basic	3,264	3,506	3,298	3,513
Diluted	3,267	3,512	3,303	3,518
Cash dividends declared per share	$ 0.15	$ 0.15	$ 0.30	$ 1.30

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

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

	December28, 2008 (Unaudited)	June 29, 2008
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 31,878	$ 51,501
Receivables, net	17,784	23,518
Inventories-		
Finished products	3,809	2,521
Work in process	4,285	4,379
Purchased materials	10,757	7,414
LIFO adjustment	(4,058)	(4,045)
Total inventories	14,793	10,269
Other current assets	19,313	17,978
Total current assets	83,768	103,266
Deferred income taxes	3,684	3,684
Investment in joint ventures	4,194	3,642
Prepaid pension obligations	3,543	758
Goodwill	87	-
Other intangible assets, net	932	27
Property, plant and equipment	127,648	119,445
Less: accumulated depreciation	(91,446)	(89,109)
Net property, plant and equipment	36,202	30,336
	$ 132,410	$ 141,713

LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 14,638	$ 15,974
Accrued Liabilities:		
Payroll and benefits	6,680	7,319
Environmental reserve	2,639	2,648
Other	9,934	6,998
Total current liabilities	33,891	32,939
Accrued pension obligations	2,755	2,606
Accrued postretirement obligations	9,438	9,783
Minority interest	1,729	953
Shareholders' Equity:		
Common stock, authorized 12,000,000 shares, \$.01 par value, issued 6,897,357 shares at December 28, 2008 and June 29, 2008	69	69
Capital in excess of par value	79,115	78,885
Retained earnings	161,703	163,889
Accumulated other comprehensive loss	(20,173)	(17,495)
Less: treasury stock, at cost (3,637,776 shares at December 28, 2008 and 3,444,548 shares at June 29, 2008)	(136,117)	(129,916)

Total shareholders' equity	84,597	95,432
	$ 132,410	$ 141,713

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

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

	Six Months Ended December 28, 2008	December 30, 2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (1,195)	$ 3,742
Adjustments to reconcile net income to net cash provided by operating activities:		
Minority interest	(101)	(148)
Depreciation and amortization	2,855	3,496
Foreign Currency Transaction Gain	(1,147)	(46)
Stock based compensation expense	217	492
Change in operating assets and liabilities:		
Receivables	5,275	6,788
Inventories	(1,304)	(3,560)
Other assets	(4,624)	(3,171)
Accounts payable and accrued liabilities	(2,285)	(3,457)
Other, net	(123)	(277)
Net cash (used in) provided by operating activities	(2,432)	3,859
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in joint ventures	(388)	-
Acquisition of Delphi Power Products Business	(3,813)	-
Purchase of property, plant and equipment	(8,511)	(4,474)
Net cash used in investing activities	(12,712)	(4,474)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Purchase of treasury stock	(6,214)	(1,146)
Dividends paid	(1,023)	(4,081)
Exercise of stock options and employee stock purchases	20	13
Loan from minority interest	1,175	250
Contribution from minority interest	762	349
Net cash used in financing activities	(5,280)	(4,615)
Foreign currency impact on cash	801	(19)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(19,623)	(5,249)
CASH AND CASH EQUIVALENTS		
Beginning of period	51,501	65,491
End of period	$ 31,878	$ 60,242

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Income taxes paid	$	(1,717)	$	2,732
Interest paid		-		-

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

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

Basis of Financial Statements
STRATTEC SECURITY CORPORATION designs, develops, manufactures and markets automotive Security Products including mechanical locks and keys, electronically enhanced locks and keys, steering column and instrument panel ignition lock housings, and Access Control Products including latches, power sliding door systems, power life gate systems, power deck lid systems and related products. These products are provided to customers in North America, and on a global basis through the VAST Alliance in which we participate with WITTE Automotive of Velbert, Germany and ADAC Automotive of Grand Rapids, Michigan. STRATTEC's history in the automotive business spans 100 years. The accompanying condensed consolidated financial statements reflect the consolidated results of STRATTEC SECURITY CORPORATION, its wholly owned Mexican subsidiaries, STRATTEC de Mexico and STRATTEC Componentes Automotrices, and its majority owned subsidiaries, ADAC-STRATTEC, LLC and STRATTEC POWER ACCESS LLC. STRATTEC SECURITY CORPORATION is located in Milwaukee, Wisconsin. STRATTEC de Mexico and STRATTEC Componentes Automotrices are located in Juarez, Mexico. ADAC-STRATTEC, LLC has operations in El Paso, Texas and Juarez, Mexico. STRATTEC POWER ACCESS LLC has operations in El Paso, Texas and Matamoros, Mexico. Equity investments in China and Brazil relating to the VAST LLC for which we exercise significant influence but do not control and are not the primary beneficiary are accounted for using the equity method.

In the opinion of management, the accompanying condensed consolidated balance sheet as of June 29, 2008, which has been derived from our audited financial statements, and the related unaudited interim condensed consolidated financial statements contain all adjustments, consisting only of normal recurring items, necessary for their fair presentation in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). All significant intercompany transactions have been eliminated.

Interim financial results are not necessarily indicative of operating results for an entire year. The information included in this Form 10-Q should be read in conjunction with Management's Discussion and Analysis and the financial statements and notes thereto included in the STRATTEC SECURITY CORPORATION 2008 Annual Report, which was filed with the Securities and Exchange Commission as an exhibit to our Form 10-K on August 29, 2008. Certain reclassifications have been made to the fiscal 2008 interim financial statements to conform to the fiscal 2009 presentation.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations." SFAS No. 141(R) retains the underlying concepts of SFAS No. 141 in that all business combinations are required to be accounted for at fair value under the acquisition method of accounting, but SFAS No. 141(R) changed the method of applying the acquisition method in a number of aspects. SFAS No. 141(R) will require that (1) for all business combinations, the acquirer records all assets and liabilities of the acquired business, including goodwill, generally at their fair values; (2) certain contingent assets and liabilities acquired be recognized at their fair value on the acquisition date; (3) contingent consideration be recognized at its fair value on the acquisition date and, for certain arrangements, changes in fair value will be recognized in earnings when settled; (4) acquisition related transaction and restructuring costs be expensed rather than treated as part of the cost of the acquisition and included in the amount recorded for assets acquired; (5) in step acquisitions, previous equity interests in an acquiree held prior to obtaining control be remeasured to their acquisition date fair values, with any gain or loss recognized in earnings; and (6) when making adjustments to finalize initial accounting, companies revise any previously issued post-acquisition financial information in future financial statements to reflect any adjustments as if they had been recorded on the acquisition date. SFAS No. 141(R) is effective on a prospective basis for all business combinations for which the acquisition date is on or after the beginning of the first annual period subsequent to December 15, 2008, with the exception of the accounting for valuation allowances on deferred taxes and acquired tax contingencies. SFAS No. 141(R) amends SFAS No. 109

such that the adjustments made to valuation allowances on deferred taxes and acquired tax contingencies associated with acquisitions that closed prior to the effective date of this statement should also apply the provisions of SFAS No. 141(R). This standard will be applied to all future business combinations in accordance with the effective dates as early adoption is prohibited.

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

Purchase of Delphi Power Products Business

Effective November 30, 2008, STRATTEC SECURITY CORPORATION in combination with WITTE Automotive of Velbert, Germany, and Vehicle Access Systems Technology LLC (VAST), a joint venture between STRATTEC, WITTE and ADAC Automotive of Grand Rapids, Michigan, completed the acquisition of certain assets, primarily equipment and inventory, and assumption of certain employee liabilities of Delphi Corporation's global Power Products business for approximately $6.7 million, subject to post-closing working capital adjustments. For the purposes of owning and operating the North American portion of this acquired business, STRATTEC established a new subsidiary, STRATTEC POWER ACCESS LLC (SPA), which is 80 percent owned by STRATTEC and 20 percent owned by WITTE. The purchase price of the North American portion of the acquired business, which is subject to further post-closing working capital adjustments, totaled approximately $3.8 million, of which STRATTEC paid approximately $3.1 million. WITTE acquired the European portion of the business for approximately $2.4 million, and VAST LLC is in the process of acquiring the Asian portion for approximately $500,000.

The acquisition of the North American portion of this business by SPA was not material to STRATTEC's consolidated financial statements. Amortizable intangible assets acquired in the acquisition of $920,000 were preliminarily recorded and are subject to amortization over a period of nine years. In addition, goodwill of approximately $87,000 was preliminarily recorded as part of the transaction. All goodwill resulting from the purchase for tax purposes is expected to be deductible. The purchase accounting will be completed by the end of fiscal 2009 when final costs are determined.

The operating results of SPA for the period December 1, 2008 through December 28, 2008 are consolidated with the financial results of STRATTEC and resulted in decreased net income to STRATTEC of approximately $640,000 during the three and six month periods ended December 28, 2008.

SPA designs, develops, tests, manufactures, markets and sells power systems to operate vehicle sliding side doors and rear compartment access points such as liftgates and trunk lids. In addition, the product line includes power cinching latches and cinching strikers used in these systems. Current customers for these products supplied from North America are Chrysler LLC, Hyundai Motor Company, General Motors and Ford.

Other Income, net

Net other income included in the Condensed Consolidated Statements of Income primarily includes foreign currency transaction gains and losses and Rabbi trust gains and losses. Foreign currency transaction gains are the result of foreign currency transactions entered into by our Mexican subsidiaries and foreign currency cash balances. The Rabbi trust funds our supplemental executive retirement plan. The investments held in the trust are considered trading securities. The impact of these items for the periods presented is as follows (thousands of dollars):

	Three Months Ended		Six Months Ended	
	December 28,	December 30,	December 28,	December 30,

	2008	2007	2008	2007
Foreign Currency Transaction Gain (Loss)	$ 910	$ (5)	$ 1,147	$ 45
Rabbi Trust Gain (Loss)	$ (470)	$ (30)	(530)	$ 15

Income Taxes

The income tax benefit for the three and six month periods ended December 28, 2008 is the result of the higher U.S. effective tax rate applied to pre-tax U.S. losses and a lower Mexican tax rate being applied to pre-tax income in Mexico. Our U.S. effective tax rate is approximately 37 percent. Our effective tax rate in Mexico is approximately 15 percent.

(Loss) Earnings Per Share (EPS)

Basic (loss) earnings per share is computed on the basis of the weighted average number of shares of common stock outstanding during the period. Diluted (loss) earnings per share is computed on the basis of the weighted average number of shares of common stock plus the dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares include outstanding stock options and restricted stock awards.

A reconciliation of the components of the basic and diluted per-share computations follows (in thousands, except per share amounts):

	Three Months Ended					
	December 28, 2008			December 30, 2007		
	Net Loss	Weighted Average Shares	Per-Share Amount	Net Income	Weighted Average Shares	Per-Share Amount
Basic (Loss) Earnings Per Share	$ (1,233)	3,264	$ (0.38)	$ 1,323	3,506	$ 0.38
Stock-Based Compensation		3			6	
Diluted (Loss) Earnings Per Share	$ (1,233)	3,267	$ (0.38)	1,323	3,512	$ 0.38

	Six Months Ended					
	December 28, 2008			December 30, 2007		
	Net Loss	Weighted Average Shares	Per-Share Amount	Net Income	Weighted Average Shares	Per-Share Amount
Basic (Loss) Earnings Per Share	$ (1,195)	3,298	$ (0.36)	$ 3,742	3,513	$ 1.07
Stock-Based Compensation		5			5	
Diluted (Loss) Earnings Per Share	$ (1,195)	3,303	$ (0.36)	$ 3,742	3,518	$ 1.06

As of December 28, 2008, options to purchase 157,440 shares of common stock at a weighted-average exercise price of $54.39 were excluded from the calculation of diluted loss per share because their inclusion would have been anti-dilutive. As of December 30, 2007, options to purchase 182,680 shares of common stock at a weighted-average exercise price of $59.29 were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive.

Comprehensive Income (Loss)

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

	Three Months Ended		Six Months Ended	
	December 28,	December 30,	December 28	December 30,

	2008	2007	2008	2007
Net (Loss) Income	$ (1,233)	$ 1,323	$ (1,195)	$ 3,742
Change in Cumulative Translation Adjustments, net	(2,225)	(83)	(2,678)	(8)
Total Comprehensive (Loss) Income	$ (3,458)	$ 1,240	$ (3,873)	$ 3,734

Stock-based Compensation

We maintain an omnibus stock incentive plan. This plan provides for the granting of stock options, shares of restricted stock and stock appreciation rights. The Board of Directors has designated 1,700,000 shares of common stock available for the grant of awards under the plan. Remaining shares available to be granted under the plan as of December 28, 2008 were 416,203. Awards that expire or are canceled without delivery of shares become available for re-issuance under the plan. We issue new shares of common stock to satisfy stock option exercises.

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

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

A summary of stock option activity under the plan for the six months ended December 28, 2008 is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Outstanding, June 29, 2008	187,780	$ 58.74		
Granted	12,000	$ 18.00		
Exercised	-	-		
Expired	(52,340)	$ 61.68		
Forfeited	(5,000)	$ 58.55		
Outstanding, December 28, 2008	142,440	$ 54.24	4.5	$ -
Exercisable, December 28, 2008	130,440	$ 57.57	4.0	$ -

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

Three Months Ended