

STRATTEC SECURITY CORP
Form 10-Q
April 30, 2008

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 March 30, 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
(State of Incorporation)

39-1804239
(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 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 ___ 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: 3,463,305 shares outstanding as of March 30, 2008.

STRATTEC SECURITY CORPORATION
FORM 10-Q
December 30, 2007

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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." These statements include expected future financial results, product offerings, global expansion, liquidity needs, financing ability, planned capital expenditures, management's or the Company's expectations and beliefs, and similar matters discussed in this Form 10-Q. The discussions of such matters and subject areas are qualified by the inherent risks and uncertainties surrounding future expectations generally and also may materially differ from the Company's actual future experience.

The Company's business, operations and financial performance are subject to certain risks and uncertainties, which could result in material differences in actual results from the Company's current expectations. These risks and uncertainties include, but are not limited to, general economic conditions, in particular relating to the automotive industry, customer demand for the Company's and its customers' products, competitive and technological developments, customer purchasing actions, foreign currency fluctuations, costs of operations and other matters described under the caption "Risk Factors" in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of this Form 10-Q and in the section titled "Risk Factors" in the Company's Form 10-K report filed with the Securities and Exchange Commission for the year ended July 1, 2007.

Shareholders, potential investors and other readers are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements made herein are only made as of the date of this Form 10-Q and the Company undertakes

no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances occurring after the date of this Form 10-Q.

Item 1 Financial Statements

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

	Three Months Ended		Nine Months Ended	
	March 30, 2008	April 1, 2007	March 30, 2008	April 1, 2007
Net sales	\$ 38,428	\$ 45,647	\$ 121,075	\$ 121,610
Cost of goods sold	32,161	37,293	99,508	102,934
Gross profit	6,267	8,354	21,567	18,676
Engineering, selling and administrative expenses	6,109	4,974	17,740	14,882
Income from operations	158	3,380	3,827	3,794
Interest income	617	879	2,344	2,706
Other income (expense), net	(58)	341	408	490
Minority interest	(48)	25	70	25
Income before provision for income taxes	669	4,625	6,649	7,015
Provision for income taxes	223	1,711	2,461	2,266
Net income	\$ 446	\$ 2,914	\$ 4,188	\$ 4,749
Earnings per share:				
Basic	\$ 0.13	\$ 0.82	\$ 1.20	\$ 1.33
Diluted	\$ 0.13	\$ 0.82	\$ 1.19	\$ 1.33
Average Shares Outstanding:				
Basic	3,476	3,537	3,500	3,558
Diluted	3,482	3,541	3,506	3,561
Cash dividends per share	\$ 0.15	-	\$ 1.45	-

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)

	March 30, 2008 (Unaudited)	July 1, 2007
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 59,130	\$ 65,491
Receivables, net	20,892	26,890
Inventories-		
Finished products	3,653	2,660
Work in process	5,330	4,522
Purchased materials	5,390	4,813
LIFO adjustment	(4,329)	(4,829)
Total inventories	10,044	7,166
Other current assets	14,690	13,017
Total current assets	104,756	112,564
Deferred income taxes	1,890	2,117
Investment in joint ventures	3,456	2,813
Prepaid pension obligations	7,730	4,385
Other long-term assets	31	41
Property, plant and equipment	120,650	112,920
Less: accumulated depreciation	(90,801)	(86,394)
Net property, plant and equipment	29,849	26,526
	\$ 147,712	\$ 148,446
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 16,121	\$ 16,575
Accrued Liabilities:		
Payroll and benefits	6,745	6,280
Environmental reserve	2,648	2,655
Other	7,096	5,971
Total current liabilities	32,610	31,481
Accrued pension obligations	3,097	2,855
Accrued postretirement obligations	10,583	10,576
Minority interest	813	574
Shareholders' Equity:		
Common stock, authorized 12,000,000 shares, \$.01 par value, issued 6,887,757 shares at March 30, 2008 and July 1, 2007	69	69
Capital in excess of par value	78,762	78,122
Retained earnings	164,975	165,928
Accumulated other comprehensive loss	(14,054)	(14,341)
Less: treasury stock, at cost (3,424,452 shares at March 30, 2008 and 3,368,619 shares at July 1, 2007)	(129,143)	(126,818)
Total shareholders' equity	100,609	102,960
	\$ 147,712	\$ 148,446

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

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

	Nine Months Ended	
	March	April 1,
	30,	2007
	2008	2007
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 4,188	\$ 4,749
Adjustments to reconcile net income to net cash provided by operating activities:		
Minority interest	(111)	(25)
Depreciation and amortization	5,161	5,216
Tax benefit from stock based compensation	11	13
Stock based compensation expense	616	566
Change in operating assets and liabilities:		
Receivables	6,013	(346)
Inventories	(2,878)	677
Other assets	(4,736)	(6,174)
Accounts payable and accrued liabilities	3	(449)
Other, net	(368)	(47)
Net cash provided by operating activities	7,899	4,180
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in joint ventures	-	(100)
Purchase of property, plant and equipment	(8,487)	(3,645)
Proceeds received on sale of property, plant and equipment	-	21
Net cash used in investing activities	(8,487)	(3,724)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Purchase of treasury stock	(2,334)	(3,922)
Dividends paid	(4,609)	-
Exercise of stock options and employee stock purchases	21	99
Loan from minority interest	800	-
Contribution from minority interest	349	274
Net cash used in financing activities	(5,773)	(3,549)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(6,361)	(3,093)
CASH AND CASH EQUIVALENTS		
Beginning of period	65,491	65,712
End of period	\$ 59,130	\$ 62,619
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Income taxes paid	\$ 2,814	\$ 2,848
Interest paid	-	-

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

STRATTEC SECURITY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Basis of Financial Statements

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

In the opinion of management, the accompanying condensed consolidated balance sheet as of July 1, 2007, which has been derived from our audited financial statements, and the related unaudited interim condensed consolidated financial statements contain all adjustments, consisting only of normal recurring items, necessary for their fair presentation in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). All significant intercompany transactions have been eliminated.

Interim financial results are not necessarily indicative of operating results for an entire year. The information included in this Form 10-Q should be read in conjunction with Management's Discussion and Analysis and the financial statements and notes thereto included in the STRATTEC SECURITY CORPORATION 2007 Annual Report, which was filed with the Securities and Exchange Commission as an exhibit to our Form 10-K on August 30, 2007.

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

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

Income Taxes

We adopted the provisions for FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes, on July 2, 2007. As a result of the implementation of FIN 48, we did not recognize a significant change in the liability for unrecognized tax benefits. The total liability for unrecognized tax benefits was \$1.1 million as of July 2, 2007. This liability includes approximately \$87,000 of accrued interest. The liability does not include an amount for accrued penalties. The amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate is approximately \$760,000. We recognize interest and penalties related to unrecognized tax benefits in the provision for

income taxes. We do not expect a significant increase or decrease to the total amounts of unrecognized tax benefits within the next 12 months. There was no material change in the amount of unrecognized tax benefits during the nine months ended March 30, 2008.

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We or one of our subsidiaries files income tax returns in the United States (Federal), Wisconsin (state), Michigan (state) and various other states, Mexico and other foreign jurisdictions. We are not currently subject to income tax examinations in any of our significant tax jurisdictions. Tax years open to examination by tax authorities under the statute of limitations include fiscal 2005 through 2007 for Federal, fiscal 2003 through 2007 for most states and calendar 2003 through 2007 for foreign jurisdictions.

The provision for income taxes for the three and nine month periods ended April 1, 2007 includes a state refund claim recovery. The claim recovery, net of the federal income tax impact, was approximately \$329,000.

Earnings Per Share (EPS)

Basic earnings per share is computed on the basis of the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed on the basis of the weighted average number of shares of common stock plus the dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares include outstanding stock options and restricted stock awards. A reconciliation of the components of the basic and diluted per-share computations follows (in thousands, except per share amounts):

	Three Months Ended					
	Net Income	March 30, 2008 Weighted Average Shares	Per-Share Amount	Net Income	April 1, 2007 Weighted Average Shares	Per-Share Amount
Basic Earnings Per Share	\$ 446	3,476	\$ 0.13	\$ 2,914	3,537	\$ 0.82
Stock-Based Compensation		6			4	
Diluted Earnings Per Share	\$ 446	3,482	\$ 0.13	\$ 2,914	3,541	\$ 0.82

	Nine Months Ended					
	Net Income	March 30, 2008 Weighted Average Shares	Per-Share Amount	Net Income	April 1, 2007 Weighted Average Shares	Per-Share Amount
Basic Earnings Per Share	\$ 4,188	3,500	\$ 1.20	4,749	3,558	\$ 1.33
Stock-Based Compensation		6			3	
Diluted Earnings Per Share	\$ 4,188	3,506	\$ 1.19	4,749	3,561	\$ 1.33

As of March 30, 2008, options to purchase 184,680 shares of common stock at a weighted-average exercise price of \$59.13 were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive. As of April 1, 2007, options to purchase 238,820 shares of common stock at a weighted-average exercise price of \$59.08 were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive.

Comprehensive Income

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

Three Months Ended	Nine Months Ended
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	March 30, 2008	April 1, 2007	March 30, 2008	April 1, 2007
Net Income	\$ 446	\$ 2,914	\$ 4,188	\$ 4,749
Change in Cumulative Translation Adjustments, net	279	(134)	287	246
Total Comprehensive Income	\$ 725	\$ 2,780	\$ 4,475	\$ 4,995

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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 March 30, 2008 were 380,463. Awards that expire or are canceled without delivery of shares become available for re-issuance under the plan. We issue new shares of common stock under the plan to satisfy stock option exercises.

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

We account for stock options and restricted stock issued under our stock incentive plan in accordance with Statement of Financial Accounting Standards ('SFAS') No. 123(R), "Share-based Payments". The fair value of each stock option grant was estimated as of the date of grant using the Black-Scholes pricing model. The resulting compensation cost for fixed awards with graded vesting schedules is amortized on a straight line basis over the vesting period for the entire award. The fair value of each restricted stock grant was based on the market price of the underlying common stock as of the date of grant. The resulting compensation cost is amortized on a straight line basis over the vesting period.

A summary of stock option activity under the plan for the nine months ended March 30, 2008 is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Outstanding, July 1, 2007	235,420	\$ 58.71		
Granted	-	-		
Exercised	-	-		
Expired	(47,640)	\$ 58.59		
Forfeited	-	-		
Outstanding, March 30, 2008	187,780	\$ 58.74	3.6	\$ 18
Exercisable, March 30, 2008	148,440	\$ 58.09	3.9	\$ 18

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

	Three Months Ended		Nine Months Ended	
	March 30, 2008	April 1, 2007	March 30, 2008	April 1, 2007
Intrinsic Value of Options Exercised	\$ -	\$ 36	\$ -	\$ 36
Fair Value of Stock Options Vesting	\$ 76	\$ 104	\$ 273	\$ 762

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A summary of restricted stock activity under the plan for the nine months ended March 30, 2008 is as follows:

	Shares	Weighted Average Grant Date Fair Value
Nonvested Balance, July 1, 2007	19,400	\$ 45.56
Granted	10,000	\$ 47.78
Vested	-	-
Forfeited	-	-
Nonvested Balance, March 30, 2008	29,400	\$ 46.32