KANSAS CITY SOUTHERN
Form 424B2
December 17, 2008

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Filed pursuant to Rule 424(b)(2)
Registration No. 333-155601

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities Offered	Amount To Be Offered	Proposed Maximum Offering Price	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Kansas City Southern				
Guarantee of Senior Notes(2)				(3)
The Kansas City Southern Railway Company				
13.0% Senior Notes due 2013	$ 190,000,000	88.405%	$ 167,969,500	$ 6,601.20(1)
Additional Registrants				
Guarantee of Senior Notes(2)				(3)

(1) Calculated in accordance with Rule 457(r). This Calculation of Registration Fee table shall be deemed to update the Calculation of Registration Fee table in the registrant s Registration Statement on Form S-3ASR (File No. 333-155601)

(2) The 13.0% Senior Notes are being issued by The Kansas City Southern Railway Company and are guaranteed by Kansas City Southern and certain of its subsidiaries.

(3) In accordance with Rule 457(n), no separate fee is payable with respect to the guarantees of the Senior Notes being registered.

PROSPECTUS SUPPLEMENT
Issued December 15, 2008

$190,000,000

THE KANSAS CITY SOUTHERN RAILWAY COMPANY

13.0% SENIOR NOTES DUE 2013

Fully and unconditionally guaranteed by
KANSAS CITY SOUTHERN
and certain of its subsidiaries

Interest payable on December 15 and June 15

We are offering $190,000,000 aggregate principal amount of notes due December 15, 2013 bearing interest at 13.0% per year.

We may redeem some or all of the notes prior to December 15, 2011 by paying either 101% of the principal amount of the note or a make whole premium, whichever is greater, as set forth in this prospectus supplement. We may also redeem some or all of the notes on or after December 15, 2011 at the redemption prices set forth in this prospectus supplement. We may also redeem up to 35% of the aggregate principal amount of the notes using the proceeds of one or more equity offerings completed before December 15, 2010. If we undergo certain change of control transactions or sell certain of our assets, we may be required to offer to purchase the notes from holders. There is no sinking fund for the notes.

The notes will be unsecured and will rank equally with all of our other existing and future unsecured and unsubordinated indebtedness. The notes will be effectively subordinated to all of our existing and future secured debt to the extent of the value of the assets securing such debt. The notes will be fully and unconditionally guaranteed on a senior unsecured basis by our parent corporation, Kansas City Southern, and certain of our and its subsidiaries.

For a more detailed description of the notes, see Description of the Notes, beginning on page S-11.

Investing in the notes involves risk. See the Risk Factors section in Kansas City Southern s Annual Report on Form 10-K for the year ended December 31, 2007 and beginning on page S-6 of this prospectus supplement.

PRICE: 88.405% AND ACCRUED INTEREST, IF ANY

	Price to Public	***Underwriting Discounts and Commissions***	***Proceeds to Company***
Per Note	88.405%	2.0%	86.405%
Total	$167,969,500	$3,800,000	$164,169,500

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

The notes offered by this prospectus supplement will not be listed on any securities exchange and there is no existing trading market for the notes.

The underwriters expect to deliver the notes on or about December 18, 2008, only in book-entry form through the facilities of The Depositary Trust Company.

Joint Book-Running Managers

MORGAN STANLEY *BANC OF AMERICA SECURITIES LLC*

Joint Lead Manager

SCOTIA CAPITAL
Co-Managers

BMO CAPITAL MARKETS *SUNTRUST ROBINSON HUMPHREY*

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Unless we have indicated otherwise or the context otherwise requires, references in this prospectus supplement to KCS mean Kansas City Southern, references to KCSR or the Issuer mean The Kansas City Southern Railway Company, the principal domestic subsidiary of KCS, and references to the Company, we, us, our an similar terms refer to KCS and its consolidated subsidiaries, including KCSR.

See Risk Factors beginning on page S-6 of this prospectus supplement and in KCS Annual Report on Form 10-K for the year ended December 31, 2007 for a description of certain factors relating to an investment in the notes, including information about our business. None of us, the underwriters, or any of our or their representatives, are making any representation to you regarding the legality of an investment by you under applicable legal investment or similar laws. You should consult with your own advisors as to legal, tax, business, financial and related aspects of a purchase of the notes. You should not assume that the information contained in or incorporated by reference in this prospectus

supplement and the accompanying prospectus is accurate as of any date other than the date of such information.

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of this offering, as well as general information about the Company and the securities being offered hereunder. The second part, the accompanying prospectus, gives more general information, some of which may not apply to this offering. You should read this entire prospectus supplement, as well as the accompanying prospectus and the documents incorporated by reference that are described under the headings Additional Information and Incorporation of Certain Documents By Reference in this prospectus supplement, and under the heading Where You Can Find More Information in the accompanying prospectus.

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference is accurate only as of the respective dates of those documents in which the information is contained. Our business, financial condition, results of operations and prospects may have changed since those dates.

MARKET DATA

We obtained the market and competitive position data used throughout this prospectus supplement from internal surveys, as well as market research, publicly available information and industry publications as indicated herein. We have also included data from reports prepared by the American Association of Railroads. Industry publications, including those referenced here, generally state that the information presented therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Similarly, internal surveys and market research, while believed to be reliable, have not been independently verified, and neither we nor the underwriters make any representation as to the accuracy of such information.

ADDITIONAL INFORMATION

KCS is required to file periodic reports and other information (File No. 001-04717) with the Securities and Exchange Commission (the SEC) under the Securities Exchange Act of 1934, as amended (the Exchange Act). Such reports, documents and other information may be inspected and copied at the public reference facilities of the SEC, at 100 F. Street, N.E., Washington, D.C. 20459. Copies of this material may also be obtained by mail, upon payment of the SEC s prescribed rates, by writing to the Public Reference Section of the SEC at 100 F. Street, N.E., Washington, D.C. 20459. Copies of such material may also be obtained from the SEC s website at http://www.sec.gov and through the New York Stock Exchange, 20 Broad Street, New York, New York, 10005, on which KCS common stock is listed.

This prospectus supplement is part of a registration statement on Form S-3 that we filed with the SEC. This prospectus supplement does not contain all the information in the registration statement. Whenever a reference is made in this prospectus supplement to a contract or other document of the Company, the reference is only a summary, and you should refer to the exhibits that are a part of the registration statement for a copy of the contract or other document. You may review a copy of the registration statement at the SEC s public reference room in Washington, D.C., as well as through the SEC s Internet site.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

We incorporate by reference into this prospectus supplement and the accompanying prospectus the documents listed below and any future filings KCS makes with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act, including any filings after the date of this prospectus supplement, until we have sold all of the notes to which this prospectus supplement relates or the offering is otherwise terminated. The information incorporated by reference is an important part of this prospectus supplement and the accompanying prospectus. Any statement in

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any document incorporated by reference into this prospectus supplement or the accompanying prospectus will be deemed to be modified or superseded to the extent a statement contained in this prospectus supplement or any other subsequently filed document that is incorporated by reference into this prospectus supplement or the accompanying prospectus modifies or supersedes such statement.

The following documents filed by KCS with the SEC are incorporated herein by reference:

KCS Annual Report on Form 10-K for the fiscal year ended December 31, 2007;

KCS Quarterly Reports on Form 10-Q for the quarters ended March 31, 2008, June 30, 2008 and September 30, 2008;

KCS Current Reports on Form 8-K filed March 5, 2008; April 1, 2008; April 18, 2008; May 23, 2008; June 2, 2008; June 12, 2008; July 2, 2008; July 8, 2008; July 16, 2008; September 15, 2008; September 19, 2008; October 7, 2008; October 22, 2008; November 17, 2008; and December 12, 2008;

KCS Definitive Proxy Statement filed on March 26, 2008; and

KCS Notice of Special Meeting and Definitive Proxy Statement filed on September 5, 2008 in connection with Company s Special Meeting of Stockholders held on October 7, 2008.

Upon request, copies of documents incorporated into this document by reference, except for exhibits, unless such exhibits are specifically incorporated into such documents by reference, are available without charge by contacting:

The Kansas City Southern Railway Company
c/o Kansas City Southern
PO Box 219335
Kansas City, MO 64121-9335
(816) 983-1501

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement contains certain forward-looking statements. Many of the forward-looking statements may be identified by the use of forward-looking words such as believe, expect, could, anticipate, should, plan, estimate and potential, among others. These statements appear in a number of places in this prospectus supplement and include, but are not limited to, statements regarding our intent, belief or current expectations with respect to:

the effects of adverse general economic conditions affecting customer demand and the industries and geographic areas that produce and consume the commodities we transport;

the effects of general adverse conditions on the capital markets upon which we rely to provide some of our capital requirements;

our ability to generate sufficient cash to pay principal and interest on our debt, meet our obligations and fund our other liquidity needs;

material adverse changes in economic and industry conditions, both within the United States and Mexico and globally;

changes in fuel prices and our ability to assess fuel surcharges;

our high degree of leverage;

our potential need for and ability to obtain additional financing;

fluctuations in the market price for KCS common stock;

KCS dividend policy and restrictions on KCS ability to pay dividends on its common stock;

our ability to successfully implement our business strategy, including the strategy to convert customers from using trucking services to rail transportation services;

the impact of competition, including competition from other rail carriers and trucking companies in the United States and Mexico;

United States, Mexican and global economic, political and social conditions;

the effects of the North American Free Trade Agreement, or NAFTA, or any amendments thereto, on the level of trade among the United States, Mexico and Canada;

uncertainties regarding litigation and any future claims and litigation;

the effects of employee training, technological improvements and capital expenditures on labor productivity, operating efficiencies and service reliability;

the adverse impact of any termination or revocation of Kansas City Southern de México s Concession by the Mexican government;

legal or regulatory developments in the United States, Mexico or Canada;

natural events such as severe weather, fire, floods, hurricanes, earthquakes or other disruptions of our operating systems, structures and equipment or the ability of customers to produce or deliver their products;

our ability to attract and retain qualified management personnel;

changes in labor costs and labor difficulties, including work stoppages affecting either our operations or our customers abilities to deliver goods for shipment;

the outcome of claims and litigation, including those related to environmental contamination, antitrust claims, personal injuries, and occupational illnesses arising from hearing loss, repetitive motion and exposure to asbestos and diesel fumes;

acts of terrorism or war or risk of terrorist activities or war;

legislative, regulatory, or legal developments in the United States, Mexico or Canada involving taxation, including enactment of new foreign, federal or state income or other tax rates, revisions of controlling authority, and the outcome of tax claims and litigation; and

other factors described in this prospectus supplement and the accompanying prospectus.

Forward-looking statements are only our current expectations and are based on our management s beliefs and assumptions and on information currently available to our management. Such statements are subject to risks and uncertainties, and actual results may differ materially from those expressed or implied in the forward-looking statements as a result of various factors, including, but not limited to, those identified under the section entitled Risk Factors in KCS Annual Report on Form 10-K for the year ended December 31, 2007 and in this prospectus supplement. Forward-looking statements speak only as of the date they are made, and we do not undertake any obligation to update them in light of new information or future developments or to release publicly any revisions to

these statements in order to reflect later events or circumstances or to reflect the occurrence of unanticipated events.

SUMMARY

This summary highlights selected information from this prospectus supplement and the accompanying prospectus and may not contain all of the information that may be important to you. To understand the terms of the securities being offered by this prospectus supplement, you should read this entire prospectus supplement, the accompanying prospectus and the documents identified under the headings Additional Information and Incorporation of Certain Documents By Reference in this prospectus supplement, and under the heading Where You Can Find More Information in the accompanying prospectus.

OVERVIEW

Kansas City Southern, a Delaware corporation, or KCS, was organized in 1962 as Kansas City Southern Industries, Inc. and in 2002 formally changed its name to Kansas City Southern. KCS is a holding company with domestic and international rail operations in North America that are strategically focused on the growing north/south freight corridor connecting key commercial and industrial markets in the central United States with major industrial cities in Mexico. We had approximately 6,485 employees on December 31, 2007. The Kansas City Southern Railway Company, or KCSR, which was founded in 1887, is a U.S. Class I railroad. KCSR serves a ten-state region in the midwest and southeast regions of the United States and has the shortest north/south rail route between Kansas City, Missouri and several key ports along the Gulf of Mexico in Alabama, Louisiana, Mississippi, and Texas.

We control and own all of the stock of Kansas City Southern de México, S.A de C.V., or KCSM. Through its 50-year Concession from the Mexican government, or the Concession, which will expire in 2047 unless extended, KCSM operates a key commercial corridor of the Mexican railroad system and has as its core route the most strategic portion of the shortest, most direct rail passageway between Mexico City and Laredo, Texas. KCSM serves most of Mexico s principal industrial cities and three of its major seaports. KCSM s rail lines provide exclusive rail access to the United States and Mexico border crossing at Nuevo Laredo, Mexico, the largest rail freight interchange point between the United States and Mexico. Under the Concession, KCSM has the right to control and operate the southern half of the rail bridge at Laredo, Texas, which spans the Rio Grande River between the United States and Mexico.

We control and own all of the stock of Mexrail, Inc., or Mexrail, which, in turn, wholly owns The Texas Mexican Railway Company, or Tex-Mex. Tex-Mex operates a 157-mile rail line extending from Laredo, Texas to the port city of Corpus Christi, Texas, which connects the operations of KCSR with KCSM. Tex-Mex connects with KCSM at the United States/Mexico border at Laredo, Texas, and connects to KCSR through trackage rights at Beaumont, Texas. Through our ownership of Mexrail, we own the northern half of the rail bridge at Laredo, Texas. Laredo is a principal international gateway through which more than half of all rail and truck traffic between the United States and Mexico crosses the border. We also control the southern half of this bridge through our ownership of KCSM.

Our rail network (consisting of KCSR, KCSM and Tex-Mex) comprises approximately 6,000 miles of main and branch lines extending from the midwest and southeast portions of the United States south into Mexico and connects with other Class I railroads, providing shippers with an effective alternative to other railroad routes and giving direct access to Mexico and the southeast and southwest United States through less congested interchange hubs.

Panama Canal Railway Company, or PCRC, a joint venture company owned equally by us and Mi-Jack Products, Inc., or Mi-Jack, was awarded a concession from the Republic of Panama to reconstruct and operate the Panama Canal Railway, a 47-mile railroad located adjacent to the Panama Canal that provides international container shipping companies with a railway transportation option in lieu of the Panama Canal. The concession was awarded in 1998 for an initial term of 25 years with an automatic renewal for an additional 25 year term. The Panama Canal Railway is a

north-south railroad traversing the Isthmus of Panama between the Atlantic and Pacific Oceans. PCRC s subsidiary, Panarail Tourism Company, or Panarail, operates and promotes commuter and tourist passenger service over the Panama Canal Railway.

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RECENT DEVELOPMENTS

As announced on December 12, 2008, our business has been negatively impacted by general economic and industry conditions. As a result of the weakness in the U.S. and global economy, carload and unit volumes have declined across most of our commodity groups in the current quarter. The declining volume trend is expected to continue through the end of 2008 and will have an adverse effect on our fourth quarter results. As a result, we will not generate double-digit revenue growth for the fiscal year ended December 31, 2008. We currently expect that revenues for the quarter ending December 31, 2008 will be approximately 5% below our revenues of $460.3 million for the same quarterly period in 2007 and that our operating ratio will be approximately 79%.

As previously disclosed in our Form 10-Q for the quarterly period ended September 30, 2008, fluctuations in the exchange rate of the Mexican peso against the U.S. dollar can have a significant non-cash impact on our earnings per share. During the fourth quarter of 2008, the value of the Mexican peso against the U.S. dollar has continued to decline and will most likely result in a negative charge to our diluted earnings per share as of December 31, 2008 greater than the negative charge to our third quarter diluted earnings per share.

In light of the current economic conditions, we have taken measures to reduce planned capital spending and other expenditures for the first six months of 2009. These changes are intended to achieve positive free cash flow during that six month period (free cash flow is defined as cash flow from operations less cash used for capital expenditures and other investment activities). The 2009 capital plan includes a resumption of capital spending for growth opportunities in the second half of 2009. In the event that general economic and industry conditions during the second half of 2009 do not improve, we intend to make further reductions to our 2009 capital spending plan to achieve positive free cash flow.

Our principal executive office is located at 427 West 12th Street, Kansas City, Missouri, 64105, and our telephone number is (816) 983-1802.

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THE OFFERING

The following summary is provided solely for your convenience. This summary is not intended to be complete. You should read the full text and more specific details contained elsewhere in this prospectus supplement. For a more detailed description of the notes, see Description of the Notes.

Issuer	The Kansas City Southern Railway Company (KCSR).
Securities Offered	$190,000,000 principal amount of 13.0% Senior Notes due 2013.
Maturity	The notes will mature on December 15, 2013.
Interest Rate and Payment Dates	The notes will have an interest rate of 13.0% per annum payable in cash on June 15 and December 15 of each year, beginning June 15, 2009.
Optional Redemption	We may redeem some or all of the notes prior to December 15, 2011 by paying either 101% of the principal amount of the notes or a make whole premium, whichever is greater, plus, in each case, accrued and unpaid interest, if any as set forth in this prospectus supplement. We may also redeem some or all of the notes on or after December 15, 2011, at redemption prices, plus accrued and unpaid interest, if any, as set forth under Description of the Notes Optional Redemption. In addition, before December 15, 2010, we may redeem up to 35% of the notes with net cash proceeds from specified equity offerings at the redemption price listed in Description of the Notes Optional Redemption, plus accrued and unpaid interest, if any. However, we may only make such a redemption if at least 65% of the original aggregate principal amount of notes issued under the indenture remains outstanding after the redemption.
Sinking Fund	There is no sinking fund for the notes.
Trading and Listing	The notes will not be listed on any exchange. There is no existing trading market for the notes.
Change of Control	Upon a Change of Control (as defined under Description of the Notes Change of Control), we will be required to make an offer to purchase the notes. The purchase price will be equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to the date of purchase.
Note Guarantees	The notes will be fully and unconditionally guaranteed (each, a Note Guarantee) on an unsecured senior basis by KCS and each of its subsidiaries that guarantees KCSR s credit facilities (other than KCS Holdings I, Inc., KCS Ventures I, Inc., The Kansas City Northern Railway Company, and Veals, Inc.) under the amended and restated credit agreement dated April 28, 2006, or any refinancing thereof (collectively,

	the Note Guarantors). See Description of the Notes Overview of the Notes and the Note Guarantees.
Ranking	The notes will rank equally in right of payment with all existing and future senior indebtedness of KCSR, and will be senior in right of payment to all future subordinated obligations of KCSR. The notes will be effectively subordinated to all secured indebtedness of KCS and its subsidiaries (including KCSR) to the extent of the value of the assets securing such secured indebtedness.

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The Note Guarantees will be unsecured senior indebtedness of the applicable Note Guarantor, will rank equally in right of payment with all existing and future senior indebtedness of such Note Guarantor and will be senior in right of payment to all future subordinated obligations of such Note Guarantor. The Note Guarantees also will be effectively subordinated to all secured indebtedness of KCS and its subsidiaries to the extent of the value of the assets securing such secured indebtedness. See Description of the Notes Ranking.

As of September 30, 2008, on an adjusted basis to reflect the issuance of the notes and the application of the proceeds therefrom, we would have had total indebtedness of $1,914.0 million, consisting of (i) $870.4 million of senior indebtedness of KCSR, of which $427.4 million would have been secured indebtedness, (ii) $0.2 million of senior indebtedness of KCS, (iii) $0.5 million of senior secured indebtedness of the Note Guarantors, other than KCS, (iv) $1,006.6 million of senior indebtedness of subsidiaries of KCS (other than KCSR) that are not Note Guarantors, and (v) $36.3 million of KCSR unsecured debt subordinate or junior in right of payment to the notes or the Note Guarantees. Our adjusted indebtedness reflects the consummation of this offering, assuming that as of September 30, 2008:

- we had issued $190.0 million aggregate principal amount of notes in this offering;
- we had applied the net proceeds from the sale of the notes, along with other borrowings, to repurchase our 71/2% Senior Notes due 2009.

Certain Covenants

The indenture under which the notes will be issued contains covenants that, among other things, restrict our ability to:

- incur indebtedness;
- make restricted payments;
- pay dividends or make other distributions in respect of our stock;
- sell certain assets;
- engage in transactions with affiliates;
- create liens;
- engage in sale-leaseback transactions; and
- engage in mergers, divestitures and consolidations.

	However, these limitations will be subject to a number of important qualifications and exceptions. See Description of the Notes Certain Covenants and Merger and Consolidation.
Termination of Covenants	If, on any date following the date of the indenture, the notes have an investment grade rating from both Standard & Poor s Rating Group, Inc. and Moody s Investor Services, Inc., and no default or event of default has occurred and is continuing, most of the covenants under the indenture will be terminated. See Description of the Notes Certain Covenants.

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Denominations	The notes will be issued in minimum denominations of $1,000 and integral multiples of $1,000.
Taxation	For a summary of the U.S. federal income tax considerations relating to an investment in the notes, see Certain United States Federal Income Tax Considerations.
Use of Proceeds	We intend to use the net proceeds from the sale of the notes, along with other borrowings, to repurchase our 71/2% Senior Notes due 2009. See Use of Proceeds.
DTC Eligibility	The notes will be issued in book-entry-only form and will be represented by one or more global certificates, without interest coupons, deposited with the trustee on behalf of, DTC and registered in the name of a nominee of DTC. Beneficial interests in the notes will be shown on, and transfers will be effected only through, records maintained by DTC and its direct and indirect participants. See Description of the Notes Book-Entry; Delivery and Form.

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RISK FACTORS

An investment in our securities, including the debt securities offered hereunder, involves certain risks. Before investing in our securities, you should carefully consider the risk factors described below, in our periodic reports filed with the SEC, including but not limited to our Annual Report on Form 10-K for the year ended December 31, 2007, together with all of the other information included in this prospectus supplement and accompanying prospectus and the other information that we have incorporated by reference. The risks described below and in our Annual Report are not the only ones we are facing. Additional risks not currently known to us or that we currently deem immaterial may also impair our business. See Cautionary Statement Regarding Forward-Looking Statements. Any of the risks described below, in our Annual Report and in any subsequent periodic reports, as well as other risks and uncertainties, could harm our business and financial results and cause the value of our securities to decline, which in turn could cause you to lose all or a part of your investment.

Risks Related to an Investment in the Notes

We will be able to incur additional indebtedness in the future.

Despite our level of indebtedness, we may be permitted to incur additional debt in the future. This could further exacerbate the risks described in this prospectus supplement and in KCS Annual Report on Form 10-K for the year ended December 31, 2007.

There is no public market for the notes, a market may not develop, and you may have to hold your notes to maturity.

The notes are a new issue of securities and there is no existing trading market for the notes. We have been advised by the underwriters that the underwriters intend to make a secondary market for the notes. However, they are not obligated to do so and may discontinue making a secondary market for the notes at any time without notice. If a trading market develops, no assurance can be given as to how liquid that trading market for the notes will be. If any of the notes are traded after their initial issuance, they may trade at a discount from their initial offering price, depending upon:

- prevailing interest rates;
- the market for similar securities; and
- other factors, including general economic conditions and our financial condition, performance and prospects.

The market price for the notes may be volatile.

Historically, the market for non-investment grade debt has been subject to disruptions that have caused substantial volatility in the prices and liquidity of these securities. We cannot assure you that the market, if any, for the notes will be free from similar disruptions. Any such disruptions could have an adverse effect on holders of the notes.

Your ability to require the repurchase of notes upon a change of control may be limited.

Upon a change of control, we will be required to offer to repurchase all of the notes then outstanding at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest. If a change of control were to

occur, we may not have sufficient funds to pay the purchase price for the outstanding notes tendered, and we expect that we would require third-party financing; however, we may not be able to obtain such financing on favorable terms, if at all. In particular, a change of control constitutes an event of default under KCSR s credit facilities, as described below. In addition, the terms of future senior indebtedness of KCS and its subsidiaries may prohibit certain events which would constitute such a change of control or require such senior indebtedness to be repurchased or repaid upon a change of control. Moreover, the exercise by the holders of their right to require us to purchase the notes could cause a default under such senior indebtedness, even if the change of control itself does not, due to the financial effect of such repurchase on KCS and its subsidiaries. Our failure to repurchase tendered

notes at a time when the repurchase is required by the indenture would constitute an event of default under the indenture, which, in turn, would constitute an event of default under KCSR s credit facilities and may constitute an event of default under future debt. The change of control provision in the indenture will not necessarily afford you protection in the event of a highly leveraged transaction, including a reorganization, restructuring, merger or other similar transaction involving us, that may adversely affect you. These transactions may not involve a change in voting power or beneficial ownership, or even if they do, may not involve a change of the magnitude required under the definition of change of control in the indenture to trigger these provisions. Except as described under Description of the Notes Change of Control, the indenture does not contain provisions that permit the holders of the notes to require us to repurchase or redeem the notes in the event of a takeover, recapitalization or similar transaction. Finally, the provisions under the indenture relative to our obligation to make an offer to purchase the notes as a result of a change of control may be waived or modified with the written consent of the holders of a majority in principal amount of the notes; accordingly you may not be able to require the repurchase of your notes upon a change of control even if you do not consent to the waiver of such obligation.

Your ability to require us to repurchase your notes upon a sale of substantially all of the assets of KCS or KCSR may be uncertain.

The definition of change of control under the indenture includes a phrase relating to the sale, lease or transfer of all or substantially all of the assets of KCS or KCSR. Although there is a developing body of case law interpreting the phrase substantially all, there is no precise established definition of the phrase. Accordingly, the ability of a holder of notes to require us to repurchase such notes as a result of a sale, lease or transfer of less than all of the assets of KCS or KCSR to another person or group may be uncertain.

The notes and Note Guarantees are unsecured obligations, and accordingly our assets may be insufficient to pay amounts due on your notes.

The notes and the Note Guarantees will be unsecured obligations of KCSR and the Note Guarantors. In contrast, debt outstanding under KCSR s credit facilities is secured by substantially all of the assets of KCS, KCSR and by those of each existing or subsequently acquired or formed subsidiary guaranteeing KCSR s credit facilities, including a pledge of certain of the capital stock held by us or our subsidiaries in certain of our or their existing or subsequently acquired or organized subsidiaries. After giving effect to this offering, we would have had approximately $604.5 million of secured debt (excluding unused commitments) as of September 30, 2008. In addition, we and our subsidiaries may incur other debt, which may be substantial in amount, and which may in certain circumstances be secured. Because the notes and the Note Guarantees will be unsecured obligations, your right of repayment may be compromised in the following situations:

- we enter into bankruptcy, liquidation, reorganization, or other winding-up;
- there is a default in payment under KCSR s credit facilities or other secured debt; or
- there is an acceleration of any debt under KCSR s credit facilities or other secured debt.

If any of these events occurs, the secured lenders could foreclose on the pledged stock of KCSR and our other subsidiaries and on our assets and those of the Note Guarantors in which they have been granted a security interest, in each case to your exclusion, even if an event of default exists under the indenture at such time. As a result, upon the occurrence of any of these events, there may not be sufficient funds to pay amounts due on the notes. Furthermore, under the Note Guarantees, if all shares of any Note Guarantor are sold to persons pursuant to an enforcement of the pledge of shares in the Note Guarantor for the benefit of the lenders under KCSR s credit facilities, then the applicable Note Guarantor will be released from its Note Guarantee automatically and immediately upon the sale.

Declines in the market price of KCS common stock may depress the trading price of the notes.

The price of KCS common stock on the New York Stock Exchange, or the NYSE, listed under the ticker symbol KSU, continually changes. We expect that the market price of KCS common stock will continue to

fluctuate. KCS stock price may fluctuate as a result of a variety of factors, many of which are beyond our control. These factors include, but are not limited to:

- quarterly variations in operating results;
- operating results that vary from the expectations of management, securities analysts, ratings agencies and investors;
- changes in expectations as to future financial performance, including financial estimates by securities analysts, ratings agencies and investors;
- developments generally affecting the railroad industry;
- announcements by us or our competitors of significant contracts, acquisitions, joint marketing relationships, joint ventures or capital commitments;
- the assertion or resolution of significant claims or proceedings against us;
- our dividend policy and restrictions on the payment of dividends;
- the issuance of common stock in payment of dividends on preferred stock or upon conversion of preferred stock; and
- general domestic and international economic conditions.

In addition, from time to time the stock market in general has experienced extreme volatility that has often been unrelated to the operating performance of a particular company. These broad market fluctuations may adversely affect the market price of KCS common stock. These factors could in turn significantly depress the trading price of the notes.

Servicing our indebtedness will require a significant amount of cash. Our ability to generate cash depends on a variety of factors, many of which are beyond our control.

Our ability to make payments on our indebtedness, including the notes, will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive and other factors that are beyond our control. Our business may not be able to generate sufficient cash flow from operations and future borrowings may not be available to us in an amount sufficient to enable us to pay our indebtedness, including the notes, or to fund our other liquidity needs. We may need to refinance all or a portion of our indebtedness on or before maturity. However, we may not be able to complete such refinancing on commercially reasonable terms or at all.

Only some of our subsidiaries will guarantee the notes. Your right to receive payments on the notes could be adversely affected if any of our subsidiaries that are not Note Guarantors declare bankruptcy, liquidate or reorganize.

Not all of our subsidiaries will guarantee the notes. Accordingly, the notes will be effectively subordinated to the prior payment of debts and other liabilities (including trade payables) of our subsidiaries that are not Note Guarantors. In the event of a bankruptcy, liquidation or reorganization of any of our subsidiaries that are not Note Guarantors, holders of their indebtedness and their trade creditors will generally be entitled to payment of their claims from the assets of those subsidiaries before any assets are made available for distribution to us. As of and for the nine months

ended September 30, 2008, after giving effect to this offering and the application of the proceeds thereof, the subsidiaries of KCS, other than KCSR and those subsidiaries that are Note Guarantors, would have had approximately $1,565.5 million of total liabilities (including trade payables), and would have had approximately 73.5% of the consolidated assets and would have generated approximately 51.6% and 59.7%, respectively, of our consolidated revenues and operating income. For the year ended December 31, 2007, after giving such effect, such subsidiaries would have generated approximately 53.3% and 66.6%, respectively, of our consolidated revenues and operating income.

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The indebtedness represented by the notes and the guarantees may be unenforceable due to fraudulent conveyance statutes.

We believe that the indebtedness represented by the notes and the Note Guarantees is being incurred for proper purposes and in good faith and that, based on present forecasts, asset valuations and other financial information, KCS, KCSR and the Note Guarantors are, and after the consummation of this offering, will be, solvent and will have sufficient capital for carrying on our business and will be able to pay our debts as they come due. Notwithstanding this belief, however, under federal or state fraudulent transfer laws, if a court of competent jurisdiction in a suit by an unpaid creditor or representative of creditors (such as a trustee in bankruptcy or a debtor-in-possession) were to find that KCS, KCSR or the Note Guarantors did not receive fair consideration (or reasonably equivalent value) for issuing the notes or the guarantees and for any indebtedness refinanced by the notes and at the time of the issuance of that indebtedness or those Note Guarantees, KCS, KCSR or the Note Guarantors were insolvent, were rendered insolvent by reason of that incurrence, were engaged in a business or transaction for which our remaining assets constituted unreasonably small capital, intended to incur, or believed that we would incur, debts beyond our ability to pay such debts as they became due, or that we intended to hinder, delay or defraud our creditors, then that court could, among other things, (i) void all or a portion of our obligations to the holders of the notes or the Note Guarantors obligations under the Note Guarantees, (ii) subordinate all or a portion of the payments made to holders of the notes to our other existing and future indebtedness to a greater extent than would otherwise be the case, the effect of which would be to entitle those other creditors to be paid in full before any payment could be made on the notes. The measure of insolvency for purposes of the foregoing will vary depending upon the law of the relevant jurisdiction. Generally, however, a company would be considered insolvent for purposes of the foregoing if the sum of that company s debts was greater than all of that company s assets at a fair valuation, or if the present fair saleable value of that company s assets was less than the amount that would be required to pay the probable liability on its existing debts as they become absolute and due. There can be no assurance as to what standards a court would apply to determine whether we or our Note Guarantors were solvent at the relevant time, or whether, whatever standard was applied, the notes would not be voided on another the grounds set forth above.

USE OF PROCEEDS

We expect to receive net proceeds from the sale of the notes, after deducting the underwriters discount and other fees and expenses associated with the sale of the notes, of approximately $163.7 million. We intend to use the net proceeds from the sale of the notes, along with other borrowings, to repurchase our 71/2% Senior Notes due 2009.

RATIO OF EARNINGS TO FIXED CHARGES

	Year Ended December 31,					Nine Months Ended September 30,	
	2007	2006	2005	2004	2003	2008	2007
Ratio of earnings to fixed charges[1]	2.1x	1.7x	1.5x	2.0x	0.8x	2.5x	1.9x

(1) For the purpose of computing the ratio of earnings to fixed charges, earnings include pre-tax income before minority interest and equity in earnings of unconsolidated affiliates, fixed charges and distributed income of equity investments. Fixed charges include interest expense on indebtedness and the portion of rent that represents a reasonable approximation of the interest factor. For the year ended December 31, 2003, the ratio of earnings to fixed charges was less than 1:1. This ratio would have been 1:1 if a deficiency of $10.5 million was eliminated.

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CAPITALIZATION

The table below sets forth our consolidated debt and capitalization as of September 30, 2008, derived from our unaudited consolidated financial statements:

on an actual basis; and

as adjusted to give effect to the issuance of the notes offered hereby and the use of net proceeds from the sale of the notes, along with other borrowings, to repurchase our 71/2% Senior Notes due 2009.

You should read this table in conjunction with our financial statements incorporated by reference in this prospectus supplement.

	As of September 30, 2008	
	Actual	**As Adjusted**
	(unaudited) (in millions of U.S. dollars)	
KCS [1]		
Other debt obligations	$ 0.2	$ 0.2
KCSR [2]		
Revolving credit facility	100.0	100.0
Term Loan facility	314.7	314.7
71/2% senior notes due 2009[3]	200.0	
8.0% senior notes due 2015	275.0	275.0
New senior notes offered hereby[4]		168.0
Capital lease obligations	12.3	12.3
Other debt obligations[5]	0.9	37.2
Tex-Mex [6]		
Tex Mex RRIF loan	47.0	47.0
KCSM [7]		
Revolving credit facility		
Term loan facility	30.0	30.0
93/8% senior notes due 2012	460.0	460.0
75/8% senior notes due 2013	175.0	175.0
73/8% senior notes due 2014	165.0	165.0
5.737% Loan Agreement	70.3	70.3
6.195% Loan Agreement	52.2	52.2
Capital lease obligations	7.1	7.1
Total debt	1,909.7	1,914.0
Total stockholders equity	1,876.1	1,876.1
Total capitalization	$ 3,785.8	$ 3,790.1

(1) Parent of KCSR and guarantor of the notes
(2) Issuer of the notes
(3) Reflects the repurchase of the 71/2% Senior Notes due 2009 with proceeds from the sale of the notes along with other borrowings
(4) Reflects the issuance of the notes, net of discount
(5) Includes $0.5 million of senior secured indebtedness of a note guarantor other than KCS
(6) Subsidiary of the Parent and Restricted Subsidiary under the Indenture
(7) Unrestricted Subsidiary as defined under the Indenture

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DESCRIPTION OF THE NOTES

Definitions of certain terms used in this Description of the Notes may be found under the heading Certain Definitions. For purposes of this section (i) the term Issuer refers only to The Kansas City Southern Railway Company and not any of its subsidiaries, and (ii) the term Parent refers only to Kansas City Southern, the parent company of the Issuer, and not to any of its subsidiaries. The Parent and certain of its existing subsidiaries will guarantee the notes. Each company that guarantees the notes is referred to in this section as a Note Guarantor. Each such guarantee is termed a Note Guarantee.

We will issue the notes under an indenture to be dated as of the Closing Date (the Indenture), among the Issuer, the Note Guarantors and U.S. Bank National Association, as Trustee (the Trustee), a copy of which is available upon request to the Issuer. The Indenture contains provisions which define your rights under the notes. In addition, the Indenture governs the obligations of the Issuer and of each Note Guarantor under the notes. The terms of the notes include those stated in the Indenture and those made part of the Indenture by reference to the TIA.

The following description is meant to be only a summary of certain provisions of the Indenture. It does not restate the terms of the Indenture in their entirety. We urge that you carefully read the Indenture as it, and not this description, governs your rights as Holders.

The Indenture provides for the issuance of additional notes, in an unlimited amount, having identical terms and conditions to the notes offered hereby (the Additional Notes), subject to compliance with the covenants contained in the Indenture and applicable law. Any Additional Notes will be part of the same issue as the notes offered hereby and will vote on all matters with the notes offered hereby. For purposes of this Description of the Notes section, reference to the notes does not include Additional Notes.

Overview of the Notes and the Note Guarantees

The notes:

- will be general unsecured obligations of the Issuer;
- will rank equally in right of payment with all existing and future Senior Indebtedness of the Issuer;
- will be senior in right of payment to all future Subordinated Obligations of the Issuer;
- will be effectively subordinated to all Secured Indebtedness of the Parent and its Subsidiaries to the extent of the value of the assets securing such Indebtedness; and
- will be effectively subordinated to all liabilities (including Trade Payables) and Preferred Stock of each Subsidiary of the Parent (other than the Issuer) that is not a Note Guarantor.

The Note Guarantees:

The notes will be guaranteed by the Parent and certain of its existing subsidiaries. The Note Guarantors other than the Parent are:

- Gateway Eastern Railway Company;

PABTEX GP, LLC;

PABTEX I, L.P.;

SIS Bulk Holding, Inc.;

Southern Development Company;

Southern Industrial Services, Inc.; and

Trans-Serve, Inc.

The Note Guarantee of each Note Guarantor:

will be a general unsecured obligation of such Note Guarantor;

will rank equally in right of payment with all existing and future Senior Indebtedness of such Note Guarantor;

will be senior in right of payment to all future Subordinated Obligations of such Note Guarantor; and

will be effectively subordinated to all Secured Indebtedness of the Parent and its Subsidiaries to the extent of the value of the assets securing such Indebtedness.

Initially, the notes will not be guaranteed by KCS Holdings I, Inc., KCS Ventures I, Inc., The Kansas City Northern Railway Company, and Veals, Inc., each of which guarantees the Credit Agreement, and any Subsidiaries of the Parent that do not Guarantee the Credit Agreement. As of the closing of this Offering, the only significant, domestic Subsidiaries that do not Guarantee the Credit Agreement are Caymex Transportation, Inc. (and its subsidiaries), Kara Sub, Inc., KCS Investment I, Ltd., Meridian Speedway, LLC, Mexrail, Inc., The Texas Mexican Railway Company, and TransFin Insurance, Ltd. Caymex Transportation, Inc., Kara Sub, Inc., and KCS Investment I, Ltd. are holding companies with ownership interests, both direct and indirect, in KCSM and the Panama Canal Railway Company. Meridian Speedway, LLC owns our former rail line between Meridian, Mississippi and Shreveport, Louisiana. Mexrail, Inc. is a holding company for the Parent s ownership interest in The Texas Mexican Railway Company, which operates a 157-mile rail line extending from Laredo, Texas to the port city of Corpus Christi, Texas. TransFin Insurance, Ltd. is a single-purpose captive insurance company, providing property, general liability and certain other coverages to the Parent and its Subsidiaries and Affiliates.

KCSM and its Subsidiaries will be Unrestricted Subsidiaries, will not guarantee the notes, and will not be subject to certain of the covenants described herein.

The Parent, each of the Restricted Subsidiaries that are Note Guarantors and certain future subsidiaries of the Parent (as described below), as primary obligors and not merely as sureties, will jointly and severally irrevocably and unconditionally Guarantee on an unsecured senior basis the performance and full and punctual payment when due, whether at Stated Maturity, by acceleration or otherwise, of all obligations of the Issuer under the Indenture (including obligations to the Trustee) and the notes, whether for payment of principal of or interest on the notes, expenses, indemnification or otherwise (all such obligations guaranteed by such Note Guarantors being herein called the Guaranteed Obligations). Such Note Guarantors will agree to pay in addition to the amount stated above, any and all costs and expenses (including reasonable counsel fees and expenses) incurred by the Trustee or the Holders in enforcing any rights under the Note Guarantees. Each Note Guarantee will be limited to an amount not to exceed the maximum amount that can be Guaranteed by the applicable Note Guarantor without rendering the Note Guarantee, as it relates to such Note Guarantor, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer or similar laws affecting the rights of creditors generally.

After the Closing Date, the Parent will cause:

(i) at any time that the Credit Agreement is in effect, each Subsidiary of the Parent (other than the Issuer, KCS Holdings I, Inc., KCS Ventures I, Inc., The Kansas City Northern Railway Company, and Veals, Inc.) that enters into a Guarantee of any Indebtedness that may be Incurred under the Credit Agreement; and

(ii) at any time that the Credit Agreement is not in effect, each domestic Restricted Subsidiary of the Parent (other than the Issuer, KCS Holdings I, Inc., KCS Ventures I, Inc., The Kansas City Northern Railway Company, and Veals,

Inc.) that enters into a Guarantee of any other obligations of the Parent or any of its domestic Subsidiaries,

to execute and deliver to the Trustee a supplemental indenture pursuant to which such Subsidiary will Guarantee payment of the notes.

Each Note Guarantee is a continuing guarantee and shall (a) remain in full force and effect until payment in full of all the Guaranteed Obligations, (b) be binding upon each Note Guarantor and its successors and (c) inure to the benefit of, and be enforceable by, the Trustee, the Holders and their successors, transferees and assigns. Notwithstanding the foregoing, the Note Guarantee of any Restricted Subsidiary which is a Note Guarantor will

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be released and terminated (1) upon the sale (including by means of a merger) of all of the Capital Stock of such Note Guarantor made in compliance with the terms of the Indenture and (2) upon any release and termination of the Guarantee by such Note Guarantor of the Indebtedness outstanding under the Credit Agreement (other than by reason of repayment and satisfaction of all of the Indebtedness outstanding under the Credit Agreement) or any other obligations pursuant to clause (ii) in the immediately preceding paragraph.

As of and for the nine months ended September 30, 2008, after giving effect to this offering and the application of the proceeds thereof, the Subsidiaries of the Parent, other than the Issuer and those Subsidiaries that are Note Guarantors, would have had approximately $1,565.5 million of total liabilities (including Trade Payables), would have had approximately 73.5% of the Parent s Consolidated assets and would have generated approximately 51.6% and 59.7%, respectively, of the Parent s Consolidated revenues and operating income. For the year ended December 31, 2007, after giving effect to this offering and the application of the proceeds thereof, such Subsidiaries would have generated approximately 53.3% and 66.6%, respectively, of the Parent s Consolidated revenues and operating income.

Principal, Maturity and Interest

We will initially issue notes in an aggregate principal amount of $190.0 million. The notes will mature on December 15, 2013. We will issue the notes in fully registered form, without coupons in denominations of $1,000 and any integral multiple of $1,000.

Each note we issue will bear interest at a rate of 13.0% per annum from the Closing Date. We will pay interest semiannually on June 15 and December 15 of each year, beginning on June 15, 2009, to Holders of record at the close of business on the preceding December 1 or June 1, respectively.

Paying Agent and Registrar

We will pay the principal of, premium, if any, and interest on the notes at any office of ours or any agency designated by us which is located in the Borough of Manhattan, The City of New York. We have initially designated the corporate trust office of the Trustee to act as the agent of the Issuer in such matters. The location of the corporate trust office is Corporate Trust Services, 180 East Fifth Street, St. Paul, Minnesota 55101, Attn: Corporate Trust Administration. We, however, reserve the right to pay interest to Holders by check mailed directly to Holders at their registered addresses.

Holders may exchange or transfer their notes at the same location given in the preceding paragraph. No service charge will be made for any registration of transfer or exchange of notes. We, however, may require Holders to pay any transfer tax or other similar governmental charge payable in connection with any such transfer or exchange.

Optional Redemption

The notes will be redeemable, at our option, in whole at any time or in part from time to time, before December 15, 2011, at a redemption price equal to the greater of:

- 101% of the principal amount of the notes to be redeemed; or

- the sum of the present values of the remaining scheduled payments of principal and interest on the notes to be redeemed (not including the portion of any payments of interest accrued to the redemption date) discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Adjusted Treasury Rate (determined on the third business day preceding the redemption date),

plus, in each case, accrued and unpaid interest thereon to the redemption date.

Adjusted Treasury Rate means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for that redemption date, plus .50%.

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Comparable Treasury Issue means the United States Treasury security selected by our choice of Morgan Stanley & Co. Incorporated or Banc of America Securities LLC, and its successors, or, if such firm is unwilling or unable to select the applicable Comparable Treasury Issue, another Reference Treasury Dealer, as having a maturity comparable to the remaining term of the notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such notes.

Comparable Treasury Price means, with respect to any redemption date, the average of the Reference Treasury Dealer Quotations (as defined below) for that redemption date.

Reference Treasury Dealer means each of Morgan Stanley & Co. Incorporated and Banc of America Securities LLC, and their respective successors, and three other primary U.S. government securities dealers in New York City selected by us (each, a Primary Treasury Dealer); provided however, that if any of the foregoing shall cease to be a Primary Treasury Dealer or is no longer quoting prices for United States Treasury securities, we will substitute another Primary Treasury Dealer.

Reference Treasury Dealer Quotations means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Trustee by that Reference Treasury Dealer at 5:00 p.m. (New York City time) on the third business day preceding the redemption date.

The notes will be redeemable, at our option, in whole at any time or in part from time to time, on and after December 15, 2011, upon not less than 30 nor more than 60 days notice, at the following redemption prices (expressed as percentages of the principal amount thereof) if redeemed during the 12-month period commencing on December 15 of the year set forth below, plus, in each case, accrued and unpaid interest to the date of redemption (subject to the right of Holders of record on a record date to receive interest due on an interest payment date that is on or prior to such date of redemption):

Year	**Percentage**
2011	113.0%
2012	106.5%

In addition, at any time prior to December 15, 2010, we may, on one or more occasions, redeem up to a maximum of 35% of the original aggregate principal amount of the notes with the Net Cash Proceeds of one or more Equity Offerings (1) by the Issuer or (2) by the Parent to the extent the Net Cash Proceeds thereof are contributed to the Issuer or used to purchase Capital Stock (other than Disqualified Stock) of the Issuer from the Issuer, at a redemption price equal to 113% of the principal amount thereof, plus accrued and unpaid interest, to the redemption date; *provided*, *however*, that after giving effect to any such redemption:

(1) at least 65% of the original aggregate principal amount of the notes remains outstanding; and

(2) any such redemption must be made within 60 days of such Equity Offering and must be made in accordance with certain procedures set forth in the Indenture.

Selection

If we partially redeem notes, the Trustee will select the notes to be redeemed on a pro rata basis, by lot or by such other method as the Trustee in its sole discretion shall deem to be fair and appropriate, although no note of $1,000 in original principal amount or less will be redeemed in part. If we redeem any note in part only, the notice of redemption relating to such note shall state the portion of the principal amount thereof to be redeemed. A new note in principal amount equal to the unredeemed portion thereof will be issued in the name of the Holder thereof upon cancellation of the original note. On and after the redemption date, interest will cease to accrue on notes or portions thereof called for redemption so long as we have deposited with the Paying Agent funds sufficient to pay the principal of, plus accrued and unpaid interest on, the notes to be redeemed.

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Ranking

The notes will be unsecured Senior Indebtedness of the Issuer, will rank equally in right of payment with all existing and future Senior Indebtedness of the Issuer and will be senior in right of payment to all future Subordinated Obligations of the Issuer. The notes also will be effectively subordinated to all Secured Indebtedness of the Parent and its Subsidiaries (including the Issuer) to the extent of the value of the assets securing such Secured Indebtedness.

The Note Guarantees will be unsecured Senior Indebtedness of the applicable Note Guarantor, will rank equally in right of payment with all existing and future Senior Indebtedness of such Note Guarantor and will be senior in right of payment to all future Subordinated Obligations of such Note Guarantor. The Note Guarantees also will be effectively subordinated to all Secured Indebtedness of the Parent and its Subsidiaries to the extent of the value of the assets securing such Secured Indebtedness.

The Parent currently conducts all of its operations through its Subsidiaries, and the Issuer currently conducts a portion of its operations through its Subsidiaries. To the extent the Subsidiaries of the Parent (other than the Issuer) are not Note Guarantors, creditors of such Subsidiaries, including trade creditors, and preferred stockholders, if any, of such Subsidiaries generally will have priority with respect to the assets and earnings of such Subsidiaries over the claims of the Holders. The notes, therefore, will be effectively subordinated to the claims of creditors, including trade creditors, and preferred stockholders, if any, of Subsidiaries of the Parent (other than the Issuer) that are not Note Guarantors.

In addition, creditors of any Unrestricted Subsidiaries, including trade creditors, and preferred stockholders, if any, of such Unrestricted Subsidiaries generally will have priority with respect to the assets and earnings of such Unrestricted Subsidiaries over the claims of the Holders. The notes, therefore, will be effectively subordinated to the claims of creditors, including trade creditors and preferred stockholders, if any, of Unrestricted Subsidiaries.

After giving effect to this offering and application of the net proceeds therefrom in the manner described under the heading Use of Proceeds, as of September 30, 2008, there would have been outstanding:

(1) $870.4 million of Senior Indebtedness of the Issuer, of which $427.4 million would have been Secured Indebtedness (exclusive of unused commitments under the Credit Agreement);

(2) $0.2 million of Senior Indebtedness of the Parent (exclusive of guarantees of Indebtedness under the Credit Agreement);

(3) $0.5 million of Senior Indebtedness of Note Guarantors other than the Parent (exclusive of guarantees of Indebtedness under the Credit Agreement), all of which would have been Secured Indebtedness;

(4) $1,006.6 million of Senior Indebtedness of Subsidiaries of the Parent (other than the Issuer) that are not Note Guarantors (and Trade Payables and other liabilities of $558.9 million); and

(5) $36.3 million of unsecured debt that is subordinate or junior in right of payment to the notes or the Note Guarantees.

Although the Indenture will limit the Incurrence of Indebtedness by the Parent, the Issuer and the other Restricted Subsidiaries and the issuance of Preferred Stock by the Restricted Subsidiaries, such limitation is subject to a number of significant qualifications and does not limit any Unrestricted Subsidiaries from Incurring Indebtedness or issuing Preferred Stock. The Parent and its Subsidiaries may be able to Incur substantial amounts of Indebtedness in certain circumstances. Such Indebtedness may be Senior Indebtedness and may be Secured Indebtedness. See Certain Covenants Limitation on Indebtedness below.

Change of Control

Upon the occurrence of any of the following events (each a Change of Control), each Holder will have the right to require the Issuer to purchase all or any part of such Holder s notes at a purchase price in cash equal to 101% of the principal amount thereof plus accrued and unpaid interest thereon to the date of purchase:

(1) at any time, less than 75% of the members of the board of directors of the Parent shall be (A) individuals who are members of such board on the date of this prospectus supplement or (B) individuals

whose election, or nomination for election by the Parent s stockholders, was approved by a vote of at least 75% of the members of the board of directors of the Parent then still in office who are members of such board on the date of this prospectus supplement (or whose election or nomination has been approved as provided in this clause (B));

(2) at any time, any person, or any two or more persons acting as a partnership, limited partnership, syndicate or other group for the purpose of acquiring, holding or disposing of Voting Stock of the Parent, shall become, according to public announcement or filing, the beneficial owner (as defined in Rule 13d-3 issued under the Exchange Act), directly or indirectly, of securities of the Parent representing 30% or more (calculated in accordance with such Rule 13d-3) of the combined voting power of the Parent s then outstanding Voting Stock;

(3) any Person other than the Parent shall acquire ownership, directly or indirectly, beneficially or of record of more than 30% of the Voting Stock of the Issuer; or

(4) the merger or consolidation of the Parent or the Issuer with or into another Person or the merger of another Person with or into the Parent or the Issuer, or the sale of all or substantially all the assets of the Parent or the Issuer to another Person, and, in the case of any such merger or consolidation, the securities of the Parent or the Issuer that are outstanding immediately prior to such transaction and which represent 100% of the aggregate voting power of the Voting Stock of the Parent or the Issuer are changed into or exchanged for cash, securities or property, unless pursuant to such transaction such securities are changed into or exchanged for, in addition to any other consideration, securities of the surviving Person or transferee that represent immediately after such transaction, at least a majority of the aggregate voting power of the Voting Stock of the surviving Person or transferee.

Within 30 days following any Change of Control, the Issuer shall mail a notice to each Holder with a copy to the Trustee (the Change of Control Offer) stating:

(1) that a Change of Control has occurred and that such Holder has the right to require the Issuer to purchase all or a portion of such Holder s notes at a purchase price in cash equal to 101% of the principal amount thereof, plus accrued and unpaid interest thereon to the date of purchase;

(2) the circumstances and relevant facts and financial information regarding such Change of Control;

(3) the purchase date (which shall be no earlier than 30 days nor later than 60 days from the date such notice is mailed); and

(4) the instructions determined by the Issuer, consistent with this covenant, that a Holder must follow in order to have its notes purchased.

The Issuer will not be required to make a Change of Control Offer upon a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Issuer and purchases all notes validly tendered and not withdrawn under such Change of Control Offer.

The Issuer will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations in connection with the purchase of notes pursuant to this covenant. To the extent that the provisions of any securities laws or regulations conflict with provisions of this covenant, the Issuer will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under this covenant by virtue thereof.

The Change of Control purchase feature is a result of negotiations between the Issuer and the Underwriters. The Issuer and the Parent have no present intention to engage in a transaction involving a Change of Control, although it is possible that the Issuer or the Parent could decide to do so in the future. Subject to the limitations discussed below, the Issuer or the Parent could, in the future, enter into certain transactions, including acquisitions, refinancings or recapitalizations, that would not constitute a Change of Control under the Indenture, but that could increase the amount of Indebtedness outstanding at such time or otherwise affect our capital structure or credit ratings. Restrictions on our ability to Incur additional Indebtedness are contained in the covenants described under

Certain Covenants Limitation on Indebtedness, Limitation on Liens and Limitation on Sale/Leaseback Transactio
Such restrictions can only be waived with the consent of the Holders of a majority in principal amount of the notes then outstanding. Except for the limitations contained in such covenants, however, the Indenture will not contain any covenants or provisions that may afford Holders protection in the event of a highly leveraged transaction.

Certain Covenants

The Indenture will contain covenants including, among others, those described below.

Covenant Termination. From and after any time that

(a) the notes have an Investment Grade Rating from both of the Rating Agencies; and

(b) no Default or Event of Default has occurred and is continuing under the Indenture,

the Parent and the Restricted Subsidiaries will not be subject to the following covenants:

Limitation on Indebtedness,

Limitation on Restricted Payments,

Limitation on Restrictions on Distributions from Restricted Subsidiaries,

Limitation on Sales of Assets and Capital Stock,

Limitation on Transactions with Affiliates,

Limitation on Sale/Leaseback Transactions, and

clause (3) of the Merger and Consolidation covenant.

Limitation on Indebtedness. (a) The Parent will not, and will not permit any Restricted Subsidiary to, Incur, directly or indirectly, any Indebtedness; *provided, however*, that the Parent, the Issuer, or any Restricted Subsidiary that is a Note Guarantor may Incur Indebtedness if on the date of such Incurrence and after giving effect thereto the Consolidated Coverage Ratio would be greater than 2.0:1.

(b) Notwithstanding the foregoing paragraph (a), the Parent, the Issuer and the Restricted Subsidiaries may Incur the following Indebtedness:

(1) Indebtedness under the Credit Agreement in an aggregate principal amount not to exceed $500 million, less the aggregate amount of all prepayments of principal from the proceeds of Asset Dispositions applied to permanently reduce any such Indebtedness;

(2) Indebtedness of the Parent owed to and held by any Wholly Owned Restricted Subsidiary or Indebtedness of a Restricted Subsidiary owed to and held by the Parent or any Wholly Owned Restricted Subsidiary; *provided*, *however*, that (A) any subsequent issuance or transfer of any Capital Stock or any other event that results in any such Wholly Owned Restricted Subsidiary ceasing to be a Wholly Owned Restricted Subsidiary or any subsequent transfer of any such Indebtedness (except to the Parent or a Wholly Owned Restricted Subsidiary) shall be deemed, in each case, to constitute the Incurrence of such Indebtedness by the issuer thereof, and (B) if the Issuer or a Note Guarantor is the

obligor on such Indebtedness and such Indebtedness is owed to and held by a Wholly Owned Restricted Subsidiary that is not a Note Guarantor, such Indebtedness is expressly subordinated to the prior payment in full in cash of all obligations of such Note Guarantor with respect to its Note Guarantee;

(3) Indebtedness (A) represented by the notes and the Note Guarantees, (B) outstanding on the Closing Date (other than the Indebtedness described in clauses (1) and (2) above), (C) consisting of Refinancing Indebtedness Incurred in respect of any Indebtedness described in this clause (3) (including Indebtedness that is Refinancing Indebtedness) or the foregoing paragraph (a), and (D) consisting of Guarantees of any Indebtedness permitted under clauses (1) and (2) of this paragraph (b);

(4) (A) Indebtedness of a Restricted Subsidiary Incurred and outstanding on or prior to the date on which such Restricted Subsidiary was acquired by the Parent (other than Indebtedness Incurred in contemplation of, in connection with, as consideration in, or to provide all or any portion of the funds or credit support utilized to consummate, the transaction or series of related transactions pursuant to which such Restricted Subsidiary became a Subsidiary of or was otherwise acquired by the Parent); *provided*, *however*, that on the date that such Restricted Subsidiary is acquired by the Parent, the Parent would have been able to Incur $1.00 of additional Indebtedness pursuant to the foregoing paragraph (a) after giving effect to the Incurrence of such Indebtedness pursuant to this clause (4), and
(B) Refinancing Indebtedness Incurred by a Restricted Subsidiary in respect of Indebtedness Incurred by such Restricted Subsidiary pursuant to this clause (4);

(5) Indebtedness (A) in respect of performance bonds, bankers acceptances, letters of credit and surety or appeal bonds provided by the Parent and the Restricted Subsidiaries in the ordinary course of their business, and (B) under Interest Rate Agreements entered into for bona fide hedging purposes in the ordinary course of business;

(6) Purchase Money Indebtedness and Capitalized Lease Obligations in an aggregate principal amount at any time outstanding not to exceed the greater of (A) $300 million, or (B) 10% of Consolidated Net Tangible Assets, such percentage to be calculated after giving effect to the proposed Purchase Money Indebtedness or Capitalized Lease Obligation and the related asset acquired or retained on a pro forma basis;

(7) Attributable Debt in respect of Sale/Leaseback Transactions after the Closing Date in an aggregate principal amount not to exceed $100 million;

(8) Indebtedness of the Parent or the Issuer owed to an Unrestricted Subsidiary consisting of Refinancing Indebtedness Incurred in respect of any Indebtedness described in clause (6) above; provided, however, that any such Refinancing Indebtedness shall be included in computing the maximum amount of Indebtedness permitted under such clause; or

(9) Indebtedness (other than Indebtedness permitted to be Incurred pursuant to the foregoing paragraph (a) or any other clause of this paragraph (b)) in an aggregate principal amount on the date of Incurrence that, when added to all other Indebtedness Incurred pursuant to this clause (9) and then outstanding, will not exceed $100 million.

(c) Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that the Parent or any Restricted Subsidiary may Incur pursuant to this covenant shall not be deemed to be exceeded solely as a result of fluctuations in the exchange rates of currencies.

(d) For purposes of determining the outstanding principal amount of any particular Indebtedness Incurred pursuant to this covenant:

(1) Indebtedness Incurred pursuant to the Credit Agreement prior to or on the Closing Date shall be treated as Incurred pursuant to clause (1) of paragraph (b) above,

(2) Indebtedness permitted by this covenant need not be permitted solely by reference to one provision permitting such Indebtedness but may be permitted in part by one such provision and in part by one or more other provisions of this covenant permitting such Indebtedness, and

(3) in the event that Indebtedness meets the criteria of more than one of the types of Indebtedness described in this covenant, the Parent, in its sole discretion, may classify and from time to time reclassify such Indebtedness and only be required to include the amount of such Indebtedness in one of such clauses as so classified or reclassified.

Limitation on Restricted Payments. (a) The Parent will not, and will not permit any Restricted Subsidiary, directly or indirectly, to:

(1) declare or pay any dividend, make any distribution on or in respect of its Capital Stock or make any similar payment (including any payment in connection with any merger or consolidation involving the Parent, or any Subsidiary of the Parent) to the direct or indirect holders of its Capital Stock, except (x) dividends or distributions payable solely in its Capital Stock (other than Disqualified Stock) and (y) dividends or distributions payable to the Parent or a Restricted Subsidiary (and, if such Restricted Subsidiary has holders of its Capital Stock other than the Parent or other Restricted Subsidiaries, to such other holders on a pro rata basis),

(2) purchase, repurchase, redeem, retire or otherwise acquire for value any Capital Stock of the Parent or any Restricted Subsidiary held by Persons other than the Parent or a Restricted Subsidiary,

(3) purchase, repurchase, redeem, retire, defease or otherwise acquire for value, prior to scheduled maturity, scheduled repayment or scheduled sinking fund payment any Subordinated Obligations (other than the purchase, repurchase, redemption, retirement, defeasance or other acquisition for value of Subordinated Obligations acquired in anticipation of satisfying a sinking fund obligation, principal installment or final maturity, in each case due within one year of the date of acquisition), or

(4) make any Investment (other than a Permitted Investment) in any Person,

(any such dividend, distribution, payment, purchase, redemption, repurchase, defeasance, retirement, or other acquisition or Investment being herein referred to as a Restricted Payment) if at the time the Parent or such Restricted Subsidiary makes such Restricted Payment:

(A) a Default will have occurred and be continuing (or would result therefrom);

(B) after giving effect to the proposed Restricted Payment on a pro forma basis, the Parent could not Incur at least $1.00 of additional Indebtedness under paragraph (a) of the covenant described under Limitation on Indebtedness; or

(C) the aggregate amount of such Restricted Payment and all other Restricted Payments declared or made subsequent to the Closing Date would exceed the sum, without duplication, of:

(i) 50% of the Consolidated Net Income accrued during the period (treated as one accounting period) from January 1, 2008 to the end of the most recent fiscal quarter ending prior to the date of such Restricted Payment for which financial information is publicly available (or, in case such Consolidated Net Income will be a deficit, minus 100% of such deficit);

(ii) the aggregate Net Cash Proceeds received by the Parent or the Issuer from the issue or sale of its Capital Stock (other than Disqualified Stock or in respect of Excluded Contributions) subsequent to the Closing Date (other than an issuance or sale to (x) a Restricted Subsidiary of the Parent or (y) an employee stock ownership plan or other trust established by the Parent or any of its Restricted Subsidiaries);

(iii) the amount by which Indebtedness of the Parent or the Restricted Subsidiaries is reduced on the Parent s Consolidated balance sheet upon the conversion or exchange (other than by a Restricted Subsidiary of the Parent) subsequent to the Closing Date of any Indebtedness of the Parent or the Restricted Subsidiaries issued after the Closing Date which is convertible or exchangeable for Capital Stock (other than Disqualified Stock) of the Parent (less the amount of any cash or the Fair Market Value of other property distributed by the Parent or any Restricted Subsidiary upon such conversion or exchange);

(iv) the amount equal to the net reduction in Investments (other than Permitted Investments) resulting from (x) payments of dividends, repayments of the principal of loans or advances or other transfers of assets to the Parent or any Restricted Subsidiary in respect of such Investments or (y) the redesignation of Unrestricted Subsidiaries as Restricted Subsidiaries (valued in each case as provided in the definition of Investment) not to exceed, in the case of any Unrestricted Subsidiary, the amount of Investments previously made by the Parent or any Restricted Subsidiary in such Unrestricted Subsidiary, which amount was included in the calculation of the amount of Restricted Payments;

(v) 100% of any cash dividends and other cash distributions received by the Parent, the Issuer and any Restricted Subsidiary from an Unrestricted Subsidiary subsequent to March 31, 2008, to the extent not included in Consolidated

Net Income pursuant to clause (C)(i) above or taken into account pursuant to clause (C)(iv) above; and

(vi) $300 million.

(b) The provisions of the foregoing paragraph (a) will not prohibit:

(1) any purchase, repurchase, redemption, retirement or other acquisition for value of any Subordinated Obligations, or any Capital Stock of the Parent, made by exchange for, or out of the proceeds of the substantially concurrent sale or issuance of, Capital Stock of the Parent (other than Disqualified Stock and other than Capital Stock issued or sold to a Restricted Subsidiary of the Parent or an employee stock ownership plan or other trust established by the Parent or any of its Subsidiaries); *provided, however*, that:

(A) such purchase, repurchase, redemption, retirement or other acquisition for value will be excluded in the calculation of the amount of Restricted Payments, and

(B) the Net Cash Proceeds from such sale applied in the manner set forth in this clause (1) will be excluded from the calculation of amounts under clause (C)(ii) of paragraph (a) above;

(2) any prepayment, repayment, purchase, repurchase, redemption, retirement, defeasance or other acquisition for value of any Subordinated Obligations made by exchange for, or out of the proceeds of the substantially concurrent sale of, Subordinated Obligations that are permitted to be Incurred pursuant to the covenant described under Limitation on Indebtedness; *provided, however*, that such prepayment, repayment, purchase, repurchase, redemption, retirement, defeasance or other acquisition for value will be excluded in the calculation of the amount of Restricted Payments;

(3) any prepayment, repayment, any purchase, repurchase, redemption, retirement, defeasance or other acquisition for value of Subordinated Obligations from Net Available Cash to the extent permitted by the covenant described under Limitation on Sales of Assets and Capital Stock ; *provided, however*, that such prepayment, repayment, purchase, repurchase, redemption, retirement, defeasance or other acquisition for value will be excluded in the calculation of the amount of Restricted Payments;

(4) dividends paid within 60 days after the date of declaration thereof if at such date of declaration such dividends would have complied with this covenant; *provided, however*, that such dividends will be included in the calculation of the amount of Restricted Payments;

(5) (A) dividends paid by the Parent with respect to outstanding shares of its Preferred Stock outstanding on the Closing Date in amounts each year which do not exceed $20.0 million; *provided, however*, that such dividends will be included in the calculation of the amount of Restricted Payments; and (B) dividends payable on Disqualified Stock Incurred in accordance with the terms of the Indenture and which are included as interest expense in the calculation of Consolidated Interest Expense; *provided, however*, that such dividends will be excluded in the calculation of the amount of Restricted Payments;

(6) Investments that are made with Excluded Contributions; *provided, however*, that such Investments will be excluded in the calculation of the amount of Restricted Payments; or

(7) any purchase, repurchase, redemption, retirement or other acquisition for value of shares of or options to purchase shares of, common stock of the Parent or any of its Subsidiaries from employees, former employees, directors or former directors of the Parent or any of its Subsidiaries (or permitted transferees of such employees, former employees, directors or former directors), pursuant to the terms of agreements (including employment agreements) or plans (or amendments thereto) approved by the Board of Directors under which such individuals purchase or sell or are granted the option to purchase or sell, shares of such common stock; *provided, however*, that the aggregate amount of such purchases, repurchases, redemptions, retirements and other acquisitions for value as of any date shall not exceed the amount obtained by multiplying the number of 12 month periods from and after the Closing Date by

$10 million (with a proration for any period of less than 12 months); *and provided further, however*, that such purchases, repurchases, redemptions, retirements and other acquisitions for value shall be excluded in the calculation of the amount of Restricted Payments.

Any amount referred to in this Limitation on Restricted Payments covenant which is not cash shall be valued in good faith by a responsible financial or accounting officer of the Issuer or the Parent if less than $25 million and by the Board of Directors if $25 million or more.

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Limitation on Restrictions on Distributions from Restricted Subsidiaries. The Parent will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to:

(1) pay dividends or make any other distributions on its Capital Stock or pay any Indebtedness or other obligations owed to the Parent or any Restricted Subsidiary;

(2) make any loans or advances to the Parent or any Restricted Subsidiary; or

(3) transfer any of its property or assets to the Parent or any Restricted Subsidiary,

except:

(A) any encumbrance or restriction pursuant to applicable law or an agreement in effect at or entered into on the Closing Date;

(B) any encumbrance or restriction with respect to a Restricted Subsidiary pursuant to an agreement relating to any Indebtedness Incurred by such Restricted Subsidiary prior to the date on which such Restricted Subsidiary was acquired by the Parent or another Restricted Subsidiary (other than Indebtedness Incurred as consideration in, in contemplation of, or to provide all or any portion of the funds or credit support utilized to consummate the transaction or series of related transactions pursuant to which such Restricted Subsidiary became a Restricted Subsidiary or was otherwise acquired by the Parent) and outstanding on such date;

(C) any encumbrance or restriction pursuant to an agreement effecting a Refinancing of Indebtedness Incurred pursuant to an agreement referred to in clause (A) or (B) of this covenant or this clause (C) or contained in any amendment to an agreement referred to in clause (A) or (B) of this covenant or this clause (C); *provided, however*, that the encumbrances and restrictions contained in any such Refinancing agreement or amendment are no less favorable to the Holders than the encumbrances and restrictions contained in such predecessor agreements;

(D) in the case of clause (3), any encumbrance or restriction

(i) that restricts in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease, license or similar contract, or

(ii) contained in security agreements securing Indebtedness of a Restricted Subsidiary to the extent such encumbrance or restriction restricts the transfer of the property subject to such security agreements; and

(E) with respect to a Restricted Subsidiary, any restriction imposed pursuant to an agreement entered into for the sale or disposition of all or substantially all the Capital Stock or assets of such Restricted Subsidiary pending the closing of such sale or disposition.

Limitation on Sales of Assets and Capital Stock. (a) The Parent will not, and will not permit any Restricted Subsidiary to, make any Asset Disposition unless:

(1) the Parent or any Restricted Subsidiary receives consideration (including by way of relief from, or by any other Person assuming sole responsibility for, any liabilities, contingent or otherwise) at the time of such Asset Disposition at least equal to the Fair Market Value of the shares and assets subject to such Asset Disposition;

(2) at least 75% of the consideration thereof received by the Parent or any Restricted Subsidiary is in the form of cash; and

(3) an amount equal to 100% of the Net Available Cash from such Asset Disposition is applied by the Parent (or any Restricted Subsidiary)

(A) *first*, to the extent the Issuer elects (or is required by the terms of any Indebtedness), to prepay, repay, purchase, repurchase, redeem, retire, defease or otherwise acquire for value Indebtedness

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outstanding under the Credit Agreement within 360 days after the later of the date of such Asset Disposition or the receipt of such Net Available Cash;

(B) *second*, to the extent of the balance of Net Available Cash after application in accordance with clause (A), to the extent the Parent or any Restricted Subsidiary elects, to reinvest in Additional Assets (including by means of an Investment in Additional Assets by a Restricted Subsidiary with Net Available Cash received by the Parent or another Restricted Subsidiary) within 360 days from the later of such Asset Disposition or the receipt of such Net Available Cash;

(C) *third17,684*

6,767

CASH FLOWS FROM INVESTING ACTIVITIES:

Investment in joint ventures

(384)

-

Loan to joint ventures

(215)

-

Purchase of property, plant and equipment

(16,955)

(6,450

)

Proceeds received on sale of property, plant and equipment

-

21

Net cash used in investing activities

(17,554)

(6,429

)

CASH FLOWS FROM FINANCING ACTIVITIES:

Borrowings under credit facility

1,500

750

Repayments of borrowings under credit facility

(500)

-

Dividends paid to non-controlling interests of subsidiaries

(882)

(984

)

Dividends paid

(854)

(764

)

Exercise of stock options and employee stock purchases

714

789

Net cash used in financing activities

(22)

(209

)

Foreign currency impact on cash

(21)

(48

)

NET INCREASE IN CASH AND CASH EQUIVALENTS

87

81

CASH AND CASH EQUIVALENTS

Beginning of period

19,756

20,307

End of period

$

19,843

$

20,388

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the period for:

Income taxes

$

10,207

$

1,582

Interest

$

17

$

23

Non-cash investing activities:

Change in capital expenditures in accounts payable

$

274

$

-

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

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STRATTEC SECURITY CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Basis of Financial Statements

STRATTEC SECURITY CORPORATION designs, develops, manufactures and markets automotive access control products including mechanical locks and keys, electronically enhanced locks and keys, steering column and instrument panel ignition lock housings, latches, power sliding door systems, power lift gate systems, power deck lid systems, door handles and related products for primarily North American automotive customers. We also supply global automotive manufacturers through a unique strategic relationship with WITTE Automotive of Velbert, Germany, and ADAC Automotive of Grand Rapids, Michigan. Under this relationship, STRATTEC, WITTE and ADAC market the products of each company to global customers under the “VAST” brand name. STRATTEC products are shipped to customer locations in the United States, Canada, Mexico, Europe, South America, Korea and China, and we provide full service and aftermarket support for our products.

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

The accompanying condensed consolidated financial statements reflect the consolidated results of STRATTEC SECURITY CORPORATION, its wholly owned Mexican subsidiary, STRATTEC de Mexico, and its majority owned subsidiaries, ADAC-STRATTEC, LLC and STRATTEC POWER ACCESS LLC. STRATTEC SECURITY CORPORATION is located in Milwaukee, Wisconsin. STRATTEC de Mexico is located in Juarez, Mexico. ADAC-STRATTEC, LLC and STRATTEC POWER ACCESS LLC have operations in El Paso, Texas and Juarez, Mexico. Equity investments in Vehicle Access Systems Technology LLC (“VAST LLC”) and NextLock LLC for which we exercise significant influence but do not control and are not the primary beneficiary, are accounted for using the equity method. VAST LLC consists primarily of three wholly owned subsidiaries in China and one in Brazil. NextLock LLC is located in El Paso, Texas. We have only one reporting segment.

In the opinion of management, the accompanying condensed consolidated balance sheet as of June 29, 2014, which has been derived from our audited financial statements, and the related unaudited interim condensed consolidated financial statements included herein contain all adjustments, consisting only of normal recurring items, necessary for their fair presentation in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and in accordance with Rule 10-01 of Regulation S-X. All significant intercompany transactions have been eliminated.

Interim financial results are not necessarily indicative of operating results for an entire year. The information included in this Form 10-Q should be read in conjunction with Management’s Discussion and Analysis and the financial statements and notes thereto included in the STRATTEC SECURITY CORPORATION 2014 Annual Report, which was filed with the Securities and Exchange Commission as an exhibit to our Form 10-K on September 5, 2014.

New Accounting Standard

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

Fair Value of Financial Instruments

The fair value of our cash and cash equivalents, accounts receivable, accounts payable and borrowings under our credit facility approximated book value as of December 28, 2014 and June 29, 2014. Fair value is defined as the exchange price that would be received for an asset or paid for a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date.

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The following table summarizes our financial assets and liabilities measured at fair value on a recurring basis as of December 28, 2014 (in thousands of dollars):

	Fair Value Inputs		
	Level 1 Assets: Quoted Prices In Active Markets	Level 2 Assets: Observable Inputs Other Than Market Prices	Level 3 Assets: Unobservable Inputs
Assets:			
Rabbi Trust Assets:			
Stock Index Funds:			
Small Cap	$ 353	$ -	$ -
Mid Cap	241	-	-
Large Cap	482	-	-
International	410	-	-
Fixed Income Funds	753	-	-
Cash and Cash Equivalents	-	28	-
Total Assets at Fair Value	$ 2,239	$ 28	$ -

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

Equity Earnings of Joint Ventures

We hold a one-third interest in a joint venture company, Vehicle Access Systems Technology LLC (“VAST LLC”), with WITTE Automotive of Velbert, Germany (“WITTE”), and ADAC Automotive of Grand Rapids, Michigan (“ADAC”). VAST LLC exists to seek opportunities to manufacture and sell all three companies’ products in areas of the world outside of North America and Europe. VAST LLC consists primarily of three wholly owned subsidiaries in China and one in Brazil. Our investment in VAST LLC, for which we exercise significant influence but do not control and are not the primary beneficiary, is accounted for using the equity method.

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

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

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

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

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

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

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

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

Credit Facilities and Guarantees

STRATTEC has a $25 million secured revolving credit facility (the "STRATTEC Credit Facility") with BMO Harris Bank N.A. ADAC-STRATTEC LLC has a $5 million secured revolving credit facility (the "ADAC-STRATTEC Credit Facility") with BMO Harris Bank N.A, which is guaranteed by STRATTEC. The credit facilities both expire August 1, 2016. Borrowings under either credit facility are secured by our U.S. cash balances, accounts receivable, inventory and fixed assets located in the U.S. Interest on borrowings under the ADAC-STRATTEC Credit Facility for periods prior to January 22, 2014 was at varying rates based, at our option, on LIBOR plus 1.75 percent or the bank's prime rate. Interest on borrowings under the STRATTEC credit facility and effective on or after January 22, 2014 under the ADAC-STRATTEC Credit Facility is at varying rates based, at our option, on LIBOR plus 1.0 percent or the bank's prime rate. Both credit facilities contain a restrictive financial covenant that requires the applicable borrower to maintain a minimum net worth level. The ADAC-STRATTEC Credit Facility includes an additional restrictive financial covenant that requires the maintenance of a minimum fixed charge coverage ratio. As of December 28, 2014, we were in compliance with all financial covenants.

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

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

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

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

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Environmental Reserve

In 1995, we recorded a provision of $3 million for estimated costs to remediate an environmental contamination site at our Milwaukee facility. The site was contaminated by a solvent spill, which occurred in 1985, from a former above ground solvent storage tank located on the east side of the facility. The reserve was originally established based on third party estimates to adequately cover the cost for active remediation of the contamination. Due to changing technology and related costs associated with active remediation of the contamination, an updated analysis and estimate was obtained during fiscal 2010. As a result of this analysis, the reserve was reduced by approximately $1.1 million, to $1.5 million in 2010, to reflect the revised monitoring and remediation cost estimate. From 1995 through December 28, 2014, costs of approximately $486,000 have been incurred related to the installation of monitoring wells on the property and ongoing monitoring costs. We continue to monitor and evaluate the site with the use of these groundwater monitoring wells. An environmental consultant samples these wells one or two times a year to determine the status of the contamination and the potential for remediation of the contamination by natural attenuation, the dissipation of the contamination over time to concentrations below applicable standards. If such sampling evidences a sufficient degree of and trend toward natural attenuation of the contamination at the site, we may be able to obtain a closure letter from the regulatory authorities resolving the issue without the need for active remediation. If a sufficient degree and trend toward natural attenuation is not evidenced by sampling, a more active form of remediation beyond natural attenuation may be required. The sampling has not yet satisfied all of the requirements for closure by natural attenuation. As a result, sampling continues and the reserve remains at an amount to reflect the estimated cost of active remediation. The reserve is not measured on a discounted basis. We believe, based on findings-to-date and known environmental regulations, that the remaining environmental reserve of $1.4 million at December 28, 2014, is adequate.

Shareholders' Equity

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

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

Other Income (Expense), net

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

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

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

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Income Taxes

The income tax provisions for the three and six month periods ended December 28, 2014 and December 29, 2013 were affected by the non-controlling interest portion of our pre-tax income. The income tax provision for the three and six month periods ended December 28, 2014 and December 29, 2013 were also affected by a lower statutory tax rate for income subject to tax in Mexico as compared to the statutory tax rate for income subject to tax in the U.S.

Earnings Per Share (EPS)

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

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

	Three Months Ended		Six Months Ended	
	December 28, 2014	December 29, 2013	December 28, 2014	December 29, 2013
Net Income Attributable to STRATTEC SECURITY CORPORATION	$5,778	$ 3,873	$15,078	$ 7,084
Less: Income Attributable to Participating Securities	71	69	191	129
Net Income Attributable to Common Shareholders	$5,707	$ 3,804	$14,887	$ 6,955
Basic Weighted Average Shares of Common Stock Outstanding	3,518	3,413	3,507	3,397
Incremental Shares – Stock based Compensation	94	74	96	76
Diluted Weighted Average Shares of Common Stock Outstanding	3,612	3,487	3,603	3,473
Basic Earnings Per Share	$1.62	$ 1.11	$4.25	$ 2.05
Diluted Earnings Per Share	$1.58	$ 1.09	$4.13	$ 2.00

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

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

purchase 67,340 shares of common stock were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive.

Stock-based Compensation

We maintain an omnibus stock incentive plan. This plan provides for the granting of stock options, shares of restricted stock and stock appreciation rights. As of December 28, 2014, the Board of Directors had designated 1,850,000 shares of common stock available for the grant of awards under the plan. Remaining shares available to be granted under the plan as of December 28, 2014 were 253,139. Awards that expire or are canceled without delivery of shares become available for re-issuance under the plan. We issue new shares of common stock to satisfy stock option exercises.

Nonqualified and incentive stock options and shares of restricted stock have been granted to our officers, outside directors and specified employees under our stock incentive plan. Stock options granted under the plan may not be issued with an exercise price less than the fair market value of the common stock on the date the option is granted. Stock options become exercisable as determined at the date of grant by the Compensation Committee of the Board of Directors. The options expire 5 to 10 years after the grant date unless an earlier expiration date is set at the time of grant. The options vest 1 to 4 years after the date of grant. Shares of restricted stock granted under the plan are subject to vesting criteria determined by the Compensation Committee of the Board of Directors at the time the shares are granted and have a minimum vesting period of three years from the date of grant. Restricted shares granted have voting rights, regardless if the shares are vested or unvested. Restricted shares granted prior to August 2014 have dividend rights, regardless if the shares are vested or unvested. Commencing in August 2014 and thereafter, shares of restricted stock are not entitled to receive any cash dividends if they are unvested as of the record date. The restricted stock grants issued to date vest 3 years after the date of grant.

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

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

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

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

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

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

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

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

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

As of December 28, 2014, there was $658,000 of total unrecognized compensation cost related to outstanding stock options granted under our omnibus stock incentive plan. This cost is expected to be recognized over a remaining weighted average period of 1.0 years. As of December 28, 2014, there was approximately $1.7 million of total unrecognized compensation cost related to unvested restricted stock grants outstanding under the plan. This cost is expected to be recognized over a remaining weighted average period of 1.2 years. Total unrecognized compensation cost will be adjusted for any future changes in estimated and actual forfeitures of awards granted under our omnibus stock incentive plan.

Pension and Postretirement Benefits

We have a qualified, noncontributory defined benefit pension plan ("Qualified Pension Plan") covering substantially all U.S. associates. Benefits are based on years of service and final average compensation. Our policy is to fund at least the minimum actuarially computed annual contribution required under the Employee Retirement Income Security Act of 1974 (ERISA). Plan assets consist primarily of listed equity and fixed income securities. Effective December 31, 2009, an amendment to the Qualified Pension Plan discontinued the benefit accruals for salary increases and credited service rendered after that date. On April 2, 2014, our Board of Directors approved a resolution to terminate the Qualified Pension Plan. The termination of the Qualified Pension Plan is subject to the Internal Revenue Service's ("IRS") determination that the Qualified Pension Plan is qualified on termination. We believe it will take 18 to 24 months to finalize the complete termination of the Qualified Pension Plan after obtaining IRS approval. Additionally, we have amended the Qualified Pension Plan to provide that participants are 100 percent vested in their accrued benefits as of the effective date of the plan termination, to adopt a new standard for disability benefits that will apply when the plan's assets are distributed due to the termination, to add a lump sum distribution for employees and terminated vested participants who are not in payment status when Qualified Pension Plan assets are distributed due to the termination and to make certain other conforming amendments to the Qualified Pension Plan to comply with applicable laws that may be required by the IRS or may be deemed necessary or advisable to improve the administration of the Qualified Pension Plan or facilitate its termination and liquidation. We also intend to make contributions to the Trust Fund for the Qualified Pension Plan to ensure that there are sufficient assets to provide all Qualified Pension Plan benefits as of the anticipated distribution date. The financial impact of the plan termination will be recognized as a settlement of the Qualified Pension Plan liabilities. The settlement date and related financial impact have not yet been determined.

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

We also sponsor a postretirement health care plan for all of our U.S. associates hired prior to June 2, 2001. The expected cost of retiree health care benefits is recognized during the years that the associates who are covered under the plan render service. Effective January 1, 2010, an amendment to the postretirement health care plan limited the benefit for future eligible retirees to $4,000 per plan year and is subject to a maximum five year coverage period based on the associate's retirement date and age. The postretirement health care plan is unfunded.

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

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

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

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

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

Accumulated Other Comprehensive Loss

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

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

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

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

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Item 2

STRATTEC SECURITY CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis should be read in conjunction with STRATTEC SECURITY CORPORATION's accompanying Condensed Consolidated Financial Statements and Notes thereto and its 2014 Annual Report which was filed with the Securities and Exchange Commission as an exhibit to its Form 10-K on September 5, 2014. Unless otherwise indicated, all references to years refer to fiscal years.

Outlook

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

Analysis of Results of Operations

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

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

Net sales to each of our customers or customer groups in the current year quarter and prior year quarter were as follows (in millions):

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Foreign currency transaction gains during the current year quarter resulted from activity associated with foreign denominated assets held by our Mexican subsidiaries. Our Rabbi Trust assets fund our amended and restated supplemental executive retirement plan. The investments held in the Trust are considered trading securities.

Our income tax provision for each of the three month periods ended December 28, 2014 and December 29, 2013 was affected by the non-controlling interest portion of our pre-tax income. Our effective tax rate was 28.8 percent for the current year quarter as compared to 32.6 percent for the prior year quarter.

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

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

Net sales to each of our customers or customer groups in the current year period and prior year period were as follows (in millions):

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

The increase in sales to General Motors Company in the current year period was primarily attributed to incremental service parts sales of $34.0 million related to a recall campaign. The incremental sales are expected to adjust to more

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

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

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

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

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

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

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

	Six Months Ended	
	December 28, 2014	December 29, 2013
Expenses (in millions)	$23.7	$ 18.7
Expenses as a percentage of net sales	10.6%	11.6 %

Engineering, selling and administrative increased approximately $5.0 million between periods while decreasing as a percentage of net sales. The increase in these costs in the current year period over the prior year period was due to higher expense provisions for the accrual of bonuses under our incentive bonus plans as a result of improved financial results for fiscal 2015 to date, higher outside service costs to support sales and engineering activities for current product programs as well as new product programs under development and higher outside service costs in support of the move to our new Auburn Hills, Michigan sales and engineering facility.

Income from operations in the current year period was $22.8 million compared to $11.7 million in the prior year period. This increase was the result of the increased sales and improved gross profit margins in the current year period over the prior year period, partially offset by an increase in engineering, selling and administrative expenses between periods, all as discussed above.

Equity earnings of joint ventures was $69,000 during the current year period compared $591,000 in the prior year period. Included in equity earnings of joint ventures were start-up costs associated with our new joint venture, NextLock LLC. Our portion of these start-up costs totaled $449,000 in the current period and $151,000 in the prior year period.

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

	Six Months Ended	
	December 28, 2014	December 29, 2013
Foreign Currency Transaction Gain	$2,421	$ 38
Rabbi Trust Gain	18	105
Other	172	82
	$2,611	$ 225

Foreign currency transaction gains resulted from activity associated with foreign denominated assets held by our Mexican subsidiaries. Our Rabbi Trust assets fund our amended and restated supplemental executive retirement plan. The investments held in the Trust are considered trading securities.

Our income tax provision for each of the six month periods ended December 28, 2014 and December 29, 2013 was affected by the non-controlling interest portion of our pre-tax income. Our effective tax rate was 32.5 percent for the current year period as compared to 32.0 percent for the prior year period.

Liquidity and Capital Resources

Outstanding Receivable Balances from Major Customers

Our primary source of cash flow is from our major customers, which include Chrysler Group LLC, General Motors Company and Ford Motor Company. As of the date of filing this Form 10-Q with the Securities and Exchange Commission, all of our major customers are making payments on their outstanding accounts receivable in accordance with the payment terms included on their purchase orders. A summary of our outstanding receivable balances from our major customers as of December 28, 2014 was as follows (in millions of dollars):

Chrysler Group LLC	$17.6
General Motors Company	$13.1
Ford Motor Company	$7.6

Cash Balances in Mexico

We earn a portion of our operating income in Mexico, which is deemed to be permanently reinvested. As of December 28, 2014, $13.3 million of our $19.8 million cash and cash equivalents balance was held by our foreign subsidiaries in Mexico. Cash balances in Mexico will be used for future capital expenditures and future plant expansion in Mexico. We currently do not intend nor foresee a need to repatriate these funds. We expect existing domestic cash and cash

equivalents and cash flows from operations to continue to be sufficient to fund our operating activities and cash commitments for investing and financing activities, such as regular quarterly dividends and capital expenditures, for at least the next 12 months and thereafter for the foreseeable future. Should we require more capital in the U.S. than is generated by our operations domestically, for example to fund significant discretionary activities, such as acquisitions of businesses and share repurchases, we could elect to repatriate future earnings from foreign jurisdictions or raise capital in the U.S. through borrowings under our revolving credit facility. These alternatives could result in higher effective tax rates, increased interest expense, or other dilution of our earnings.

Cash Flow Analysis

	Six Months Ended	
	December 28, 2014	December 29, 2013
Cash Flows from (in millions):		
Operating Activities	$17.7	$ 6.8
Investing Activities	$(17.6)	$ (6.4)
Financing Activities	$(0.02)	$ (0.2)

Net cash provided by operating activities was $17.7 million during the current year period compared to $6.8 million during the prior year period. The change in operating cash flow between periods was due to improvement in our operating results in the current year period as compared to the prior year period as discussed above under analysis of results of operations as well as a net decrease in working capital requirements between periods of $3.8 million, with the major contributors to the decrease being as follows (in millions of dollars):

	Increase (Decrease) in Working Capital Requirements Six Months Ended		
	December 28, 2014	December 29, 2013	Change
Accounts Receivable	$(6.8)	$(3.2)	$(3.6)
Inventory	8.4	5.7	2.7
Other Assets	(.2)	3.7	(3.9)
Accounts Payable and Accrued Liabilities	.8	(.3)	1.1

The change in working capital requirements between periods related to changes in the accounts receivable balances reflected a larger reduction in accounts receivable balances during the current year period as compared to the prior year period. As discussed above, the current year quarter included incremental service parts sales of $6 million related to a customer's recall campaign. The June 2014 quarter included incremental service parts sales of $11 million related to the recall campaign. The reduction in incremental service parts sales between the June 2014 quarter and the current year quarter resulted in a reduction in the accounts receivable balances related to these sales during the current year period. The change in working capital requirements between periods related to changes in the inventory balances reflected a larger investment in inventories during the current year period as compared to the prior year period as a result of customer order delays in December and a planned build-up of both finished goods and purchased parts inventories in the current year period due to shipping slowdowns at U.S. west coast ports. The change in working capital requirements between periods related to changes in the other assets balances reflected a reduction in our investment in customer tooling asset balances during the current year period compared to an increase in our investment in customer tooling asset balances during the prior year period. Customer tooling asset balances consist of costs incurred for the development of tooling that will be directly reimbursed by the customer whose parts are produced from the tools. Increases and decreases in these balances resulted from the timing of tooling development spending required to meet customer production requirements and related customer reimbursements. The change in working capital requirements between periods related to changes in the accounts payable and accrued liabilities balances reflected a reduction in income tax payable balances in the current year period as compared to an increase in income tax payable balances in the prior year period. The reduction in income tax payable balances during the current year period was due to income tax payments made in excess of the recorded tax provision. The increase in income tax payable balances in the prior year period was due to income tax payments made in an amount less than the recorded tax provision, which occurred as a result of the carry-forward of income tax over-payments from prior periods.

Significant cash payments impacting net cash provided by operating activities during both the current year period and prior year period included cash payments made under our incentive bonus plans and cash payments for Federal, state and foreign income taxes. Cash payments made under our incentive bonus plans totaled $7.3 million in the current year period compared to $4.0 million during the prior year period. Cash payments made for Federal, state and foreign income taxes totaled $10.2 million during the current period compared to $1.6 during the prior year period.

Net cash used in investing activities of $17.6 million during the current year period and $6.4 million during the prior year period included capital expenditures of $17.0 million and $6.5 million, respectively. Capital expenditures during each period were made in support of requirements for new product programs and the upgrade and replacement of existing equipment. Current year period capital expenditures of $2.1 million and $4.5 million were also made for the purchase of additional facilities in Juarez, Mexico and Auburn Hills, Michigan, respectively. Net cash used in investing activities during the current year period also included a cash capital contribution and loan to our joint venture, VAST LLC. A cash capital contribution totaled $384,000 in support of current operating expenses. A loan of $215,000 was made by each partner, STRATTEC, WITTE and ADAC, in support of VAST LLC's purchase of the non-controlling interest in VAST do Brasil and in support of funding operating costs of the Brazil entity.

Net cash used in financing activities of $22,000 during the current year period included $1.5 million of additional borrowings under credit facilities and $714,000 of proceeds received from stock option exercises and related excess tax benefits, partially offset by $854,000 for regular quarterly dividend payments to shareholders, $882,000 for dividend payments to non-controlling interests in our subsidiaries and repayments of borrowings under credit facilities of $500,000. Net cash used in financing activities during the prior year period of $209,000 included $764,000 for regular quarterly dividend payments to shareholders and $984,000 for dividend payments to non-controlling interests in our subsidiaries, partially offset by $750,000 of additional borrowings under credit facilities and $789,000 of proceeds received from stock option exercises and related excess tax benefits.

VAST LLC Cash Requirements

During the current year period, cash capital contributions totaling $384,000 were made by each partner to VAST LLC to support operating expenses. No cash capital contributions were made to VAST LLC during the prior year period. VAST China operational costs have been financed internally by VAST LLC along with external financing secured from three local Chinese banks. We currently anticipate VAST China has adequate debt facilities in place over the next twelve month period to cover future operating and capital requirements.

Future Capital Expenditures

Capital expenditures during the current year period totaled $17.0 million compared to $6.5 million in the prior year period. We anticipate that capital expenditures will be approximately $21 million during all of fiscal 2015 in support of requirements for new product programs, the upgrade and replacement of existing equipment and the purchase of two buildings, one of which is located in Michigan and the other is located in Juarez, Mexico. The Michigan building is being used as a sales and engineering office and replaced two current leased facilities in Michigan. The Juarez, Mexico building is being used as an additional facility to support current operations and in anticipation of both new and potential business awards in Mexico.

Stock Repurchase Program

Our Board of Directors has authorized a stock repurchase program to buy back outstanding shares of our common stock. Shares authorized for buy back under the program totaled 3,839,395 at December 28, 2014. A total of 3,655,322 shares have been repurchased over the life of the program through December 28, 2014, at a cost of approximately $136.4 million. No shares were repurchased during the three or six month periods ended December 28, 2014 or December 29, 2013. Additional repurchases may occur from time to time and are expected to continue to be funded by cash flow from operations and current cash balances. Based on the current economic environment and our preference to conserve cash for other uses, we anticipate modest or no stock repurchase activity for the remainder of fiscal year 2015.

Credit Facilities

STRATTEC has a $25 million secured revolving credit facility (the “STRATTEC Credit Facility”) with BMO Harris Bank N.A. ADAC-STRATTEC LLC has a $5 million secured revolving credit facility (the “ADAC-STRATTEC Credit Facility”) with BMO Harris Bank N.A, which is guaranteed by STRATTEC. The credit facilities both expire August 1, 2016. Borrowings under either credit facility are secured by our U.S. cash balances, accounts receivable, inventory and fixed assets located in the U.S. Interest on borrowings under the ADAC-STRATTEC Credit Facility for periods prior to January 22, 2014 was at varying rates based, at our option, on LIBOR plus 1.75 percent or the bank’s prime rate. Interest on borrowings under the STRATTEC credit facility and effective on or after January 22, 2014 under the ADAC-STRATTEC Credit Facility is at varying rates based, at our option, on LIBOR plus 1.0 percent or the bank’s prime rate. Both credit facilities contain a restrictive financial covenant that requires the applicable borrower to maintain a minimum net worth level. The ADAC-STRATTEC Credit Facility includes an additional restrictive financial covenant that requires the maintenance of a minimum fixed charge coverage ratio. There were no borrowings under the STRATTEC Credit Facility during fiscal 2015 to date or during fiscal 2014. Outstanding borrowings under the ADAC-STRATTEC Credit Facility totaled $3.5 million at December 28, 2014 and $2.5 million at June 29, 2014. The average outstanding borrowings and weighted average interest rate on the ADAC-STRATTEC Credit Facility loans were approximately $3.8 million and 1.2 percent, respectively, during the six months ended December 28, 2014. The average outstanding borrowings and weighted average interest rate on the ADAC-STRATTEC Credit Facility loans were approximately $2.8 million and 1.9 percent, respectively, during the six months ended December 29, 2013.

Inflation and Other Changes in Prices

Inflation Related Items: Over the past several years, we have been impacted by rising health care costs, which have increased our cost of associate medical coverage. A portion of these increases have been offset by plan design changes and associate wellness initiatives. We have also been impacted by increases in the market price of zinc and brass and inflation in Mexico, which impacts the U. S. dollar costs of our Mexican operations. We have negotiated raw material price adjustment clauses with certain, but not all, of our customers to offset some of the market price fluctuations in the cost of zinc.

Joint Ventures and Majority Owned Subsidiaries

We participate in certain Alliance Agreements with WITTE Automotive ("WITTE") and ADAC Automotive ("ADAC"). WITTE, of Velbert, Germany, is a privately held automotive supplier. WITTE designs, manufactures and markets automotive components, including locks and keys, hood latches, rear compartment latches, seat back latches, door handles and specialty fasteners. WITTE's primary market for these products has been Europe. ADAC, of Grand Rapids, Michigan, is a privately held automotive supplier and manufactures engineered products, including door handles and other automotive trim parts, utilizing plastic injection molding, automated painting and various assembly processes.

The Alliance Agreements include a set of cross-licensing agreements for the manufacture, distribution and sale of WITTE products by STRATTEC and ADAC in North America, and the manufacture, distribution and sale of STRATTEC and ADAC products by WITTE in Europe. Additionally, a joint venture company, Vehicle Access Systems Technology LLC ("VAST LLC"), in which WITTE, STRATTEC and ADAC each hold a one-third interest, exists to seek opportunities to manufacture and sell the companies' products in areas of the world outside of North America and Europe.

VAST do Brasil services customers in South America. Effective March 21, 2014, VAST LLC purchased the remaining non-controlling interest in VAST do Brasil. VAST Fuzhou, VAST Great Shanghai and VAST Shanghai Co. (collectively known as VAST China), provides a base of operations to service our automotive customers in the Asian market. VAST LLC also maintains branch offices in South Korea and Japan in support of customer sales and engineering requirements.

The VAST LLC investments are accounted for using the equity method of accounting. The activities related to the VAST LLC joint ventures resulted in equity earnings of joint ventures to STRATTEC of approximately $518,000 during the six months ended December 28, 2014 and approximately $742,000 during the six months ended December 29, 2013. During the six month period ended December 28, 2014, cash contributions of $384,000 were made to VAST LLC by each partner in support of operating expenses. No cash capital contributions were made to VAST LLC during the six month period ended December 29, 2013. During the six months ended December 28, 2014, STRATTEC made a loan totaling $215,000 to VAST LLC, to support VAST LLC's purchase of the non-controlling interest in VAST do Brasil and to fund the operating costs of the Brazilian entity.

In fiscal year 2007, we established a new entity with ADAC forming ADAC-STRATTEC LLC, a Delaware limited liability company. The new entity was created to establish injection molding and door handle assembly operations in Mexico. STRATTEC holds a 51 percent interest in ADAC-STRATTEC LLC. A Mexican entity, ADAC-STRATTEC de Mexico, exists and is wholly owned by ADAC-STRATTEC LLC. ADAC-STRATTEC LLC's financial results are consolidated with the financial results of STRATTEC and resulted in increased net income to STRATTEC of approximately $1.1 million during the six months ended December 28, 2014 and approximately $628,000 during the six months ended December 29, 2013.

Effective November 30, 2008, STRATTEC established a new entity, STRATTEC POWER ACCESS LLC ("SPA"), which is 80 percent owned by STRATTEC and 20 percent owned by WITTE. SPA supplies the North American portion of the power sliding door, lift gate and deck lid system access control products which were acquired from Delphi Corporation. The financial results of SPA are consolidated with the financial results of STRATTEC and resulted in increased net income to STRATTEC of approximately $1.0 million during the six months ended December 28, 2014 and the six months ended December 29, 2013.

On April 5, 2013, we acquired a 51 percent ownership interest in NextLock LLC, a newly formed joint venture which was formed to introduce a new generation of biometric security products based upon the designs of Actuator Systems

LLC, our partner and the owner of the remaining ownership interest. The initial capitalization of the NextLock LLC joint venture totaled $1.5 million. STRATTEC's portion of the initial capitalization totaled $765,000. We anticipate shipments of the new biometric security products to begin during the second half of our fiscal 2015. Our investment in NextLock 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 activities related to the NextLock LLC joint venture resulted in equity loss of joint ventures to STRATTEC of approximately $449,000 during the six months ended December 28, 2014 and approximately $151,000 during the six months ended December 29, 2013.

Item 3 Quantitative and Qualitative Disclosures About Market Risk

Our exposure to market risk is limited to fluctuations in raw material commodity prices, interest rate fluctuations on borrowings under our secured revolving credit facilities and foreign currency exchange rate risk associated with STRATTEC's foreign operations. We do not utilize financial instruments for trading purposes.

Interest Rates: We are subject to interest rate fluctuations on borrowings under our revolving credit facilities. At December 28, 2014, we had $3.5 million of outstanding borrowings under our credit facilities. The interest expense related to borrowings under the credit facilities during the six months ended December 28, 2014 was $22,000. A 10% increase or decrease in the interest rate on our borrowings would not have a material effect on our financial position, results of operations or cash flows.

Foreign Currency: We are subject to foreign currency exchange rate exposure related to the U.S. dollar costs of our manufacturing operations in Mexico. A portion of our manufacturing costs are incurred in Mexican pesos. Our earnings and cash flows are subject to fluctuations as a result of changes in the U.S. dollar / Mexican peso exchange rate.

Raw Materials Commodity Prices: Our primary raw materials are high-grade zinc, brass, nickel silver, aluminum, steel and plastic resins. These materials are generally available from a number of suppliers, but we have chosen to concentrate our sourcing with one primary vendor for each commodity or purchased component. We believe our sources of raw materials are reliable and adequate for our needs. However, the development of future sourcing issues related to using existing or alternative raw materials and the global availability of these materials as well as significant fluctuations in the market prices of these materials may have an adverse effect on our financial results if the increased raw material costs cannot be recovered from our customers. Given the significant financial impact on us relating to changes in the cost of our primary raw materials, we now attempt to quote quarterly material price adjustments for changes in our zinc costs in our negotiations with our customers. Our success in obtaining these quarterly price adjustments in our customer contracts is dependent on separate negotiations with each customer. It is not a standard practice for our customers to include such price adjustments in their contracts. We have been successful in obtaining quarterly price adjustments in some of our customer contracts. However, we have not been successful in obtaining the adjustments with all of our customers.

Item 4 Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), that are designed to ensure that information required to be disclosed in the Company’s reports filed or submitted under the Exchange Act, are recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and that the information required to be disclosed by the Company in reports that it files or submits under the Exchange Act are accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of such period, our disclosure controls and procedures were effective at reaching a level of reasonable assurance. It should be noted that in designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost benefit relationship of possible controls and procedures. We have designed our disclosure controls and procedures to reach a level of reasonable assurance of achieving the desired control objectives.

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II

Other Information

Item 1 Legal Proceedings

In the normal course of business, we may be involved in various legal proceedings from time to time. We do not believe we are currently involved in any claim or action the ultimate disposition of which would have a material adverse effect on our financial statements.

Item 1A—Risk Factors

There have been no material changes to the risk factors disclosed in our Form 10-K as filed with the Securities and Exchange Commission on September 5, 2014.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds—

Our Board of Directors authorized a stock repurchase program on October 16, 1996, and the program was publicly announced on October 17, 1996. The Board of Directors has periodically increased the number of shares authorized for repurchase under the program, most recently in August 2008. The program currently authorizes the repurchase of up to 3,839,395 shares of our common stock from time to time, directly or through brokers or agents, and has no expiration date. Over the life of the repurchase program through December 28, 2014, a total of 3,655,322 shares have been repurchased at a cost of approximately $136.4 million. No shares were repurchased during the three or six month periods ended December 28, 2014.

Item 3 Defaults Upon Senior Securities—None

Item 4 Mine Safety Disclosures—None

Item 5 Other Information—None

Item 6 Exhibits

(a) Exhibits

31.1 Rule 13a-14(a) Certification for Frank J. Krejci, President and Chief Executive Officer

31.2 Rule 13a-14(a) Certification for Patrick J. Hansen, Chief Financial Officer

32 [(1)] 18 U.S.C. Section 1350 Certifications

101 The following materials from STRATTEC SECURITY CORPORATION's Quarterly Report on Form 10-Q for the fiscal quarter ended December 28, 2014 formatted in XBRL (eXtensible Business Reporting Language) and furnished electronically herewith: (i) Condensed Consolidated Statements of Income and Comprehensive Income; (ii) Condensed Consolidated Balance Sheets; (iii) Condensed Consolidated Statements of Cash Flows; and (iv) Notes to Condensed Consolidated Financial Statements

[(1)] This certification is not "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

STRATTEC SECURITY CORPORATION (Registrant)

Date: February 6, 2015 By: /s/ Patrick J. Hansen
Patrick J. Hansen
Senior Vice President,
Chief Financial Officer,
Treasurer and Secretary
(Principal Accounting and Financial Officer)

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