

STRATTEC SECURITY CORP
Form 10-Q
February 03, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended December 26, 2010

or

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

For the transition period from _____ to _____

Commission File Number 0-25150

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

Wisconsin
(State of Incorporation)

39-1804239
(I.R.S. Employer Identification No.)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Edgar Filing: STRATTEC SECURITY CORP - Form 10-Q

Large Accelerated filer ___ Accelerated filer ___ Non-accelerated filer ___ (Do not check if a smaller reporting company)

Smaller Reporting Company X

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ___ NO X

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

Common stock, par value \$0.01 per share: 3,285,678 shares outstanding as of December 26, 2010

STRATTEC SECURITY CORPORATION
FORM 10-Q
December 26, 2010

INDEX

| | | Page |
|--------------------------------|---|-------|
| Part I - FINANCIAL INFORMATION | | |
| Item 1 | Financial Statements | |
| | Condensed Consolidated Statements of Operations and Comprehensive Income | 3 |
| | Condensed Consolidated Balance Sheets | 4 |
| | Condensed Consolidated Statements of Cash Flows | 5 |
| | Notes to Condensed Consolidated Financial Statements | 6-11 |
| Item 2 | Management's Discussion and Analysis of Financial Condition and Results of Operations | 12-23 |
| Item 3 | Quantitative and Qualitative Disclosures About Market Risk | 24 |
| Item 4 | Controls and Procedures | 24 |
| Part II - OTHER INFORMATION | | |
| Item 1 | Legal Proceedings | 25 |
| Item 1A | Risk Factors | 25 |
| Item 2 | Unregistered Sales of Equity Securities and Use of Proceeds | 25 |
| Item 3 | Defaults Upon Senior Securities | 25 |
| Item 4 | [Removed and Reserved] | 25 |
| Item 5 | Other Information | 25 |
| Item 6 | Exhibits | 25 |

PROSPECTIVE INFORMATION

A number of the matters and subject areas discussed in this Form 10-Q contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements may be identified by the use of forward-looking words or phrases such as "anticipate," "believe," "would," "expect," "intend," "may," "planned," "potential," "will," and "could," or the negative of these terms or words of similar meaning. These statements include expected future financial results, product offerings, global expansion, liquidity needs, financing ability, planned capital expenditures, management's or the Company's expectations and beliefs, and similar matters discussed in this Form 10-Q. The discussions of such matters and subject areas are qualified by the inherent risks and uncertainties surrounding future expectations generally, and also may materially differ from the Company's actual future experience.

The Company's business, operations and financial performance are subject to certain risks and uncertainties, which could result in material differences in actual results from the Company's current expectations. These risks and uncertainties include, but are not limited to, general economic conditions, in particular relating to the automotive industry, consumer demand for the Company's and its customers' products, competitive and technological developments, customer purchasing actions, foreign currency fluctuations, costs of operations (including fluctuations in the cost of raw materials) and other matters described under "Risk Factors" in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of this Form 10-Q and in the section titled "Risk Factors" in the Company's Form 10-K report filed with the Securities and Exchange Commission for the year ended June 27, 2010.

Shareholders, potential investors and other readers are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. The

forward-looking statements made herein are only made as of the date of this Form 10-Q and the Company undertakes no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances occurring after the date of this Form 10-Q.

Item 1 Financial Statements

STRATTEC SECURITY CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Operations and Comprehensive Income
(In Thousands, Except Per Share Amounts; Unaudited)

| | Three Months Ended | | Six Months Ended | |
|--|-------------------------|-------------------------|----------------------|-------------------------|
| | December 26, 2010 | December 27, 2009 | December 26, 2010 | December 27, 2009 |
| Net sales | \$ 61,212 | \$ 52,540 | \$ 121,061 | \$ 93,721 |
| Cost of goods sold | 51,239 | 44,887 | 100,935 | 79,270 |
| Gross profit | 9,973 | 7,653 | 20,126 | 14,451 |
| Engineering, selling and administrative expenses | 8,318 | 7,455 | 16,483 | 13,654 |
| Recovery of bad debts | - | (201) | - | (421) |
| Impairment charge | - | 223 | - | 223 |
| Environmental reserve adjustment | - | (1,125) | - | (1,125) |
| Income from operations | 1,655 | 1,301 | 3,643 | 2,120 |
| Interest income | 25 | 19 | 48 | 42 |
| Equity earnings of joint ventures | 381 | 383 | 803 | 479 |
| Interest expense – related parties | (45) | (59) | (96) | (115) |
| Other income (expense), net | 57 | (77) | 256 | 311 |
| Income before provision for income taxes | 2,073 | 1,567 | 4,654 | 2,837 |
| Provision for income taxes | 331 | 721 | 1,132 | 1,062 |
| Net income | 1,742 | 846 | 3,522 | 1,775 |
| Net (income) loss attributed to non-controlling interest | (495) | (2) | (857) | 12 |
| Net income attributable to STRATTEC SECURITY CORPORATION | \$ 1,247 | \$ 844 | \$ 2,665 | \$ 1,787 |
| Comprehensive Income: | | | | |
| Net income | \$ 1,742 | \$ 846 | \$ 3,522 | \$ 1,775 |
| Change in cumulative translation adjustments, net | 362 | 601 | 529 | 289 |
| Pension Funded Status Adjustment, net of tax of \$192 | - | 313 | - | 313 |
| Total other comprehensive income | 362 | 914 | 529 | 602 |
| Comprehensive income | 2,104 | 1,760 | 4,051 | 2,377 |
| Comprehensive (income) loss attributed to non-controlling interest | (500) | (4) | (866) | 10 |
| Comprehensive income attributable to STRATTEC SECURITY CORPORATION | \$ 1,604 | \$ 1,756 | \$ 3,185 | \$ 2,387 |
| Earnings Per Share: | | | | |
| Basic | \$ 0.38 | \$ 0.26 | \$ 0.81 | \$ 0.55 |

Edgar Filing: STRATTEC SECURITY CORP - Form 10-Q

| | | | | |
|-----------------------------------|---------|---------|---------|---------|
| Diluted | \$ 0.37 | \$ 0.26 | \$ 0.80 | \$ 0.55 |
| Average Shares Outstanding: | | | | |
| Basic | 3,286 | 3,272 | 3,283 | 3,269 |
| Diluted | 3,329 | 3,272 | 3,314 | 3,271 |
| Cash dividends declared per share | \$ - | \$ - | \$ 1.20 | \$ - |

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

STRATTEC SECURITY CORPORATION AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(In Thousands, Except Share Amounts)

| | December 26, 2010 | June 27, 2010 |
|---|-------------------------|------------------|
| (Unaudited) | | |
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 17,811 | \$ 21,867 |
| Restricted cash | - | 2,100 |
| Receivables, net | 33,397 | 36,084 |
| Inventories- | | |
| Finished products | 6,991 | 3,653 |
| Work in process | 4,832 | 4,260 |
| Purchased materials | 10,592 | 9,173 |
| Total inventories | 22,415 | 17,086 |
| Other current assets | 14,798 | 12,871 |
| Total current assets | 88,421 | 90,008 |
| Deferred income taxes | 10,534 | 10,534 |
| Investment in joint ventures | 6,302 | 5,176 |
| Loan to joint venture | 1,500 | 1,500 |
| Other long-term assets | 684 | 733 |
| Property, plant and equipment | 135,998 | 136,728 |
| Less: accumulated depreciation | (98,459) | (99,677) |
| Net property, plant and equipment | 37,539 | 37,051 |
| | \$ 144,980 | \$ 145,002 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts payable | \$ 23,082 | \$ 21,192 |
| Loans from related parties | 2,250 | 3,000 |
| Accrued Liabilities: | | |
| Payroll and benefits | 13,294 | 15,496 |
| Environmental reserve | 1,483 | 1,497 |
| Other | 5,831 | 5,046 |
| Total current liabilities | 45,940 | 46,231 |
| Accrued pension obligations | 18,901 | 18,492 |
| Accrued postretirement obligations | 3,967 | 4,490 |
| Shareholders' Equity: | | |
| Common stock, authorized 12,000,000 shares, \$.01 par value, issued 6,917,957 shares at December 26, 2010 and 6,909,357 shares at June 27, 2010 | 69 | 69 |
| Capital in excess of par value | 79,661 | 79,339 |
| Retained earnings | 161,385 | 162,706 |
| Accumulated other comprehensive loss | (31,421) | (31,941) |
| Less: treasury stock, at cost (3,632,279 shares at December 26, 2010 and 3,633,402 shares at June 27, 2010) | (136,029) | (136,047) |

Edgar Filing: STRATTEC SECURITY CORP - Form 10-Q

| | | |
|--|------------|------------|
| Total STRATTEC SECURITY CORPORATION shareholders' equity | 73,665 | 74,126 |
| Non-controlling interest | 2,507 | 1,663 |
| Total shareholders' equity | 76,172 | 75,789 |
| | \$ 144,980 | \$ 145,002 |

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

STRATTEC SECURITY CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(In Thousands)
(Unaudited)

| | Six Months Ended | |
|---|----------------------|----------------------|
| | December 26, 2010 | December 27, 2009 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 3,522 | \$ 1,775 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Equity earnings of joint ventures | (803) | (479) |
| Depreciation and amortization | 3,227 | 3,578 |
| Foreign currency transaction gain | 190 | 157 |
| Stock based compensation expense | 298 | 204 |
| Deferred Tax Provision | - | 3,258 |
| Recovery of bad debts | - | (421) |
| Impairment charge | - | 223 |
| Environmental reserve adjustment | - | (1,125) |
| Loss on curtailment of employee benefits | - | 505 |
| Change in operating assets and liabilities: | | |
| Receivables | 2,745 | (8,709) |
| Inventories | (5,329) | 154 |
| Other assets | (1,874) | (28) |
| Accounts payable and accrued liabilities | 261 | 7,043 |
| Other, net | 17 | 22 |
| Net cash provided by operating activities | 2,254 | 6,157 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Investment in joint ventures | (150) | (100) |
| Purchase of additional interest in majority owned subsidiary | (22) | - |
| Restricted cash | 2,100 | (2,100) |
| Loan to joint venture | - | (2,500) |
| Proceeds from repayment of loan to joint venture | - | 1,000 |
| Purchase of property, plant and equipment | (3,482) | (3,104) |
| Proceeds from sale of property, plant and equipment | - | 10 |
| Net cash used in investing activities | (1,554) | (6,794) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Dividends paid | (3,989) | - |
| Exercise of stock options and employee stock purchases | 28 | 22 |
| Repayment of loan from related parties | (750) | - |
| Net cash (used in) provided by financing activities | (4,711) | 22 |
| Foreign currency impact on cash | (45) | (133) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (4,056) | (748) |
| CASH AND CASH EQUIVALENTS | | |
| Beginning of period | 21,867 | 22,764 |
| End of period | \$ 17,811 | 22,016 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Income taxes paid | \$ 1,283 | \$ 307 |

Interest paid – related parties

104

109

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

5

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, ignition lock housings, latches, power sliding door systems, power life gate systems, power deck lid systems, door handles and other access control related products for North American automotive customers. We also supply global automotive manufacturers through the VAST Alliance (“VAST ALLIANCE”) in which we participate with WITTE Automotive of Velbert, Germany and ADAC Automotive of Grand Rapids, Michigan. Our 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.

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”) 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 two wholly owned subsidiaries in China and one joint venture in Brazil. We have only one reporting segment.

In the opinion of management, the accompanying condensed consolidated balance sheet as of June 27, 2010, which has been derived from our audited financial statements, and the related unaudited interim condensed consolidated financial statements contain all adjustments, consisting only of normal recurring items, necessary for their fair presentation in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) 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 2010 Annual Report, which was filed with the Securities and Exchange Commission as an exhibit to our Form 10-K on September 1, 2010.

In January 2010, the Financial Accounting Standard Board (“FASB”) issued guidance that requires reporting entities to make new disclosures about recurring or nonrecurring fair value measurements, including significant transfers into and out of Level 1 and Level 2 fair value measurements and information on purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair value measurements. The guidance is currently effective and the required disclosures are included in our Notes to Condensed Consolidated Financial Statements under Fair Value of Financial Instruments.

VAST LLC Purchase of Non-Controlling Interest of VAST China

Effective November 20, 2009, VAST LLC purchased the remaining 40 percent interest of its two Chinese joint ventures, VAST Fuzhou and VAST Great Shanghai, for \$9.6 million. STRATTEC's share of the purchase price totaled \$3.2 million. VAST LLC now owns 100 percent of VAST Fuzhou and VAST Great Shanghai. Initially, a loan of \$2.5 million was made from STRATTEC to VAST LLC related to STRATTEC's share of this transaction. The outstanding loan balance of \$1.5 million as of December 26, 2010 is reflected as Loan to Joint Venture in the Condensed Consolidated Balance Sheets included as part of this report. A \$2.1 million stand-by letter of credit was issued by VAST LLC, and guaranteed by STRATTEC, related to the remaining amount due on this transaction. The final payment related to this transaction was made on October 28, 2010 resulting in the cancellation of the stand-by letter of credit, and the associated guarantee by STRATTEC. As a result of this purchase, VAST LLC recorded a loss equal to the premium paid on the transaction of approximately \$1.2 million as a reduction of equity in its consolidated financial statements. STRATTEC's share of this loss totaled \$409,000 and is recorded as a reduction of Capital in Excess of Par Value in the accompanying Condensed Consolidated Balance Sheets.

Fair Value of Financial Instruments

The fair value of our cash and cash equivalents, accounts receivable and accounts payable approximate book value as of December 26, 2010 and December 27, 2009. Fair value is defined as the exchange price that would be received for an asset or paid for a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. The following table summarizes our financial assets and liabilities measured at fair value on a recurring basis as of December 26, 2010 (in thousands of dollars):

| | Fair Value Inputs | | |
|--------------------|-------------------|---|------------------------|
| | Quoted Prices | Observable Inputs Other Than Market Prices | Unobservable Inputs |
| | In Active Markets | | |
| Rabbi Trust assets | \$ 4,223 | \$ - | \$ - |

The Rabbi Trust assets fund our supplemental executive retirement plan and are included in Other Current Assets in the accompanying Condensed Consolidated Balance Sheets. Assets held in the Trust include U.S. Treasury Securities and large, medium and small-cap stock index funds. The Rabbi Trust assets are classified as Level 1 assets. There were no transfers between Level 1 and Level 2 assets during the six months ended December 26, 2010.

Environmental Reserve

In 1995, we recorded a provision of \$3 million for estimated costs to remediate a 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 2009. As a result of this analysis, the reserve was reduced by approximately \$1.1 million, to \$1.5 million at December 27, 2009, to reflect the revised monitoring and remediation cost estimate. As of December 26, 2010, costs of approximately \$400,000 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 groundwater monitoring wells that are installed on the property. 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, 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 environmental reserve of \$1.5 million at December 26, 2010, is adequate.

Shareholder's Equity

A summary of activity impacting shareholders' equity for the six month period ended December 26, 2010 is as follows (in thousands):

| | Total | Equity | Equity Attributed to |
|------------------------------------|----------------------|------------------------|--------------------------|
| | Shareholders' Equity | Attributed to STRATTEC | Non-Controlling Interest |
| Balance, June 27, 2010 | \$ 75,789 | \$ 74,126 | \$ 1,663 |
| Net Income | 3,522 | 2,665 | 857 |
| Dividend Declared | (3,986) | (3,986) | - |
| Purchase of Additional Interest in | | | |
| Majority Owned Subsidiary | (22) | - | (22) |
| Translation adjustments | 529 | 520 | 9 |
| Stock Based Compensation | 298 | 298 | - |
| Tax Benefit – Dividend Paid on | | | |
| Restricted Shares | 14 | 14 | - |
| Employee Stock Purchases | 28 | 28 | - |
| Balance, December 26, 2010 | \$ 76,172 | \$ 73,665 | \$ 2,507 |

Other Income, net

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

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|-------------------|-------------------|-------------------|
| | December 26, 2010 | December 27, 2009 | December 26, 2010 | December 27, 2009 |
| Foreign Currency Transaction (Loss) Gain | \$(160) | \$(222) | \$(190) | \$(157) |
| Rabbi Trust Gain (Loss) | 134 | 93 | 258 | 376 |
| Other | 83 | 52 | 188 | 92 |
| | \$57 | \$(77) | \$256 | \$311 |

Income Taxes

The income tax provisions for the three and six month periods ended December 26, 2010 and December 27, 2009 are impacted by a lower effective tax rate for income subject to tax in Mexico as compared to the effective tax rate for income subject to tax in the U.S. In addition, on December 17, 2010, legislation was enacted that retroactively extended the U.S. research tax credit, which had expired as of December 31, 2009. As a result of this extension, a tax benefit of \$85,000 was recognized in the quarter ended December 26, 2010.

Earnings Per Share (EPS)

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

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

| | Three Months Ended December 26, 2010 | | | December 27, 2009 | | |
|---------------------------------------|--|-------------------------------|---------------------|--|-------------------------------|---------------------|
| | Net Income Attributable to STRATTEC | Weighted Average Shares | Per-Share Amount | Net Income Attributable to STRATTEC | Weighted Average Shares | Per-Share Amount |
| Basic Earnings Per Share | \$ 1,247 | 3,286 | \$ 0.38 | \$ 844 | 3,272 | \$ 0.26 |
| S t o c k - B a s e d Compensation | | 43 | | | - | |
| Diluted Earnings Per Share | \$ 1,247 | 3,329 | \$ 0.37 | \$ 844 | 3,272 | \$ 0.26 |

| | Six Months Ended December 26, 2010 | | | December 27, 2009 | | |
|-------------------------------|--|-------------------------------|---------------------|--|-------------------------------|---------------------|
| | Net Income Attributable to STRATTEC | Weighted Average Shares | Per-Share Amount | Net Income Attributable to STRATTEC | Weighted Average Shares | Per-Share Amount |
| Basic Earnings Per Share | \$ 2,665 | 3,283 | \$ 0.81 | \$ 1,787 | 3,269 | \$ 0.55 |
| Stock - Based Compensation | | 31 | | | 2 | |
| Diluted Earnings Per Share | \$ 2,665 | 3,314 | \$ 0.80 | \$ 1,787 | 3,271 | \$ 0.55 |

Net earnings available to participating securities were not significant for the three and six months ended December 26, 2010 and December 27, 2009. We consider restricted stock that provides the holder with a non-forfeitable right to receive dividends to be a participating security.

As of December 26, 2010, options to purchase 131,100 shares of common stock at a weighted-average exercise price of \$45.77 were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive. As of December 27, 2009, options to purchase 290,840 shares of common stock at a weighted-average exercise price of \$33.70 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. The Board of Directors has designated 1,700,000 shares of common stock available for the grant of awards under the plan. Remaining shares available to be granted under the plan as of December 26, 2010 were 227,443. 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 and dividend rights, regardless if the shares are vested or unvested. 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.

Edgar Filing: STRATTEC SECURITY CORP - Form 10-Q

A summary of stock option activity under the plan for the six months ended December 26, 2010 is as follows:

| | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (years) | Aggregate Intrinsic Value (in thousands) |
|--------------------------------|----------|---------------------------------------|---|---|
| Outstanding, June 27, 2010 | 297,650 | \$ 33.01 | | |
| Granted | 40,000 | \$ 22.47 | | |
| Exercised | - | - | | |
| Expired | (36,550) | \$ 61.22 | | |
| Forfeited | - | - | | |
| Outstanding, December 26, 2010 | 301,100 | \$ 28.18 | 6.3 | \$ 2,799 |
| Exercisable, December 26, 2010 | 133,800 | \$ 42.88 | 4.7 | \$ 732 |

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

| | Three Months Ended | | Six Months Ended | |
|--------------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | December 26, 2010 | December 27, 2009 | December 26, 2010 | December 27, 2009 |
| Intrinsic Value of Options Exercised | \$- | \$- | \$- | \$- |
| Fair Value of Stock Options Vesting | \$168 | \$18 | \$168 | \$18 |

The grant date fair value and assumptions used to determine compensation expense for the options granted during the six months ended December 26, 2010 were as follows:

Weighted Average Grant Date Fair Value:

| | |
|--|--------|
| Options Issued at Grant Date Market Value | n/a |
| Options Issued Above Grant Date Market Value | \$7.48 |

Assumptions:

| | | |
|--------------------------|-------|---|
| Risk Free Interest Rate | 1.08 | % |
| Expected Volatility | 59.89 | % |
| Expected Dividend Yield | 1.54 | % |
| Expected Term (in years) | 4.0 | |

A summary of restricted stock activity under the stock incentive plan for the six months ended December 26, 2010 is as follows:

| | Shares | Weighted Average Grant Date Fair Value |
|--------------------------------------|---------|--|
| Nonvested Balance, June 27, 2010 | 27,500 | \$ 29.90 |
| Granted | 20,000 | \$ 20.66 |
| Vested | (8,600) | \$ 47.78 |
| Forfeited | - | \$ - |
| Nonvested Balance, December 26, 2010 | 38,900 | \$ 21.19 |

As of December 26, 2010, there was \$937,000 of total unrecognized compensation cost related to stock options granted under the stock incentive plan. This cost is expected to be recognized over a weighted average period of 1.4 years. As of December 26, 2010, there was approximately \$467,000 of total unrecognized compensation cost related to restricted stock grants under the plan. This cost is expected to be recognized over a weighted average period of 1.1 years. Total unrecognized compensation cost will be adjusted for any future changes in estimated and actual forfeitures of awards granted under the plan.

Pension and Other Postretirement Benefits

We have a qualified, noncontributory defined benefit 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 January 1, 2010, an amendment to the qualified defined benefit pension plan discontinued the benefit accruals for salary increases and credited service rendered after December 31, 2009. As a result of this action, a curtailment loss related to unrecognized prior service cost of \$505,000 was recorded during the second quarter of fiscal 2010.

We have a noncontributory supplemental executive retirement plan (“SERP”), which is a nonqualified defined benefit plan. The SERP will pay supplemental pension benefits to certain key employees upon retirement based upon the employees’ years of service and compensation. The SERP is being funded through a Rabbi trust with M&I Trust Company. 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 coverage period based on the associate’s retirement date and age. The postretirement health care plan is unfunded.

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

| | Pension Benefits | | Postretirement Benefits | |
|---------------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | Three Months Ended | | Three Months Ended | |
| | December 26, 2010 | December 27, 2009 | December 26, 2010 | December 27, 2009 |
| Service cost | \$ 17 | \$ 471 | \$ 3 | \$ 31 |
| Interest cost | 1,151 | 1,285 | 68 | 175 |
| Expected return on plan assets | (1,581) | (1,587) | - | - |
| Curtailment Loss | - | 505 | - | - |
| Amortization of prior service cost | 3 | 19 | (188) | (97) |
| Amortization of unrecognized net loss | 614 | 201 | 158 | 171 |
| Net periodic benefit cost | \$ 204 | \$ 894 | \$ 41 | \$ 280 |

| | Pension Benefits | | Postretirement Benefits | |
|---------------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | Six Months Ended | | Six Months Ended | |
| | December 26, 2010 | December 27, 2009 | December 26, 2010 | December 27, 2009 |
| Service cost | \$ 34 | \$ 941 | \$ 5 | \$ 62 |
| Interest cost | 2,302 | 2,570 | 135 | 350 |
| Expected return on plan assets | (3,162) | (3,175) | - | - |
| Curtailment Loss | - | 505 | - | - |
| Amortization of prior service cost | 6 | 39 | (375) | (194) |
| Amortization of unrecognized net loss | 1,228 | 402 | 316 | 342 |
| Net periodic benefit cost | \$ 408 | \$ 1,282 | \$ 81 | \$ 560 |

No contributions were made to the qualified pension plan during the six month period ending December 26, 2010. Voluntary contributions made to the qualified pension plan totaled \$2.0 million during the six month period ending December 27, 2009. Voluntary contributions made to date during the third quarter of fiscal 2011 totaled \$1.5

million. Additional voluntary contributions of \$500,000 are anticipated to be made during the remainder of the third quarter and the fourth quarter of fiscal 2011.

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 2010 Annual Report which was filed with the Securities and Exchange Commission as an exhibit to our Form 10-K on September 1, 2010. Unless otherwise indicated, all references to years refer to fiscal years.

Analysis of Results of Operations

Three months ended December 26, 2010 compared to the three months ended December 27, 2009

Net sales for the three months ended December 26, 2010 were \$61.2 million compared to net sales of \$52.5 million for the three months ended December 27, 2009. Sales to our largest customers overall increased in the current quarter compared to the prior year quarter levels due to higher customer vehicle production volumes. Sales to Chrysler Group LLC were \$17.6 million in the current quarter compared to \$16.5 million in the prior year quarter. Sales to General Motors Company were \$16.3 million in the current quarter compared to \$12.3 million in the prior year quarter. Included in the current quarter sales to General Motors were \$1.3 million of sales to Nexteer Automotive, formerly a unit of Delphi Corporation, which was owned by General Motors through December 2, 2010. Sales to Ford Motor Company increased to \$6.1 million in the current quarter compared to \$5.2 million in the prior year quarter. Sales to Hyundai/Kia were \$3.4 million in the current quarter compared to \$4.3 million in the prior year quarter.

Gross profit as a percentage of net sales was 16.3 percent in the current quarter compared to 14.6 percent in the prior year quarter. The higher gross profit margin in the current year quarter was primarily the result of favorable customer vehicle production volumes which resulted in more favorable absorption of fixed manufacturing costs, offset by an unfavorable Mexico 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 decreased to approximately 12.45 pesos to the dollar in the current quarter from approximately 13.15 pesos to the dollar in the prior year quarter. This resulted in increased U.S. dollar costs related to our Mexican operations of approximately \$445,000 in the current year quarter compared to the prior year quarter. The prior year quarter included a significant amount of premium freight costs and overtime incurred during the months of October and November 2009 to meet significantly increased production requirements from the Company's largest customers as they rebuilt retail inventories following the U.S. Government's "Cash for Clunkers" program that ended in August 2009. These negative factors reduced the prior quarter gross profit margin by approximately 3 percentage points. Also impacting the prior year quarter gross profit margin was a curtailment loss related to the qualified defined benefit pension plan. An amendment to this plan, which was effective January 1, 2010, discontinued the benefit accruals for salary increases and credited service rendered after December 31, 2009. A curtailment loss related to unrecognized prior service cost of \$505,000 was recorded in our Condensed Consolidated Statement of Operations, of which approximately \$375,000 increased cost of goods sold and approximately \$130,000 increased engineering, selling and administrative expenses.

Engineering, selling and administrative expenses were \$8.3 million in the current quarter compared to \$7.5 million in the prior year quarter. The increase in operating expenses during the current quarter was primarily attributed to higher spending for new product development. Additionally, expenses in the prior year period were lower due to temporary actions implemented with respect to the U.S. salaried work force to help conserve cash during the recession. These actions included reductions in wages and the Company 401(k) match. Also, as discussed above, included in the prior

year quarter costs was a curtailment loss of \$130,000.

An annual goodwill impairment analysis was completed during the quarter ended December 27, 2009 related to the goodwill recorded as part of the acquisition of STRATTEC POWER ACCESS (SPA) in November 2008. A \$223,000 impairment charge to write off the goodwill balance was recorded as a result of the analysis.

In 1995, we recorded a provision of \$3 million for estimated costs to remediate a 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 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 the quarter ended December 27, 2009. The reserve was reduced by approximately \$1.1 million to reflect the revised monitoring and remediation cost estimate.

The prior year quarter results included a \$201,000 recovery of allowance for doubtful accounts. In our third quarter ended March 29, 2009, we recorded a \$500,000 provision for doubtful accounts in connection with Chrysler LLC's filing for Chapter 11 bankruptcy protection for certain of their U.S. legal entities on April 30, 2009. As of September 27, 2009, all uncollectible receivable balances related to the bankruptcy were written off against the \$500,000 reserve. However, as a result of payments received from Chrysler related to receivable balances that were written off, \$201,000 was recorded as a recovery of allowance for doubtful accounts during the quarter ended December 27, 2009.

The income from operations in the current quarter was \$1.7 million compared to \$1.3 million in the prior year quarter. This change was primarily the result of the increase in sales and gross profit margin as discussed above.

Net other income was \$57,000 in the current quarter compared to a net loss of \$77,000 in the prior year quarter. This increase was primarily due to increased Rabbi Trust gains in the current quarter as compared to the prior year quarter and a reduction in transaction losses resulting from foreign currency transactions entered into by our Mexican subsidiaries in the current quarter compared to the prior year quarter. The Rabbi Trust funds our supplemental executive retirement plan. Gains related to the Rabbi Trust totaled \$134,000 in the current quarter compared to \$93,000 in the prior year quarter. The investments held in the Trust are considered trading securities. Foreign currency transaction losses totaled \$160,000 in the current quarter compared to \$222,000 in the prior year quarter.

The income tax provision for the three month periods ended December 26, 2010 and December 27, 2009 was impacted by a lower effective tax rate for income subject to tax in Mexico as compared to the effective tax rate for income subject to tax in the U.S. In addition, on December 17, 2010, legislation was enacted that retroactively extended the U.S. research tax credit, which had expired as of December 31, 2009. As a result of this extension, a tax benefit of \$85,000 was recognized in the quarter ended December 26, 2010.

Six months ended December 26, 2010 compared to the six months ended December 27, 2009

Net sales for the six months ended December 26, 2010 were \$121.1 million compared to net sales of \$93.7 million for the six months ended December 27, 2009. Sales to our largest customers overall increased in the current period compared to the prior year period levels due to higher customer vehicle production volumes. Sales to Chrysler Group LLC were \$37.2 million in the current period compared to \$29.3 million in the prior year period. Sales to General Motors Company were \$31.1 million in the current period compared to \$22.2 million in the prior year period. Included in the current period sales to General Motors were \$3.0 million of sales to Nexteer Automotive, formerly a unit of Delphi Corporation, which was owned by General Motors through December 2, 2010. Sales to Ford Motor Company increased to \$11.6 million in the current period compared to \$8.8 million in the prior year period. Sales to Hyundai/Kia were \$7.7 million in the current period compared to \$7.3 million in the prior year period.

Gross profit as a percentage of net sales was 16.6 percent in the current period compared to 15.4 percent in the prior year period. The higher gross profit margin in the current year period was primarily the result of favorable customer vehicle production volumes which resulted in more favorable absorption of fixed manufacturing costs and reduced premium freight and overtime costs as compared to the prior year period, offset by an unfavorable Mexico Peso to

U.S. dollar exchange rate affecting the U.S. dollar cost of our Mexican operations and increased expense provisions of approximately \$460,000 for the accrual of bonuses under our Economic Value Added (EVA®) Incentive Bonus Plans. The increased expense for the accrual of bonuses affected both cost of goods sold and operating expenses. The average U.S. dollar/Mexican peso exchange rate decreased to approximately 12.60 pesos to the dollar in the current period from approximately 13.20 pesos to the dollar in the prior year period. This resulted in increased U.S. dollar costs related to our Mexican operations of approximately \$755,000 in the current period compared to the prior year period.

The prior year period included a significant amount of premium freight costs and overtime incurred during the months of September, October and November 2009 to meet significantly increased production requirements from the Company's largest customers as they rebuilt retail inventories following the U.S. Government's "Cash for Clunkers" program that ended in August 2009. These negative factors reduced the prior period gross profit margin by approximately 3 percentage points. Also impacting the prior year period gross profit margin was a curtailment loss related to the qualified defined benefit pension plan. An amendment to this plan, which was effective January 1, 2010, discontinued the benefit accruals for salary increases and credited service rendered after December 31, 2009. A curtailment loss related to unrecognized prior service cost of \$505,000 was recorded in our Condensed Consolidated Statement of Operations, of which approximately \$375,000 increased cost of goods sold and approximately \$130,000 increased engineering, selling and administrative expenses.

Also impacting the current period results were lower purchased raw material costs for zinc partially offset by higher purchased raw material costs for brass. The average zinc price paid per pound decreased to \$0.99 in the current period from \$1.13 in the prior year period. During the current period, we used approximately 5 million pounds of zinc. This resulted in decreased zinc costs of approximately \$700,000 in the current period compared to the prior year period. The average brass price paid per pound increased to \$3.76 in the current period from \$3.12 in the prior year period. During the current period, we used approximately 520,000 pounds of brass. This resulted in increased brass costs of approximately \$330,000 in the current period compared to the prior year period.

Engineering, selling and administrative expenses were \$16.5 million in the current period compared to \$13.7 million in the prior year period. The increase in operating expenses during the current period was primarily attributed to higher spending for new product development and increased incentive bonus expense provisions of approximately \$420,000. Additionally, expenses in the prior year period were lower due to temporary actions implemented with respect to the U.S. salaried work force to help conserve cash during the recession. These actions included reductions in wages and the Company 401(k) match, as well as cost savings related to several unpaid work furlough days. Also, as discussed above, included in the prior year period costs was a curtailment loss of \$130,000.

An annual goodwill impairment analysis was completed during the quarter ended December 27, 2009 related to the goodwill recorded as part of the acquisition of SPA in November 2008. A \$223,000 impairment charge to write off the goodwill balance was recorded as a result of the analysis.

In 1995, we recorded a provision of \$3 million for estimated costs to remediate a 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 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 the quarter ended December 27, 2009. The reserve was reduced by approximately \$1.1 million to reflect the revised monitoring and remediation cost estimate.

The prior year period results included a \$421,000 recovery of allowance for doubtful accounts. In our third quarter ended March 29, 2009, we recorded a \$500,000 provision for doubtful accounts in connection with Chrysler LLC's filing for Chapter 11 bankruptcy protection for certain of their U.S. legal entities on April 30, 2009. As of September 27, 2009, all uncollectible amounts related to the bankruptcy filings were written off against the reserve and the recovery of \$220,000 was recognized. In addition, as a result of payments received from Chrysler related to receivable balances that were written off, \$201,000 was recorded as a recovery of allowance for doubtful accounts during the quarter ended December 27, 2009.

The income from operations in the current period was \$3.6 million compared to \$2.1 million in the prior year period. This change was primarily the result of the increase in sales and gross profit margin as discussed above.

Equity earnings of joint ventures increased to \$803,000 during the current period compared to \$479,000 in the prior year period. This improvement was primarily the result of favorable economic conditions in China and a year over year increase in our ownership percentage resulting from the November 2009 purchase by VAST LLC of the non-controlling interest of its two Chinese joint ventures, VAST Fuzhou and VAST Great Shanghai.

Net other income was \$256,000 in the current period compared to \$311,000 in the prior year period. This decrease was primarily due to decreased Rabbi Trust gains in the current period as compared to the prior year period and an increase in transaction losses resulting from foreign currency transactions entered into by our Mexican subsidiaries in the current period compared to the prior year period. The Rabbi Trust funds our supplemental executive retirement plan. Gains related to the Rabbi Trust totaled \$258,000 in the current period compared to \$376,000 in the prior year period. The investments held in the Trust are considered trading securities. Foreign currency transaction losses totaled \$190,000 in the current period compared to \$157,000 in the prior year period.

The income tax provision (benefit) for the six month periods ended December 26, 2010 and December 27, 2009 was impacted by a lower effective tax rate for income subject to tax in Mexico as compared to the effective tax rate for income subject to tax in the U.S. In addition, on December 17, 2010, legislation was enacted that retroactively extended the U.S. research tax credit, which had expired as of December 31, 2009. As a result of this extension, a tax benefit of \$85,000 was recognized in the quarter ended December 26, 2010.

Liquidity and Capital Resources

Our primary source of cash flow is from our major customers, which include General Motors Company, Ford Motor Company, and Chrysler Group LLC. As of the date of filing this Form 10-Q with the Securities and Exchange Commission, all of our 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 26, 2010 is as follows (in thousands of dollars):

| | |
|----------------|---------|
| General Motors | \$8,513 |
| Ford | 3,151 |
| Chrysler | 9,308 |

Cash flow provided by operating activities was \$2.3 million during the six months ended December 26, 2010 compared to cash provided by operating activities of \$6.2 million during the six months ended December 27, 2009. Current period operating cash flow was impacted by a reduction in accrued payroll and benefit balances resulting from the August 2010 payment of approximately \$5 million in bonuses, which were earned during fiscal 2010 under our incentive bonus plans. There were no bonus payments made in the prior year period. No pension contributions were made to our qualified plan during the current period. Pension contributions totaled \$2 million during the prior year period.

Capital expenditures during the current year period totaled \$3.4 million compared to \$3.1 million in the prior year period. We anticipate that capital expenditures will be approximately \$6 million in fiscal 2011, primarily relating to expenditures in support of requirements for new product programs and the upgrade and replacement of existing equipment.

As a result of VAST LLC's purchase of the remaining non-controlling interest of its two Chinese joint ventures in November 2009, a loan of \$2.5 million was made from STRATTEC to VAST LLC during the prior year period related to STRATTEC's share of the purchase price due under this transaction. A repayment of \$1 million of the loan balance was received during the prior year period. In addition, a \$2.1 million stand-by letter of credit was issued by VAST LLC, and guaranteed by STRATTEC, related to the remaining amount due on this transaction. This resulted in \$2.1 million of cash being restricted during the prior year period. The final payment related to this transaction was made by VAST LLC on October 28, 2010 resulting in the cancellation of the stand-by letter of credit, and the associated guarantee by STRATTEC. This resulted in the \$2.1 million of previously restricted cash becoming available for operations during the current period.

On February 26, 2009, our Board of Directors took action to suspend payment of our quarterly dividend to conserve cash. On August 4, 2010, our Board of Directors declared a special one-time cash dividend of \$1.20 per common share payable on October 29, 2010 to shareholders of record on October 8, 2010. The special dividend totaled approximately \$4.0 million and was funded with current cash balances. Although we believe the outlook for our business is generally positive, the uncertain strength of economic recovery in North America, and the effect that this and the continued restructuring of our two largest customers may have on STRATTEC have resulted in both management and our Board being cautious about reinstating a regular dividend at this time. However, our Board intends to continue to review the situation on a regular basis in determining whether or not to reinstate a regular dividend.

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 26, 2010. A total of 3,655,322 shares have been repurchased as of December 26, 2010, at a cost of approximately \$136.4 million. No shares were repurchased during the three or six months ended December 26, 2010. 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 minimal or no stock repurchase activity in fiscal year 2011.

We have a \$20.0 million unsecured line of credit (the "Line of Credit") with M&I Marshall & Ilsley Bank, which expires October 30, 2011. There were no outstanding borrowings under the Line of Credit at December 26, 2010 or December 27, 2009. Interest on borrowings under our line of credit is at varying rates based on the London Interbank Offering Rate. We believe that the Line of Credit is adequate, along with existing cash balances and cash flow from operations, to meet our anticipated capital expenditure, working capital and operating expenditure requirements. The Line of Credit is not subject to any covenants.

Over the past several years, we have been impacted by rising health care costs, which have increased our cost of employee medical coverage. A portion of these increases have been offset by plan design changes and employee 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 adjustments clauses with certain, but not all, of our customers to offset some of the market price fluctuations. Effective January 2011, we entered into Mexican peso forward contracts to hedge foreign currency fluctuations for a portion of our Mexican peso denominated expenses. However, unexpected future expenses could occur and Exchange rate fluctuations between the U.S. dollar and the Mexican peso could have an adverse effect on our financial results.

Joint Ventures

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 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 provides 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, a joint venture between VAST LLC and Ifer do Brasil Ltda., was formed to service customers in South America. VAST Fuzhou and VAST Great Shanghai (collectively known as VAST China), began as joint ventures between VAST LLC and Taiwanese partners to provide a base of operations to service our automotive customers in the Asian market. Effective November 20, 2009, VAST LLC purchased the remaining 40 percent interest of these two Chinese joint ventures, which was held by our former Taiwanese partners, for \$9.6 million. VAST LLC now owns 100 percent of the Chinese joint ventures. 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 \$803,000 during the six months ended December 26, 2010 and approximately \$479,000 during the six months ended December 27, 2009. During the six months ended December 26, 2010, capital contributions totaling \$450,000 were made to VAST LLC in support of general operating expenses. STRATTEC's portion of the capital contributions totaled \$140,000. During the six months ended December 27, 2009, capital contributions totaling \$300,000 were made to VAST LLC in support of general operating expenses. STRATTEC's portion of the capital contributions totaled \$100,000.

In fiscal year 2007, we entered into a joint venture with ADAC and formed ADAC-STRATTEC LLC, a Delaware limited liability company. The joint venture was created to establish injection molding and door handle assembly operations in Mexico. STRATTEC originally held a 50.1 percent interest in ADAC-STRATTEC LLC. Effective June 28, 2010, STRATTEC purchased an additional .9 percent interest from ADAC and now owns 51 percent. In addition, 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 \$273,000 during the six months ended December 26, 2010 and approximately \$49,000 during the six months ended December 27, 2009.

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 operates the North American portion of the Power Products business which was 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 \$1.1 million during the six months ended December 26, 2010 and decreased net income to STRATTEC of approximately \$325,000 for the six months ended December 27, 2009.

Other Matters

Health care reform legislation was recently enacted by the Federal government. We are currently evaluating the legislation to determine its effects on our plan structure, future operating results and financial position.

Recently Issued Accounting Standards

In January 2010, the Financial Accounting Standard Board ("FASB") issued guidance that requires reporting entities to make new disclosures about recurring or nonrecurring fair value measurements, including significant transfers into and out of Level 1 and Level 2 fair value measurements and information on purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair value measurements. The guidance is currently effective and the required disclosures are included in our Notes to Condensed Consolidated Financial Statements under Fair Value of Financial Instruments.

Critical Accounting Policies

The Company believes the following represents its critical accounting policies:

Pension and Postretirement Health Benefits – Pension and postretirement health obligations and costs are developed from actuarial valuations. The determination of the obligation and expense for pension and postretirement health benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in the Notes to Financial Statements in our 2010 Annual Report and include, among others, the discount rate, expected long-term rate of return on plan assets, retirement age and rates of increase in compensation and health care costs. We evaluate and update all of the assumptions annually on June 30, the measurement date. Actual results that differ from these assumptions are deferred and, under certain circumstances, amortized over future periods. While we believe that the assumptions used are appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect our pension and postretirement health obligations and future expense related to these obligations. Refer to the discussion of Critical Accounting Policies included in the Management's Discussion and Analysis and Retirement Plans and Postretirement Costs included in the Notes to Financial Statements in our 2010 Annual Report filed with the Securities and Exchange Commission as an exhibit to our Form 10-K on September 1, 2010.

Other Reserves – We have reserves such as an environmental reserve, a warranty reserve, an incurred but not reported claim reserve for self-insured health plans, a workers' compensation reserve, an allowance for doubtful accounts related to trade accounts receivable and a repair and maintenance supply parts reserve. These reserves require the use of estimates and judgment with regard to risk exposure, ultimate liability and net realizable value.

Environmental Reserve – We have a liability recorded related to the estimated costs to remediate a site at our Milwaukee facility, which was contaminated by a solvent spill from a former above ground solvent storage tank occurring in 1985. The recorded environmental liability balance involves judgment and estimates. Our reserve estimate is based on a third party assessment of the costs to adequately cover the cost of active remediation of the contamination at this site. Actual costs might vary from this estimate for a variety of reasons including changes in laws and changes in the assessment of the level of remediation actually required at this site. Therefore, future changes in laws or the assessment of the level of remediation required could result in changes in our estimate of the required liability. Refer to the discussion of Commitments and Contingencies included in the Notes to Financial Statements in our 2010 Annual Report filed with the Securities and Exchange Commission as an exhibit to our Form 10-K on September 1, 2010.

Warranty Reserve – We have a warranty liability recorded related to our exposure to warranty claims in the event our products fail to perform as expected, and we may be required to participate in the repair costs incurred by our customers for such products. The recorded warranty liability balance involves judgment and estimates. Our liability estimate is based on an analysis of historical warranty data as well as current trends and information, including our customers' recent extension of their warranty programs. Actual warranty costs might vary from estimates due to the level of actual claims varying from our claims experience and estimates. Therefore, future actual claims experience could result in changes in our estimates of the required liability. Refer to the discussion of Warranty Reserve under Organization and Summary of Significant Accounting Policies included in the Notes to Financial Statements in our 2010 Annual Report filed with the Securities and Exchange Commission as an exhibit to our Form 10-K on September 1, 2010.

Incurred But Not Reported Claim Reserve for Self-Insured Health Plans and Workers' Compensation Reserve – We have self-insured medical and dental plans covering all eligible U.S. associates. We also maintain an insured workers' compensation program covering all U.S. associates. The insurance is renewed annually and may be covered under a loss sensitive plan. Under a loss sensitive plan, the ultimate cost is dependent upon losses incurred during the policy period. The incurred loss amount for loss sensitive policies will continue to change as claims develop and are settled in future periods. The expected ultimate cost of claims incurred under these plans is subject to judgment and estimation. We estimate the ultimate expected cost of claims incurred under these plans based upon the aggregate liability for reported claims and an estimated additional liability for claims incurred but not reported. Our estimate of claims incurred but not reported is based on an analysis of historical data, current trends related to claims and health care costs and information available from the insurance carrier. Actual ultimate costs may vary from estimates due to variations in actual claims experience from past trends and large unexpected claims being filed. Therefore, changes in claims experience and large unexpected claims could result in changes to our estimate of the claims incurred but not reported liabilities. Refer to the discussion of Self Insurance and Loss Sensitive Plans under Organization and Summary of Significant Accounting Policies included in Notes to Financial Statements in our 2010 Annual Report filed with the Securities and Exchange Commission as an exhibit to our Form 10-K on September 1, 2010.

Allowance for Doubtful Accounts Related to Trade Accounts Receivable – Our trade accounts receivable consist primarily of receivables due from Original Equipment Manufacturers in the automotive industry and locksmith distributors relating to our service and aftermarket business. Our evaluation of the collectibility of our trade accounts receivable involves judgment and estimates and includes a review of past due items, general economic conditions and the economic climate of the industry as a whole. The estimate of the required reserve involves uncertainty as to future collectibility of receivable balances. This uncertainty is magnified by the financial difficulty currently experienced by our customers as discussed under Risk-Factors-Loss of Significant Customers, Vehicle Content, Vehicle Models and Market Share included in the Management's Discussion and Analysis in our 2010 Annual Report filed with the Securities and Exchange Commission as an exhibit to our Form 10-K on September 1, 2010. Also, refer to the discussion of Receivables under Organization and Summary of Significant Accounting Policies included in Notes to Financial Statements in our 2010 Annual Report filed with the Securities and Exchange Commission as an exhibit to

our Form 10-K on September 1, 2010.

Repair and Maintenance Supply Parts Reserve – We maintain an inventory of repair and maintenance parts in support of operations. The inventory includes critical repair parts for all production equipment as well as general maintenance items. The inventory of critical repair parts is required to avoid disruptions in our customers’ just-in-time production schedules due to lack of spare parts when equipment break-downs occur. Depending on maintenance requirements during the life of the equipment, excess quantities of repair parts arise. A repair and maintenance supply parts reserve is maintained to recognize the normal adjustment of inventory for obsolete and slow-moving repair and maintenance supply parts. Our evaluation of the reserve level involves judgment and estimates, which are based on a review of historical obsolescence and current inventory levels. Actual obsolescence may differ from estimates due to actual maintenance requirements differing from historical levels. This could result in changes to our estimated required reserve. Refer to the discussion of Repair and Maintenance Supply Parts under Organization and Summary of Significant Accounting Policies included in the Notes to Financial Statements in our 2010 Annual Report filed with the Securities and Exchange Commission as an exhibit to our Form 10-K on September 1, 2010.

We believe the reserves discussed above are estimated using consistent and appropriate methods. However, changes to the assumptions could materially affect the recorded reserves.

Stock-Based Compensation – Stock-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the vesting period. Determining the fair value of stock-based awards at the grant date requires judgment, including estimating future volatility of our stock, the amount of stock-based awards that are expected to be forfeited and the expected term of awards granted. We estimate the fair value of stock options granted using the Black-Scholes option valuation model. We amortize the fair value of all awards on a straight-line basis over the vesting periods. The expected term of awards granted represents the period of time they are expected to be outstanding. We determine the expected term based on historical experience with similar awards, giving consideration to the contractual terms and vesting schedules. We estimate the expected volatility of our common stock at the date of grant based on the historical volatility of our common stock. The volatility factor used in the Black-Scholes option valuation model is based on our historical stock prices over the most recent period commensurate with the estimated expected term of the award. We base the risk-free interest rate used in the Black-Scholes option valuation model on the implied yield currently available on U.S. Treasury zero-coupon issues with a remaining term commensurate with the expected term of the award. We use historical data to estimate pre-vesting option forfeitures. We record stock-based compensation only for those awards that are expected to vest. If actual results differ significantly from these estimates, stock-based compensation expense and our results of operations could be materially impacted.

Risk Factors

We recognize we are subject to the following risk factors based on our operations and the nature of the automotive industry in which we operate:

Loss of Significant Customers, Vehicle Content, Vehicle Models and Market Share – Sales to General Motors Company, Ford Motor Company and Chrysler Group LLC represented approximately 67 percent of our annual net sales (based on fiscal 2010 results) and, accordingly, these customers account for a significant percentage of our outstanding accounts receivable. The contracts with these customers provide for supplying the customer’s requirements for a particular model. The contracts do not specify a specific quantity of parts. The contracts typically cover the life of a model, which averages approximately four to five years. Components for certain customer models may also be “market tested” annually. Therefore, the loss of any one of these customers, the loss of a contract for a specific vehicle model, reduction in vehicle content, early cancellation of a specific vehicle model, technological changes or a significant reduction in demand for certain key models could occur, and if so, could have a material adverse effect on our existing and future revenues and net income.

On April 27, 2009, General Motors announced certain aspects of its Revised Viability Plan including reduced production volumes for calendar year 2009 and the subsequent five years. The announcement indicated that certain vehicle brands, including Pontiac, Saturn, Hummer and Saab, will be discontinued or sold. In addition, subsequent to Chrysler LLC's filing for Chapter 11 bankruptcy protection on April, 30 2009, they announced certain vehicle models planned for discontinuation (Jeep Commander, Jeep Compass, Jeep Patriot, Dodge Nitro, Dodge Avenger, Dodge Caliber, Dodge Durango, Dodge Dakota, Dodge Viper, Chrysler Sebring, Chrysler Aspen etc.). Subsequently, certain of the models have been reaffirmed for continued production over the next two years. We continue to evaluate the impact these evolving plans have on our business as more details become available.

Our major customers also have significant under-funded legacy liabilities related to pension and postretirement health care obligations. The future impact of these items along with a continuing loss in their North American automotive market share to the “New Domestic” automotive manufacturers (primarily the Japanese automotive manufacturers) and/or a significant decline in the overall market demand for new vehicles may ultimately result in severe financial difficulty for these customers, including bankruptcy. If our major customers cannot fund their operations, we may incur significant write-offs of accounts receivable, incur impairment charges or require additional restructuring actions. For example, on October 8, 2005, Delphi Corporation filed for Chapter 11 bankruptcy protection. As a result, we wrote-off \$1.6 million of uncollectible accounts receivable due from Delphi Corporation. This directly reduced our pre-tax net income during fiscal 2006. On April 30, 2009, Chrysler LLC filed for Chapter 11 bankruptcy protection for certain of their U.S. legal entities. During fiscal 2009, we recorded a provision for bad debts of \$500,000 related to this filing, of which we subsequently recovered \$421,000 of the \$500,000 provision during fiscal 2010. This directly reduced our pre-tax net income during 2009 by \$500,000 and increased our pre-tax income during 2010 by \$421,000.

Production Slowdowns by Customers – Our major customers and many of their suppliers have been significantly impacted by the recession of 2008/2009. Many of our major customers instituted production cuts during fiscal 2009 and fiscal 2010. Moreover, certain of our major customers have announced plans to continue these production cuts into future fiscal years. For example, during April 2009, General Motors Corporation announced assembly plant downtime for the months of May through July in order to reduce excess inventories at their dealer locations. Consequently, this downtime reduced our production schedules and affected both our sales and profitability for our fiscal fourth quarter ending June 28, 2009 and our fiscal 2010 first quarter ending September 27, 2009. Additionally, on April 27, 2009, General Motors announced some aspects of its Revised Viability Plan including reduced production volumes for the remainder of calendar 2009 and the subsequent five calendar years. The continuation of these production cuts could have a material adverse effect on our existing and future revenues and net income.

Financial Distress of Automotive Supply Base – Automotive industry conditions have adversely affected STRATTEC and our supply base. Lower production levels at our major customers, volatility in certain raw material and energy costs and the global credit market crisis resulted in severe financial distress among many companies within the automotive supply base. During calendar years 2009 and 2010, several automotive suppliers have filed for bankruptcy protection or ceased operations. The continuation of financial distress within the supply base and suppliers’ inability to obtain credit from lending institutions may lead to commercial disputes and possible supply chain interruptions. In addition, the adverse industry environment may require us to take measures to ensure uninterrupted production. The continuation or worsening of these industry conditions could have a material adverse effect on our existing and future revenues and net income.

Shortage of Raw Materials or Components Supply – In the event of a rapid increase in production demands, either we or our customers or other suppliers may experience supply shortages of raw materials or components. This could be caused by a number of factors, including a lack of production line capacity or manpower or working capital constraints. In order to manage and reduce the costs of purchased goods and services, we and others within our industry have been rationalizing and consolidating our supply base. In addition, due to the recent turbulence in the automotive industry, several suppliers have initiated bankruptcy proceedings or ceased operations. As a result, there is greater dependence on fewer sources of supply for certain components and materials, which could increase the possibility of a supply shortage of any particular component. If any of our customers experience a material supply shortage, either directly or as a result of supply shortages at another supplier, that customer may halt or limit the purchase of our products. Similarly, if we or one of our own suppliers experience a supply shortage we may become unable to produce the affected products if we cannot procure the components from another source. Such production interruptions could impede a ramp-up in vehicle production and could have a material adverse effect on our business, results of operations and financial condition.

We consider the production capacities and financial condition of suppliers in our selection process, and expect that they will meet our delivery requirements. However, there can be no assurance that strong demand, capacity limitations, shortages of raw materials or other problems will not result in any shortages or delays in the supply of components to us.

Cost Reduction – There is continuing pressure from our major customers to reduce the prices we charge for our products. This requires us to generate cost reductions, including reductions in the cost of components purchased from outside suppliers. If we are unable to generate sufficient production cost savings in the future to offset pre-programmed price reductions, our gross margin and profitability will be adversely affected.

Cyclical and Seasonality in the Automotive Market – The automotive market is cyclical and is dependent on consumer spending, on the availability of consumer credit and, to a certain extent, on customer sales incentives. Economic factors adversely affecting consumer demand for automobiles and automotive production, such as rising fuel costs, could adversely impact our net sales and net income. We typically experience decreased sales and operating income during the first fiscal quarter of each year due to the impact of scheduled customer plant shut-downs in July and new model changeovers.

Foreign Operations – As discussed under “Joint Ventures”, we have joint venture investments in Mexico, Brazil and China. As these operations continue to expand, their success will depend, in part, on our and our partners’ ability to anticipate and effectively manage certain risks inherent in international operations including: enforcing agreements and collecting receivables through certain foreign legal systems, payment cycles of foreign customers, compliance with foreign tax laws, general economic and political conditions in these countries and compliance with foreign laws and regulations.

Currency Exchange Rate Fluctuations – We incur a portion of our expenses in Mexican pesos. Future currency fluctuations are dependent upon a number of factors and cannot be easily predicted. Effective January 2011, we entered into Mexican peso forward contracts to hedge foreign currency fluctuations for a portion of our Mexican peso denominated expenses. However, unexpected future expenses could occur and Exchange rate fluctuations between the U.S. dollar and the Mexican peso could have an adverse effect on our financial results.

Sources of and Fluctuations in Market Prices of Raw Materials – Our primary raw materials are high-grade zinc, brass, magnesium, 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, commencing with fiscal 2008, we began quoting quarterly material price adjustments for changes in our raw material 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.

Disruptions Due to Work Stoppages and Other Labor Matters – Our major customers and many of their suppliers have unionized work forces. Work stoppages or slow-downs experienced by our customers or their suppliers could result in slow-downs or closures of assembly plants where our products are included in assembled vehicles. For example, strikes by a critical supplier called by the United Auto Workers led to extended shut-downs of most of General Motors’ North American assembly plants in February 2008 and in 1998. A material work stoppage experienced by one or more of our customers could have an adverse effect on our business and our financial results. In addition, all production associates at our Milwaukee facility are unionized. A sixteen-day strike by these associates in June 2001 resulted in increased costs as all salaried associates worked with additional outside resources to produce the components necessary to meet customer requirements. The current contract with the unionized associates is effective

through June 29, 2014. We may encounter further labor disruption after the expiration date of this contract and may also encounter unionization efforts in our other plants or other types of labor conflicts, any of which could have an adverse effect on our business and our financial results.

Environmental and Safety Regulations – We are subject to Federal, state, local and foreign laws and other legal requirements related to the generation, storage, transport, treatment and disposal of materials as a result of our manufacturing and assembly operations. These laws include the Resource Conservation and Recovery Act (as amended), the Clean Air Act (as amended) and the Comprehensive Environmental Response, Compensation and Liability Act (as amended). We have an environmental management system that is ISO-14001 certified. We believe that our existing environmental management system is adequate for current and anticipated operations and we have no current plans for substantial capital expenditures in the environmental area. An environmental reserve was established in 1995 for estimated costs to remediate a site at our Milwaukee facility. The site was contaminated by a former above-ground solvent storage tank, located on the east side of the facility. The contamination occurred in 1985. This is being monitored in accordance with Federal, state and local requirements. We do not currently anticipate any material adverse impact on our results of operations, financial condition or competitive position as a result of compliance with Federal, state, local and foreign environmental laws or other legal requirements. However, risk of environmental liability and changes associated with maintaining compliance with environmental laws is inherent in the nature of our business and there is no assurance that material liabilities or changes could not arise.

Highly Competitive Automotive Supply Industry – The automotive component supply industry is highly competitive. Some of our competitors are companies, or divisions or subsidiaries of companies, that are larger than STRATTEC and have greater financial and technology capabilities. Our products may not be able to compete successfully with the products of these other companies, which could result in loss of customers and, as a result, decreased sales and profitability. Some of our major customers have also announced that they will be reducing their supply base. This could potentially result in the loss of these customers and consolidation within the supply base. The loss of any of our major customers could have a material adverse effect on our existing and future net sales and net income.

In addition, our competitive position in the North American automotive component supply industry could be adversely affected in the event that we are unsuccessful in making strategic acquisitions, alliances or establishing joint ventures that would enable us to expand globally. We principally compete for new business at the beginning of the development of new models and upon the redesign of existing models by our major customers. New model development generally begins two to five years prior to the marketing of such new models to the public. The failure to obtain new business on new models or to retain or increase business on redesigned existing models could adversely affect our business and financial results. In addition, as a result of relatively long lead times for many of our components, it may be difficult in the short-term for us to obtain new sales to replace any unexpected decline in the sale of existing products. Finally, we may incur significant product development expense in preparing to meet anticipated customer requirements which may not be recovered.

Program Volume and Pricing Fluctuations – We incur costs and make capital expenditures for new program awards based upon certain estimates of production volumes over the anticipated program life for certain vehicles. While we attempt to establish the price of our products for variances in production volumes, if the actual production of certain vehicle models is significantly less than planned, our net sales and net income may be adversely affected. We cannot predict our customers' demands for the products we supply either in the aggregate or for particular reporting periods.

Investments in Customer Program Specific Assets – We make investments in machinery and equipment used exclusively to manufacture products for specific customer programs. This machinery and equipment is capitalized and depreciated over the expected useful life of each respective asset. Therefore, the loss of any one of our major customers, the loss of specific vehicle models or the early cancellation of a vehicle model could result in impairment in the value of these assets and may have a material adverse effect on our financial results.

Financial Industry / Credit Market Risk - The U.S. capital and credit markets have been experiencing volatility and disruption for over a year. In many cases this has resulted in pressures on borrowers and reduced credit availability

from certain issuers without regard to the underlying financial strength of the borrower or issuer. If current levels of financial market disruption and volatility continue or worsen, there can be no assurance that such conditions will not have an effect on our ability to access debt and, in turn, result in a material adverse effect on our business, financial condition and results of operations.

Warranty Claims – We are exposed to warranty claims in the event that our products fail to perform as expected, and we may be required to participate in the repair costs incurred by our customers for such products. Our largest customers have recently extended their warranty protection for their vehicles. Other OEMs have similarly extended their warranty programs. We are engaged with ongoing discussions with our customers regarding certain warranty claims. This trend will put additional pressure on the supply base to improve quality systems. This trend may also result in higher cost recovery claims by OEMs from suppliers whose products incur a higher rate of warranty claims. Historically, we have experienced relatively low warranty charges from our customers due to our commercial arrangements and improvements in the quality, reliability and durability of our products. If our customers demand higher warranty-related cost recoveries, or if our products fail to perform as expected, it could have a material adverse impact on our results of operations and financial condition.

Item 3 Quantitative and Qualitative Disclosures About Market Risk

Our exposure to market risk is limited to fluctuations in raw material commodity prices and foreign currency exchange rate risk associated with STRATTEC's foreign operations. We do not utilize financial instruments for trading purposes and hold no derivative financial instruments which would expose us to significant market risk. We have not had outstanding borrowings with third parties since December 1997. There is, therefore, currently no significant exposure to market risk for changes in interest rates. To the extent that we incur future borrowings under our line of credit, we would be subject to interest rate risk related to such borrowings. However, we are subject to foreign currency exchange rate exposure related to the U.S. dollar costs of our Mexican operations. A material increase in the value of the Mexican peso relative to the U.S. dollar would increase our expenses and, therefore, could adversely affect our profitability. Effective January 2011, we entered into Mexican peso forward contracts to hedge foreign currency fluctuations for a portion of our Mexican peso denominated expenses. However, unexpected future expenses could occur and Exchange rate fluctuations between the U.S. dollar and the Mexican peso could have an adverse effect on our financial results. Moreover, a material increase in the cost of certain of our raw material components, such as zinc or brass, would increase our cost of good sold and, therefore, could materially adversely affect our profitability.

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, is recorded, processed, summarized and reported within the time periods specified in the Security 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 is accumulated and communicated to its management, including its 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

Please refer to the section titled "Risk Factors" herein for disclosures regarding the risks and uncertainties relating to our business. 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 1, 2010.

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

Issuer Purchases of Equity Securities

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 26, 2010, a total of 3,655,322 shares have been repurchased at a cost of approximately \$136.4 million. No shares were repurchased during the quarter or six month period ended December 26, 2010.

Item 3 Defaults Upon Senior Securities - None

Item 4 [Removed and Reserved]

Item 5 Other Information - None

Item 6 Exhibits

| (a) | Exhibits | |
|-----|----------|--|
| | 4.4(1) | Promissory Note dated as of October 31, 2010 by and between the Company and M&I Bank |
| | 10.1(2) | Amended STRATTEC SECURITY CORPORATION Stock Incentive Plan |
| | 10.2(2) | Form of Restricted Stock Grant Agreement for Outside (Non-Employee) Directors |
| | 31.1 | Rule 13a-14(a) Certification for Harold M. Stratton II, Chairman and Chief Executive Officer |
| | 31.2 | Rule 13a-14(a) Certification for Patrick J. Hansen, Chief Financial Officer |
| | 32 (3) | 18 U.S.C. Section 1350 Certifications |

Edgar Filing: STRATTEC SECURITY CORP - Form 10-Q

- (1) Incorporated by reference from Exhibit 4.4 to the September 26, 2010 Form 10-Q filed with the Securities and Exchange Commission on November 4, 2010.
- (2) Incorporated by reference from the exhibit to the Form 8-K filed with the Securities and Exchange Commission on October 6, 2010.
- (3) 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.

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 3, 2011

By /s/ Patrick J. Hansen

Patrick J. Hansen

Senior Vice President,

Chief Financial Officer,

Treasurer and Secretary

(Principal Accounting and Financial Officer)