

STRATTEC SECURITY CORP  
Form 10-Q  
February 05, 2009

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 28, 2008

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-25150

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

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

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

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

Edgar Filing: STRATTEC SECURITY CORP - Form 10-Q

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

Common stock, par value \$0.01 per share: 3,259,581 shares outstanding as of December 28, 2008.

---

STRATTEC SECURITY CORPORATION  
FORM 10-Q  
December 28, 2008

INDEX

Part I -	FINANCIAL INFORMATION	Page
Item 1	Financial Statements	
	Condensed Consolidated Statements of Income	3
	Condensed Consolidated Balance Sheets	4
	Condensed Consolidated Statements of Cash Flows	5
	Notes to Condensed Consolidated Financial Statements	6-10
Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations	11-19
Item 3	Quantitative and Qualitative Disclosures About Market Risk	20
Item 4	Controls and Procedures	20
Part II -	OTHER INFORMATION	
Item 1	Legal Proceedings	21
Item 1A	Risk Factors	21
Item 2	Unregistered Sales of Equity Securities and Use of Proceeds	21
Item 3	Defaults Upon Senior Securities	21
Item 4	Submission of Matters to a Vote of Security Holders	21
Item 5	Other Information	21
Item 6	Exhibits	21

#### PROSPECTIVE INFORMATION

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

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

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



## Item 1 Financial Statements

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

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

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

STRATTEC SECURITY CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

(In Thousands, Except Share Amounts)

	December 28, 2008 (Unaudited)		June 29, 2008
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 31,878	\$	51,501
Receivables, net	17,784		23,518
Inventories-			
Finished products	3,809		2,521
Work in process	4,285		4,379
Purchased materials	10,757		7,414
LIFO adjustment	(4,058)		(4,045)
Total inventories	14,793		10,269
Other current assets	19,313		17,978
Total current assets	83,768		103,266
Deferred income taxes	3,684		3,684
Investment in joint ventures	4,194		3,642
Prepaid pension obligations	3,543		758
Goodwill	87		-
Other intangible assets, net	932		27
Property, plant and equipment	127,648		119,445
Less: accumulated depreciation	(91,446)		(89,109)
Net property, plant and equipment	36,202		30,336
	\$ 132,410	\$	141,713
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current Liabilities:			
Accounts payable		\$ 14,638	\$ 15,974
Accrued Liabilities:			
Payroll and benefits		6,680	7,319
Environmental reserve		2,639	2,648
Other		9,934	6,998
Total current liabilities		33,891	32,939
Accrued pension obligations		2,755	2,606
Accrued postretirement obligations		9,438	9,783
Minority interest		1,729	953
Shareholders' Equity:			
Common stock, authorized 12,000,000 shares, \$.01 par value, issued 6,897,357 shares at December 28, 2008 and June 29, 2008		69	69
Capital in excess of par value		79,115	78,885
Retained earnings		161,703	163,889
Accumulated other comprehensive loss		(20,173)	(17,495)
Less: treasury stock, at cost (3,637,776 shares at December 28, 2008 and 3,444,548 shares at June 29, 2008)		(136,117)	(129,916)

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

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

STRATTEC SECURITY CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)  
(Unaudited)

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

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:



Edgar Filing: STRATTEC SECURITY CORP - Form 10-Q

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

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

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

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

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

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

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

#### Purchase of Delphi Power Products Business

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

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

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

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

#### Other Income, net

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

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

Edgar Filing: STRATTEC SECURITY CORP - Form 10-Q

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

7

---

## Income Taxes

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

## (Loss) Earnings Per Share (EPS)

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

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

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

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

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

## Comprehensive Income (Loss)

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

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

Edgar Filing: STRATTEC SECURITY CORP - Form 10-Q

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

Stock-based Compensation

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

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

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

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

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

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

	Three Months Ended		Six Months Ended	
	December 28 2008	December 30, 2007	December 28 2008	December 30, 2007
Intrinsic Value of Options Exercised	\$ -	\$ -	\$ -	\$ -
Fair Value of Stock Options Vesting	\$ -	\$ -	\$ 469	\$ 197

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

	Shares	Weighted Average Grant Date Fair Value
Nonvested Balance, June 29, 2008	29,400	\$ 46.32
Granted	10,000	\$ 29.00



Edgar Filing: STRATTEC SECURITY CORP - Form 10-Q

Vested	(9,600)	\$	51.24
Forfeited	(400)	\$	43.89
Nonvested Balance, December 28, 2008	29,400	\$	38.85

As of December 28, 2008, there was \$52,000 of total unrecognized compensation cost related to stock options granted under the plan. This cost is expected to be recognized over a weighted average period of 1.5 years. As of December 28, 2008, there was \$559,000 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 year. 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 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. 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. 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 28, 2008	December 30, 2007	December 28, 2008	December 30, 2007
<b>COMPONENTS OF NET PERIODIC BENEFIT COST:</b>				
Service cost	\$ 474	\$ 504	\$ 48	\$ 55
Interest cost	1,271	1,170	184	180
Expected return on plan assets	(1,641)	(1,553)	-	-
Amortization of prior service cost	20	16	(97)	(95)
Amortization of unrecognized net loss	64	161	174	176
Net periodic benefit cost	\$ 188	\$ 298	\$ 309	\$ 316

	Pension Benefits		Postretirement Benefits	
	Six Months Ended		Six Months Ended	
	December 28, 2008	December 30, 2007	December 28, 2008	December 30, 2007
<b>COMPONENTS OF NET PERIODIC BENEFIT COST:</b>				
Service cost	\$ 936	\$ 1,009	\$ 95	\$ 110
Interest cost	2,542	2,340	369	358
Expected return on plan assets	(3,281)	(3,106)	-	-
Amortization of prior service cost	40	32	(194)	(189)
Amortization of unrecognized net loss	127	322	348	352
Net periodic benefit cost	\$ 364	\$ 597	\$ 618	\$ 631

Voluntary contributions made to the qualified pension plan totaled \$3.0 million during both the six month periods ending December 28, 2008 and December 30, 2007. No additional contributions are anticipated to be made during the remainder of fiscal 2009.

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 2008 Annual Report which was filed with the Securities and Exchange Commission as an exhibit to our Form 10-K on August 29, 2008. Unless otherwise indicated, all references to years refer to fiscal years.

Purchase of Delphi Power Products Business

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

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

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

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

Analysis of Results of Operations

Our financial results for the three and six months ended December 28, 2008 reflect the overall weakness in the U.S. economy, and in particular the sharp decline in vehicle sales and production during the period. We are reacting to the unprecedented decline in the North American auto industry in several ways. In the second quarter, we reduced our productive work force at both our Milwaukee, Wisconsin and Juarez, Mexico facilities through a combination of temporary and permanent layoffs. We will continue to adjust our productive workforce in this way until the business improves or stabilizes at a predictable level. Since the beginning of our current fiscal year, we have not been replacing salaried associates who retired or left through normal attrition, saving nearly \$1 million on an annualized

basis. On January 15, 2009, we reduced the U.S. salaried workforce by approximately 10 percent. Effective January 1, 2009, we also froze executive officer salaries at their 2008 levels, and reduced our 401K match for salaried associates. We expect these changes will save approximately \$2 million on an annual basis, but will be offset during our third quarter with a charge to earnings of \$350,000 for severance and outplacement costs. Other cost reduction activities aimed at reducing general overhead costs are in place. In addition, with the November 2008 completion of our new manufacturing facility in Juarez, Mexico we are vacating two leased facilities, one in Juarez and one in Matamoros, Mexico. During the current quarter, we incurred approximately \$132,000 of relocation costs to vacate a majority of the leased facility in

## Edgar Filing: STRATTEC SECURITY CORP - Form 10-Q

Juarez. We expect additional relocation costs to be incurred in the third quarter to complete the moves out of both facilities. After the consolidation of the two facilities is completed, we anticipate annual savings of approximately \$500,000.

A large volume ignition lock housing program originally planned for our VAST Fuzhou joint venture plant in China will soon be sourced from our North American operations, providing additional sales and increased production of this product line at both our Milwaukee and Juarez facilities. Production for this program should begin late in the current fiscal year, and if current forecasts are correct, it should enhance sales by more than \$12 million over the next two years.

Three months ended December 28, 2008 compared to the three months ended December 30, 2007

Net sales for the three months ended December 28, 2008 were \$33.8 million compared to net sales of \$39.9 million for the three months ended December 30, 2007. Sales to our largest customers overall were significantly lower in the current quarter compared to the prior year quarter. Sales to General Motors Corporation in the current quarter were \$11.6 million compared to \$11.9 million in the prior year quarter due to the takeover of certain passenger car lockset production from another supplier, offset by lower vehicle production volumes, primarily for trucks and SUV's. Sales to Chrysler Corporation were \$7.7 million in the current quarter compared to \$10.0 million in the prior year quarter due to a combination of lower vehicle production and reduced component content in the products we supply, offset somewhat by \$1.3 million of sales generated by SPA in December 2008. Sales to Ford Motor Company were \$3.0 million in the current quarter compared to \$4.4 million in the prior year quarter and sales to Delphi Corporation were \$2.0 million in the current quarter compared to \$3.8 million in the prior year quarter. The lower sales to Ford and Delphi were due to lower vehicle production volumes. Sales during the current quarter were weaker than initially anticipated for the above four customers due to their additional production cut backs announced after the Thanksgiving holiday. Subsequently, these customers extended their Christmas holiday shutdown downtime and further reduced their production schedules. This will affect both our sales and profitability for the third fiscal quarter ending March 28, 2009.

Gross profit as a percentage of net sales was 8.5 percent in the current quarter compared to 17.3 percent in the prior year quarter. The reduction in the gross profit margin was primarily attributed to reduced customer production volumes. The current quarter also included approximately \$132,000 of relocation costs related to the move from our leased facility in Juarez, Mexico to our new manufacturing facility in Juarez and a non-recurring inventory adjustment of \$114,000. Construction of the new facility was completed in November 2008. The non-recurring inventory adjustment related to finished goods inventory acquired in the Delphi Power Products business acquisition. The value of the finished goods inventory acquired was adjusted to its selling price less costs to sell, and gross profit was impacted by the inventory that was sold during the quarter. The impact of the reduced customer production volumes was partially offset by lower purchased material costs for zinc and brass along with a favorable Mexico peso to U.S. dollar exchange rate affecting the U.S. dollar cost of our operations in Mexico. The average zinc price paid per pound decreased to \$1.22 in the current quarter from \$1.52 in the prior year quarter. During the current quarter, we used approximately 1.5 million pounds of zinc. This resulted in decreased zinc costs of approximately \$450,000 in the current quarter compared to the prior year quarter. The average brass price paid per pound decreased to \$2.82 in the current quarter from \$3.71 in the prior year quarter. During the current quarter, we used approximately 235,000 pounds of brass. This resulted in decreased brass costs of approximately \$210,000 in the current quarter compared to the prior year quarter. The inflation rate in Mexico for the twelve months ended December 28, 2008 was approximately 6.5 percent and increased operating costs by approximately \$260,000 in the current quarter over the prior year quarter. The average U.S. dollar/Mexican peso exchange rate increased to approximately 12.75 pesos to the dollar in the current quarter from approximately 10.85 pesos to the dollar in the prior year quarter. This resulted in decreased costs related to our Mexican operations of approximately \$820,000 in the current quarter over the prior year quarter.

Engineering, selling and administrative expenses were \$6.7 million in the current quarter, compared to \$5.8 million in the prior year quarter. The increase was attributed to hiring SPA engineering personnel, contracting with Delphi for temporary transition services related to the acquisition, and outside legal costs incurred to defend a STRATTEC patent.

The loss from operations in the current quarter was \$3.8 million compared to income from operations of \$1.1 million in the prior year quarter. This reduction was the result of the decrease in sales and gross profit margin as discussed above.

Net other income was \$557,000 in the current quarter compared to \$158,000 in the prior year quarter. The increase was primarily due to increased transaction gains resulting from foreign currency transactions entered into by our Mexican subsidiaries and was partially offset by losses on the Rabbi trust which funds our supplemental executive retirement plan. Transaction gains were \$910,000 in the current quarter compared to losses of \$5,000 in the prior year quarter. Losses related to the Rabbi trust totaled \$470,000 in the current quarter compared to \$30,000 in the prior year quarter. The investments held in the trust are considered trading securities.

Our U.S. effective tax rate was approximately 37 percent. Our effective tax rate in Mexico was approximately 15 percent. The current quarter income tax benefit was the result of the higher U.S. effective tax rate applied to pre-tax U.S. losses and a lower Mexican tax rate being applied to pre-tax income in Mexico. The overall U.S. effective tax rate differed from the Federal statutory tax rate primarily due to the effects of state income taxes.

Six months ended December 28, 2008 compared to the six months ended December 30, 2007

Net sales for the six months ended December 28, 2008 were \$68.5 million compared to net sales of \$82.6 million for the six months ended December 30, 2007. Sales to our largest customers overall were significantly lower in the current period compared to the prior year period. Sales to General Motors Corporation in the current period were \$23.9 million compared to \$24.4 million in the prior year period due to the takeover of certain passenger car lockset production from another supplier, offset by lower vehicle production volumes, primarily for trucks and SUV's. Sales to Chrysler Corporation were \$14.8 million in the current period compared to \$20.6 million in the prior year period. This sales reduction was due to a combination of lower vehicle production and reduced component content in the products we supply, offset somewhat by \$1.3 million of sales generated by SPA in December 2008. Sales to Ford Motor Company were \$5.3 million in the current period compared to \$9.9 million in the prior year period and sales to Delphi Corporation were \$4.0 million in the current period compared to \$7.7 million in the prior year period. The lower sales to Ford and Delphi were due to lower vehicle production volumes. Sales during the current quarter were weaker than initially anticipated for the above four customers due to their additional production cut backs announced after the Thanksgiving holiday. Subsequently, these customers extended their Christmas holiday shutdown downtime and further reduced their production schedules. This will also affect our sales and profitability for the third fiscal quarter ending March 28, 2009.

Gross profit as a percentage of net sales was 12.1 percent in the current period compared to 18.5 percent in the prior year period. The reduction in the gross profit margin was primarily attributed to reduced customer production volumes. The current period also included approximately \$132,000 of relocation costs related to the move from our leased facility in Juarez, Mexico to our new manufacturing facility in Juarez and a non-recurring inventory adjustment of \$114,000. Construction of the new facility was completed in November 2008. The non-recurring inventory adjustment related to finished goods inventory acquired in the Delphi Power Products business acquisition. The value of the finished goods inventory acquired was adjusted to its selling price less costs to sell, and gross profit was impacted by the inventory that was sold during the period. The impact of the reduced customer production volumes was partially offset by lower purchased material costs for zinc and brass. The favorable Mexico peso to U.S. dollar exchange rate affecting the U.S. dollar cost of our operations in Mexico experienced during the period was mostly offset by cost increases resulting from inflation. The average zinc price paid per pound decreased to \$1.22 in the current period from \$1.59 in the prior year period. During the current period, we used approximately 3.2 million pounds of zinc. This resulted in decreased zinc costs of approximately \$1.2 million in the current period compared to the prior year period. The average brass price paid per pound decreased to \$3.26 in the current period from \$3.81 in the prior year period. During the current period, we used approximately 495,000 pounds of brass. This resulted in decreased brass costs of approximately \$270,000 in the current period compared to the prior year period.





Engineering, selling and administrative expenses were \$12.6 million in the current period, compared to \$11.6 million in the prior year period. The increase was attributed to hiring SPA engineering personnel, contracting with Delphi for temporary transition services related to the acquisition, and outside legal costs incurred to defend a STRATTEC patent.

The loss from operations in the current period was \$4.3 million compared to income from operations of \$3.7 million in the prior year period. This reduction was the result of the decrease in sales and gross profit margin as discussed above.

Net other income was \$780,000 in the current period compared to \$466,000 in the prior year period. The increase was primarily due to increased transaction gains resulting from foreign currency transactions entered into by our Mexican subsidiaries and was partially offset by losses on the Rabbi trust which funds our supplemental executive retirement plan. Transaction gains were \$1.1 million in the current period compared to \$45,000 in the prior year period. Losses related to the Rabbi trust totaled \$530,000 in the current period compared to gains of \$15,000 in the prior year period. The investments held in the trust are considered trading securities.

Our U.S. effective tax rate was approximately 37 percent. Our effective tax rate in Mexico was approximately 15 percent. The current period income tax benefit was the result of the higher U.S. effective tax rate applied to pre-tax U.S. losses and a lower Mexican tax rate being applied to pre-tax income in Mexico. The overall U.S. effective tax rate differed from the Federal statutory tax rate primarily due to the effects of state income taxes.

#### Liquidity and Capital Resources

Cash flow used in operating activities was \$2.4 million during the six months ended December 28, 2008 compared to \$3.9 million of cash generated from operations during the six months ended December 30, 2007. Current period operating cash flow was negatively impacted by overall financial results. Pension contributions to our qualified plan totaled \$3 million during both the current year and prior year periods.

Accounts receivable balances at December 28, 2008 decreased \$5.7 million from the June 29, 2008 balances. This decrease was primarily the result of decreased sales during the current quarter as compared to the quarter ended June 29, 2008. Inventory balances, accounted for on a LIFO and FIFO basis, at December 28, 2008 increased \$4.5 million from the June 29, 2008 balances. The increase was primarily the result of the acquisition of certain assets, including inventory, of Delphi Corporation's global Power Products business. Inventory balances at December 28, 2008 related to the acquired business totaled \$4.1 million. Other current liability balances at December 28, 2008 increased \$2.9 million from the June 29, 2008 balances. The increase was primarily due to liabilities established to relocate operations of the acquired business from Delphi leased facilities to STRATTEC owned facilities and other leased facilities.

Capital expenditures during the six months ended December 28, 2008, were \$8.5 million, which included approximately \$5.2 million for the construction of a new facility in Juarez, Mexico to replace our existing leased facility. Capital expenditures during the six months ended December 30, 2007, were \$4.5 million. We anticipate that capital expenditures will be approximately \$11 million in fiscal 2009, primarily relating to expenditures in support of requirements for new product programs, the upgrade and replacement of existing equipment and the construction of our new facility in Juarez, Mexico.

Our Board of Directors has authorized a stock repurchase program to buy back outstanding shares of our common stock. Shares authorized for buy back under the program totaled 3,839,395 at December 28, 2008. A total of 3,655,322 shares have been repurchased as of December 28, 2008, at a cost of approximately \$136.4 million. During the three months ended December 28, 2008, 20,951 shares were repurchased at a cost of approximately \$500,000. 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.

14

---

We have a \$50.0 million unsecured line of credit (the "Line of Credit") with M&I Marshall & Ilsley Bank, which expires October 31, 2009. There were no outstanding borrowings under the Line of Credit at December 28, 2008 or June 29, 2008. Interest on borrowings under the Line of Credit is at varying rates based on the London Interbank Offering Rate or the bank's prime 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.

Over the past two years, we have been impacted by rising health care costs, which have increased our cost of employee medical coverage. We have also been impacted by fluctuations in the market price of zinc, brass and magnesium and inflation in Mexico, which impacts the U.S. dollar costs of our Mexican operations. We do not hedge against our Mexican peso exposure.

#### 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 LLC participates in joint ventures in Brazil and China. 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, joint ventures between VAST LLC, Fortitude Corporation and a unit of Elitech Technology Co. Ltd. of Taiwan, are the base of operations to service our automotive customers in the Asian market. VAST LLC also maintains branch offices in South Korea and Japan in support of customer sales and engineering requirements.

The VAST investments are accounted for using the equity method of accounting. The activities related to the VAST joint ventures resulted in a gain of approximately \$126,000 during the six months ended December 28, 2008 and \$301,000 during the six months ended December 30, 2007. Capital contributions totaling \$388,000 were made in the current period in support of general operating expenses and the purchase of the Asian portion of Delphi Corporation's global Power Products business.

In fiscal year 2007, we entered into a joint venture with ADAC, in which STRATTEC holds a 50.1 percent interest and ADAC holds a 49.9 percent interest. The joint venture was created to establish injection molding and door handle assembly operations in Mexico. ADAC-STRATTEC LLC, a Delaware limited liability company, was formed on October 27, 2006. An additional Mexican entity, ADAC-STRATTEC de Mexico, which is wholly owned by ADAC-STRATTEC LLC, was formed on February 21, 2007. ADAC-STRATTEC de Mexico production activities began in July 2007. ADAC-STRATTEC LLC's financial results are consolidated with the financial results of STRATTEC and resulted in increased net income to STRATTEC of \$59,000 during the six months ended December 28, 2008 and decreased net income to STRATTEC of \$149,000 during the six months ended December 30, 2007.



### Recently Issued Accounting Standards

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

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

### 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 2008 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. 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.

**Other Reserves**– We have reserves such as an environmental 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. We believe such reserves are

estimated using consistent and appropriate methods. However, changes to the assumptions could materially affect the recorded reserves.

Stock-Based Compensation— We account for stock-based compensation in accordance with SFAS No. 123(R), “Share-based Payments.” Under the fair value recognition provisions of this statement, share-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 share-based awards at the grant date requires judgment, including estimating future volatility of our stock, the amount of share-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 Corporation, Ford Motor Company, Chrysler LLC and Delphi Corporation represent approximately 75 percent of our annual net sales. 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.

Our major customers also have significant underfunded 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 pre-petition Chapter 11 accounts receivable due from Delphi Corporation. This directly reduced our pre-tax net income during fiscal 2006.

Financial Distress of Our Suppliers – Automotive industry conditions have adversely affected our supply base. Lower production levels for our major customers, increases in certain raw material and energy costs and the global credit market crisis have resulted in severe financial distress among many companies within the automotive supply base. Several automotive suppliers have filed for bankruptcy protection or ceased operations. The continuation of financial distress within the supply base 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.

**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 highly cyclical and is dependent on consumer spending 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. These operations are currently not material. However, as these operations 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. 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.

**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 and the United Auto Workers led to extended shut-downs of most of General Motors Corporation’s North American assembly plants in February 2008 and 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 30, 2012. 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.



### Item 3 Quantitative and Qualitative Disclosures About Market Risk

Our exposure to market risk is limited to 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 since December 1997. 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. There is, therefore, currently no significant exposure to market risk for changes in interest rates. 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.

### 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 Principal Executive Officer and Principal 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 Securities Exchange Act of 1934, as amended) during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II  
Other Information

Item 1 Legal Proceedings

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

Item 1A - Risk Factors

There have been no material changes in our risk factors from those disclosed in Part I, Item 1A “Risk Factors,” of our 2008 Annual Report on Form 10-K. Please refer to that section as well as the section titled “Risk Factors” herein for disclosures regarding the risks and uncertainties relating to our business.

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 under the program, most recently in August 2008. The program currently authorizes the repurchase of up to 3,839,395 shares of our common stock from time to time, directly or through brokers or agents, and has no expiration date. Over the life of the repurchase program through December 28, 2008, a total of 3,655,322 shares have been repurchased at a cost of approximately \$136.4 million.

Period	Total Number Of Shares Purchased	Average Price Paid Per Share	Total Number Of Shares Purchased As Part of Publicly Announced Program	Maximum Number Of Shares Of Shares that May Yet be Purchased Under the Program
September 28, 2008–November 2, 2008	18,351	\$ 23.64	18,351	186,673
November 2, 2008–November 30, 2008	2,600	\$ 25.52	2,600	184,073
November 30, 2008–December 28, 2008	-	-	-	184,073
Total	20,951	\$ 23.87	20,951	184,073

Item 3 Defaults Upon Senior Securities - None

Item 4 Submission of Matters to a Vote of Security Holders –

At our Annual Meeting held on October 7, 2009, the shareholders voted to elect Michael J. Koss and David R. Zimmer as directors for a term to expire in 2011. The number of votes cast for and withheld in the election of Michael J. Koss were 3,005,982 and 71,812, respectively. The number of votes cast for and withheld in the election of David R. Zimmer were 3,028,517 and 49,277, respectively. Directors whose terms continued after the meeting included Harold M. Stratton II and Robert Feitler with terms expiring in 2009, and Frank J. Krejci with a term to expire in 2010.

Item 5 Other Information - None

Item 6 Exhibits

(a) Exhibits

4.4(1) Promissory Note dated as of November 1, 2008 by and between the Company and M&I Bank

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 (2) 18 U.S.C. Section 1350 Certifications

(1) Incorporated by reference from the September 28, 2008 Form 10-Q filed on November 7, 2008.

(2) 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 5, 2009

By /s/ Patrick J. Hansen

Patrick J. Hansen

Senior Vice President,

Chief Financial Officer,

Treasurer and Secretary

(Principal Accounting and Financial Officer)