

STRATTEC SECURITY CORP

Form 10-Q

February 06, 2015

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, 2014

or

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

For the transition period from _____ to _____

Commission File Number 0-25150

STRATTEC SECURITY CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Wisconsin 39-1804239

(State of Incorporation) (I.R.S. Employer Identification No.)

3333 West Good Hope Road, Milwaukee, WI 53209

(Address of Principal Executive Offices)

(414) 247-3333

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(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):

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

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: 3,587,151 shares outstanding as of December 28, 2014 (which number includes all restricted shares previously awarded that have not vested as of such date).

STRATTEC SECURITY CORPORATION

FORM 10-Q

December 28, 2014

INDEX

	Page
Part I - FINANCIAL INFORMATION	
Item 1 <u>Financial Statements</u>	
<u>Condensed Consolidated Statements of Income and Comprehensive Income</u>	3
<u>Condensed Consolidated Balance Sheets</u>	4
<u>Condensed Consolidated Statements of Cash Flows</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6-14
Item 2 <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15-22
Item 3 <u>Quantitative and Qualitative Disclosures About Market Risk</u>	23
Item 4 <u>Controls and Procedures</u>	24
Part II - OTHER INFORMATION	
Item 1 <u>Legal Proceedings</u>	25
Item 1A <u>Risk Factors</u>	25
Item 2 <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	25
Item 3 <u>Defaults Upon Senior Securities</u>	25
Item 4 <u>Mine Safety Disclosures</u>	25
Item 5 <u>Other Information</u>	25
Item 6 <u>Exhibits</u>	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, fluctuations in costs of operations (including fluctuations in the cost of raw materials) and other matters described in the section titled "Risk Factors" in the Company's Form 10-K report filed on September 5, 2014 with the Securities and Exchange Commission for the year ended June 29, 2014.

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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 and Comprehensive Income

(In Thousands, Except Per Share Amounts)

(Unaudited)

	Three Months Ended		Six Months Ended	
	December 29,	December 29,	December 29,	December 29,
	2014	2013	2014	2013
Net sales	\$ 101,990	\$ 81,484	\$ 224,232	\$ 161,079
Cost of goods sold	83,538	65,541	177,723	130,621
Gross profit	18,452	15,943	46,509	30,458
Engineering, selling and administrative expenses	10,490	9,250	23,677	18,720
Income from operations	7,962	6,693	22,832	11,738
Interest income	43	21	65	27
Equity (loss) earnings of joint ventures	(121)	297	69	591
Interest expense	(11)	(15)	(22)	(29)
Other income (expense), net	1,823	(54)	2,611	225
Income before provision for income taxes and non-controlling interest	9,696	6,942	25,555	12,552
Provision for income taxes	2,795	2,261	8,314	4,017
Net income	6,901	4,681	17,241	8,535
Net income attributable to non-controlling interest	1,123	808	2,163	1,451
Net income attributable to STRATTEC SECURITY CORPORATION	\$ 5,778	\$ 3,873	\$ 15,078	\$ 7,084
Comprehensive Income:				
Net income	\$ 6,901	\$ 4,681	\$ 17,241	\$ 8,535
Pension and postretirement plans, net of tax	428	434	856	869
Currency translation adjustments	(2,590)	197	(3,442)	(139)
Other comprehensive (loss) income, net of tax	(2,162)	631	(2,586)	730
Comprehensive income	4,739	5,312	14,655	9,265
Comprehensive income attributable to non-controlling interest	965	817	1,941	1,440
Comprehensive income attributable to STRATTEC SECURITY CORPORATION	\$ 3,774	\$ 4,495	\$ 12,714	\$ 7,825
Earnings per share attributable to STRATTEC SECURITY CORPORATION:				
Basic	\$ 1.62	\$ 1.11	\$ 4.25	\$ 2.05
Diluted	\$ 1.58	\$ 1.09	\$ 4.13	\$ 2.00

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Average shares outstanding:				
Basic	3,518	3,413	3,507	3,397
Diluted	3,612	3,487	3,603	3,473
Cash dividends declared per share	\$0.12	\$ 0.11	\$0.24	\$ 0.22

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

STRATTEC SECURITY CORPORATION AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(In Thousands, Except Share Amounts)

	December 28, 2014 (Unaudited)	June 29, 2014
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 19,843	\$19,756
Receivables, net	61,537	68,822
Inventories		
Finished products	12,536	9,034
Work in process	8,181	7,386
Purchased materials	20,471	16,232
Excess and obsolete reserve	(2,295)	(2,150)
Inventories, net	38,893	30,502
Other current assets	16,143	16,559
Total current assets	136,416	135,639
Investment in joint ventures	10,687	9,977
Other long-term assets	12,862	11,639
Property, plant and equipment	187,107	172,717
Less: accumulated depreciation	(119,832)	(116,936)
Net property, plant and equipment	67,275	55,781
	\$ 227,240	\$213,036
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 33,179	\$36,053
Accrued Liabilities:		
Payroll and benefits	19,667	18,058
Environmental	1,389	1,397
Warranty	3,640	3,462
Other	6,455	6,293
Total current liabilities	64,330	65,263
Deferred income taxes	5,184	5,127
Borrowings under credit facility	3,500	2,500
Accrued pension obligations	1,684	1,619
Accrued postretirement obligations	1,863	2,223
Other long-term liabilities	1,440	1,401
Shareholders' Equity:		
Common stock, authorized 12,000,000 shares, \$.01 par value, issued 7,144,678 shares at December 28, 2014 and 7,110,308 shares at June 29, 2014	71	71
Capital in excess of par value	88,464	87,054
Retained earnings	208,722	194,498
Accumulated other comprehensive loss	(22,562)	(20,198)

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Less: treasury stock, at cost (3,625,027 shares at December 28, 2014 and 3,625,492 shares at June 29, 2014)	(135,912)	(135,919)
Total STRATTEC SECURITY CORPORATION shareholders' equity	138,783	125,506
Non-controlling interest	10,456	9,397
Total shareholders' equity	149,239	134,903
	\$ 227,240	\$ 213,036

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, 2014	December 29, 2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 17,241	\$ 8,535
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,261	4,167
Foreign currency transaction gain	(2,421)	(38)
Stock based compensation expense	700	630
Equity earnings of joint ventures	(69)	(591)
Change in operating assets and liabilities:		
Receivables	6,780	3,153
Inventories	(8,391)	(5,723)
Other assets	207	(3,712)
Accounts payable and accrued liabilities	(781)	272
Other, net	157	74
Net cash provided by operating activities	17,684	6,767
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in joint ventures	(384)	-
Loan to joint ventures	(215)	-
Purchase of property, plant and equipment	(16,955)	(6,450)
Proceeds received on sale of property, plant and equipment	-	21
Net cash used in investing activities	(17,554)	(6,429)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under credit facility	1,500	750
Repayments of borrowings under credit facility	(500)	-
Dividends paid to non-controlling interests of subsidiaries	(882)	(984)
Dividends paid	(854)	(764)
Exercise of stock options and employee stock purchases	714	789
Net cash used in financing activities	(22)	(209)
Foreign currency impact on cash	(21)	(48)
NET INCREASE IN CASH AND CASH EQUIVALENTS	87	81

CASH AND CASH EQUIVALENTS

Beginning of period	19,756	20,307
End of period	\$ 19,843	\$ 20,388

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the period for:

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Income taxes	\$10,207	\$ 1,582
Interest	\$17	\$ 23
Non-cash investing activities:		
Change in capital expenditures in accounts payable	\$274	\$ -

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

STRATTEC SECURITY CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Basis of Financial Statements

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

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

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

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

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

New Accounting Standard

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

Fair Value of Financial Instruments

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

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

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

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

Equity Earnings of Joint Ventures

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

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

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

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

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

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

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

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

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

Credit Facilities and Guarantees

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

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

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

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

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

Environmental Reserve

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

Shareholders' Equity

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

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

Other Income (Expense), net

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

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

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

Income Taxes

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

Earnings Per Share (EPS)

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

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

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

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

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

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

Stock-based Compensation

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

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

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

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

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

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

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

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

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

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

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