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 April 2, 2023

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
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of exchange on which registered
Common stock, $.01 par value	STRT	The Nasdaq Global Stock Market

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 every Interactive Data File required to be submitted 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 such files). YES ☒ NO ☐

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

Large Accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller Reporting Company	☒
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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: 4,015,985 shares outstanding as of April 3, 2023 (which number includes all restricted shares previously awarded that have not vested as of such date).

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PROSPECTIVE INFORMATION

A number of the matters and subject areas discussed in this Form 10-Q contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These statements may be identified by the use of forward-looking words or phrases such as “anticipate,” “believe,” “could,” “expect,” “intend,” “may,” “planned,” “potential,” “should,” “will,” and “would,” 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 discussion of such matters and subject areas contained herein is 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, changes in warranty provisions and customers’ product recall policies, work stoppages at the Company or at the location of its key customers as a result of labor disputes, foreign currency fluctuations, uncertainties stemming from U.S. trade policies, tariffs and reactions to same from foreign countries, the volume and scope of product returns or customer cost reimbursement actions, changes in the costs of operations, warranty claims, adverse business and operational issues resulting from the global supply chain and logistics disruption, the semiconductor chip supply shortages and the Coronavirus (COVID-19) pandemic, matters adversely impacting the timing, availability and cost of material component parts and raw materials for the production of our products and the products of our customers, or the continuation or worsening thereof, matters related to pricing actions implemented by the Company and customer responses and concessions related to same, and other matters described in the section titled “Risk Factors” in the Company’s Form 10-K report filed on September 8, 2022 with the Securities and Exchange Commission for the year ended July 3, 2022.

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.

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

	Three Months Ended		Nine Months Ended	
	April 2, 2023	March 27, 2022	April 2, 2023	March 27, 2022
Net sales	$ 127,183	$ 115,943	$ 360,727	$ 329,192
Cost of goods sold	117,182	101,305	330,843	287,072
Gross profit	10,001	14,638	29,884	42,120
Engineering, selling and administrative expenses	12,485	11,261	37,266	34,683
(Loss) income from operations	(2,484)	3,377	(7,382)	7,437
Equity earnings of joint ventures	819	577	1,934	941
Interest expense	(266)	(54)	(591)	(159)
Other (expense) income, net	(1,223)	282	(1,464)	308
(Loss) income before provision for income taxes and non-controlling interest	(3,154)	4,182	(7,503)	8,527
Provision (benefit) for income taxes	133	50	(1,638)	339
Net (loss) income	(3,287)	4,132	(5,865)	8,188
Net (loss) income attributable to non-controlling interest	(1,031)	989	(1,895)	1,556
Net (loss) income attributable to STRATTEC SECURITY CORPORATION	$ (2,256)	$ 3,143	$ (3,970)	$ 6,632
Comprehensive income (loss):				
Net (loss) income	$ (3,287)	$ 4,132	$ (5,865)	$ 8,188
Pension and postretirement plans, net of tax	350	76	490	230
Currency translation adjustments	3,451	685	3,198	(571)
Other comprehensive income (loss), net of tax	3,801	761	3,688	(341)
Comprehensive income (loss)	514	4,893	(2,177)	7,847
Comprehensive income (loss) attributable to non-controlling interest	116	1,362	(223)	1,426
Comprehensive income (loss) attributable to STRATTEC SECURITY CORPORATION	$ 398	$ 3,531	$ (1,954)	$ 6,421
(Loss) earnings per share attributable to STRATTEC SECURITY CORPORATION:				
Basic	$ (0.57)	$ 0.81	$ (1.01)	$ 1.72
Diluted	$ (0.57)	$ 0.80	$ (1.01)	$ 1.70
Weighted Average shares outstanding:				
Basic	3,928	3,871	3,918	3,856
Diluted	3,928	3,916	3,918	3,906

The accompanying notes are an integral part of these Condensed Consolidated Statements of (Loss) Income and Comprehensive Income (Loss).

STRATTEC SECURITY CORPORATION AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(In Thousands, Except Share Amounts)
(Unaudited)

	April 2, 2023	July 3, 2022
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 12,086	$ 8,774
Receivables, net	83,581	75,827
Inventories:		
Finished products	14,453	19,499
Work in process	15,445	18,263
Purchased materials	45,462	48,209
Excess and obsolete reserve	(5,745)	(5,489)
Inventories, net	69,615	80,482
Customer tooling in progress, net	20,516	10,828
Other current assets	21,227	12,321
Total current assets	207,025	188,232
Investment in joint ventures	27,773	26,654
Deferred Income Taxes	7,296	7,081
Other long-term assets	5,269	5,438
Property, plant and equipment	294,876	278,249
Less: accumulated depreciation	(200,841)	(186,520)
Net property, plant and equipment	94,035	91,729
	$ 341,398	$ 319,134
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 48,546	$ 43,950
Accrued Liabilities:		
Payroll and benefits	20,730	17,959
Environmental	1,390	1,390
Warranty	8,940	8,100
Other	15,974	10,130
Total current liabilities	95,580	81,529
Borrowings under credit facilities	21,000	11,000
Accrued pension obligations	1,225	1,259
Accrued postretirement obligations	1,318	1,329
Other long-term liabilities	3,802	4,070
Shareholders' Equity:		
Common stock, authorized 18,000,000 shares, $.01 par value, 7,530,170 issued shares at April 2, 2023 and 7,481,169 issued shares at July 3, 2022	75	75
Capital in excess of par value	102,789	101,524
Retained earnings	236,999	240,969
Accumulated other comprehensive loss	(16,572)	(18,588)
Less: treasury stock, at cost (3,602,085 shares at April 2, 2023 and 3,604,466 shares at July 3, 2022)	(135,542)	(135,580)
Total STRATTEC SECURITY CORPORATION shareholders' equity	187,749	188,400
Non-controlling interest	30,724	31,547
Total shareholders' equity	218,473	219,947
	$ 341,398	$ 319,134

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)

	Nine Months Ended	
	April 2, 2023	March 27, 2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (5,865)	$ 8,188
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation	13,145	14,724
Foreign currency transaction loss	2,114	76
Unrealized loss (gain) on peso forward contracts	93	(500)
Stock-based compensation expense	1,139	873
Equity earnings of joint ventures	(1,934)	(941)
Loss on settlement of pension obligation	217	—
Change in operating assets and liabilities:		
Receivables	(7,584)	(6,637)
Inventories	10,867	(2,450)
Other assets	(17,518)	(4,370)
Accounts payable and accrued liabilities	12,468	2,306
Other, net	370	514
Net cash provided by operating activities	7,512	11,783
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in joint ventures	(237)	(75)
Purchase of property, plant and equipment	(13,724)	(9,407)
Proceeds received on sale of property, plant and equipment	15	—
Net cash used in investing activities	(13,946)	(9,482)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under credit facilities	13,000	11,000
Repayment of borrowings under credit facilities	(3,000)	(11,000)
Dividends paid to non-controlling interests of subsidiaries	(600)	(1,200)
Exercise of stock options and employee stock purchases	164	884
Net cash provided by (used in) financing activities	9,564	(316)
Foreign currency impact on cash	182	9
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,312	1,994
CASH AND CASH EQUIVALENTS		
Beginning of period	8,774	14,465
End of period	$ 12,086	$ 16,459
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid (recovered) during the period for:		
Income taxes	$ 1,573	$ (1,378)
Interest	$ 485	$ 158
Non-cash investing activities:		
Change in capital expenditures in accounts payable	$ (1,207)	$ 824

The accompanying notes are an integral part of these Condensed Consolidated Statements of Cash Flows.

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, fobs, passive entry passive start systems (PEPS), steering column and instrument panel ignition lock housings, latches, power sliding door systems, power tailgate 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 (“WITTE”) of Velbert, Germany, and ADAC Automotive (“ADAC”) of Grand Rapids, Michigan. Under this relationship, STRATTEC, WITTE and ADAC market the products of each company to global customers under the “VAST Automotive Group” brand name (as more fully described herein). STRATTEC products are shipped to customer locations in the United States, Canada, Mexico, Europe, South America, Korea, China and India, and we, along with our VAST LLC partners, provide full service and aftermarket support for each VAST Automotive Group partner’s products.

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 headquartered 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 and Leon, Mexico. Equity investments in Vehicle Access Systems Technology LLC (“VAST LLC”), for which we exercise significant influence but do not control and are not variable interest entities of STRATTEC, are accounted for using the equity method. VAST LLC consists primarily of four wholly owned subsidiaries in China, one wholly owned subsidiary in Brazil and one joint venture entity in India. The results of the VAST LLC foreign subsidiaries and joint venture are reported on a one-month lag basis. We have only one reporting segment.

In the opinion of management, the accompanying condensed consolidated balance sheets as of April 2, 2023 and July 3, 2022, which have 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 the financial statements and notes thereto included in the STRATTEC SECURITY CORPORATION 2022 Form 10-K, which was filed with the Securities and Exchange Commission on September 8, 2022.

During December 2022, management determined that a previously unrecorded liability for postretirement death benefits is required to be recognized in accordance with ASC 715. Eligible participants for this death benefit include all salaried retirees who retired prior to October 1, 2001 and all hourly retirees who were hired prior to June 27, 2005 and retired prior to January 1, 2010. As such, the actuarially calculated liability and the unrecognized actuarial losses impacting Accumulated Other Comprehensive Loss will be reported in the Condensed Consolidated Balance Sheets. Additionally, interest cost and amortization of actuarial losses will be reported in the in the Condensed Consolidated Statements of (Loss) Income and Comprehensive Income (Loss).

Additionally, management identified a correction to previously reported Equity Earnings of Joint Ventures in the Condensed Consolidated Statements of (Loss) Income and Comprehensive Income (Loss), which correction also impacts the previously reported Investment in Joint Ventures amount reported in the Condensed Consolidated Balance Sheets. While prior period amounts have been corrected for comparability, the corrections, both individually and in total, were not material to the previously reported condensed consolidated financial statements.

The impact of the prior period corrections on the Condensed Consolidated Balance Sheet, the related components of Stockholders' Equity, and the related components of Accumulate Other Comprehensive Loss is as follows (thousands of dollars):

	July 3, 2022		
	Previously Reported	Adjustment	As Reported
ASSETS			
Investment in joint ventures	$ 26,344	$ 310	$ 26,654
Deferred income taxes	6,937	144	7,081
Total assets	$ 318,680	$ 454	$ 319,134
LIABILITIES AND SHAREHOLDERS' EQUITY			
Accrued Liabilities: Payroll and benefits	$ 17,905	$ 54	$ 17,959
Total current liabilities	81,475	54	81,529
Accrued postretirement obligations	463	866	1,329
Retained earnings	241,504	(535)	240,969
Accumulated other comprehensive loss	(18,657)	69	(18,588)
Total STRATTEC SECURITY CORPORATION shareholders' equity	188,866	(466)	188,400
Total shareholders' equity	220,413	(466)	219,947
Total liabilities and shareholders' equity	$ 318,680	$ 454	$ 319,134
Accumulated Other Comprehensive Loss:			
Foreign currency translation adjustments	$ (16,723)	$ (10)	$ (16,733)
Retirement and Postretirement Benefit Plans	(1,934)	79	(1,855)
Accumulated other comprehensive loss	$ (18,657)	$ 69	$ (18,588)

	June 27, 2021		
	Previously Reported	Adjustment	As Reported
Retained earnings	$ 234,472	$ (519)	$ 233,953
Accumulated other comprehensive loss	(16,797)	(117)	(16,914)
Total STRATTEC SECURITY CORPORATION shareholders' equity	181,646	(636)	181,010
Total shareholders' equity	$ 213,433	$ (636)	$ 212,797
Accumulated Other Comprehensive Loss:			
Foreign currency translation adjustments	$ (14,685)	$ 2	$ (14,683)
Retirement and Postretirement Benefit Plans	(2,112)	(119)	(2,231)
Accumulated other comprehensive loss	$ (16,797)	$ (117)	$ (16,914)

	March 27, 2022			December 26, 2021		
	Previously Reported	Adjustment	As Reported	Previously Reported	Adjustment	As Reported
Retained earnings	$ 241,113	$ (528)	$ 240,585	$ 237,967	$ (525)	$ 237,442
Accumulated other comprehensive loss	(17,000)	(125)	(17,125)	(17,391)	(122)	(17,513)
Total STRATTEC SECURITY CORPORATION shareholders' equity	189,841	(653)	189,188	185,820	(647)	185,173
Total shareholders' equity	$ 221,854	$ (653)	$ 221,201	$ 217,071	$ (647)	$ 216,424
Accumulated Other Comprehensive Loss:						
Foreign currency translation adjustments	$ (15,126)	$ 2	$ (15,124)	$ (15,438)	$ 2	$ (15,436)
Retirement and Postretirement Benefit Plans	(1,874)	(127)	(2,001)	(1,953)	(124)	(2,077)
Accumulated other comprehensive loss	$ (17,000)	$ (125)	$ (17,125)	$ (17,391)	$ (122)	$ (17,513)

The impact of the prior period corrections on the Condensed Consolidated Statements of (Loss) Income and Comprehensive Income (Loss) is as follows (thousands of dollars):

	Three Months Ended March 27, 2022			Nine Months Ended March 27, 2022		
	Previously Reported	Adjustment	As Reported	Previously Reported	Adjustment	As Reported
Other income (expense), net	$ 285	$ (3)	$ 282	$ 320	$ (12)	$ 308
Income before provision for income taxes and non-controlling interest	4,185	(3)	4,182	8,539	(12)	8,527
Provision for income taxes	50	-	50	342	(3)	339
Net income	4,135	(3)	4,132	8,197	(9)	8,188
Net income attributed to STRATTEC SECURITY CORPORATION	$ 3,146	$ (3)	$ 3,143	$ 6,641	$ (9)	$ 6,632
Comprehensive Income:						
Net income	$ 4,135	$ (3)	$ 4,132	$ 8,197	$ (9)	$ 8,188
Pension and postretirement plans, net of tax	79	(3)	76	238	(8)	230
Other comprehensive income (loss), net of tax	764	(3)	761	(333)	(8)	(341)
Comprehensive income	4,899	(6)	4,893	7,864	(17)	7,847
Comprehensive income attributed to STRATTEC SECURITY CORPORATION	$ 3,537	$ (6)	$ 3,531	$ 6,438	$ (17)	$ 6,421

The correction of prior period amounts had no impact on total operating, investing, and financing activities on the Condensed Consolidated Statements of Cash Flows during the nine-month period ended March 27, 2022. In conjunction with the correction of the prior period amounts, the following footnotes, which were impacted by the above adjustments, were also corrected: Shareholders' Equity, Other (Expense) Income, net, Earnings Per Share, Pension and Postretirement Benefits, and Accumulated Other Comprehensive Loss.

Risks and Uncertainties

In December 2019, a novel strain of coronavirus (COVID-19) was reported in Wuhan, China. The coronavirus subsequently spread, and infections occurred in multiple countries around the world, including the United States. In March 2020, the World Health Organization recognized the COVID-19 outbreak as a pandemic based on the global spread of the disease, the severity of illnesses it causes and its effects on society. In response to the COVID-19 outbreak, the governments of many countries, states, cities and other geographic regions have taken preventative or protective actions, such as imposing restrictions on travel and business operations, and in certain cases, advising or requiring individuals to limit or forego their time outside of their homes or from participating in large group gatherings. Accordingly, the COVID-19 outbreak, as well as the recent conflict in the Ukraine, has severely restricted the level of economic activity in many countries, and continues to adversely impact global economic activity, including with respect to customer purchasing actions and supply chain continuity and disruption, and in particular the supply of semiconductor chips, transponders and related components to the automotive industry.

STRATTEC's operating performance is subject to global economic conditions, inflationary pressures and levels of consumer spending specifically within the automotive industry and its operating performance has been impacted by the lingering effects of the COVID-19 pandemic, the war in the Ukraine, global inflationary conditions and the rising interest rate environment, some of which are described above. During the period from late March 2020 through mid-June 2020, the majority of our OEM customer assembly plant operations were completely closed including most of the supply chain. Additionally, during most of this same period, STRATTEC's Mexico facilities were closed as a result of the Mexican government's shutdown of non-essential businesses. Re-opening of our OEM customer facilities and our Mexico facilities began in June 2020, and the automotive industry continued to ramp-up throughout our fiscal year ended June 27, 2021. Nonetheless, during the fourth quarter of our fiscal 2021, our net sales were negatively impacted by a global semiconductor chip shortage (especially as it relates to the automotive industry), which shortage continued into our fiscal 2022. Although semiconductor chip availability improved during the first nine months of our fiscal 2023 relative to our fiscal 2022, negative impacts of the shortage continue to affect STRATTEC, specifically as it pertains to aftermarket products, which trail the prioritization of component production for production vehicles in the allocation of semiconductor chips. Additionally, rising interest rates and global inflationary pressures resulted in increased raw material and purchased part costs during our fiscal 2023 year to date period, as well as higher labor costs associated with mandatory minimum wage increases in Mexico beginning in calendar 2021. Such increases negatively impacted our operating results in our fiscal 2022 and continued to escalate during the first nine months of our fiscal 2023.

Each of the COVID-19 outbreak, the Ukraine conflict and the resulting inflationary pressures in the U.S. and global economy, which have and continue to adversely impact pricing conditions for necessary raw materials and purchased components in our products, continue to adversely impact our operating results due mostly to the supply chain continuity and disruption issues noted above, and in particular related to the supply of semiconductor chips, transponders and related components to our customers in the automotive industry. The extent of such impacts, including related to their duration and intensity, depends upon any continued and lingering impacts from the COVID-19 outbreak, the length of the Ukraine conflict, and related regulatory or operating restraints, which may be precautionary, imposed by local governments and the private sector and by any continuing elevated interest rates and inflationary pressures in the U.S. and global economies. All of these events may continue to impact the supply chain and our operations, including impacting our customers, workforce and suppliers, any of which may continue to disrupt and limit sourcing of semiconductor chips, transponders and other critical supply chain components needed by us and our customers to meet expected production schedules. Moreover, these events may continue to create added inflationary pressures on our operations, including related to wages and the prices of raw materials and purchased parts. All of these foregoing matters, including their scope and duration are uncertain and cannot be predicted as to timing and cost impacts. These changing conditions may also affect the estimates and assumptions made by our management in our financial statements. Such estimates and assumptions affect, among other things, our long-lived asset valuations, equity investment valuation, assessment of our annual effective tax rate, valuation of deferred income taxes, assessment of excess and obsolete inventory reserves, and assessment of collectability of trade receivables.

Our current revolving credit facilities, as discussed further under Credit Facilities, expire August 1, 2024. We rely on our credit facilities to provide us with adequate working capital to operate our business and fund our capital expenditures. Further escalation of the aforementioned global inflationary pressures on our operating results may impact our ability to achieve our covenants in the short term and our ability to negotiate favorable terms in the long term, including interest rates and debt covenants, in the extension of our current credit facility.

New Accounting Standard

In June 2016, the FASB issued ASU 2016-13, *Financial instruments – Credit Losses*. This update revises the methodology for measuring credit losses on financial instruments and the timing of when such losses are recorded. Originally, the update was effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. In November 2019, the FASB issued ASU 2019-10, *Financial instruments – Credit Losses, Derivatives and Hedging Activities, and Leases*. This ASU defers the effective date of ASU 2016-13 for public companies that are considered smaller reporting companies as defined by the SEC to fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. We are planning to adopt this standard in the first quarter of our fiscal 2024. We do not expect that the adoption of this guidance will have a material impact on our consolidated financial statements.

Subsequent Event

On April 4, 2023, we entered into a lease amendment related to our El Paso, Texas finished goods and service parts distribution warehouse. The agreement included a lease modification that changed future payments for the existing premises. The lease modification resulted in a $1.8 million increase to both our right of use asset and lease liability included in our Condensed Consolidated Balance Sheet as of the modification date.

Derivative Instruments

We own and operate manufacturing operations in Mexico. As a result, a portion of our manufacturing costs are incurred in Mexican pesos, which causes our earnings and cash flows to fluctuate due to changes in the U.S. dollar/Mexican peso exchange rate. We have contracts with Bank of Montreal that provide for monthly Mexican peso currency forward contracts for a portion of our estimated peso denominated operating costs. Our objective in entering into currency forward contracts from time to time is to minimize our earnings volatility resulting from changes in exchange rates affecting the U.S. dollar cost of our Mexican operations. The Mexican peso forward contracts are not used for speculative purposes and are not designated as hedges. As a result, all currency forward contracts are recognized in our accompanying condensed consolidated financial statements at fair value and changes in the fair value are reported in current earnings as part of Other (Expense) Income, net.

The following table quantifies the outstanding Mexican peso forward contracts as of April 2, 2023 (thousands of dollars, except with respect to the average forward contractual exchange rate):

	Effective Dates	Notional Amount	Average Forward Contractual Exchange Rate	Fair Value
Buy MXP/Sell USD	April 18, 2023 - June 13, 2023	$ 2,250	22.51	$ 534

The fair market value of all outstanding Mexican peso forward contracts in the accompanying Condensed Consolidated Balance Sheets as of the dates specified was as follows (thousands of dollars):

	April 2, 2023	July 3, 2022
Not Designated as Hedging Instruments:		
Other Current Assets:		
Mexican Peso Forward Contracts	$ 534	$ 627

The pre-tax effects of the Mexican peso forward contracts are included in Other (Expense) Income, net on the accompanying Condensed Consolidated Statements of (Loss) Income and Comprehensive Income (Loss) and consisted of the following for the periods indicated below (thousands of dollars):

	Three Months Ended		Nine Months Ended	
	April 2, 2023	March 27, 2022	April 2, 2023	March 27, 2022
Not Designated as Hedging Instruments:				
Realized Gain	$ 474	$ 83	$ 1,019	$ 267
Realized (Loss)	$ —	$ (18)	$ —	$ (67)
Unrealized (Loss) Gain	$ (70)	$ 724	$ (93)	$ 500

Fair Value of Financial Instruments

The fair value of our cash and cash equivalents, accounts receivable, accounts payable and borrowings under our credit facilities approximated book value as of April 2, 2023 and July 3, 2022. Fair value is defined as the exchange price that would be received for an asset or paid for a liability (an exit price) 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 April 2, 2023 (in thousands):

	Fair Value Inputs		
	Level 1 Assets: Quoted Prices In Active Markets	Level 2 Assets: Observable Inputs Other Than Market Prices	Level 3 Assets: Unobservable Inputs
Assets:			
Rabbi Trust Assets:			
Stock Index Funds:			
Small Cap	$ 153	$ —	$ —
Mid Cap	312	—	—
Large Cap	452	—	—
International	491	—	—
Fixed Income Funds	1,027	—	—
Cash and Cash Equivalents	—	113	—
Mexican Peso Forward Contracts	—	534	—
Total Assets at Fair Value	$ 2,435	$ 647	$ —

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.

Investment in Joint Ventures and Majority Owned Subsidiaries

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

The Alliance Agreements include a set of cross-licensing agreements for the manufacture, distribution and sale of WITTE products by STRATTEC and ADAC in North America, and the manufacture, distribution and sale of STRATTEC and ADAC products by WITTE in Europe. Additionally, a joint venture company, Vehicle Access Systems Technology LLC ("VAST LLC"), in which WITTE, STRATTEC and ADAC each hold a one-third interest, exists to seek opportunities to manufacture and sell each company's products in areas of the world outside of North America and Europe. As a result of these relationships, the entities involved purchase products from each other on an as needed basis to use as components in end products assembled and sold in their respective home markets. STRATTEC currently purchases such component parts from WITTE. These purchases totaled $240,000 and $515,000 during the three- and nine- month periods ended April 2, 2023, and $200,000 and $615,000 during the three- and nine- month periods ended March 27, 2022.

VAST LLC has investments in Sistema de Acesso Veicular Ltda, VAST Fuzhou, VAST Great Shanghai, VAST Shanghai Co., VAST Jingzhou Co. Ltd., and Minda-VAST Access Systems. Sistema de Acesso Veicular Ltda is located in Brazil and services customers in South America. VAST Fuzhou, VAST Great Shanghai, VAST Shanghai Co., and VAST Jingzhou Co. Ltd. (collectively known as VAST China), provide a base of operations to service each VAST partner's automotive customers in the Asian market. Minda-VAST Access Systems is based in Pune, India and is a 50:50 joint venture between VAST LLC and Minda Management Services Limited, an affiliate of both Minda Corporation Limited and Spark Minda, Ashok Minda Group of New Delhi, India (collectively "Minda"). Minda and its affiliates cater to the needs of all major car, motorcycle, commercial vehicle, tractor and off-road vehicle manufacturers in India. They are a leading manufacturer in the Indian marketplace of security & access products, handles, automotive safety, restraint systems, driver information and telematics systems for both OEMs and the aftermarket. VAST LLC also maintains branch offices in South Korea and Japan in support of customer sales and engineering requirements.

The VAST LLC investments are accounted for using the equity method of accounting and the results of the VAST LLC foreign subsidiaries and joint venture are reported on a one-month lag basis. The activities related to the VAST LLC foreign subsidiaries and joint venture resulted in equity earnings of joint ventures to STRATTEC of $1.9 million during the nine-month period ended April 2, 2023 and $941,000 during the nine-month period ended March 27, 2022. During the nine months ended April 2, 2023, capital contributions totaling $711,000 were made to VAST for purposes of funding operations in Brazil. STRATTEC's portion of the capital contributions totaled $237,000. During the nine months ended March 27, 2022, capital contributions totaling $225,000 were made to VAST for purposes of funding operations in Brazil. STRATTEC's portion of the capital contributions totaled $75,000.

ADAC-STRATTEC LLC, a Delaware limited liability company, was formed in fiscal year 2007 to support injection molding and door handle assembly operations in Mexico. ADAC-STRATTEC LLC was 51 percent owned by STRATTEC and 49 percent owned by ADAC for all periods presented in this report. An additional Mexican entity, ADAC-STRATTEC de Mexico, is wholly owned by ADAC-STRATTEC LLC. ADAC-STRATTEC LLC's financial results are consolidated with the financial results of STRATTEC and resulted in increased net sales and reduced net income to STRATTEC of approximately $89.4 million and $1.8 million, respectively, during the nine-month period ended April 2, 2023 and increased net sales and reduced net income to STRATTEC of approximately $81.2 million and $98,000, respectively, during the nine-month period ended March 27, 2022. ADAC charges ADAC STRATTEC LLC an engineering, research and design fee as well as a sales fee. Such fees are calculated as a percentage of net sales, are included in the consolidated results of STRATTEC, and totaled $2.2 million and $6.3 million in the three- and nine-month periods ended April 2, 2023 and $2.1 million and $5.7 million in the three- and nine-month periods ended March 27, 2022. Effective January 1, 2023, ADAC and STRATTEC have agreed to suspend the payment of these fees as needed to comply with debt covenant provisions included in the ADAC-STRATTEC LLC credit facility described in greater detail below. Additionally, ADAC-STRATTEC LLC sells production parts to ADAC. Sales to ADAC are included in the consolidated results of STRATTEC and totaled $3.1 million and $8.4 million in the three- and nine-month periods ended April 2, 2023 and $2.9 million and $6.0 million in the three- and nine-month periods ended March 27, 2022.

STRATTEC POWER ACCESS LLC (“SPA”) was originally formed in fiscal year 2009 to supply the North American portion of the power sliding door, lift gate, tail gate and deck lid system access control products some of which were acquired from Delphi Corporation in 2009. SPA was 80 percent owned by STRATTEC and 20 percent owned by WITTE for all periods presented in this report. An additional Mexican entity, STRATTEC POWER ACCESS de Mexico, is wholly owned by SPA. The financial results of SPA are consolidated with the financial results of STRATTEC and resulted in increased net sales and increased net income to STRATTEC of approximately $82.3 million and $1.9 million, respectively, during the nine-month period ended April 2, 2023 and $68.3 million and $3.8 million, respectively, during the nine-month period ended March 27, 2022.

Equity Earnings of Joint Ventures

As discussed above under Investment in Joint Ventures and Majority Owned Subsidiaries, we hold a one-third interest in a joint venture company, VAST LLC. Our investment in VAST LLC, for which we exercise significant influence but do not control and is not a variable interest entity of STRATTEC, is accounted for using the equity method. The results of the VAST LLC foreign subsidiaries and joint venture are reported on a one-month lag basis. We assess the impairment of equity investments whenever events or changes in circumstances indicate that a decrease in value of the investment has occurred that is other than temporary.

During the quarter ended March 27, 2022, VAST China experienced a fire at their Taicang plant. As a result, certain door handle and painting operations were temporarily transferred to their Jingzhou facility and another supplier. The transfer of production negatively impacted VAST China's profitability for the quarter ended March 27, 2022.

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

	Three Months Ended		Nine Months Ended	
	April 2, 2023	March 27, 2022	April 2, 2023	March 27, 2022
Net Sales	$ 44,989	$ 55,281	$ 168,088	$ 153,454
Cost of Goods Sold	36,471	46,418	138,222	127,022
Gross Profit	8,518	8,863	29,866	26,432
Engineering, Selling and Administrative Expenses	6,872	7,575	24,631	24,075
Income From Operations	1,646	1,288	5,235	2,357
Other Income, net	1,167	692	1,625	1,085
Income before Provision for Income Taxes	2,813	1,980	6,860	3,442
Provision for Income Taxes	360	239	1,110	614
Net Income	$ 2,453	$ 1,741	$ 5,750	$ 2,828
STRATTEC's Share of VAST LLC Net Income	818	581	1,917	943
Intercompany Profit Elimination	1	(4)	17	(2)
STRATTEC’s Equity Earnings of VAST LLC	$ 819	$ 577	$ 1,934	$ 941

We have sales of component parts to VAST 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 table summarizes these related party transactions with VAST LLC for the periods indicated below (in thousands):

	Three Months Ended		Nine Months Ended	
	April 2, 2023	March 27, 2022	April 2, 2023	March 27, 2022
Sales to VAST LLC	$ 6	$ 316	$ 33	$ 1,533
Purchases from VAST LLC	$ 12	$ 6	$ 39	$ 157
Expenses Charged to VAST LLC	$ 59	$ 134	$ 301	$ 512
Expenses Charged from VAST LLC	$ 191	$ 151	$ 643	$ 593

Leases

We have an operating lease for our El Paso, Texas finished goods and service parts distribution warehouse that has a current lease term through October 2023. This lease includes renewal terms that can extend the lease term for five additional years. For purposes of calculating operating lease obligations, we included the option to extend the lease as it is reasonably certain that we will exercise such option. The lease does not contain material residual value guarantees or restrictive covenants. Operating lease expense is recognized on a straight-line basis over the lease term. Refer to Subsequent Event included in these Notes to Condensed Consolidated Financial Statements for additional information regarding extension of this lease term.

As the lease does not provide an implicit rate, we used our incremental borrowing rate at lease commencement to determine the present value of our lease payments. The incremental borrowing rate is an entity-specific rate which represents the rate of interest we would pay to borrow over a similar term with similar payments. The operating lease asset and obligation related to our El Paso warehouse lease included in the accompanying Condensed Consolidated Balance Sheets are presented below (in thousands):

	April 2, 2023
Right-of Use Asset Under Operating Lease:	
Other Long-Term Assets	$ 2,721
Lease Obligation Under Operating Lease:	
Current Liabilities: Accrued Liabilities: Other	$ 415
Other Long-Term Liabilities	2,306
	$ 2,721

Future minimum lease payments, by our fiscal year, including options to extend that are reasonably certain to be exercised, under this non-cancelable lease are as follows as of April 2, 2023 (in thousands):

2023 (for the remaining three months)	$ 125
2024	509
2025	522
2026	535
2027	548
Thereafter	751
Total Future Minimum Lease Payments	2,990
Less: Imputed Interest	(269)
Total Lease Obligations	$ 2,721

Cash flow information related to the operating lease is shown below (in thousands):

	Nine Months Ended	
	April 2, 2023	March 27, 2022
Operating Cash Flows:		
Cash Paid Related to Operating Lease Obligation	$ 372	$ 362

The weighted average lease term and discount rate for the El Paso, Texas operating lease are shown below:

	April 2, 2023
Weighted Average Remaining Lease Term (in years)	5.6
Weighted Average Discount Rate	3.3 %

Operating lease expense for the three- and nine-month periods ended April 2, 2023 totaled $125,000 and $372,000, respectively. Operating lease expense for the three- and nine-month periods ended March 27, 2022 totaled $122,000 and $362,000, respectively.

Credit Facilities

STRATTEC has a $40 million secured revolving credit facility (the “STRATTEC Credit Facility”) with BMO Harris Bank N.A. ADAC-STRATTEC LLC has a $25 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, 2024. Borrowings under either credit facility are secured by our U.S. cash balances, accounts receivable, inventory, and fixed assets. Interest on borrowings under the STRATTEC Credit Facility were at varying rates based, at our option, on LIBOR plus 1.25 percent or the bank’s prime rate through February 22, 2023. Interest on borrowings under the ADAC-STRATTEC Credit Facility were at varying rates based, at our option, on LIBOR plus 1.25 percent or the bank’s prime rate through February 6, 2023. Subsequent to these dates, interest on borrowings under both credit facilities were at varying rates based, at our option, on SOFR plus 1.35 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 April 2, 2023, we were in compliance with all other financial covenants required by these credit facilities.

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

	April 2, 2023	July 3, 2022
STRATTEC Credit Facility	$ 8,000	$ —
ADAC-STRATTEC Credit Facility	13,000	11,000
	$ 21,000	$ 11,000

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

	Nine Months Ended			
	Average Outstanding Borrowings		Weighted Average Interest Rate	
	April 2, 2023	March 27, 2022	April 2, 2023	March 27, 2022
STRATTEC Credit Facility	$ 3,755	$ 421	5.1%	1.9%
ADAC-STRATTEC Credit Facility	$ 12,234	$ 14,784	4.9%	1.4%

Commitments and Contingencies

We are from time to time subject to various legal actions and claims incidental to our business, including those arising out of alleged defects, alleged breaches of contracts, product warranties, intellectual property matters and employment related matters. It is our opinion that the outcome of such matters will not have a material adverse impact on our consolidated financial position, results of operations or cash flows. With respect to warranty matters, although we cannot ensure that future costs of warranty claims by customers will not be material, we believe our established reserves are adequate to cover potential warranty settlements.

In 1995, we recorded a provision for estimated costs to remediate an environmental contamination site at our Milwaukee facility. The facility 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, in fiscal years 2010, 2016, and 2021, we obtained updated third party estimates of projected costs to adequately cover the cost for active remediation of this contamination and adjusted the reserve as needed. We monitor and evaluate the site with the use of 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 our estimated cost of active remediation. The reserve is not measured on a discounted basis. We believe, based on findings-to-date and known environmental regulations, that the environmental reserve of $1.4 million at April 2, 2023 is adequate.

Shareholders' Equity

A summary of activity impacting shareholders' equity for the three- and nine-month periods ended April 2, 2023 and March 27, 2022 were as follows (in thousands):

	Three months ended April 2, 2023						
	Total Shareholders' Equity	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Non-Controlling Interest
Balance, January 1, 2023	$ 217,676	$ 75	$ 102,520	$ 239,255	$ (19,226)	$ (135,556)	$ 30,608
Net Loss	(3,287)	—	—	(2,256)	—	—	(1,031)
Translation Adjustments	3,451	—	—	—	2,304	—	1,147
Stock Based Compensation	265	—	265	—	—	—	—
Pension and Postretirement Adjustment, Net of Tax	350	—	—	—	350	—	—
Employee Stock Purchases	18	—	4	—	—	14	—
Balance, April 2, 2023	$ 218,473	$ 75	$ 102,789	$ 236,999	$ (16,572)	$ (135,542)	$ 30,724

	Three months ended March 27, 2022						
	Total Shareholders' Equity	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Non-Controlling Interest
Balance, December 26, 2021	$ 216,424	$ 75	$ 100,768	$ 237,442	$ (17,513)	$ (135,599)	$ 31,251
Net Income	4,132	—	—	3,143	—	—	989
Dividend Declared – Non-controlling Interests of Subsidiaries	(600)	—	—	—	—	—	(600)
Translation Adjustments	685	—	—	—	312	—	373
Stock Based Compensation	239	—	239	—	—	—	—
Pension and Postretirement Adjustment, Net of Tax	76	—	—	—	76	—	—
Stock Option Exercises	227	—	227	—	—	—	—
Employee Stock Purchases	18	—	10	—	—	8	—
Balance, March 27, 2022	$ 221,201	$ 75	$ 101,244	$ 240,585	$ (17,125)	$ (135,591)	$ 32,013

	Nine months ended April 2, 2023						
	Total Shareholders' Equity	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Non-Controlling Interest
Balance, July 3, 2022	$ 219,947	$ 75	$ 101,524	$ 240,969	$ (18,588)	$ (135,580)	$ 31,547
Net Loss	(5,865)	—	—	(3,970)	—	—	(1,895)
Dividend Declared – Non-controlling Interests of Subsidiaries	(600)	—	—	—	—	—	(600)
Translation Adjustments	3,198	—	—	—	1,526	—	1,672
Stock Based Compensation	1,139	—	1,139	—	—	—	—
Pension and Postretirement Adjustment, Net of Tax	490	—	—	—	490	—	—
Stock Option Exercises	109	—	109	—	—	—	—
Employee Stock Purchases	55	—	17	—	—	38	—
Balance, April 2, 2023	$ 218,473	$ 75	$ 102,789	$ 236,999	$ (16,572)	$ (135,542)	$ 30,724

	Nine months ended March 27, 2022						
	Total Shareholders' Equity	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Non-Controlling Interest
Balance, June 27, 2021	$ 212,797	$ 74	$ 99,512	$ 233,953	$ (16,914)	$ (135,615)	$ 31,787
Net Income	8,188	—	—	6,632	—	—	1,556
Dividend Declared – Non-controlling Interests of Subsidiaries	(1,200)	—	—	—	—	—	(1,200)
Translation Adjustments	(571)	—	—	—	(441)	—	(130)
Stock Based Compensation	873	—	873	—	—	—	—
Pension and Postretirement Adjustment, Net of Tax	230	—	—	—	230	—	—
Stock Option Exercises	827	1	826	—	—	—	—
Employee Stock Purchases	57	—	33	—	—	24	—
Balance, March 27, 2022	$ 221,201	$ 75	$ 101,244	$ 240,585	$ (17,125)	$ (135,591)	$ 32,013

Revenue from Contracts with Customers

We generate revenue from the production of parts sold to automotive and light-truck Original Equipment Manufacturers ("OEMs"), or Tier 1 suppliers at the direction of the OEM, under long-term supply agreements supporting new vehicle production. Such agreements also require related production of service parts subsequent to the initial vehicle production periods. Additionally, we generate revenue from the production of parts sold in aftermarket service channels and to non-automotive commercial customers.

Contract Balances:

We have no material contract assets or contract liabilities as of April 2, 2023 or July 3, 2022.

Revenue by Product Group and Customer:

Revenue by product group for the periods presented was as follows (thousands of dollars):

	Three Months Ended		Nine Months Ended	
	April 2, 2023	March 27, 2022	April 2, 2023	March 27, 2022
Door Handles & Exterior Trim	$ 30,834	$ 29,313	$ 89,384	$ 81,211
Power Access	31,046	23,675	82,332	68,344
Keys & Locksets	27,625	28,230	81,006	77,725
Latches	14,150	12,760	42,570	34,782
Aftermarket & OE Service	11,345	11,421	31,486	34,731
User Interface Controls (formerly Driver Controls)	9,989	8,525	27,727	25,317
Other	2,194	2,019	6,222	7,082
	$ 127,183	$ 115,943	$ 360,727	$ 329,192

Revenue by customer or customer group for the periods presented was as follows (thousands of dollars):

	Three Months Ended		Nine Months Ended	
	April 2, 2023	March 27, 2022	April 2, 2023	March 27, 2022
General Motors Company	$ 37,537	$ 34,738	$ 111,221	$ 91,551
Ford Motor Company	23,293	19,162	70,058	57,927
Stellantis	21,610	23,047	55,760	62,657
Tier 1 Customers	19,742	15,279	53,134	42,861
Commercial and Other OEM Customers	13,839	16,518	41,799	50,120
Hyundai / Kia	11,162	7,199	28,755	24,076
	$ 127,183	$ 115,943	$ 360,727	$ 329,192

Other (Expense) Income, net

Net other (expense) income included in the accompanying Condensed Consolidated Statements of (Loss) Income and Comprehensive Income (Loss) primarily included foreign currency transaction gains and losses, realized and unrealized gains or losses on our Mexican peso currency forward contracts, net periodic pension and postretirement benefit costs, other than the service cost component, related to our Supplemental Executive Retirement Plan (“SERP”) and postretirement plans 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. We entered into the Mexican Peso currency forward contracts described above to reduce earnings volatility resulting from changes in exchange rates affecting the U.S. dollar cost of our Mexican operations. Unrealized gains and losses on the peso forward contracts recognized as a result of mark-to-market adjustments as of April 2, 2023 may or may not be realized in future periods, depending on the actual Mexican peso to U.S. dollar exchange rates experienced during the balance of the contract period. 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		Nine Months Ended	
	April 2, 2023	March 27, 2022	April 2, 2023	March 27, 2022
Foreign Currency Transaction Loss	$ (1,529)	$ (319)	$ (2,114)	$ (76)
Unrealized (Loss) Gain on Peso Forward Contracts	(70)	724	(93)	500
Realized Gain on Peso Forward Contracts, net	474	65	1,019	200
Pension and Postretirement Plans Cost	(344)	(123)	(604)	(372)
Rabbi Trust Gain (Loss)	108	(130)	131	(60)
Other	138	65	197	116
	$ (1,223)	$ 282	$ (1,464)	$ 308

Warranty

We have a warranty liability recorded related to our known and potential exposure to warranty claims in the event our products fail to perform as expected, and in the event we may be required to participate in the repair costs incurred by our customers for such products. The recorded liability balance involves judgement and estimates. Our liability estimate is based on analysis of historical warranty data as well as current trends and information, including our customers recent extension and /or expansion of their warranty programs. In recent fiscal periods, our largest customers have extended their warranty protection for their vehicles and have since demanded higher warranty cost sharing arrangements from their suppliers in their terms and conditions to purchase, including from STRATTEC. As additional information becomes available, actual results may differ from recorded estimates, which may require us to adjust the amount of our warranty provision. During the quarter ended April 2, 2023, we recorded a warranty provision of $1.3 million associated with a customer's specific warranty claim involving our product.

During the quarter ended January 1, 2023, we received notice that a product we shipped failed to perform as the customer expected. While it is probable we will incur costs related to this matter, it is not possible to reasonably estimate those costs based on limited information available, including uncertainty as to STRATTEC's responsibility and the responsibility of STRATTEC's supplier in the matter, as of the date of filing of this Form 10-Q. As additional information related to this matter becomes available, we may need to record additional warranty provisions.

Income Taxes

Our effective tax rate was (4.2)% and 1.2% for the three months ended April 2, 2023 and March 27, 2022, respectively. Our effective tax rate was 21.8% and 4.0% for the nine-month periods ended April 2, 2023 and March 27, 2021, respectively. The effective tax rate for the three-month period ended April 2, 2023 was impacted by an increase in our fiscal year pre-tax net loss estimate as of the end of the current year quarter as compared to our estimate as of January 1, 2023. Our effective tax rate in the three- and nine-month periods ended March 27, 2022 was impacted by adjustments we made to the amounts of our fiscal 2021 estimated foreign tax credits and estimated tax impacts associated with our investment in VAST LLC. These true-up adjustments resulted from the filing of our US income tax returns during the quarter ended March 27, 2022 and were attributable to actual results included in non-US income tax returns, which are filed on a calendar year basis, and which differ from estimates included in our fiscal 2021 tax provision. The adjustment amounts recorded during the three- and nine-month periods ended March 27, 2022 totaled $740,000 and $1.0 million, respectively. Our effective tax rate for the three- and nine-month periods ended March 27, 2022 excluding these adjustments were 18.9 percent and 15.7 percent, respectively. Our effective tax rate differs from the statutory tax rate due to the application of the Global Intangible Low Taxed Income (GILTI) tax provisions, our available R&D tax credit and the non-controlling interest portion of our pre-tax income. The non-controlling interest portion impacts the effective tax rate as ADAC-STRATTEC LLC and STRATTEC POWER ACCESS LLC entities are taxed as partnerships for U.S. tax purposes.

(Loss) Earnings Per Share

Basic (loss) earnings per share is computed on the basis of the weighted average number of shares of common stock outstanding during the applicable period. Diluted (loss) 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					
	April 2, 2023			March 27, 2022		
	Net Loss	Shares	Per-Share Amount	Net Income	Shares	Per-Share Amount
Basic (Loss) Earnings Per Share	$ (2,256)	3,928	$ (0.57)	$ 3,143	3,871	$ 0.81
Stock Option and Restricted Stock Awards	—	—		—	45	
Diluted (Loss) Earnings Per Share	$ (2,256)	3,928	$ (0.57)	$ 3,143	3,916	$ 0.80

	Nine Months Ended					
	April 2, 2023			March 27, 2022		
	Net Loss	Shares	Per-Share Amount	Net Income	Shares	Per-Share Amount
Basic (Loss) Earnings Per Share	$ (3,970)	3,918	$ (1.01)	$ 6,632	3,856	$ 1.72
Stock Option and Restricted Stock Awards	—	—		—	50	
Diluted (Loss) Earnings Per Share	$ (3,970)	3,918	$ (1.01)	$ 6,632	3,906	$ 1.70

The calculation of (loss) earnings per share excluded 125,871 share-based payment awards as of April 2, 2023 and 9,010 share-based payment awards as of March 27, 2022 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 April 2, 2023, the Board of Directors had designated 2 million shares of common stock available for the grant of awards under the plan. Remaining shares available to be granted under the plan as of April 2, 2023 were 134,769. 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 associates 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 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 as determined by the Compensation Committee of the Board of Directors. 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 one year from the date of grant. Unvested restricted shares granted have voting rights, regardless of whether the shares are vested or unvested, but only have the right to receive cash dividends after such shares become vested. Restricted stock grants vest 1 to 3 years after the date of grant as determined by the Compensation Committee of the Board of Directors.

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

A summary of stock option activity under our stock incentive plan for the nine months ended April 2, 2023 follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Balance, July 3, 2022	41,172	$ 46.34		
Exercised	(4,251)	$ 25.64		
Forfeited	(4,360)	$ 47.55		
Balance, April 2, 2023	32,561	$ 48.88	0.6	—
Exercisable, April 2, 2023	32,561	$ 48.88	0.6	—

The intrinsic value of stock options exercised and the fair value of stock options that vested during the three- and nine-month periods presented below were as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	April 2, 2023	March 27, 2022	April 2, 2023	March 27, 2022
Intrinsic Value of Options Exercised	$ —	$ 120	$ 31	$ 451
Fair Value of Stock Options Vesting	$ —	$ —	$ —	$ —

No options were granted during the nine-month periods ended April 2, 2023 or March 27, 2022.

A summary of restricted stock activity under our stock incentive plan for the nine months ended April 2, 2023 follows:

	Shares	Weighted Average Grant Date Fair Value
Nonvested Balance, July 3, 2022	85,100	$ 31.89
Granted	49,050	$ 29.91
Vested	(44,750)	$ 29.00
Forfeited	(1,500)	$ 32.03
Nonvested Balance, April 2, 2023	87,900	$ 32.09

As of April 2, 2023, all compensation cost related to outstanding stock options granted under our omnibus stock incentive plan has been recognized. As of April 2, 2023, there was approximately $1.6 million of total unrecognized compensation cost related to unvested restricted stock grants outstanding under the plan. This cost is expected to be recognized over a remaining weighted average period of 1 year. Total unrecognized compensation cost will be adjusted for any future changes in estimated and actual forfeitures of awards granted under our omnibus stock incentive plan.

Pension and Postretirement Benefits

We have a noncontributory Supplemental Executive Retirement Plan (“SERP”), which is a nonqualified defined benefit plan. The SERP is funded through a Rabbi Trust with TMI Trust Company. Under the SERP, as amended December 31, 2013, participants received an accrued lump-sum benefit as of December 31, 2013, which was credited to each participant’s account. Subsequent to December 31, 2013, each eligible participant receives a supplemental retirement benefit equal to the foregoing lump sum benefit, plus an annual benefit accrual equal to 8 percent of the participant’s base salary and cash bonus, plus annual credited interest on the participant’s account balance. All then current participants as of December 31, 2013 are fully vested in their account balances with any new individuals participating in the SERP effective on or after January 1, 2014 being subject to a five-year vesting period. The SERP, which is considered a nonqualified defined benefit plan under applicable rules and regulations of the Internal Revenue Code, will continue to be funded through use of a Rabbi Trust to hold investment assets to be used in part to fund any future required lump sum benefit payments to participants. During our fiscal 2023 third quarter, SERP benefits of $863,000 were cash settled using Rabbi trust assets. We incurred a related settlement charge to operations of $217,000 pre-tax in our fiscal third quarter as a result of the requirement to expense a portion of the unrealized actuarial losses due to the settlement of the SERP obligation. The Rabbi Trust assets had a value of $2.5 million at April 2, 2023 and $3.3 million at July 3, 2022. At April 2, 2023, the Rabbi Trust asset balance was included in Other Long-Term Assets in the accompanying Condensed Consolidated Balance Sheets. At July 3, 2022, $863,000 of the Rabbi Trust asset balance was included in Other Current Assets and the remaining balance was included in Other Long-Term Assets in the accompanying Condensed Consolidated Balance Sheets.

We also sponsor a postretirement health care plan for all current and future eligible U.S. retirees hired prior to June 1, 2001. The expected cost of retiree health care benefits is recognized during the years the associates who are covered under the plan render service. Effective January 1, 2010, an amendment to the postretirement health care plan limited the benefit for future eligible retirees to $4,000 per plan year and the benefit is further subject to a maximum five-year coverage period based on the associate's retirement date and age. The postretirement health care plan is unfunded. Additionally, we sponsor a postretirement life plan for all U.S. salaried retirees who retired prior to October 1, 2001 and all U.S. hourly retirees who were hired prior to June 27, 2005 and retired prior to January 1, 2010. The benefit provides for a death benefit of $8,000, which is increased to $70,000 for disability retirees until reaching the age of 65, in which case the death benefit decreased to $8,000. The postretirement life plan is unfunded. See "Basis of Financial Statements" above for additional information regarding certain matters related to recording a liability adjustment for the death benefit owed to eligible participants under the postretirement life plan.

The service cost component of the net periodic benefit costs under these plans is allocated between Cost of Goods Sold and Engineering, Selling and Administrative Expenses while the remaining components of the net periodic benefit costs are included in Other (Expense) Income, net in the accompanying Condensed Consolidated Statements of (Loss) Income and Comprehensive Income (Loss).

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

	SERP Benefits		Postretirement Benefits	
	Three Months Ended		Three Months Ended	
	April 2, 2023	March 27, 2022	April 2, 2023	March 27, 2022
Service Cost	$ 21	$ 15	$ 3	$ 3
Interest Cost	24	15	16	8
Plan Settlements	217	—	—	—
Amortization of Unrecognized Net Loss	25	20	61	80
Net Periodic Benefit Cost	$ 287	$ 50	$ 80	$ 91

	SERP Benefits		Postretirement Benefits	
	Nine Months Ended		Nine Months Ended	
	April 2, 2023	March 27, 2022	April 2, 2023	March 27, 2022
Service Cost	$ 60	$ 46	$ 8	$ 9
Interest Cost	71	40	47	31
Plan Settlements	217	—	—	—
Amortization of Unrecognized Net Loss	87	63	182	238
Net Periodic Benefit Cost	$ 435	$ 149	$ 237	$ 278

Accumulated Other Comprehensive Loss

The following tables summarize the changes in accumulated other comprehensive loss ("AOCL") for each period presented (in thousands):

	Three Months Ended April 2, 2023		
	Foreign Currency Translation Adjustments	Retirement and Postretirement Benefit Plans	Total
Balance, January 1, 2023	$ 17,511	$ 1,715	$ 19,226
Other Comprehensive Income Before Reclassifications	(3,451)	(371)	(3,822)
Income Tax	—	87	87
Net Other Comprehensive Income Before Reclassifications	(3,451)	(284)	(3,735)
Reclassifications:			
Unrecognized Net Loss (A)	—	(86)	(86)
Income Tax	—	20	20
Net Reclassifications	—	(66)	(66)
Other Comprehensive Income	(3,451)	(350)	(3,801)
Other Comprehensive Income Attributable to Non-Controlling Interest	(1,147)	—	(1,147)
Balance, April 2, 2023	$ 15,207	$ 1,365	$ 16,572

	Three Months Ended March 27, 2022		
	Foreign Currency Translation Adjustments	Retirement and Postretirement Benefit Plans	Total
Balance, December 26, 2021	$ 15,436	$ 2,077	$ 17,513
Other Comprehensive Income Before Reclassifications	(1,291)	—	(1,291)
Income Tax	606	—	606
Net Other Comprehensive Income Before Reclassifications	(685)	—	(685)
Reclassifications:			
Unrecognized Net Loss (A)	—	(100)	(100)
Income Tax	—	24	24
Net Reclassifications	—	(76)	(76)
Other Comprehensive Income	(685)	(76)	(761)
Other Comprehensive Income Attributable to Non-Controlling Interest	(373)	—	(373)
Balance, March 27, 2022	$ 15,124	$ 2,001	$ 17,125

	Nine Months Ended April 2, 2023		
	Foreign Currency Translation Adjustments	Retirement and Postretirement Benefit Plans	Total
Balance, July 3, 2022	$ 16,733	$ 1,855	$ 18,588
Other Comprehensive Income Before Reclassifications	(3,198)	(371)	(3,569)
Income Tax	—	87	87
Net Other Comprehensive Income Before Reclassifications	(3,198)	(284)	(3,482)
Reclassifications:			
Unrecognized Net Loss (A)	—	(269)	(269)
Income Tax	—	63	63
Net Reclassifications	—	(206)	(206)
Other Comprehensive Income	(3,198)	(490)	(3,688)
Other Comprehensive Income Attributable to Non-Controlling Interest	(1,672)	—	(1,672)
Balance, April 2, 2023	$ 15,207	$ 1,365	$ 16,572

	Nine Months Ended March 27, 2022		
	Foreign Currency Translation Adjustments	Retirement and Postretirement Benefit Plans	Total
Balance, June 27, 2021	$ 14,683	$ 2,231	$ 16,914
Other Comprehensive Loss Before Reclassifications	(35)	—	(35)
Income Tax	606	—	606
Net Other Comprehensive Loss Before Reclassifications	571	—	571
Reclassifications:			
Unrecognized Net Loss (A)	—	(301)	(301)
Income Tax	—	71	71
Net Reclassifications	—	(230)	(230)
Other Comprehensive Loss	571	(230)	341
Other Comprehensive Loss Attributable to Non-Controlling Interest	130	—	130
Balance, March 27, 2022	$ 15,124	$ 2,001	$ 17,125

(A) Amounts reclassified are included in the computation of net periodic benefit cost, which is included in Other (Expense) Income, net in the accompanying Condensed Consolidated Statements of (Loss) Income and Comprehensive Income (Loss). See Pension and Postretirement Benefits note to these Notes to Condensed Consolidated Financial Statements above.

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 2022 Form 10-K, which was filed with the Securities and Exchange Commission on September 8, 2022. Also, refer to discussion of prior period corrections under Basis of Financial Statements included in the Notes to Condensed Consolidated Financial Statements in this Form 10-Q. Unless otherwise indicated, all references to quarters and years refer to fiscal quarters and fiscal years.

Outlook

Refer to discussion of Risks and Uncertainties included in the Notes to Condensed Consolidated Financial Statements beginning on page 8 of this Form 10-Q.

Starting during the fourth quarter of our fiscal year ended June 2020, the automotive industry has experienced significant volatility originally due to the COVID-19 pandemic which resulted in periods of shutdowns as well as a subsequent demand-led production recovery. During the fourth quarter of fiscal year 2021, we were also impacted by supply chain shortages in the automotive supply chain of critical electronic component parts, primarily semiconductor chips, and certain raw materials which impacted the production schedules for our customers and, therefore, our production levels and have, in turn, adversely impacted pricing for our raw materials and purchased components. These shortages continued throughout our fiscal 2022, which resulted in some of our customers temporarily closing several of their assembly plants or reducing their production schedules in North America.

While supply chain shortages continually improved over the first nine months of fiscal year 2023 relative to the prior year period, adverse inflationary pricing and wage conditions have persisted in spite of improvements in the supply chain. The sales outlook from our customers over the remainder of fiscal year 2023 continues to project a stable sales environment. However, this sales outlook is contingent on continued progress toward stability for supply chains post COVID-19 pandemic, and minimal disruption of the North American and overall global economy due to higher inflation and interest rates and the economic implications from the conflict in the Ukraine and other international political unrest, including any potential trade disruption stemming from U.S. / China geopolitical and economic relations.

From a gross profit margin perspective, we anticipate a continuation of an unfavorable Mexican peso to U.S. dollar exchange rate and inflationary pressures on purchased materials and labor for the remainder of fiscal year 2023 and into fiscal year 2024. Seeking pricing recovery from our customers for inflationary costs continues to be a prime focus of ours, however, given the long-term nature of our supply agreements, such negotiations are not customary and therefore, have outcomes that are difficult to predict.

Analysis of Results of Operations

Three months ended April 2, 2023 compared to the three months ended March 27, 2022

	Three Months Ended	
	April 2, 2023	March 27, 2022
Net Sales (in millions)	$ 127.2	$ 115.9

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

	Three Months Ended	
	April 2, 2023	March 27, 2022
General Motors Company	$ 37.5	$ 34.7
Ford Motor Company	23.4	19.2
Stellantis	21.6	23.0
Tier 1 Customers	19.7	15.3
Commercial and Other OEM Customers	13.9	16.5
Hyundai / Kia	11.1	7.2
	$ 127.2	$ 115.9

The quarter-over-quarter sales increase of $11.2 million was due to improved global semiconductor chip availability in the current year quarter relative to the prior year quarter. The following items specifically impacted sales to the above noted customer groups between quarters:

- Sales to General Motors Company, Ford Motor Company and Hyundai/Kia were positively impacted in the current year quarter due to higher vehicle production volumes resulting from improved global semiconductor chip availability relative to the prior year quarter. Sales growth to General Motors Company in the current year quarter was attributed to higher production volumes of their GMC and Chevrolet pickup trucks and certain SUVs for which we supply a wide range of components. Increased sales to Ford Motor Company in the current year quarter were due to higher production volumes of their F-Series Super Duty Pickup for which we supply a wide range of components. Sales to Hyundai / Kia increased quarter-over-quarter due to higher levels of production of the Kia Carnival minivan in the current year quarter as compared to the prior year quarter.
- The decrease in sales to Stellantis between quarters resulted primarily from its plant shutdowns in the current year quarter, which reduced production volumes compared to the prior year quarter especially as it related to the Chrysler Pacifica minivan, the Jeep Compass and the Dodge Ram pickup truck, as well as lower production volumes of their passenger car vehicles for which we supply components.
- Sales to Tier 1 Customers improved in the current year quarter compared to the prior year quarter due to higher vehicle production volumes relating to the improvement in semiconductor chip availability referenced above.
- Sales to Commercial and Other OEM Customers, which are comprised of aftermarket products and vehicle access control products, such as latches, fobs, driver controls and door handles, declined in the current year quarter as compared to the prior year quarter due to the allocation of available semiconductor chips toward the production of components for production vehicles, rather than these aftermarket products.

	Three Months Ended			
	April 2, 2023		March 27, 2022	
	Millions of Dollars	Percent of Cost of Goods Sold	Millions of Dollars	Percent of Cost of Goods Sold
Direct Material Costs	$ 77.6	66.2 %	$ 67.6	66.7 %
Labor and Overhead Costs	39.6	33.8 %	33.7	33.3 %
Total Cost of Goods Sold	$ 117.2		$ 101.3	

Total cost of goods sold increased $15.9 million between quarterly periods. The increase in labor and overhead costs and related reduction in direct material costs as a percentage of total cost of goods sold was the result of a warranty provision of $1.3 million recorded during the current year quarter based on additional information that became available during the current year quarter related to our share of the costs associated with a customer's specific warranty claim involving our product. Excluding this warranty provision, direct material as a percentage of total cost of goods sold was 67.0 percent and labor and overhead as a percentage of cost of goods sold was 33.0 percent for the quarter ended April 2, 2023. The increase in direct material costs and its related percentage of cost of goods sold between quarters was due to the aforementioned increase in sales, higher costs for purchased components and a shift toward products with a higher proportion of material costs as a percent of their total cost of goods sold.

Labor and overhead costs increased $5.9 million between quarters. Labor and overhead costs were impacted by the following:

Cost Increases:

- The U.S. dollar value of our Mexican operations was negatively impacted by approximately $1.9 million in the current year quarter as compared to the prior year quarter due to an unfavorable Mexican peso to U.S. dollar exchange rate between quarterly periods. The average U.S. dollar / Mexican peso exchange rate decreased to approximately 18.56 pesos to the dollar in the current year quarter from approximately 20.42 pesos to the dollar in the prior year quarter.
- Mexico wages and benefits increased $1.8 million in the current year quarter as compared to the prior year quarter as a result of a January 1, 2023 government mandated minimum wage increase.
- The current year quarter includes a $1.3 million warranty provision associated with a customer's specific warranty claim involving our product.
- Freight costs increased $700,000 between quarterly periods due to an increase in fuel costs and supply chain disruptions.

Cost Decrease:

- Royalty costs paid on sales of certain aftermarket products decreased $545,000 in the current year quarter as compared to the prior year quarter due to lower volumes in these aftermarket products stemming from the current semiconductor chip shortage.

	Three Months Ended	
	April 2, 2023	March 27, 2022
Gross Profit (in millions)	$ 10.0	$ 14.6
Gross Profit as a percentage of net sales	7.9 %	12.6 %

Gross profit dollars in the current year quarter decreased $4.6 million as compared to the prior year quarter driven by the aforementioned inflationary pressures on direct material and labor and overhead costs as well as by the strengthening of the Mexican peso against the U.S. dollar. The resulting decrease in gross profit as a percentage of net sales was 4.7 percentage points from the prior year quarter to the current year quarter.

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

	Three Months Ended	
	April 2, 2023	March 27, 2022
Expenses (in millions)	$ 12.5	$ 11.3
Expenses as a percentage of net sales	9.8 %	9.7 %

Engineering, selling and administrative expenses increased in the current year quarter as compared to the prior year quarter due to higher outside expenditures on new product development associated with utilizing third party vendors for a portion of our development work.

Loss from operations was $2.5 million in the current year quarter compared to income from operations of $3.4 million in the prior year quarter due a reduction in gross profit margin dollars and higher engineering, selling and administrative expenses between quarters, all as discussed above.

The equity earnings of joint ventures were $819,000 in the current year quarter compared to $577,000 in the prior year quarter. Improved profitability from our VAST LLC joint venture resulted from improved profitability in VAST China's operations between quarters. During the prior year quarter, VAST China experienced a fire at their Taicang plant. As a result, certain door handle and painting operations were temporarily transferred to their Jingzhou facility and another supplier. The transfer of production negatively impacted VAST China's profitability in the quarter ended March 27, 2022. We currently believe a presence in the China market is a key component of our global strategy. We anticipate that it will contribute to our overall long-term market and financial strength as the China market continues to expand and as it seeks to rebound from the ongoing impacts of the COVID-19 pandemic and resulting supply chain shortages of critical electronic component parts. Our VAST LLC joint venture in India continues to have near break-even operating results and our VAST LLC joint venture in Brazil continues to report losses.

Included in Other (Expense) Income, net in the current year quarter and prior year quarter were the following items (in thousands):

	Three Months Ended	
	April 2, 2023	March 27, 2022
Foreign Currency Transaction Loss	$ (1,529)	$ (319)
Unrealized (Loss) Gain on Peso Forward Contracts	(70)	724
Realized Gain on Peso Forward Contracts, net	474	65
Pension and Postretirement Plan Cost	(344)	(123)
Rabbi Trust Gain (Loss)	108	(130)
Other	138	65
	$ (1,223)	$ 282

Set forth below is a discussion of the items comprising certain of the components of our Other (Expense) Income, net:

- Foreign currency transaction 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 the Trust are considered trading securities.
- We entered into the Mexican peso currency forward contracts during fiscal 2023 and 2022 to reduce earnings volatility resulting from changes in exchange rates affecting the U.S. dollar cost of our Mexican operations. Unrealized gains and losses on the peso forward contracts recognized as a result of mark-to-market adjustments as of April 2, 2023 may or may not be realized in future periods, depending on actual Mexican peso to U.S. dollar exchange rates experienced during the balance of the contract period.
- Pension and postretirement plan costs include the components of net periodic benefit cost other than the service cost component. During the current year quarter, a charge of $217,000 was included in pension and postretirement plan costs related to $863,000 of SERP benefits that were cash settled using Rabbi trust assets.

Our effective tax rate was (4.2)% and 1.2% for the three months ended April 2, 2023 and March 27, 2022, respectively. The effective tax rate for the three-month period ended April 2, 2023 was impacted by an increase in our fiscal year pre-tax net loss estimate as the end of the current year quarter as compared to our estimate as of January 1, 2023. The effective tax rate in the prior year period was impacted by adjustments we made to the amounts of our fiscal 2021 estimated foreign tax credits and estimated tax impacts associated with our investment in VAST LLC. These true-up adjustments resulted from the filing of our US income tax returns during the quarter ended March 27, 2022 and were attributable to actual results included in non-US income tax returns, which are filed on a calendar year basis, and which differ from estimates included in our fiscal 2021 tax provision. The adjustment amounts recorded during the three-month period ended March 27, 2022 totaled $740,000. Our effective tax rate for the three-month period ended March 27, 2022 excluding these adjustments was 18.9 percent. Our effective tax rate differs from the statutory tax rate due to the application of the Global Intangible Low Taxed Income (GILTI) tax provisions, our available R&D tax credit and the non-controlling interest portion of our pre-tax income. The non-controlling interest portion impacts the effective tax rate as ADAC-STRATTEC LLC and STRATTEC POWER ACCESS LLC entities are taxed as partnerships for U.S. tax purposes.

Nine months ended April 2, 2023 compared to the nine months ended March 27, 2022

	Nine Months Ended	
	April 2, 2023	**March 27, 2022**
Net Sales (in millions)	$ 360.7	$ 329.2

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

	Nine Months Ended	
	April 2, 2023	**March 27, 2022**
General Motors Company	$ 111.2	$ 91.6
Ford Motor Company	70.1	57.9
Stellantis (Formerly Fiat Chrysler Automobiles)	55.8	62.7
Tier 1 Customers	53.1	42.9
Commercial and Other OEM Customers	41.8	50.1
Hyundai / Kia	28.7	24.0
	$ 360.7	$ 329.2

The period-over-period sales increase of $31.5 million was due to improved global semiconductor chip availability in the current year period relative to the prior year period. The following items specifically impacted sales to the above noted customer groups between periods:

- Sales to General Motors Company, Ford Motor Company and Hyundai/Kia were positively impacted in the current year period due to higher vehicle production volumes resulting from improved global semiconductor chip availability relative to the prior year period. Sales growth to General Motors Company in the current year period was attributed to higher production volumes of their GMC and Chevrolet pickup trucks and certain SUVs for which we supply a wide range of components. Increased sales to Ford Motor Company in the current year period were due to higher production volumes of their F-Series Super Duty Pickup for which we supply a wide range of components. Sales to Hyundai / Kia increased period-over-period due to higher levels of production of the Kia Carnival minivan in the current year period as compared to the prior year period.
- The decrease in net sales to Stellantis was driven primarily by its plant shutdowns which resulted in decreased production volumes in the current year compared to the prior year especially as it related to the Chrysler Pacifica minivan, the Jeep Compass and the Dodge Ram pickup truck, as well as lower production volumes of their passenger car vehicles for which we supply components.
- Sales to Tier 1 Customers improved in the current year period compared to the prior year period due to higher vehicle production volumes relating to the improvement in semiconductor chip availability referenced above.
- Sales to Commercial and Other OEM Customers, which are comprised of aftermarket products and vehicle access control products, such as latches, fobs, driver controls and door handles, declined in the current year period as compared to the prior year period due to the allocation of available semiconductor chips toward the production of components for production vehicles, rather than these aftermarket products.

	Nine Months Ended			
	April 2, 2023		March 27, 2022	
	Millions of Dollars	Percent of Cost of Goods Sold	Millions of Dollars	Percent of Cost of Goods Sold
Direct Material Costs	$ 219.2	66.3 %	$ 188.0	65.5 %
Labor and Overhead Costs	111.6	33.7 %	99.1	34.5 %
Total Cost of Goods Sold	$ 330.8		$ 287.1	

Total cost of goods sold increased $43.7 million between year to date periods. A warranty provision of $1.3 million recorded during the current year period, which was based on additional information that became available during the current year to date period related to our share of the costs associated with a customer's specific warranty claim involving our product, impacted the proportion of direct material costs and labor and overhead costs as a percent of total cost of goods sold. Excluding this warranty provision, the current year period direct material costs were 66.5 percent of cost of goods sold and labor and overhead costs were 33.5 percent of cost of goods sold for the nine-month period ended April 2, 2023. The increase in direct material costs between periods was primarily due to the aforementioned increase in sales, higher costs for raw material and purchased components and a shift toward products with a higher proportion of material costs as a percent of their total cost of goods sold. The increase in the proportion of direct material costs as a percent of total cost of goods sold between periods, excluding warranty costs, was due to its higher rate of growth compared with that for labor and overhead, which benefited from improved overhead absorption associated with higher sales between the periods.

Labor and overhead costs increased $12.5 million between periods. The variable portion of labor and overhead costs increased in the current year period commensurate with the production volume increase required to support the increased sales volumes compared to prior year period. Labor and overhead costs were further impacted by the following:

Cost Increase:

- Mexico wages and benefits increased $5.1 million in the current year period as compared to the prior year period as a result of January 1, 2022 and January 1, 2023 government mandated minimum wage increases.
- The U.S. dollar value of our Mexican operations was negatively impacted by approximately $2.9 million in the current year period as compared to the prior year period due to an unfavorable Mexican peso to U.S. dollar exchange rate between year-to-date periods. The average U.S. dollar / Mexican peso exchange rate decreased to approximately 19.44 pesos to the dollar in the current year period from approximately 20.44 pesos to the dollar in the prior year period.
- Freight costs increased $2.3 million between year-to-date periods due to an increase in fuel costs and supply chain disruptions.
- The current year period includes a $1.3 million warranty provision associated with a customer's specific warranty claim involving our product.

Cost Decreases:

- Royalty costs paid on sales of certain aftermarket products decreased $1.6 million in the current year period as compared to the prior year period due to lower volumes in these aftermarket products stemming from the current semiconductor chip shortage.
- Production efficiencies that controlled headcount at our Mexico facilities resulted in reduced labor and benefit costs of approximately $700,000 in the current year period as compared to the prior year period.
- Prior year period costs included lump sum bonuses totaling $100,000 paid to our Milwaukee represented hourly workers upon the ratification of a new four-year labor contract, which contract is effective through November 1, 2025.

	Nine Months Ended	
	April 2, 2023	March 27, 2022
Gross Profit (in millions)	$ 29.9	$ 42.1
Gross Profit as a percentage of net sales	8.3 %	12.8 %

Gross profit dollars in the current year period decreased $12.2 million as compared to the prior year period driven by the aforementioned inflationary pressures on direct material and labor and overhead costs as well as by the strengthening of the Mexican peso against the U.S. dollar. The resulting decrease in gross profit as a percentage of net sales was 4.5 percentage points from the prior year period to the current year period.

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

	Nine Months Ended	
	April 2, 2023	March 27, 2022
Expenses (in millions)	$ 37.3	$ 34.7
Expenses as a percentage of net sales	10.3 %	10.5 %

Engineering, selling and administrative expenses increased in the current year period in comparison to the prior year period due to higher outside expenditures on new product development costs associated with utilizing third party vendors for a portion of our development work, an increase in engineering costs related to our ADAC-STRATTEC LLC door handle and exterior trim products, and increased salary and recruiting costs.

Loss from operations was $7.4 million in the current year period compared to income from operations of $7.4 million in the prior year period due to the aforementioned reduction in gross profit margin dollars and an increase in engineering, selling and administrative expenses between periods.

The equity earnings of joint ventures were $1.9 million in the current year period compared to $941,000 in the prior year period. Improved profitability from our VAST LLC joint venture resulted from increased net sales and increased profitability in VAST China's operations between periods. VAST China's sales and profitability improvement in the current year period due to an improved semiconductor chip availability environment compared with that of the prior year period. Additionally, during the prior year quarter, VAST China experienced a fire at their Taicang plant. As a result, certain door handle and painting operations were temporarily transferred to their Jingzhou facility and another supplier. The transfer of production negatively impacted VAST China's profitability in the year to date period ended March 27, 2022. We currently believe a presence in the China market is a key component of our global strategy. We anticipate that it will contribute to our overall long-term market and financial strength as the China market continues to expand and as it seeks to rebound from the ongoing impacts of the COVID-19 pandemic and resulting supply chain shortages of critical electronic component parts. Our VAST LLC joint venture in India continues to have near break-even operating results and our VAST LLC joint venture in Brazil continues to report losses.

Included in Other (Expense) Income, net in the current year period and prior year period were the following items (in thousands):

	Nine Months Ended	
	April 2, 2023	March 27, 2022
Foreign Currency Transaction Loss	$ (2,114)	$ (76)
Unrealized (Loss) Gain on Peso Forward Contracts	(93)	500
Realized Gain on Peso Forward Contracts, net	1,019	200
Pension and Postretirement Plan Cost	(604)	(372)
Rabbi Trust Gain (Loss)	131	(60)
Other	197	116
	$ (1,464)	$ 308

Set forth below is a discussion of the items comprising certain of the components of our Other (Expense) Income, net:

- Foreign currency transaction 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 the Trust are considered trading securities.
- We entered into the Mexican peso currency forward contracts during fiscal 2023 and 2022 to reduce earnings volatility resulting from changes in exchange rates affecting the U.S. dollar cost of our Mexican operations. Unrealized gains and losses on the peso forward contracts recognized as a result of mark-to-market adjustments as of April 2, 2023 may or may not be realized in future periods, depending on actual Mexican peso to U.S. dollar exchange rates experienced during the balance of the contract period.
- Pension and postretirement plan costs include the components of net periodic benefit cost other than the service cost component. During the current year period, a charge of $217,000 was included in pension and postretirement plan costs related to $863,000 of SERP benefits that were cash settled using Rabbi trust assets.

Our effective tax rate was 21.8% and 4.0% for the nine months ended April 2, 2023 and March 27, 2022, respectively. The reduction in our effective tax rate in the prior year nine-month period as compared to the respective current year period was due to adjustments we made to the amounts of our fiscal 2021 estimated foreign tax credits and estimated tax impacts associated with our investment in VAST LLC. These true-up adjustments resulted from the filing of our US income tax returns during the quarter ended March 27, 2022 and were attributable to actual results included in non-US income tax returns, which are filed on a calendar year basis, and which differ from estimates included in our fiscal 2021 tax provision. The adjustment amounts recorded during the nine-month period ended March 27, 2022 totaled $1.0 million. Our effective tax rate for the nine-month period ended March 27, 2022 excluding these adjustments was 15.7 percent. Our effective tax rate differs from the statutory tax rate due to the application of the Global Intangible Low Taxed Income (GILTI) tax provisions, our available R&D tax credit and the non-controlling interest portion of our pre-tax income. The non-controlling interest portion impacts the effective tax rate as ADAC-STRATTEC LLC and STRATTEC POWER ACCESS LLC entities are taxed as partnerships for U.S. tax purposes.

Liquidity and Capital Resources

Working Capital (in millions)

	April 2, 2023	July 3, 2022
Current Assets	$ 207.0	$ 188.2
Current Liabilities	95.6	81.5
Working Capital	$ 111.4	$ 106.7

Outstanding Receivable Balances from Major Customers

Our primary source of cash flow is from our major customers, which include General Motors Company, Stellantis and Ford Motor Company. As of the date of filing this Form 10-Q with the Securities and Exchange Commission, all of our major customers are making payments on their outstanding accounts receivable in accordance with the payment terms included on their purchase orders. A summary of our outstanding receivable balances from our major customers as of April 2, 2023 was as follows (in millions):

General Motors Company	$ 24.8
Ford Motor Company	$ 14.4
Stellantis	$ 12.1

Cash Balances in Mexico

We earn a portion of our operating income in Mexico. As of April 2, 2023, $1.7 million of our $12.1 million cash and cash equivalents balance was held in Mexico. These funds are available for repatriation as deemed necessary.

Cash Flow Analysis (in millions)

	Nine Months Ended	
	April 2, 2023	March 27, 2022
Cash Flows from (in millions):		
Operating Activities	$ 7.5	$ 11.8
Investing Activities	$ (13.9)	$ (9.5)
Financing Activities	$ 9.6	$ (0.3)

The reduction in cash provided by operating activities between periods was due reduced profitability in the current year period as compared to the prior year period partially offset by a decrease in cash used for working capital requirements between periods. Working capital requirement changes between periods were comprised of the following items (in millions):

	Increase (Decrease) in Working Capital Requirements		
	Nine Months Ended		
	April 2, 2023	March 27, 2022	Change
Accounts Receivable	$ 7.6	$ 6.6	$ 1.0
Inventory	$ (10.9)	$ 2.5	$ (13.4)
Other Assets	$ 17.5	$ 4.4	$ 13.1
Accounts Payable and Accrued Liabilities	$ (12.5)	$ (2.3)	$ (10.2)

Set forth below is a summary of the items impacting the change in our working capital requirements between year to date periods:

- Accounts receivable balances increased in both the current and prior year periods. The increases reflect increased sales levels as of the end our third quarter during both fiscal periods.
- The change in inventory levels reflected a decrease during the current year period and an increase during the prior year period. The current year period decrease was due to a reduction in inventory balances to align with historical customer production patterns. The prior year period increase was due to an inventory build-up while our OEM customers experienced reduced production schedules due to certain part shortages, including for semiconductor chips.
- The change in other assets includes an increase in balances during both the current and prior year to date periods. Customer tooling balances increased during both year to date periods. Additionally, the current year period includes an increase in value added tax recoverable balances related to our operations in Mexico. Customer tooling balances change due to the timing of tooling development spending required to meet customer production requirements and the timing of related customer billings for tooling cost reimbursement. Value added tax returns are filed and are pending settlement.
- Accounts payable and accrued liability balances increased in both the current and prior periods. Accounts payable balances for each period reflected the timing of purchases and payments with our vendors based on normal, established payment terms. Additionally, the current year period accrued liability balances included an increase in value added tax payable balances related to our operations in Mexico while the prior year period accrued liability balances included a decrease due to the $6.6 million payment of fiscal 2021 bonuses, which bonuses were accrued as of June 2021 and paid in August 2021. Value added tax returns are filed and are pending settlement.

Net cash used in investing activities included capital expenditures made in support of requirements for new product programs and the upgrade and replacement of existing equipment of $13.7 million during the current year period and $9.4 million during the prior year period. Net cash used in investing activities also included an investment in our VAST LLC joint venture of $237,000 in the current year period and $75,000 in the prior year period. The investments were made for the purpose of funding general expenses for Sistema Accesso Veicular Ltda, our Brazilian joint venture.

Net cash provided by financing activities during the current year period of $9.6 million included increased borrowings under our credit facilities of $13.0 million, which was primarily in support of financing tooling development costs for new customer programs. These tooling development costs will be reimbursed by the customer upon formal acceptance of the products produced with the tools. Net cash provided by financing activities was further impacted by $164,000 received for the exercise of stock options under our stock incentive plan and purchases under our employee stock purchase plan, $3.0 million of repayments of borrowings under our credit facilities and $600,000 of dividend payments to non-controlling interests in our subsidiaries. Net cash used in financing activities during the prior year period of $316,000 included $11 million of repayments of borrowings under our credit facilities and $1.2 million of dividend payments to non-controlling interests in our subsidiaries, mostly offset by increased borrowings under our credit facilities of $11.0 million and $884,000 received for the exercise of stock options under our stock incentive plan and purchases under our employee stock purchase plan.

VAST LLC Cash Requirements

We currently anticipate that VAST China has adequate debt facilities in place over the remainder of our 2023 fiscal year to cover the future operating and capital requirements of its business. During the nine-month period ended April 2, 2023, capital contributions totaling $711,000 were made to VAST LLC for purposes of funding operations in Brazil for the remainder of 2023 fiscal year. STRATTEC's portion of the capital contributions totaled $237,000. During the nine months ended March 27, 2022, capital contributions totaling $225,000 were made to VAST for purposes of funding operations in Brazil. STRATTEC's portion of the capital contributions totaled $75,000. During the nine months ended April 2, 2023 and March 27, 2022, VAST LLC made no capital contributions to Minda-VAST Access Systems. We currently anticipate no required future capital contributions to Minda-VAST Access Systems over the remainder of our 2023 fiscal year.

Future Capital Expenditures

We anticipate total capital expenditures will be approximately $16.0 million to $18.0 million in fiscal 2023, of which $13.7 million has been made through April 2, 2023, in support of requirements for new product programs and the upgrade and replacement of existing equipment.

Stock Repurchase Program

Our Board of Directors has authorized a stock repurchase program to buy back outstanding shares of our common stock. Shares authorized for buy back under the program totaled 3,839,395 at April 2, 2023. A total of 3,655,322 shares have been repurchased over the life of the program through April 2, 2023, at a cost of approximately $136.4 million. No shares were repurchased during the nine-month periods ended April 2, 2023 or March 27, 2022. Additional repurchases may occur from time to time and are expected to continue to be funded by cash flow from operations and current cash balances. Based on the current economic environment and our preference to conserve cash for other uses, we anticipate modest or no stock repurchase activity for the remainder of fiscal year 2023.

Credit Facilities

STRATTEC has a $40 million secured revolving credit facility (the “STRATTEC Credit Facility”) with BMO Harris Bank N.A. ADAC-STRATTEC LLC has a $25 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, 2024. 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 STRATTEC Credit Facility were at varying rates based, at our option, on LIBOR plus 1.25 percent or the bank’s prime rate through February 22, 2023. Interest on borrowings under the ADAC-STRATTEC Credit Facility were at varying rates based, at our option, on LIBOR plus 1.25 percent or the bank’s prime rate through February 6, 2023. Subsequent to these dates, interest on borrowings under both credit facilities were at varying rates based, at our option, on SOFR plus 1.35 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 April 2, 2023, we were in compliance with all other financial covenants required by these credit facilities. Outstanding borrowings under the STRATTEC Credit Facility totaled $8 million at April 2, 2023. There were no outstanding borrowings under the STRATTEC Credit Facility at July 3, 2022. Increased borrowings under the STRATTEC Credit Facility were primarily in support of financing tooling development costs for new customer programs, which will be reimbursed by the customer upon formal acceptance of the products produced by the tools. The average outstanding borrowings and weighted average interest rate on the STRATTEC Credit Facility loans were approximately $3.8 million and 5.1 percent, respectively, during the nine months ended April 2, 2023. Outstanding borrowings under the ADAC-STRATTEC Credit Facility totaled $13 million at April 2, 2023 and $11 million at July 3, 2022. The average outstanding borrowings and weighted average interest rate on the ADAC-STRATTEC Credit Facility loans were approximately $12.2 million and 4.9 percent, respectively, during the nine months ended April 2, 2023.

Joint Ventures and Majority Owned Subsidiaries

Refer to the discussion of Investment in Joint Ventures and Majority Owned Subsidiaries and discussion of Equity Earnings (Loss) of Joint Ventures included elsewhere in Notes to Condensed Consolidated Financial Statements within this Form 10-Q.

Item 3 Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4 Controls and Procedures

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

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

Part II

Other Information

Item 1 Legal Proceedings

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

Item 1A—Risk Factors

There have been no material changes to the risk factors disclosed in our Form 10-K as filed with the Securities and Exchange Commission on September 8, 2022, except as follows:

Our current revolving credit facilities, as discussed further under Credit Facilities, expire August 1, 2024. We rely on our credit facilities to provide us with adequate working capital to operate our business and fund our capital expenditures. Further escalation of the aforementioned global inflationary pressures on our operating results may impact our ability to achieve our covenants in the short term and our ability to negotiate favorable terms in the long term, including interest rates and debt covenants, in the extension of our current credit facility.

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

Our Board of Directors authorized a stock repurchase program on October 16, 1996, and the program was publicly announced on October 17, 1996. The Board of Directors has periodically increased the number of shares authorized for repurchase under the program, most recently in August 2008. The program currently authorizes the repurchase of up to 3,839,395 shares of our common stock from time to time, directly or through brokers or agents, and has no expiration date. Over the life of the repurchase program through April 2, 2023, a total of 3,655,322 shares have been repurchased at a cost of approximately $136.4 million. No shares were repurchased during the nine-month period ended April 2, 2023.

Item 3 Defaults Upon Senior Securities—None

Item 4 Mine Safety Disclosures—None

Item 5 Other Information—None

Item 6 Exhibits

(a) Exhibits

3.1	Amended and Restated Articles of Incorporation of the Company (Incorporated by reference from Exhibit 3.1 to the Form 10-K filed on September 7, 2017.)
3.2	Amendment to Amended and Restated Articles of Incorporation of the Company (Incorporated by reference from Exhibit 3.1 to the Form 10-Q report filed on November 7, 2019.)
3.3	Amendment to Amended and Restated Articles of Incorporation of the Company (Incorporated by reference from Exhibit 3.1 to the Form 8-K report filed on October 21, 2021.)
3.4	Amended By-laws of the Company (Incorporated by reference from Exhibit 99.3 to the Form 8-K filed on October 7, 2005.)
10.1	Amendment No. 8 to Credit Agreement, dated as of February 22, 2023, between STRATTEC SECURITY CORPORATION and BMO Harris Bank N.A., as lender (Incorporated by reference from Exhibit 10.1 to the Form 8-K report filed on February 27, 2023.)
10.2	Amendment No. 9 to Credit Agreement, dated as of February 6, 2023, between ADAC-STRATTEC LLC and BMO Harris Bank N.A., as lender (Incorporated by reference from Exhibit 10.1 to the Form 8-K report filed on February 7, 2023.)
10.3	Employment Agreement between STRATTEC SECURITY CORPORATION and Dennis Bowe entered into on May 5, 2023 and made effective as of September 9, 2022 (Incorporated by reference from Exhibit 10.1 to the Form 8-K filed on May 8, 2023.)
10.4	Change of Control Employment Agreement between STRATTEC SECURITY CORPORATION and Dennis Bowe entered into on May 5, 2023 and made effective as of September 9, 2022 (Incorporated by reference from Exhibit 10.2 to the Form 8-K filed on May 8, 2023.)
31.1	Rule 13a-14(a) Certification for Frank J. Krejci, President and Chief Executive Officer
31.2	Rule 13a-14(a) Certification for Dennis Bowe, Chief Financial Officer
32 (1)	18 U.S.C. Section 1350 Certifications
101	The following materials from STRATTEC SECURITY CORPORATION's Quarterly Report on Form 10-Q for the fiscal quarter ended April 2, 2023 formatted in XBRL (eXtensible Business Reporting Language) and furnished electronically herewith: (i) Condensed Consolidated Statements of (Loss) Income and Comprehensive Income (Loss); (ii) Condensed Consolidated Balance Sheets; (iii) Condensed Consolidated Statements of Cash Flows; and (iv) Notes to Condensed Consolidated Financial Statements. XBRL Instance Document – the XBRL Instance Document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended April 2, 2023, formatted in Inline XBRL (included in Exhibit 101).

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

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: May 11, 2023	By:	/s/ Dennis Bowe
		Dennis Bowe Vice President, Chief Financial Officer, Treasurer and Secretary (Principal Accounting and Financial Officer)

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Frank J. Krejci, certify that:

1. I have reviewed this quarterly report on Form 10-Q of STRATTEC SECURITY CORPORATION;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 11, 2023

/s/ Frank J. Krejci
Frank J. Krejci,
Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Dennis Bowe, certify that:

1. I have reviewed this quarterly report on Form 10-Q of STRATTEC SECURITY CORPORATION;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 11, 2023

/s/ Dennis Bowe
Dennis Bowe,
Chief Financial Officer

Exhibit 32

Certification of Periodic Financial Report
Pursuant to 18 U.S.C. Section 1350

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned officers of STRATTEC SECURITY CORPORATION (the "Company") certifies that the Quarterly Report on Form 10-Q of the Company for the quarter ended April 2, 2023 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and information contained in that Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 11, 2023	/s/ Frank J. Krejci Frank J. Krejci, Chief Executive Officer
Dated: May 11, 2023	/s/ Dennis Bowe Dennis Bowe, Chief Financial Officer

This certification is made solely for purpose of 18 U.S.C. Section 1350, subject to the knowledge standard contained therein, and not for any other purpose.