

**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 September 27, 2020

or

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

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

Commission File Number 0-25150

**STRATTEC SECURITY CORPORATION**

(Exact Name of Registrant as Specified in Its Charter)

Wisconsin  
(State of Incorporation)

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

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

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

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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller Reporting Company	<input checked="" type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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: 3,859,892 shares outstanding as of September 29, 2020 (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,” “would,” “expect,” “intend,” “may,” “planned,” “potential,” “should,” “will,” and “could,” or the negative of these terms or words of similar meaning. These statements include expected future financial results, product offerings, global expansion, liquidity needs, financing ability, planned capital expenditures, management’s or the Company’s expectations and beliefs, and similar matters discussed in this Form 10-Q. The 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, changes in the costs of operations, changes in the volume and scope of product returns and warranty claims, adverse business and operational issues resulting from the Coronavirus (COVID-19) pandemic or the continuation or worsening therefore and other matters described in the section titled “Risk Factors” in the Company’s Form 10-K report filed on September 3, 2020 with the Securities and Exchange Commission for the year ended June 28, 2020.

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.

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

	<b>Three Months Ended</b>	
	<b>September 27, 2020</b>	<b>September 29, 2019</b>
Net sales	\$ 126,234	\$ 119,962
Cost of goods sold	103,723	104,076
Gross profit	22,511	15,886
Engineering, selling and administrative expenses	11,314	12,954
Income from operations	11,197	2,932
Equity earnings of joint ventures	825	484
Interest expense	(112)	(340)
Other expense, net	(260)	(97)
Income before provision for income taxes and non-controlling interest	11,650	2,979
Provision for income taxes	1,577	299
Net income	10,073	2,680
Net income attributable to non-controlling interest	2,065	1,436
Net income attributable to STRATTEC SECURITY CORPORATION	<u>\$ 8,008</u>	<u>\$ 1,244</u>
Comprehensive income:		
Net income	\$ 10,073	\$ 2,680
Pension and postretirement plans, net of tax	70	73
Currency translation adjustments	1,699	(1,448)
Other comprehensive income (loss), net of tax	1,769	(1,375)
Comprehensive income	11,842	1,305
Comprehensive income attributable to non-controlling interest	2,386	1,184
Comprehensive income attributable to STRATTEC SECURITY CORPORATION	<u>\$ 9,456</u>	<u>\$ 121</u>
Earnings per share attributable to STRATTEC SECURITY CORPORATION:		
Basic	<u>\$ 2.13</u>	<u>\$ 0.34</u>
Diluted	<u>\$ 2.11</u>	<u>\$ 0.33</u>
Average shares outstanding:		
Basic	3,765	3,710
Diluted	3,788	3,728
Cash dividends declared per share	\$ —	\$ 0.14

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

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

	<u>September 27, 2020</u>	<u>June 28, 2020</u>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 11,983	\$ 11,774
Receivables, net	79,764	41,955
Inventories:		
Finished products	13,122	13,142
Work in process	12,551	11,815
Purchased materials	31,523	34,333
Excess and obsolete reserve	(5,523)	(4,890)
Inventories, net	<u>51,673</u>	<u>54,400</u>
Other current assets	17,527	17,239
Total current assets	<u>160,947</u>	<u>125,368</u>
Investment in joint ventures	23,723	22,068
Deferred Income Taxes	6,402	6,490
Other long-term assets	6,547	6,471
Property, plant and equipment	268,166	266,216
Less: accumulated depreciation	<u>(165,556)</u>	<u>(161,068)</u>
Net property, plant and equipment	<u>102,610</u>	<u>105,148</u>
	<u>\$ 300,229</u>	<u>\$ 265,545</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 40,809	\$ 18,549
Accrued Liabilities:		
Payroll and benefits	16,314	13,498
Environmental	1,257	1,259
Warranty	8,405	8,500
Other	9,518	6,334
Total current liabilities	<u>76,303</u>	<u>48,140</u>
Borrowings under credit facilities	30,000	35,000
Accrued pension obligations	1,277	1,255
Accrued postretirement obligations	684	701
Other long-term liabilities	4,945	5,008
Shareholders' Equity:		
Common stock, authorized 12,000,000 shares, \$.01 par value, 7,393,481 issued shares at September 27, 2020 and 7,358,812 issued shares at June 28, 2020	74	74
Capital in excess of par value	98,188	97,977
Retained earnings	219,948	211,940
Accumulated other comprehensive loss	(20,665)	(22,113)
Less: treasury stock, at cost (3,608,214 shares at September 27, 2020 and 3,609,193 shares at June 28, 2020)	<u>(135,640)</u>	<u>(135,656)</u>
Total STRATTEC SECURITY CORPORATION shareholders' equity	<u>161,905</u>	<u>152,222</u>
Non-controlling interest	<u>25,115</u>	<u>23,219</u>
Total shareholders' equity	<u>187,020</u>	<u>175,441</u>
	<u>\$ 300,229</u>	<u>\$ 265,545</u>

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)

	Three Months Ended	
	September 27, 2020	September 29, 2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 10,073	\$ 2,680
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	4,885	4,733
Foreign currency transaction loss	399	85
Unrealized gain on peso forward contracts	(335)	—
Stock based compensation expense	208	413
Equity earnings of joint ventures	(825)	(484)
Non-cash compensation expense	—	2,228
Deferred income taxes	—	(524)
Change in operating assets and liabilities:		
Receivables	(37,796)	4,952
Inventories	2,727	(4,238)
Other assets	(288)	3,240
Accounts payable and accrued liabilities	27,914	1,684
Other, net	338	239
Net cash provided by operating activities	7,300	15,008
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property, plant and equipment	(1,514)	(4,298)
Proceeds received on sale of property, plant and equipment	3	15
Net cash used in investing activities	(1,511)	(4,283)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Borrowings under credit facility	—	—
Repayment of borrowings under credit facility	(5,000)	(6,000)
Dividends paid to non-controlling interests of subsidiaries	(490)	(980)
Dividends paid	—	(522)
Exercise of stock options and employee stock purchases	19	239
Net cash used in financing activities	(5,471)	(7,263)
Foreign currency impact on cash	(109)	(30)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	209	3,432
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of period	11,774	7,809
End of period	\$ 11,983	\$ 11,241
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid (received) during the period for:		
Income taxes	\$ (213)	\$ 298
Interest	\$ 118	\$ 360
Non-cash investing activities:		
Change in capital expenditures in accounts payable	\$ 318	\$ (820)

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

STRATTEC SECURITY CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
(Unaudited)

**Basis of Financial Statements**

STRATTEC SECURITY CORPORATION designs, develops, manufactures and markets automotive access control products including mechanical locks and keys, electronically enhanced locks and keys, 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 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 located in Milwaukee, Wisconsin. STRATTEC de Mexico is located in Juarez, Mexico. ADAC-STRATTEC, LLC and STRATTEC POWER ACCESS LLC have operations in El Paso, Texas and Juarez 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 September 27, 2020 and June 28, 2020, which has been derived from our audited financial statements, and the related unaudited interim condensed consolidated financial statements included herein contain all adjustments, consisting only of normal recurring items, necessary for their fair presentation in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and in accordance with Rule 10-01 of Regulation S-X. All significant intercompany transactions have been eliminated.

Interim financial results are not necessarily indicative of operating results for an entire year. The information included in this Form 10-Q should be read in conjunction with the financial statements and notes thereto included in the STRATTEC SECURITY CORPORATION 2020 Form 10-K, which was filed with the Securities and Exchange Commission on September 3, 2020.

**Risks and Uncertainties**

In December 2019, a novel strain of coronavirus (COVID-19) was reported in Wuhan, China. The coronavirus has since spread, and infections have been found 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 advising or requiring individuals to limit or forego their time outside of their homes. Accordingly, the COVID-19 outbreak has severely restricted the level of economic activity in many countries, and continues to adversely impact global economic activity.

STRATTEC’s operating performance is subject to global economic conditions and levels of consumer spending specifically within the automotive industry. 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 quarter ended September 27, 2020 resulting in an increase in our net sales for the current fiscal quarter compared to our prior year fiscal quarter. While we expect continued increased sales over our prior year through our second fiscal quarter, such estimates are dependent on the severity of the ongoing impacts of COVID-19 and any worsening of the impact of the pandemic on society and specifically on the automotive industry.

The extent of the impact of the COVID-19 outbreak on our future operating results will depend on certain developments, including the duration, intensity and continued spread of the outbreak, regulatory and private sector responses, which may be precautionary, and the impact to our customers, workforce and suppliers, all of which are uncertain and cannot be predicted. These

changing conditions may also affect the estimates and assumptions made by management. 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.

### New Accounting Standards

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 with 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 are currently evaluating the potential effects of adopting the new guidance on our consolidated financial statements.

In December 2019, the FASB issued an update to accounting for income taxes. The update enhances and simplifies various aspects of income tax accounting including hybrid tax regimes, tax basis step-up in goodwill obtained in a transaction that is not a business combination, separate financial statements of entities not subject to tax, the intraperiod tax allocation exception to the incremental approach, investment ownership changes from a subsidiary to an equity method investment and vice versa, interim-period accounting for enacted changes in tax law, and the year-to-date loss limitation in interim-period tax accounting. This accounting update is effective for annual and interim periods beginning after December 15, 2020, with early adoption permitted. We do not expect that the adoption of this pronouncement will have a material impact on our consolidated financial statements.

### 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 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, net.

The following table quantifies the outstanding Mexican peso forward contracts as of September 27, 2020 (thousands of dollars, except with respect to the average forward contractual exchange rate):

	<u>Effective Dates</u>	<u>Notional Amount</u>	<u>Average Forward Contractual Exchange Rate</u>	<u>Fair Value</u>
Buy MXP/Sell USD	October 14, 2020 - December 16, 2020	\$ 3,000	21.40	\$ (146)

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):

	<u>September 27, 2020</u>	<u>June 28, 2020</u>
Not Designated as Hedging Instruments:		
Other Current Liabilities:		
Mexican Peso Forward Contracts	\$ 146	\$ 480

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

	Three Months Ended	
	September 27, 2020	September 29, 2019
Not Designated as Hedging Instruments:		
Realized Loss	\$ (59)	\$ —
Unrealized Gain	\$ 335	\$ —

### 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 September 27, 2020 and June 28, 2020. 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 September 27, 2020 (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	\$ 270	\$ —	\$ —
Mid Cap	310	—	—
Large Cap	623	—	—
International	870	—	—
Fixed Income Funds	803	—	—
Cash and Cash Equivalents	—	3	—
Total Assets at Fair Value	<u>\$ 2,876</u>	<u>\$ 3</u>	<u>\$ —</u>
Liabilities:			
Mexican Peso Forward Contracts	<u>\$ —</u>	<u>\$ 146</u>	<u>\$ —</u>

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. Refer to discussion of Mexican peso forward contracts under Derivative Instruments above. The fair value of the Mexican peso forward contracts considers the remaining term, current exchange rate, and interest rate differentials between the Mexican peso and the U.S. dollar.

### 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.



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 joint ventures resulted in equity earnings of joint ventures to STRATTEC of \$825,000 during the three months ended September 27, 2020 and \$487,000 during the three months ended September 29, 2019. During the three months ended September 27, 2020 and September 29, 2019, no capital contributions were made to VAST LLC by any of the members.

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 income to STRATTEC of approximately \$1.4 million during the three months ended September 27, 2020 and approximately \$1.0 million during the three months ended September 29, 2019. ADAC STRATTEC LLC incurs an engineering, research and design fee as well as a sales fee with ADAC. Such fees are calculated as a percentage of net sales, are included in the consolidated results of STRATTEC, and totaled \$2.4 million in the three months ended September 27, 2020 and \$2.2 million in the three months ended September 29, 2019. 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 in the three months ended September 27, 2020 and \$3.7 million in the three months ended September 29, 2019.

STRATTEC POWER ACCESS LLC ("SPA") was formed in fiscal year 2009 to supply the North American portion of the power sliding door, lift gate and deck lid system access control products which were acquired from Delphi Corporation. 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 income to STRATTEC of approximately \$685,000 during the three months ended September 27, 2020 and \$266,000 during the three months ended September 29, 2019. STRATTEC purchases production parts from WITTE. These purchases totaled \$83,000 during the three months ended September 27, 2020 and \$393,000 during the three months ended September 29, 2019.

#### **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 ventures 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.

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

	Three Months Ended	
	September 27, 2020	September 29, 2019
Net Sales	\$ 50,411	\$ 42,567
Cost of Goods Sold	40,591	34,658
Gross Profit	9,820	7,909
Engineering, Selling and Administrative Expenses	6,603	6,681
Income From Operations	3,217	1,228
Other (Expense) Income, net	(149)	860
Income before Provision for Income Taxes	3,068	2,088
Provision for Income Taxes	592	628
Net Income	<u>\$ 2,476</u>	<u>\$ 1,460</u>
STRATTEC's Equity Earnings of VAST LLC	<u>\$ 825</u>	<u>\$ 487</u>

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	
	September 27, 2020	September 29, 2019
Sales to VAST LLC	\$ 1,216	\$ 891
Purchases from VAST LLC	\$ 187	\$ 97
Expenses Charged to VAST LLC	\$ 507	\$ 831
Expenses Charged from VAST LLC	\$ 292	\$ 226

#### 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.

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 Sheet are presented below (in thousands):

	September 27, 2020
Right-of Use Asset Under Operating Lease:	
Other Long-Term Assets	<u>\$ 3,668</u>
Lease Obligation Under Operating Lease:	
Current Liabilities: Accrued Liabilities: Other	\$ 354
Other Long-Term Liabilities	3,314
	<u>\$ 3,668</u>

Future minimum lease payments, by our fiscal year, including options to extend that are reasonably certain to be exercised, under the non-cancelable lease are as follows as of September 27, 2020 (in thousands):

2021 (for the remaining nine months)	\$	357
2022		484
2023		497
2024		509
2025		522
Thereafter		1,834
Total Future Minimum Lease Payments		<u>4,203</u>
Less: Imputed Interest		(535)
Total Lease Obligations	\$	<u><u>3,668</u></u>

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

	<b>Three Months Ended</b>
	<b>September 27,</b>
	<b>2020</b>
Operating Cash Flows:	
Cash Paid Related to Operating Lease Obligation	\$ <u><u>116</u></u>

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

	<b>September 27,</b>
	<b>2020</b>
Weighted Average Remaining Lease Term (in years)	<u>8.1</u>
Weighted Average Discount Rate	<u>3.3%</u>

Operating lease expense for the three month periods ended September 27, 2020 and September 29, 2019 totaled \$116,000 and \$113,000, respectively.

#### Credit Facilities

STRATTEC has a \$40 million secured revolving credit facility (the "STRATTEC Credit Facility") with BMO Harris Bank. 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, 2022. 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 is at varying rates based, at our option, on the London Interbank Offering Rate ("LIBOR") plus 1.0 percent or the bank's prime rate. Interest on borrowings under the ADAC-STRATTEC Credit Facility is at varying rates based, at our option, on LIBOR plus 1.25 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 September 27, 2020, we were in compliance with all financial covenants required by these credit facilities.

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

	<b>September 27,</b>	<b>June 28,</b>
	<b>2020</b>	<b>2020</b>
STRATTEC Credit Facility	\$ <u>13,000</u>	\$ <u>18,000</u>
ADAC-STRATTEC Credit Facility	<u>17,000</u>	<u>17,000</u>
	<u>\$ 30,000</u>	<u>\$ 35,000</u>

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

	Three Months Ended			
	Average Outstanding Borrowings		Weighted Average Interest Rate	
	September 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019
STRATTEC Credit Facility	\$ 17,231	\$ 16,033	1.2%	3.3%
ADAC-STRATTEC Credit Facility	\$ 17,000	\$ 23,473	1.4%	3.5%

### 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 of \$3 million 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 2010, the reserve was adjusted based on updated third party estimates to adequately cover the cost for active remediation of the contamination. Additionally, in fiscal 2016, we obtained updated third party estimates for adequately covering the cost for active remediation of this contamination. Based upon the updated estimates, no further adjustment to the reserve was required. From 1995 through September 27, 2020, costs of approximately \$618,000 have been incurred related to the installation of monitoring wells on the property and ongoing monitoring costs. We monitor and evaluate the site with the use of these groundwater monitoring wells. An environmental consultant samples these wells one or two times a year to determine the status of the contamination and the potential for remediation of the contamination by natural attenuation, the dissipation of the contamination over time to concentrations below applicable standards. If such sampling evidences a sufficient degree of and trend toward natural attenuation of the contamination at the site, we may be able to obtain a closure letter from the regulatory authorities resolving the issue without the need for active remediation. If a sufficient degree and trend toward natural attenuation is not evidenced by sampling, a more active form of remediation beyond natural attenuation may be required. The sampling has not yet satisfied all of the requirements for closure by natural attenuation. As a result, sampling continues and the reserve remains at an amount to reflect 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 remaining environmental reserve of \$1.3 million at September 27, 2020 is adequate.

### Shareholders' Equity

A summary of activity impacting shareholders' equity for the three month periods ended September 27, 2020 and September 29, 2019 were as follows (in thousands):

	Three Months Ended September 27, 2020						
	Total Shareholders' Equity	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Non-Controlling Interest
Balance, June 28, 2020	\$ 175,441	\$ 74	\$ 97,977	\$ 211,940	\$ (22,113)	\$ (135,656)	\$ 23,219
Net Income	10,073	—	—	8,008	—	—	2,065
Dividend Declared – Non-controlling Interests of Subsidiaries	(490)	—	—	—	—	—	(490)
Translation Adjustments	1,699	—	—	—	1,378	—	321
Stock Based Compensation	208	—	208	—	—	—	—
Pension and Postretirement Adjustment, Net of Tax	70	—	—	—	70	—	—
Employee Stock Purchases	19	—	3	—	—	16	—
Balance, September 27, 2020	<u>\$ 187,020</u>	<u>\$ 74</u>	<u>\$ 98,188</u>	<u>\$ 219,948</u>	<u>\$ (20,665)</u>	<u>\$ (135,640)</u>	<u>\$ 25,115</u>

**Three Months Ended September 29, 2019**

	<u>Total Shareholders' Equity</u>	<u>Common Stock</u>	<u>Capital in Excess of Par Value</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Treasury Stock</u>	<u>Non-Controlling Interest</u>
Balance, June 30, 2019	\$ 187,816	\$ 73	\$ 96,491	\$ 221,117	\$ (18,568)	\$ (135,725)	\$ 24,428
Net Income	2,680	—	—	1,244	—	—	1,436
Dividend Declared	(522)	—	—	(522)	—	—	—
Dividend Declared – Non-controlling Interests of Subsidiaries	(980)	—	—	—	—	—	(980)
Translation Adjustments	(1,448)	—	—	—	(1,196)	—	(252)
Stock Based Compensation	413	—	413	—	—	—	—
Pension and Postretirement Adjustment, Net of Tax	73	—	—	—	73	—	—
Stock Option Exercises	222	1	221	—	—	—	—
Employee Stock Purchases	17	—	3	—	—	14	—
Balance, September 29, 2019	<u>\$ 188,271</u>	<u>\$ 74</u>	<u>\$ 97,128</u>	<u>\$ 221,839</u>	<u>\$ (19,691)</u>	<u>\$ (135,711)</u>	<u>\$ 24,632</u>

**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 as of September 27, 2020. Contract liability balances primarily include discounts recognized as a reduction in sales at the point of revenue recognition, but which will be applied by the customer agreement after the end of the reporting period. Contract liability balances are included in Other Accrued Liabilities in the accompanying Condensed Consolidated Balance Sheets. The activity related to contract liability balances during the three month period ended September 27, 2020 was as follows (thousands of dollars):

Balance, June 28, 2020	\$	373
Discounts Recorded as a Reduction in Sales		118
Payments of Discounts to Customers		(129)
Other		40
Balance, September 27, 2020	<u>\$</u>	<u>402</u>

**Revenue by Product Group and Customer:**

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

	<u>Three Months Ended</u>	
	<u>September 27, 2020</u>	<u>September 29, 2019</u>
Door Handles & Exterior Trim	\$ 34,091	\$ 31,391
Keys & Locksets	32,736	32,469
Power Access	20,620	19,458
Latches	13,835	13,897
Aftermarket & OE Service	13,137	10,913
Driver Controls	9,787	9,785
Other	2,028	2,049
	<u>\$ 126,234</u>	<u>\$ 119,962</u>

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

	Three Months Ended	
	September 27, 2020	September 29, 2019
General Motors Company	\$ 37,756	\$ 33,838
Fiat Chrysler Automobiles	25,083	25,482
Ford Motor Company	15,846	15,812
Commercial and Other OEM Customers	21,434	21,346
Tier 1 Customers	17,495	17,747
Hyundai / Kia	8,620	5,737
	<u>\$ 126,234</u>	<u>\$ 119,962</u>

#### Other Expense, net

Net other expense included in the accompanying Condensed Consolidated Statements of Income and Comprehensive Income primarily included foreign currency transaction gains and losses, realized and unrealized 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 ("SEPR") 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 minimize 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 September 27, 2020 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	
	September 27, 2020	September 29, 2019
Foreign Currency Transaction Loss	\$ (399)	\$ (85)
Unrealized Gain on Peso Forward Contracts	335	—
Realized Loss on Peso Forward Contracts	(59)	—
Pension and Postretirement Plans Cost	(105)	(117)
Rabbi Trust Loss	(57)	(2)
Other	25	107
	<u>\$ (260)</u>	<u>\$ (97)</u>

#### Income Taxes

Our effective tax rate was 13.5% and 10.0% for the three months ended September 27, 2020 and September 29, 2019, respectively. Effective July 20, 2020, the U.S. Treasury Department finalized and enacted previously proposed regulations regarding the Global Intangible Low Taxed Income (GILTI) tax provisions of the Tax Cuts and Jobs Act of 2017 (TCJA). Prior to this enactment, GILTI represented a significant U.S. income tax on our foreign earnings during fiscal 2020. With the enactment of these final regulations, we are now eligible for an exclusion from GILTI since we meet the provisions for the GILTI High-Tax exception included in the final regulations. In addition, the enactment of the new regulations and our eligibility for the GILTI High-Tax exception are retroactive to the original enactment of the GILTI tax provision, which includes our 2020 fiscal year. As a result of the newly enacted regulations, we recorded an income tax benefit of \$675,000 during the three month period ended September 27, 2020. During the three month period ended September 29, 2019, our effective tax rate was impacted by the discrete impact of the non-cash compensation expense, as discussed under Pension and Postretirement Benefits below. Our effective tax rate differs from the statutory tax rate due to the GILTI provisions, our available R&D tax credit and the non-controlling interest portion of our pre-tax income. The non-controlling interest impacts the effective tax rate as ADAC-STRATTEC LLC and STRATTEC POWER ACCESS LLC entities are taxed as partnerships for U.S. tax purposes.

STRATTEC is currently subject to state income tax examinations in our Wisconsin jurisdiction for fiscal years 2015, 2016, 2017, and 2018. The audit is currently in process and preliminary results are not yet available.

## Earnings Per Share

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

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

	Three Months Ended					
	September 27, 2020			September 29, 2019		
	Net Income	Shares	Per-Share Amount	Net Income	Shares	Per-Share Amount
Basic Earnings Per Share	\$ 8,008	3,765	\$ 2.13	\$ 1,244	3,710	\$ 0.34
Stock Option and Restricted Stock Awards	—	23		—	18	
Diluted Earnings Per Share	\$ 8,008	3,788	\$ 2.11	\$ 1,244	3,728	\$ 0.33

The calculation of earnings per share excluded 90,860 share-based payment awards for both of the quarters ended September 27, 2020 and September 29, 2019 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 September 27, 2020, the Board of Directors had designated 1,850,000 shares of common stock available for the grant of awards under the plan. Remaining shares available to be granted under the plan as of September 27, 2020 were 76,434. 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. We included a proposal at our Annual Meeting of Shareholders held on October 6, 2020 to increase the number of shares available to be granted under this omnibus stock incentive plan by an additional 150,000 shares, which proposal was approved by our shareholders at the Annual Meeting.

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 5 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 three months ended September 27, 2020 was as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Outstanding, June 28, 2020	90,860	\$ 35.88		
Outstanding, September 27, 2020	90,860	\$ 35.88	2.2	\$ —
Exercisable, September 27, 2020	90,860	\$ 35.88	2.2	\$ —

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

	Three Months Ended	
	September 27, 2020	September 29, 2019
Intrinsic Value of Options Exercised	\$ —	\$ 37
Fair Value of Stock Options Vesting	\$ —	\$ —

No options were granted during the three month periods ended September 27, 2020 or September 29, 2019.

A summary of restricted stock activity under our omnibus stock incentive plan for the three months ended September 27, 2020 was as follows:

	Shares	Weighted Average Grant Date Fair Value
Nonvested Balance, June 28, 2020	69,394	\$ 30.59
Granted	39,900	\$ 21.20
Vested	(34,669)	\$ 34.95
Nonvested Balance, September 27, 2020	74,625	\$ 23.54

As of September 27, 2020, all compensation cost related to outstanding stock options granted under our omnibus stock incentive plan has been recognized. As of September 27, 2020, there was approximately \$1.4 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 1.1 years. Total unrecognized compensation cost will be adjusted for any future changes in estimated and actual forfeitures of awards granted under our omnibus stock incentive plan.

#### Pension and Postretirement Benefits

We had a qualified, noncontributory defined benefit pension plan (“Qualified Pension Plan”) covering substantially all U.S. associates employed by us prior to January 1, 2010. Effective December 31, 2009, the Board of Directors amended the Qualified Pension Plan to freeze benefit accruals and future eligibility. The Board of Directors subsequently approved to proceed with the termination of the Qualified Pension Plan. During the quarter ended December 30, 2018, we completed a substantial portion of terminating the Qualified Pension Plan. In connection with the termination of the Qualified Pension Plan, distributions from the Qualified Pension Plan trust were made during the three month period ended December 30, 2018 to participants who elected lump-sum distributions. Additionally, during the three months ended December 30, 2018, we entered into an agreement with an insurance company to purchase from us, through a series of annuity contracts, our remaining obligations under the Qualified Pension Plan and, as a result, we settled the remaining obligations under the plan for the remaining participants utilizing funds available in the Qualified Pension Plan trust. No additional cash contributions to the trust were required to settle the pension obligations. As a result of these actions, a non-cash pre-tax settlement charge of \$31.9 million was recorded during fiscal 2019. A non-cash compensation expense charge of \$4.2 million was also recorded during fiscal 2019 related to the future transfer of the excess assets in the Qualified Pension Plan to a STRATTEC defined contribution plan for subsequent pay-out to eligible STRATTEC employees based on a plan approved by the Board of Directors in June 2019. An additional \$4.8 million non-cash compensation expense charge related to the final transfer and pay-out of the excess Qualified Pension Plan assets was recorded during our fiscal 2020, of which \$2.2 million of non-cash compensation expense was recorded during the three month period ended September 29, 2019. As of December 29, 2019, the excess Qualified Pension Plan assets were transferred to our defined contribution plan and distributed to eligible STRATTEC employees, which completed the full termination of the Qualified Pension Plan.

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. The Rabbi Trust assets had a value of \$2.9 million at both September 27, 2020 and June 28, 2020 and are included in Other Long-Term Assets in the accompanying Condensed Consolidated Balance Sheets.

We also sponsor a postretirement health care plan for all U.S. associates 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.

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, net in the accompanying Condensed Consolidated Statements of Income and Comprehensive Income.

The following table summarizes 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	
	September 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019
Service Cost	\$ 16	\$ 19	\$ 3	\$ 3
Interest Cost	10	15	4	6
Amortization of Prior Service Credit	—	—	(2)	(7)
Amortization of Unrecognized Net Loss	3	4	89	99
Net Periodic Benefit Cost	<u>\$ 29</u>	<u>\$ 38</u>	<u>\$ 94</u>	<u>\$ 101</u>

#### 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 September 27, 2020		
	Foreign Currency Translation Adjustments	Retirement and Postretirement Benefit Plans	Total
Balance, June 28, 2020	\$ 20,136	\$ 1,977	\$ 22,113
Other Comprehensive Income Before Reclassifications	(1,699)	—	(1,699)
Net Other Comprehensive Income Before Reclassifications	(1,699)	—	(1,699)
Reclassifications:			
Prior Service Credits (A)	—	2	2
Unrecognized Net Loss (A)	—	(92)	(92)
Total Reclassifications Before Tax	—	(90)	(90)
Income Tax	—	20	20
Net Reclassifications	—	(70)	(70)
Other Comprehensive Income	(1,699)	(70)	(1,769)
Other Comprehensive Income Attributable to Non- Controlling Interest	(321)	—	(321)
Balance, September 27, 2020	<u>\$ 18,758</u>	<u>\$ 1,907</u>	<u>\$ 20,665</u>

	<b>Three Months Ended September 29, 2019</b>		
	<b>Foreign Currency Translation Adjustments</b>	<b>Retirement and Postretirement Benefit Plans</b>	<b>Total</b>
Balance, June 30, 2019	\$ 16,317	\$ 2,251	\$ 18,568
Other Comprehensive Loss Before Reclassifications	1,448	—	1,448
Net Other Comprehensive Loss Before Reclassifications	1,448	—	1,448
Reclassifications:			
Prior Service Credits (A)	—	7	7
Unrecognized Net Loss (A)	—	(103)	(103)
Total Reclassifications Before Tax	—	(96)	(96)
Income Tax	—	23	23
Net Reclassifications	—	(73)	(73)
Other Comprehensive Income	1,448	(73)	1,375
Other Comprehensive Income Attributable to Non- Controlling Interest	252	—	252
Balance, September 29, 2019	<u>\$ 17,513</u>	<u>\$ 2,178</u>	<u>\$ 19,691</u>

(A) Amounts reclassified are included in the computation of net periodic benefit cost, which is included in Other Expense, net in the accompanying Condensed Consolidated Statements of Income and Comprehensive Income. 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 2020 Form 10-K, which was filed with the Securities and Exchange Commission on September 3, 2020. 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 6 of this Form 10-Q.

During the fourth quarter of our fiscal year ended June 2020, we responded to the COVID-19 pandemic and the temporary OEM customer plant shutdowns by implementing a permanent reduction in our salaried workforce, instituting temporary layoffs, reducing working hours, allowing (and in some cases encouraging) remote working from home, temporarily suspending our quarterly cash dividend, delaying capital expenditures and eliminating nonessential operating costs, all to preserve cash flow. In addition, during the fourth quarter of the prior fiscal year, we produced additional finished goods inventory in anticipation of our OEM customers pipeline fill to their dealers once vehicle production began starting up in June 2020.

During the first quarter ended September 2020, the Company experienced a strong sales recovery as our customers ramped up vehicle production as they restarted their assembly plant operations in order to replenish low inventory levels at the dealers. Likewise, our manufacturing operations in Milwaukee, WI and in Mexico ramped up production to meet this increased sales demand. However, these actions were, and continue to be hampered by, requirements imposed by the Mexican Government at our Mexican facilities that continue to limit operating capacity in Mexico due to COVID-19 which may in the future impact our ability to meet customer sales demand depending upon their order levels.

The sales outlook over the next few quarters appears strong as our customers continue to restock dealer inventories. However, this sales demand going forward is contingent on the impact and severity of the COVID-19 pandemic, including any potential worsening thereof, on the North American and overall global economy.

### Analysis of Results of Operations

*Three months ended September 27, 2020 compared to the three months ended September 29, 2019*

	Three Months Ended	
	September 27, 2020	September 29, 2019
Net Sales (in millions)	\$ 126.2	\$ 120.0

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	
	September 27, 2020	September 29, 2019
General Motors Company	\$ 37.8	\$ 33.8
Fiat Chrysler Automobiles	25.1	25.5
Ford Motor Company	15.8	15.8
Commercial and Other OEM Customers	21.4	21.4
Tier 1 Customers	17.5	17.8
Hyundai / Kia	8.6	5.7
	<u>\$ 126.2</u>	<u>\$ 120.0</u>

The increase in sales to General Motors Company in the current year quarter as compared to the prior year quarter was attributed to higher production volumes on models for which we supply components. The impact of the UAW strike reduced net sales by an estimated \$3.0 million in the prior year quarter. Sales to Fiat Chrysler Automobiles decreased slightly in the current year quarter as compared to the prior year quarter due to lower vehicle production volumes on the FCA minivans for which we supply components. The Dodge Grand Caravan minivan went out of production during July 2020. Sales to Ford Motor Company, Tier 1 Customers and Commercial and Other OEM Customers were flat in the current year quarter compared to the prior year quarter. Sales to Tier 1 Customers, Commercial and Other OEM Customers primarily represent purchasers of vehicle access control products, such as latches, key fobs, driver controls, steering column locks and door handles, that we have developed in recent years to complement our historic core business of locks and keys. The increased sales to Hyundai / Kia in the current year quarter as compared to the prior year quarter were due to higher levels of production on their new, recently launched Kia Sedona minivan for which we supply components.

	<b>Three Months Ended</b>	
	<b>September 27, 2020</b>	<b>September 29, 2019</b>
Cost of Goods Sold (in millions)	\$ 103.7	\$ 104.1

Direct material costs are the most significant component of our cost of goods sold and comprised \$70.5 million or 68.0 percent of our cost of goods sold in the current year quarter compared to \$68.5 million or 65.8 percent of our cost of goods sold in the prior year quarter. The increase in our direct material costs between these quarters of \$2.0 million or 2.9 percent was due to increased sales volumes in the current year quarter as compared to the prior year quarter and increased obsolescence costs in the current year quarter resulting from the discontinuance of a customer program. The increase in our direct material costs as a percentage of our cost of goods sold in the current year quarter as compared to the prior year quarter was due to reduced labor and overhead costs between periods as discussed below.

The remaining components of our cost of goods sold consist of labor and overhead costs which decreased \$2.4 million or 6.7 percent to \$33.2 million in the current year quarter from \$35.6 million in the prior year quarter. The prior year quarter costs included a \$1.4 million non-cash compensation expense charge related to the transfer of excess Qualified Pension Plan assets as described under Pension and Postretirement Benefits within Notes to Condensed Consolidated Financial Statement included herein. Additionally, labor and overhead costs in the current year quarter were favorably impacted by cost improvements implemented at our Milwaukee, WI and Mexico facilities, along with a favorable Mexican peso to U.S. dollar exchange rate affecting our operations in Mexico, which favorable impacts were partially offset by an increase in the variable portion of our labor and overhead costs as a result of the increase in sales volumes in the current year quarter as compared to the prior year quarter. The U.S. dollar value of our Mexican operations was favorably impacted by approximately \$2.0 million in the current year quarter as compared to the prior year quarter due to a favorable Mexican peso to U.S. dollar exchange rate between these quarterly periods. The average U.S. dollar / Mexican peso exchange rate increased to approximately 22.21 pesos to the dollar in the current year quarter from approximately 19.61 pesos to the dollar in the prior year quarter.

	<b>Three Months Ended</b>	
	<b>September 27, 2020</b>	<b>September 29, 2019</b>
Gross Profit (in millions)	\$ 22.5	\$ 15.9
Gross Profit as a percentage of net sales	17.8%	13.2%

Gross profit dollars increased in the current year quarter as compared to the prior year quarter as a result of both an increase in sales and an increase in cost of goods sold between periods, as discussed above. Gross profit as a percentage of net sales increased between periods. The increase was due to the prior year quarter non-cash compensation expense charge as well as cost improvements implemented at our Milwaukee and Mexico production facilities in the current year quarter as compared to the prior year quarter and a favorable Mexican peso to U.S. dollar exchange rate affecting our operations in Mexico as discussed above.

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

	<b>Three Months Ended</b>	
	<b>September 27, 2020</b>	<b>September 29, 2019</b>
Expenses (in millions)	\$ 11.3	\$ 13.0
Expenses as a percentage of net sales	9.0%	10.8%

The decrease in engineering, selling and administrative expenses in the current year quarter decreased in comparison to the prior year quarter due to lower new product development costs, a temporary reduction in salary work force wages, permanent layoffs, and improved operating expense management in the current year quarter as compared to the prior year quarter. Additionally, the prior year quarter costs included an \$862,000 non-cash compensation expense charge related to the transfer of excess Qualified Pension

Plan assets as described under Pension and Postretirement Benefits within Notes to Condensed Consolidated Financial Statement included herein.

Income from operations was \$11.2 million in the current year quarter compared to \$2.9 million in the prior year quarter due to an increase in gross profit margin dollars and a decrease in engineering, selling and administrative expenses between quarters, all as discussed above.

The equity earnings of joint ventures was \$825,000 in the current year quarter compared to \$484,000 in the prior year quarter. Higher profitability from our Vehicle Access Systems Technology LLC (“VAST LLC”) joint ventures is due to higher profitability in our VAST China operation between periods. Our VAST LLC joint ventures in India and Brazil continue to report losses due to our limited amount of business in both regions.

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

	<b>Three Months Ended</b>	
	<b>September 27, 2020</b>	<b>September 29, 2019</b>
Foreign Currency Transaction Loss	\$ (399)	\$ (85)
Unrealized Gain on Peso Forward Contracts	335	—
Realized Loss on Peso Forward Contracts	(59)	—
Pension and Postretirement Plans Cost	(105)	(117)
Rabbi Trust Loss	(57)	(2)
Other	25	107
	<u>\$ (260)</u>	<u>\$ (97)</u>

Foreign currency transaction losses during the current year quarter and prior year quarter resulted from activity associated with foreign denominated assets held by our Mexican subsidiaries. We entered into the Mexican peso currency forward contracts to minimize 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 September 27, 2020 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 impacts include the components of net periodic benefit cost other than the service cost component. Our Rabbi Trust assets fund our amended and restated supplemental executive retirement plan. The investments held in the Trust are considered trading securities.

Our effective tax rate was 13.5% and 10.0% for the three months ended September 27, 2020 and September 29, 2019, respectively. Effective July 20, 2020, the U.S Treasury Department finalized and enacted previously proposed regulations regarding the Global Intangible Low Taxed Income (GILTI) tax provisions of the Tax Cuts and Jobs Act of 2017 (TCJA). Prior to this enactment, GILTI represented a significant U.S. income tax on our foreign earnings during fiscal 2020. With the enactment of these final regulations, we are now eligible for an exclusion from GILTI since we meet the provisions for the GILTI High-Tax exception included in the final regulations. In addition, the enactment of the new regulations and our eligibility for the GILTI High-Tax exception are retroactive to the original enactment of the GILTI tax provision, which includes our 2020 fiscal year. As a result of the newly enacted regulations, we recorded an income tax benefit of \$675,000 during the three month period ended September 27, 2020. During the three month period ended September 29, 2019, our effective tax rate was impacted by the discrete impact of the non-cash compensation expense, as discussed under Pension and Postretirement Benefits below. Our effective tax rate differs from the statutory tax rate due to the GILTI provisions, our available R&D tax credit and the non-controlling interest portion of our pre-tax income. The non-controlling interest 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)

	<b>September 27, 2020</b>	<b>June 28, 2020</b>
Current Assets	\$ 160.9	\$ 125.4
Current Liabilities	76.3	48.1
Working Capital	<u>\$ 84.6</u>	<u>\$ 77.3</u>

### Outstanding Receivable Balances from Major Customers

Our primary source of cash flow is from our major customers, which include Fiat Chrysler Automobiles, General Motors Company and Ford Motor Company. As of the date of filing this Form 10-Q with the Securities and Exchange Commission, all of our major customers are making payments on their outstanding accounts receivable in accordance with the payment terms included on their purchase orders. A summary of our outstanding receivable balances from our major customers as of September 27, 2020 was as follows (in millions):

General Motors Company	\$	23.2
Fiat Chrysler Automobiles	\$	16.2
Ford Motor Company	\$	7.6

### Cash Balances in Mexico

We earn a portion of our operating income in Mexico. As of September 27, 2020, \$4.2 million of our \$12.0 million cash and cash equivalents balance was held in Mexico. These funds are available for repatriation as deemed necessary.

### Cash Flow Analysis (in millions)

	Three Months Ended	
	September 27, 2020	September 29, 2019
Cash Flows from (in millions):		
Operating Activities	\$ 7.3	\$ 15.0
Investing Activities	\$ (1.5)	\$ (4.3)
Financing Activities	\$ (5.5)	\$ (7.3)

The decrease in cash provided by operating activities between periods is due to a net increase in our working capital requirements between periods of approximately \$13.2 million which was partially offset by improvement in our financial results between periods. The net increase in our working capital requirements between periods was made up of the following working capital changes (in millions):

	Increase (Decrease) in Working Capital Requirements		
	Three Months Ended		Change
	September 27, 2020	September 29, 2019	
Accounts Receivable	\$ 37.8	\$ (5.0)	\$ 42.8
Inventory	\$ (2.7)	\$ 4.2	\$ (6.9)
Other Assets	\$ 0.3	\$ (3.2)	\$ 3.5
Accounts Payable and Accrued Liabilities	\$ (27.9)	\$ (1.7)	\$ (26.2)

The period over period change in the accounts receivable balances is the result of the amount and timing of sales during each period. The increase in accounts receivable balances during the current year period reflected reduced sales levels from the end of March 2020 through June 2020, which reduction was primarily due to our OEM customers reducing production schedules and closing their assembly plants due to the COVID-19 outbreak. The reduction in accounts receivable balances during the prior year period reflected reduced sales levels toward the end of our September 2019 period as compared to the end of our June 2019 period. The period over period change in inventory reflected a decrease in inventory balances during the current year period due to an inventory build-up as of June 2020 resulting from our OEM customers reducing production schedules and closing their assembly plants due to COVID-19 and an increase in inventory balances during the prior year period due to an inventory build-up of General Motors components stemming from the impacts of the General Motors strike. The period over period change in other assets reflected a reduction in our other assets balances in the prior year period, which was driven by changes in customer tooling balances. Customer tooling balances consisted of costs incurred for the development of tooling that will be directly reimbursed by our customer whose parts are produced from the tool. The prior year change in customer tooling balances was the result of the timing of tooling development spending required to meet customer production requirements and related customer billing for tooling cost reimbursement. The period over period change in accounts payable and accrued liability balances was primarily the result of an increase in accounts payable balances during the current year period. Accounts payable balances were significantly reduced as of June 2020 due to the impact of COVID-19. Accounts payable balances increased as of September 2020 as our business ramped-up along with the automotive industry. Accounts payable balances reflect the timing of purchases and payments with our vendors based on normal payment terms.

Net cash used by investing activities of \$1.5 million during the current year period and \$4.3 million during the prior year period were the result of capital expenditures made in support of requirements for new product programs and the upgrade and replacement of existing equipment.

Net cash used in financing activities during the current year period of \$5.5 million included repayments of borrowings under credit facilities of \$5.0 million and \$490,000 of dividend payments to non-controlling interests in our subsidiaries. Net cash used in financing activities of \$7.3 million during the prior year period included repayments of borrowings under credit facilities of \$6.0 million, \$522,000 of regular quarterly dividend payments to shareholders and \$980,000 of dividend payments to non-controlling interests in our subsidiaries.

### **VAST LLC Cash Requirements**

We currently anticipate that VAST China has adequate debt facilities in place over the next fiscal year to cover the future operating and capital requirements of its business. No capital contributions were made to VAST LLC during the three months ended September 27, 2020 or September 29, 2019. Due to economic conditions in Brazil, we anticipate Sistema de Acesso Veicular Ltda will require a capital contribution of approximately \$300,000 collectively by all VAST LLC partners to fund operations during fiscal year 2021. STRATTEC's portion of the capital contributions is anticipated to be \$100,000. During the three months ended September 27, 2020, VAST LLC made no capital contributions to Minda-VAST Access Systems. Due to Minda-VAST Access System recently experiencing losses and due to the COVID-19 outbreak, future capital contributions may be required.

### **Future Capital Expenditures**

We anticipate capital expenditures will be approximately \$12 million in total in fiscal 2021, of which \$1.5 million has been made through September 27, 2020, 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 September 27, 2020. A total of 3,655,322 shares have been repurchased over the life of the program through September 27, 2020, at a cost of approximately \$136.4 million. No shares were repurchased during the three month periods ended September 27, 2020 or September 29, 2019. 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 2021.

## **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, 2022. 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 is at varying rates based, at our option, on the London Interbank Offering Rate (“LIBOR”) plus 1.0 percent or the bank’s prime rate. Interest on borrowings under the ADAC-STRATTEC Credit Facility is at varying rates based, at our option, on LIBOR plus 1.25 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. As of September 27, 2020, we were in compliance with all financial covenants required by these credit facilities. The ADAC-STRATTEC Credit Facility includes an additional restrictive financial covenant that requires the maintenance of a minimum fixed charge coverage ratio. Outstanding borrowings under the STRATTEC Credit Facility totaled \$13 million at September 27, 2020 and \$18 million at June 28, 2020. The average outstanding borrowings and weighted average interest rate on the STRATTEC Credit Facility loans were approximately \$17.2 million and 1.2 percent, respectively, during the three months ended September 27, 2020. Outstanding borrowings under the ADAC-STRATTEC Credit Facility totaled \$17 million at September 27, 2020 and \$17.0 million at June 28, 2020. The average outstanding borrowings and weighted average interest rate on the ADAC-STRATTEC Credit Facility loans were approximately \$17.0 million and 1.4 percent, respectively, during the three months ended September 27, 2020.

## **Inflation and Other Changes in Prices**

**Inflation Related Items:** Over the past several years, we have been impacted by rising health care costs, which have increased our cost of associate medical coverage. A portion of these increases have been offset by plan design changes and associate wellness initiatives. We have also been impacted by increases in the market price of metals (zinc, steel, brass, nickel silver and aluminum) and inflation in Mexico, which impacts the U. S. dollar costs of our Mexican operations. We have negotiated raw material price adjustment clauses with certain, but not all, of our customers to offset some of the market price fluctuations in the cost of zinc. We have from time to time entered into contracts with Bank of Montreal that provide for bi-weekly and monthly Mexican peso currency forward contracts for a portion of our estimated peso denominated operating costs to minimize our earnings volatility resulting from changes in exchange rates affecting the U.S. dollar cost of our Mexican operations. Refer to discussion under Notes to Condensed Consolidated Financial Statements: Derivative Instruments included herein.

## **Joint Ventures and Majority Owned Subsidiaries**

Refer to the discussion of Investment in Joint Ventures and Majority Owned Subsidiaries and discussion of Equity Earnings of Joint Ventures included in Notes to Condensed Consolidated Financial Statements included 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 3, 2020.

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 September 27, 2020, a total of 3,655,322 shares have been repurchased at a cost of approximately \$136.4 million. No shares were repurchased during the three month period ended September 27, 2020.

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 [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 [Amended and Restated STRATTEC SECURITY CORPORATION Stock Incentive Plan \(Incorporated by reference from Appendix B to the Company's Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on September 3, 2020.\)](#)
- 10.2 [Form of Restricted Stock Grant Agreement with Employees to be used under the Amended and Restated STRATTEC SECURITY CORPORATION Stock Incentive Plan](#)
- 31.1 [Rule 13a-14\(a\) Certification for Frank J. Krejci, President and Chief Executive Officer](#)
- 31.2 [Rule 13a-14\(a\) Certification for Patrick J. Hansen, Chief Financial Officer](#)
- 32 (1) [18 U.S.C. Section 1350 Certifications](#)
- 101 The following materials from STRATTEC SECURITY CORPORATION's Quarterly Report on Form 10-Q for the fiscal quarter ended September 27, 2020 formatted in XBRL (eXtensible Business Reporting Language) and furnished electronically herewith: (i) Condensed Consolidated Statements of Income and Comprehensive Income; (ii) Condensed Consolidated Balance Sheets; (iii) Condensed Consolidated Statements of Cash Flows; and (iv) Notes to Condensed Consolidated Financial Statements. 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 September 27, 2020, 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: November 5, 2020

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

## RESTRICTED STOCK GRANT AGREEMENT

THIS RESTRICTED STOCK GRANT AGREEMENT is dated as of \_\_\_\_\_ (the "Grant Date") between STRATTEC SECURITY CORPORATION, a Wisconsin corporation (the "Company"), and \_\_\_\_\_ ("Recipient").

### RECITALS

A. The Company has adopted the STRATTEC SECURITY CORPORATION Stock Incentive Plan, as most recently amended and restated as of August 19, 2020 (the "Plan"), to provide eligible participants with the opportunity to obtain a proprietary interest, or otherwise increase their proprietary interest, in the Company. Capitalized terms not defined herein shall have the meanings assigned such terms in the Plan.

B. In Connection with Recipient's provision of services to and for the benefit of the Company, the Company has agreed to issue certain shares of its common stock, par value \$0.01 per share (the "Common Stock"), to Recipient pursuant to the terms and conditions of the Plan.

C. As a condition to the issuance of the Common Stock to Recipient, the Company and Recipient desire to impose certain restrictions on the shares of Common Stock granted pursuant to the terms of this Agreement.

### AGREEMENTS

In consideration of the recitals and the mutual agreements which follow, the Company and the Recipient agree as follows:

1. Grant of Restricted Shares. The Company hereby grants and issues 1,500 shares of the Common Stock (the "Restricted Shares") to Recipient, in accordance with this Agreement and the Plan. Promptly following the execution and delivery of this Agreement by Recipient, the Company shall cause a certificate for the Restricted Shares to be delivered to Recipient containing the legend set forth in Section 7 below.

2. Vesting and Forfeiture of Restricted Shares.

(a) General Vesting. Subject to the forfeiture provisions of section 2(b) and the accelerated vesting provisions of section 2(c), the Restricted Shares shall vest pro rata over a three period such that one-third of the Restricted Shares shall vest on the first anniversary date of the Grant Date, one-third of the

Restricted Shares shall vest on the second anniversary date of the Grant Date and the remaining one-third of the Restricted Shares shall vest on the third anniversary date of the Grant Date (as each such date may be modified by application of section 2(c), the "Vesting Date"). All Restricted Shares which shall have vested are referred to herein as "Vested Shares." All Restricted Shares which are not vested are referred to herein as "Unvested Shares." Upon vesting, the Restricted Shares (or the portion thereof) shall no longer be subject to forfeiture pursuant to section 2(b) of this Agreement.

(b) Forfeiture Rights. The Unvested Shares shall immediately be forfeited to the Company if, prior to the applicable Vesting Date, the Recipient's employment with the Company terminates for any reason, other than as described in section 2(c)(ii) below. Upon any forfeiture of all or any portion of the Restricted Shares pursuant to this section 2(b), Recipient shall have no rights as a holder of such portion of the forfeited Restricted Shares and such forfeited Restricted Shares shall be deemed transferred to the Company, and the Company shall be deemed the owner and holder of such shares.

(c) Special Vesting.

(i) Change in Control. All Restricted Shares (or the portion thereof) not otherwise vested shall automatically and immediately vest immediately prior to the effective date of a Change in Control. Immediately following a Change in Control, this Agreement shall terminate and cease to be outstanding, unless assumed by the successor entity (or parent thereof) in connection with the Change in Control.

(ii) Termination as a Result of Death or Disability. Notwithstanding anything herein to the contrary, if Recipient's employment with the Company terminates (i) as a result of Recipient's death or (ii) because Recipient suffers a Disability, then in each such case the Restricted Shares (to the extent not already vested) shall be deemed fully vested and shall become Vested Shares.

(iii) Termination as a Result of Eligible Voluntary Retirement. Notwithstanding anything herein to the contrary, if Recipient's employment with the Company terminates as a result of voluntary Retirement (as defined in the Plan and provided Recipient has attained eligibility for Retirement under the Company's employment policies and the terms of the Plan), then upon recommendation of the Company's Chief Executive Officer to the Compensation Committee of the Company's Board of Directors, the Compensation Committee may determine, in its discretion, to deem the Restricted Shares (to the extent not

already vested) fully vested and such Restricted Shares shall become Vested Shares.

(iv) Preservation of Rights. This Agreement shall not in any way affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

3. Shareholder Rights. Regardless of whether the Restricted Shares (or a portion thereof) are considered Unvested Shares under the terms of this Agreement, Recipient shall have all the rights of a shareholder (including voting rights) with respect to the Restricted Shares, other than, with respect to any Unvested Shares, the right to receive any cash dividends. Recipient shall not be entitled to any cash dividends declared on any shares which are Unvested Shares as of the payment date for such dividend.

4. Restrictions on Transfer. Recipient shall not sell, assign, transfer, pledge, encumber or dispose of all or any of his or her Restricted Shares (or portion thereof), either voluntarily or by operation of law, at any time prior to the applicable Vesting Date for such shares (or portion thereof). Any attempted transfer of any Restricted Shares in violation of this Section 4 shall be invalid and of no effect.

5. Taxes.

(a) The Company's obligation to deliver the Restricted Shares to Recipient shall be subject to the satisfaction of all applicable federal, state and local income and employment tax withholding requirements ("Withholding Taxes"). Recipient has reviewed with Recipient's own tax advisors the federal, state and local tax consequences of this investment and the transactions contemplated by this Agreement. Recipient is relying solely on such advisors and not on any statements or representations of the Company or any of its agents. Recipient understands that Recipient (and not the Company) shall be responsible for Recipient's own tax liability that may arise as a result of the transactions contemplated by this Agreement.

(b) RECIPIENT ACKNOWLEDGES THAT HE OR SHE HAS BEEN INFORMED THAT RECIPIENT MUST DECIDE WHETHER OR NOT TO MAKE AN ELECTION UNDER SECTION 83(b) OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED, WITH RESPECT TO THE RESTRICTED SHARES AND THAT RECIPIENT IS SOLELY RESPONSIBLE FOR MAKING OR NOT MAKING A TIMELY SECTION 83(b) ELECTION (AND OBTAINING TAX ADVICE CONCERNING WHETHER AND HOW TO

MAKE SUCH ELECTION). Recipient hereby agrees to deliver to the Company a signed copy of any document he or she may execute and file with the Internal Revenue Service evidencing a section 83(b) Election, and to deliver such copy to the Company prior to, or promptly upon, such filing, accompanied by a cash payment in the amount the Company anticipates is required to fulfill the Withholding Taxes as a result of the making of such election.

(c) Recipient agrees to promptly make a cash payment to the Company of any Withholding Taxes to the Company when due. Recipient further agrees that the Company may withhold from Recipient's wages or other remuneration the appropriate amount of Withholding Taxes (to the extent not covered by Recipient's cash payment related thereto to the Company). Recipient further agrees that, if the Company does not withhold an amount from Recipient's wages or other remuneration sufficient to satisfy the withholding obligation of the Company, Recipient will make reimbursement on demand, in cash, for the amount underwithheld.

6. Adjustments for Stock Splits, Stock Dividends, Etc. If from time to time during the term of this Agreement there is any stock split-up, stock dividend, stock distribution or other reclassification of the Common Stock, any and all new, substituted or additional securities to which Recipient is entitled by reason of his or her ownership of the Restricted Shares shall be immediately subject to the forfeiture and other provisions of this Agreement in the same manner and to the same extent as the Restricted Shares. If the Restricted Shares are converted into or exchanged for, or shareholders of the Company receive by reason of any distribution in total or partial liquidation, securities of another corporation, or other property (including cash), pursuant to any merger of the Company or acquisition of its assets, then the rights of the Company under this Agreement shall inure to the benefit of the Company's successor and this Agreement shall apply to the securities or other property received upon such conversion, exchange or distribution in the same manner and to the same extent as the Restricted Shares.

7. Legends. The share certificate evidencing the Restricted Shares issued hereunder shall be endorsed with the following legend (in addition to any legend required under applicable federal or state securities laws) and the Company may issue stop-transfer instructions with its transfer agent in connection with such legend:

"THE TRANSFERABILITY OF THIS CERTIFICATE AND THE SHARES OF STOCK REPRESENTED HEREBY ARE SUBJECT TO THE TERMS AND CONDITIONS (INCLUDING FORFEITURE) OF THE STRATTEC SECURITY CORPORATION STOCK INCENTIVE PLAN AND ANY GRANT AGREEMENT ENTERED INTO THEREUNDER RELATED TO



THESE SHARES OF STOCK. COPIES OF SUCH PLAN AND AGREEMENT ARE ON FILE AT THE OFFICES OF STRATTEC SECURITY CORPORATION, 3333 WEST GOOD HOPE ROAD, GLENDALE, WISCONSIN 53209-2043."

The legend set forth above shall be removed from the certificates evidencing the Restricted Shares (or a portion thereof) upon the applicable Vesting Date unless such Restricted Shares have been forfeited prior to the applicable Vesting Date pursuant to Section 2 above.

8. Miscellaneous.

(a)Severability; Binding Effect; Successors and Assigns. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, and each other provision of this Agreement shall be severable and enforceable to the extent permitted by law. The provisions of this Agreement shall inure to the benefit of, and be binding upon, the Company and its successors and assigns and Recipient and his or her legal representatives, heirs, legatees, distributees, assigns and transferees.

(b)No Rights To Continued Service. Nothing in this Agreement shall confer upon Recipient any right to continue in the employment of the Company for any period of time or interfere with or restrict in any way the rights of the Company or Recipient to terminate the employment of Recipient at any time for any reason whatsoever, with or without cause.

(c)Entire Agreement. This Agreement constitutes the entire agreement between the parties, and supersedes all prior agreements and understandings, relating to the subject matter of this Agreement.

(d)Amendment. This Agreement may be amended or modified only by a written instrument executed by both the Company and Recipient.

(e)Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Wisconsin, without giving effect to any choice of law or conflict of law provision or rule that would cause the application of the law of any jurisdiction other than the State of Wisconsin.

(f)Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

[Name]

STRATTEC SECURITY CORPORATION

BY

Frank J. Krejci  
President & CEO

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: November 5, 2020

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

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

I, Patrick J. Hansen, 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: November 5, 2020

/s/ Patrick J.  
Hansen  
Patrick J. Hansen,  
Chief Financial Officer

**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 September 27, 2020 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: November 5, 2020

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

Dated: November 5, 2020

/s/ Patrick J. Hansen  
Patrick J. Hansen,  
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.