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 October 2, 2022

or

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

For the transition period from __________ to __________

Commission File Number 0-25150

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

Wisconsin	**39-1804239**
(State of Incorporation)	**(I.R.S. Employer Identification No.)**

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). YES ☒ NO ☐

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

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

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

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

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

Common stock, par value $0.01 per share: 4,014,846 shares outstanding as of October 3, 2022 (which number includes all restricted shares previously awarded that have not vested as of such date).

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PROSPECTIVE INFORMATION

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

The Company’s business, operations and financial performance are subject to certain risks and uncertainties, which could result in material differences in actual results from the Company’s current expectations. These risks and uncertainties include, but are not limited to, general economic conditions, in particular relating to the automotive industry, consumer demand for the Company’s and its customers’ products, competitive and technological developments, customer purchasing actions, changes in warranty provisions and customers’ product recall policies, work stoppages at the Company or at the location of its key customers as a result of labor disputes, foreign currency fluctuations, uncertainties stemming from U.S. trade policies, tariffs and reactions to same from foreign countries, the volume and scope of product returns or customer cost reimbursement actions, changes in the costs of operations, warranty claims, adverse business and operational issues resulting from the global supply chain and logistics disruption, the semiconductor chip supply shortages and the Coronavirus (COVID-19) pandemic, matters adversely impacting the timing, availability and cost of material component parts and raw materials for the production of our products and the products of our customers, or the continuation or worsening thereof, and other matters described in the section titled “Risk Factors” in the Company’s Form 10-K report filed on September 8, 2022 with the Securities and Exchange Commission for the year ended July 3, 2022.

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

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

	Three Months Ended	
	October 2, 2022	September 26, 2021
Net sales	$ 120,360	$ 100,341
Cost of goods sold	107,864	87,792
Gross profit	12,496	12,549
Engineering, selling and administrative expenses	12,700	12,121
(Loss) income from operations	(204)	428
Equity earnings (loss) of joint ventures	527	(251)
Interest expense	(129)	(48)
Other (expense) income, net	(290)	130
(Loss) income before (benefit) provision for income taxes and non-controlling interest	(96)	259
(Benefit) provision for income taxes	(36)	37
Net (loss) income	(60)	222
Net (loss) income attributable to non-controlling interest	(188)	121
Net income attributable to STRATTEC SECURITY CORPORATION	$ 128	$ 101
Comprehensive loss:		
Net (loss) income	$ (60)	$ 222
Pension and postretirement plans, net of tax	75	81
Currency translation adjustments	(682)	(712)
Other comprehensive loss, net of tax	(607)	(631)
Comprehensive loss	(667)	(409)
Comprehensive loss attributable to non-controlling interest	(132)	(29)
Comprehensive loss attributable to STRATTEC SECURITY CORPORATION	$ (535)	$ (380)
Earnings per share attributable to STRATTEC SECURITY CORPORATION:		
Basic	$ 0.03	$ 0.03
Diluted	$ 0.03	$ 0.03
Average shares outstanding:		
Basic	3,899	3,830
Diluted	3,929	3,893
Cash dividends declared per share	$ —	$ —

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

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

	October 2, 2022	July 3, 2022
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 10,330	$ 8,774
Receivables, net	76,631	75,827
Inventories:		
Finished products	15,438	19,499
Work in process	17,645	18,263
Purchased materials	47,485	48,209
Excess and obsolete reserve	(5,520)	(5,489)
Inventories, net	75,048	80,482
Other current assets	29,052	23,149
Total current assets	191,061	188,232
Investment in joint ventures	26,023	26,344
Deferred Income Taxes	6,926	6,937
Other long-term assets	4,975	5,438
Property, plant and equipment	282,014	278,249
Less: accumulated depreciation	(190,820)	(186,520)
Net property, plant and equipment	91,194	91,729
	$ 320,179	$ 318,680
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 40,806	$ 43,950
Accrued Liabilities:		
Payroll and benefits	18,637	17,905
Environmental	1,390	1,390
Warranty	7,881	8,100
Other	12,853	10,130
Total current liabilities	81,567	81,475
Borrowings under credit facilities	13,000	11,000
Accrued pension obligations	1,299	1,259
Accrued postretirement obligations	445	463
Other long-term liabilities	3,985	4,070
Shareholders' Equity:		
Common stock, authorized 18,000,000 shares, $.01 par value, 7,527,370 issued shares at October 2, 2022 and 7,481,169 issued shares at July 3, 2022	75	75
Capital in excess of par value	102,250	101,524
Retained earnings	241,632	241,504
Accumulated other comprehensive loss	(19,320)	(18,657)
Less: treasury stock, at cost (3,603,749 shares at October 2, 2022 and 3,604,466 shares at July 3, 2022)	(135,569)	(135,580)
Total STRATTEC SECURITY CORPORATION shareholders' equity	189,068	188,866
Non-controlling interest	30,815	31,547
Total shareholders' equity	219,883	220,413
	$ 320,179	$ 318,680

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	
	October 2, 2022	September 26, 2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (60)	$ 222
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation	4,497	5,057
Foreign currency transaction loss (gain)	71	(139)
Unrealized loss on peso forward contracts	35	98
Stock-based compensation expense	611	396
Equity (earnings) loss of joint ventures	(527)	251
Change in operating assets and liabilities:		
Receivables	(818)	3,279
Inventories	5,434	(6,847)
Other assets	(5,492)	(4,652)
Accounts payable and accrued liabilities	828	(7,439)
Other, net	122	127
Net cash provided by (used in) operating activities	4,701	(9,647)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(4,718)	(2,789)
Net cash used in investing activities	(4,718)	(2,789)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under credit facilities	5,000	7,000
Repayment of borrowings under credit facilities	(3,000)	(2,000)
Dividends paid to non-controlling interests of subsidiaries	(600)	(600)
Exercise of stock options and employee stock purchases	126	619
Net cash provided by financing activities	1,526	5,019
Foreign currency impact on cash	47	(24)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,556	(7,441)
CASH AND CASH EQUIVALENTS		
Beginning of period	8,774	14,465
End of period	$ 10,330	$ 7,024
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Income taxes	$ 498	$ 595
Interest	$ 90	$ 44
Non-cash investing activities:		
Change in capital expenditures in accounts payable	$ (855)	$ 398

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

Basis of Financial Statements

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

The accompanying condensed consolidated financial statements reflect the consolidated results of STRATTEC SECURITY CORPORATION, its wholly owned Mexican subsidiary, STRATTEC de Mexico, and its majority owned subsidiaries, ADAC-STRATTEC, LLC and STRATTEC POWER ACCESS LLC. STRATTEC SECURITY CORPORATION is 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 October 2, 2022 and July 3, 2022, which have been derived from our audited financial statements, and the related unaudited interim condensed consolidated financial statements included herein contain all adjustments, consisting only of normal recurring items, necessary for their fair presentation in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") and in accordance with Rule 10-01 of Regulation S-X. All significant intercompany transactions have been eliminated.

Interim financial results are not necessarily indicative of operating results for an entire year. The information included in this Form 10-Q should be read in conjunction with the financial statements and notes thereto included in the STRATTEC SECURITY CORPORATION 2022 Form 10-K, which was filed with the Securities and Exchange Commission on September 8, 2022.

Risks and Uncertainties

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

STRATTEC's operating performance is subject to global economic conditions, inflationary pressures and levels of consumer spending specifically within the automotive industry and its operating performance has been impacted by the lingering effects of the COVID-19 pandemic and the war in the Ukraine, all as described above. During the period from late March 2020 through mid-June 2020, the majority of our OEM customer assembly plant operations were completely closed including most of the supply chain. Additionally, during most of this same period, STRATTEC's Mexico facilities were closed as a result of the Mexican government's shutdown of non-essential businesses. Re-opening of our OEM customer facilities and our Mexico facilities began in June 2020, and the automotive industry continued to ramp-up throughout our fiscal year ended June 27, 2021. Nonetheless, during the fourth quarter of our fiscal 2021, our net sales were negatively impacted by a global semiconductor chip shortage (especially as it relates to the automotive industry), which shortage continued into our fiscal 2022. Although semiconductor chip availability improved during the first quarter of our fiscal 2023 relative to our fiscal 2022, negative impacts of the shortage continue to affect STRATTEC.

Additionally, inflationary pressures resulted in increased raw material and purchased part costs as well as increased wage rates in Mexico beginning in calendar 2021. Such increases negatively impacted our operating results in our fiscal 2022 and continued in the first quarter of our fiscal 2023.

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

New Accounting Standard

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

Subsequent Event

Subsequent to October 2, 2022, we received notice that a product we shipped failed to perform as the customer expected. While it is probable we will incur warranty costs related to this matter, it is not possible to reasonably estimate those costs based on limited information available, including uncertainty as to STRATTEC's responsibility in the matter, as of the date of filing of this Form 10-Q. We have a warranty liability recorded related to our known and potential exposure to warranty claims in the event our products fail to perform as expected. As additional information related to this matter becomes available, we may need to record additional warranty provisions.

Derivative Instruments

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

The following table quantifies the outstanding Mexican peso forward contracts as of October 2, 2022 (thousands of dollars, except with respect to the average forward contractual exchange rate):

	Effective Dates	Notional Amount	Average Forward Contractual Exchange Rate	Fair Value
Buy MXP/Sell USD	October 18, 2022 - June 13, 2023	$ 6,750	22.45	$ 591

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):

	October 2, 2022	July 3, 2022
Not Designated as Hedging Instruments:		
Other Current Assets:		
Mexican Peso Forward Contracts	$ 591	$ 627

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

	Three Months Ended	
	October 2, 2022	September 26, 2021
Not Designated as Hedging Instruments:		
Realized Gain	$ 238	$ 139
Unrealized Loss	$ (35)	$ (98)

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 October 2, 2022 and July 3, 2022. Fair value is defined as the exchange price that would be received for an asset or paid for a liability (an exit price) in the principal or most advantageous market in an orderly transaction between market participants on the measurement date.

The following table summarizes our financial assets and liabilities measured at fair value on a recurring basis as of October 2, 2022 (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	$ 72	$ —	$ —
Mid Cap	137	—	—
Large Cap	215	—	—
International	432	—	—
Fixed Income Funds	1,095	—	—
Cash and Cash Equivalents	—	964	—
Mexican Peso Forward Contracts	—	591	—
Total Assets at Fair Value	$ 1,951	$ 1,555	$ —

The Rabbi Trust assets fund our Amended and Restated Supplemental Executive Retirement Plan. Of the October 2, 2022 $2.9 million Rabbi Trust asset balance, $863,000 was included in Other Current Assets and $2.0 million was included in Other Long-term Assets in the accompanying Condensed Consolidated Balance Sheets.

Investment in Joint Ventures and Majority Owned Subsidiaries

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

The Alliance Agreements include a set of cross-licensing agreements for the manufacture, distribution and sale of WITTE products by STRATTEC and ADAC in North America, and the manufacture, distribution and sale of STRATTEC and ADAC products by WITTE in Europe. Additionally, a joint venture company, Vehicle Access Systems Technology LLC ("VAST LLC"), in which WITTE, STRATTEC and ADAC each hold a one-third interest, exists to seek opportunities to manufacture and sell each company's products in areas of the world outside of North America and Europe. As a result of these relationships, the entities involved purchase products from each other on an as needed basis to use as components in end products assembled and sold in their respective home markets. STRATTEC currently purchases such component parts from WITTE. These purchases totaled $135,000 during the three month period ended October 2, 2022, and $187,000 during the three month period ended September 26, 2021.

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

The VAST LLC investments are accounted for using the equity method of accounting and the results of the VAST LLC foreign subsidiaries and joint venture are reported on a one-month lag basis. The activities related to the VAST LLC foreign subsidiaries and joint venture resulted in equity earnings of joint ventures to STRATTEC of $527,000 during the three month period ended October 2, 2022 and equity loss of joint ventures to STRATTEC of $251,000 during the three month period ended September 26, 2021. During the three months ended October 2, 2022 and September 26, 2021, 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 sales and reduced net income to STRATTEC of approximately $30.1 million and $355,000, respectively, during the three month period ended October 2, 2022 and increased net sales and reduced net income to STRATTEC of approximately $23.5 million and $318,000, respectively, during the three month period ended September 26, 2021. ADAC charges ADAC STRATTEC LLC an engineering, research and design fee as well as a sales fee. Such fees are calculated as a percentage of net sales, are included in the consolidated results of STRATTEC, and totaled $2.1 million in the three month period ended October 2, 2022 and $1.6 million in the three month period ended September 26, 2021. Additionally, ADAC-STRATTEC LLC sells production parts to ADAC. Sales to ADAC are included in the consolidated results of STRATTEC and totaled $2.8 million in the three month period ended October 2, 2022 and $1.2 million in the three month period ended September 26, 2021.

STRATTEC POWER ACCESS LLC ("SPA") was originally formed in fiscal year 2009 to supply the North American portion of the power sliding door, lift gate, tail gate and deck lid system access control products some of which were acquired from Delphi Corporation in 2009. SPA was 80 percent owned by STRATTEC and 20 percent owned by WITTE for all periods presented in this report. An additional Mexican entity, STRATTEC POWER ACCESS de Mexico, is wholly owned by SPA. The financial results of SPA are consolidated with the financial results of STRATTEC and resulted in increased net sales and increased net income to STRATTEC of approximately $24.8 million and $641,000, respectively, during the three month period ended October 2, 2022 and $21.1 million and $1.2 million, respectively, during the three month period ended September 26, 2021.

Equity Earnings (Loss) of Joint Ventures

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

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

	Three Months Ended	
	October 2, 2022	September 26, 2021
Net Sales	$ 66,146	$ 42,617
Cost of Goods Sold	55,782	34,892
Gross Profit	10,364	7,725
Engineering, Selling and Administrative Expenses	8,532	8,551
Income (Loss) From Operations	1,832	(826)
Other Income, net	72	89
Income (Loss) before Provision for Income Taxes	1,904	(737)
Provision for Income Taxes	368	21
Net Income (Loss)	$ 1,536	$ (758)
STRATTEC's Share of VAST LLC Net Income (Loss)	512	(253)
Intercompany Profit Elimination	15	2
STRATTEC’s Equity Earnings (Loss) of VAST LLC	$ 527	$ (251)

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	
	October 2, 2022	September 26, 2021
Sales to VAST LLC	$ 10	$ 515
Purchases from VAST LLC	$ 14	$ 132
Expenses Charged to VAST LLC	$ 81	$ 174
Expenses Charged from VAST LLC	$ 243	$ 253

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 Sheets are presented below (in thousands):

		October 2, 2022
Right-of Use Asset Under Operating Lease:		
Other Long-Term Assets	$	2,924
Lease Obligation Under Operating Lease:		
Current Liabilities: Accrued Liabilities: Other	$	403
Other Long-Term Liabilities		2,521
	$	2,924

Future minimum lease payments, by our fiscal year, including options to extend that are reasonably certain to be exercised, under this non-cancelable lease are as follows as of October 2, 2022 (in thousands):

2023 (for the remaining nine months)	$	375
2024		509
2025		522
2026		535
2027		548
Thereafter		751
Total Future Minimum Lease Payments		3,240
Less: Imputed Interest		(316)
Total Lease Obligations	$	2,924

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

	Three Months Ended			
	October 2, 2022		September 26, 2021	
Operating Cash Flows:				
Cash Paid Related to Operating Lease Obligation	$	122	$	119

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

	October 2, 2022
Weighted Average Remaining Lease Term (in years)	6.1
Weighted Average Discount Rate	3.3%

Operating lease expense for the three month periods ended October 2, 2022 and September 26, 2021 totaled $122,000 and $119,000, respectively.

Credit Facilities

STRATTEC has a $40 million secured revolving credit facility (the “STRATTEC Credit Facility”) with BMO Harris Bank N.A. ADAC-STRATTEC LLC has a $25 million secured revolving credit facility (the “ADAC-STRATTEC Credit Facility”) with BMO Harris Bank N.A., which is guaranteed by STRATTEC. The credit facilities both expire August 1, 2024. Borrowings under either credit facility are secured by our U.S. cash balances, accounts receivable, inventory, and fixed assets. Interest on borrowings under both credit facilities were 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 October 2, 2022, we were in compliance with all financial covenants required by these credit facilities.

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

	October 2, 2022	July 3, 2022
STRATTEC Credit Facility	$ 1,000	$ —
ADAC-STRATTEC Credit Facility	12,000	11,000
	$ 13,000	$ 11,000

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

	Three Months Ended			
	Average Outstanding Borrowings		Weighted Average Interest Rate	
	October 2, 2022	September 26, 2021	October 2, 2022	September 26, 2021
STRATTEC Credit Facility	$ 3,000	$ 330	3.8%	2.9%
ADAC-STRATTEC Credit Facility	$ 11,352	$ 13,319	3.5%	1.4%

Commitments and Contingencies

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

In 1995, we recorded a provision for estimated costs to remediate an environmental contamination site at our Milwaukee facility. The facility was contaminated by a solvent spill, which occurred in 1985, from a former above ground solvent storage tank located on the east side of the facility. The reserve was originally established based on third party estimates to adequately cover the cost for active remediation of the contamination. Due to changing technology and related costs associated with active remediation of the contamination, in fiscal years 2010, 2016, and 2021, we obtained updated third party estimates of projected costs to adequately cover the cost for active remediation of this contamination and adjusted the reserve as needed. We monitor and evaluate the site with the use of groundwater monitoring wells. An environmental consultant samples these wells one or two times a year to determine the status of the contamination and the potential for remediation of the contamination by natural attenuation, the dissipation of the contamination over time to concentrations below applicable standards. If such sampling evidences a sufficient degree of and trend toward natural attenuation of the contamination at the site, we may be able to obtain a closure letter from the regulatory authorities resolving the issue without the need for active remediation. If a sufficient degree and trend toward natural attenuation is not evidenced by sampling, a more active form of remediation beyond natural attenuation may be required. The sampling has not yet satisfied all of the requirements for closure by natural attenuation. As a result, sampling continues and the reserve remains at an amount to reflect our estimated cost of active remediation. The reserve is not measured on a discounted basis. We believe, based on findings-to-date and known environmental regulations, that the environmental reserve of $1.4 million at October 2, 2022 is adequate.

Shareholders' Equity

A summary of activity impacting shareholders' equity for the three month periods ended October 2, 2022 and September 26, 2021 were as follows (in thousands):

	Three Months Ended October 2, 2022						
	Total Shareholders' Equity	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Non-Controlling Interest
Balance, July 3, 2022	$ 220,413	$ 75	$ 101,524	$ 241,504	$ (18,657)	$ (135,580)	$ 31,547
Net Income	(60)	—	—	128	—	—	(188)
Dividend Declared – Non-controlling Interests of Subsidiaries	(600)	—	—	—	—	—	(600)
Translation Adjustments	(682)	—	—	—	(738)	—	56
Stock-based Compensation	611	—	611	—	—	—	—
Pension and Postretirement Adjustment, Net of Tax	75	—	—	—	75	—	—
Stock Option Exercises	109	—	109	—	—	—	—
Employee Stock Purchases	17	—	6	—	—	11	—
Balance, October 2, 2022	$ 219,883	$ 75	$ 102,250	$ 241,632	$ (19,320)	$ (135,569)	$ 30,815

	Three Months Ended September 26, 2021						
	Total Shareholders' Equity	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Non-Controlling Interest
Balance, June 27, 2021	$ 213,433	$ 74	$ 99,512	$ 234,472	$ (16,797)	$ (135,615)	$ 31,787
Net Income	222	—	—	101	—	—	121
Dividend Declared - Non-Controlling Interests of Subsidiaries	(600)	—	—	—	—	—	(600)
Translation Adjustments	(712)	—	—	—	(562)	—	(150)
Stock-based Compensation	396	—	396	—	—	—	—
Pension and Postretirement Adjustment, Net of Tax	81	—	—	—	81	—	—
Stock Option Exercises	600	1	599	—	—	—	—
Employee Stock Purchases	19	—	12	—	—	7	—
Balance, September 26, 2021	$ 213,439	$ 75	$ 100,519	$ 234,573	$ (17,278)	$ (135,608)	$ 31,158

Revenue from Contracts with Customers

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

Contract Balances:

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

Revenue by Product Group and Customer:

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

	Three Months Ended	
	October 2, 2022	September 26, 2021
Door Handles & Exterior Trim	$ 30,125	$ 23,540
Keys & Locksets	28,665	22,841
Power Access	24,841	21,140
Latches	14,762	10,107
Aftermarket & OE Service	10,648	11,896
User Interface Controls (formerly Driver Controls)	9,118	8,017
Other	2,201	2,800
	$ 120,360	$ 100,341

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

	Three Months Ended	
	October 2, 2022	September 26, 2021
General Motors Company	$ 38,150	$ 25,684
Ford Motor Company	24,616	17,695
Stellantis	17,155	16,560
Tier 1 Customers	17,309	11,975
Commercial and Other OEM Customers	14,826	17,412
Hyundai / Kia	8,304	11,015
	$ 120,360	$ 100,341

Other (Expense) Income, net

Net other (expense) income included in the accompanying Condensed Consolidated Statements of (Loss) Income and Comprehensive Loss primarily included foreign currency transaction gains and losses, realized and unrealized gains or losses on our Mexican peso currency forward contracts, net periodic pension and postretirement benefit costs, other than the service cost component, related to our Supplemental Executive Retirement Plan ("SERP") and postretirement plans and Rabbi Trust gains and losses. Foreign currency transaction gains and losses resulted from activity associated with foreign denominated assets held by our Mexican subsidiaries. We entered into the Mexican Peso currency forward contracts described above to 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 October 2, 2022 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	
	October 2, 2022	September 26, 2021
Foreign Currency Transaction (Loss) Gain	$ (71)	$ 139
Unrealized loss on Peso Forward Contracts	(35)	(98)
Realized Gain on Peso Forward Contracts, net	238	139
Pension and Postretirement Plans Cost	(126)	(120)
Rabbi Trust (Loss) Gain	(366)	22
Other	70	48
	$ (290)	$ 130

Income Taxes

Our effective tax rate was 37.5% and 14.3% for the three months ended October 2, 2022 and September 26, 2021, respectively. The current year effective tax rate prior to a favorable discrete benefit related to stock-based compensation was 14.8%. Our effective tax rate differs from the statutory tax rate due to the application of the Global Intangible Low Taxed Income (GILTI) tax provisions, our available R&D tax credit and the non-controlling interest portion of our pre-tax income. The non-controlling interest portion impacts the effective tax rate as ADAC-STRATTEC LLC and STRATTEC POWER ACCESS LLC entities are taxed as partnerships for U.S. tax purposes.

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					
	October 2, 2022			September 26, 2021		
	Net Income	Shares	Per-Share Amount	Net Income	Shares	Per-Share Amount
Basic Earnings Per Share	$ 128	3,899	$ 0.03	$ 101	3,830	$ 0.03
Stock Option and Restricted Stock Awards	—	30		—	63	
Diluted Earnings Per Share	$ 128	3,929	$ 0.03	$ 101	3,893	$ 0.03

The calculation of earnings per share excluded 36,921 share-based payment awards as of October 2, 2022 and 9,010 share-based payment awards as of September 26, 2021 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 October 2, 2022, the Board of Directors had designated 2 million shares of common stock available for the grant of awards under the plan. Remaining shares available to be granted under the plan as of October 2, 2022 were 129,884. Awards that expire or are canceled without delivery of shares become available for re-issuance under the plan. We issue new shares of common stock to satisfy stock option exercises.

Nonqualified and incentive stock options and shares of restricted stock have been granted to our officers, outside directors and specified associates under our stock incentive plan. Stock options granted under the plan may not be issued with an exercise price less than the fair market value of the common stock on the date the option is granted. Stock options become exercisable as determined at the date of grant by the Compensation Committee of the Board of Directors. The options expire 10 years after the grant date unless an earlier expiration date is set at the time of grant. The options vest 1 to 4 years after the date of grant as determined by the Compensation Committee of the Board of Directors. Shares of restricted stock granted under the plan are subject to vesting criteria determined by the Compensation Committee of the Board of Directors at the time the shares are granted and have a minimum vesting period of one year from the date of grant. Unvested restricted shares granted have voting rights, regardless of whether the shares are vested or unvested, but only have the right to receive cash dividends after such shares become vested. Restricted stock grants vest 1 to 3 years after the date of grant as determined by the Compensation Committee of the Board of Directors.

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

A summary of stock option activity under our stock incentive plan for the three months ended October 2, 2022 follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Outstanding, July 3, 2022	41,172	$ 46.34		
Exercised	(4,251)	$ 25.64		
Outstanding, October 2, 2022	36,921	$ 48.72	1.1	—
Exercisable, October 2, 2022	36,921	$ 48.72	1.1	—

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	
	October 2, 2022	September 26, 2021
Intrinsic Value of Options Exercised	$ 31	$ 331
Fair Value of Stock Options Vesting	$ —	$ —

No options were granted during the three month periods ended October 2, 2022 or September 26, 2021.

A summary of restricted stock activity under our stock incentive plan for the three months ended October 2, 2022 follows:

	Shares	Weighted Average Grant Date Fair Value
Nonvested Balance, July 3, 2022	85,100	$ 31.89
Granted	48,525	$ 29.94
Vested	(41,950)	$ 29.52
Forfeited	(450)	$ 30.34
Nonvested Balance, October 2, 2022	91,225	$ 31.79

As of October 2, 2022, all compensation cost related to outstanding stock options granted under our omnibus stock incentive plan has been recognized. As of October 2, 2022, there was approximately $1.9 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 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 October 2, 2022 and $3.3 million at July 3, 2022. At both October 2, 2022 and July 3, 2022, $863,000 of the Rabbi Trust asset balance was included in Other Current Assets and the remaining balance was included in Other Long-Term Assets in the accompanying Condensed Consolidated Balance Sheets.

We also sponsor a postretirement health care plan for all 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) Income, net in the accompanying Condensed Consolidated Statements of (Loss) Income and Comprehensive Loss.

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

	SERP Benefits		Postretirement Benefits	
	Three Months Ended		Three Months Ended	
	October 2, 2022	September 26, 2021	October 2, 2022	September 26, 2021
Service Cost	$ 20	$ 16	$ 3	$ 3
Interest Cost	23	13	5	3
Amortization of Unrecognized Net Loss	31	22	67	84
Net Periodic Benefit Cost	$ 74	$ 51	$ 75	$ 90

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 October 2, 2022		
	Foreign Currency Translation Adjustments	Retirement and Postretirement Benefit Plans	Total
Balance, July 3, 2022	$ 16,723	$ 1,934	$ 18,657
Other Comprehensive Loss Before Reclassifications	682	—	682
Net Other Comprehensive Loss Before Reclassifications	682	—	682
Reclassifications:			
Unrecognized Net Loss (A)	—	(98)	(98)
Income Tax	—	23	23
Net Reclassifications	—	(75)	(75)
Other Comprehensive Loss	682	(75)	607
Other Comprehensive Income Attributable to Non-Controlling Interest	(56)	—	(56)
Balance, October 2, 2022	$ 17,461	$ 1,859	$ 19,320

	Three Months Ended September 26, 2021		
	Foreign Currency Translation Adjustments	Retirement and Postretirement Benefit Plans	Total
Balance, June 27, 2021	$ 14,685	$ 2,112	$ 16,797
Other Comprehensive Loss Before Reclassifications	712	—	712
Net Other Comprehensive Loss Before Reclassifications	712	—	712
Reclassifications:			
Unrecognized Net Loss (A)	—	(106)	(106)
Income Tax	—	25	25
Net Reclassifications	—	(81)	(81)
Other Comprehensive Loss	712	(81)	631
Other Comprehensive Loss Attributable to Non-Controlling Interest	150	—	150
Balance, September 26, 2021	$ 15,247	$ 2,031	$ 17,278

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

STRATTEC SECURITY CORPORATION AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis should be read in conjunction with STRATTEC SECURITY CORPORATION's accompanying Condensed Consolidated Financial Statements and Notes thereto and its 2022 Form 10-K, which was filed with the Securities and Exchange Commission on September 8, 2022. 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.

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

While supply chain shortages improved in the first quarter of fiscal year 2023 relative to the prior year quarter, they continued to constrain a return to production levels commensurate with the existing consumer demand in the market, resulting in a continuation of low dealer inventories in North America. The sales outlook from our customers over the next few quarters continues to project growth as we expect our customers to seek to restock dealer inventories. However, this stronger sales outlook is contingent on both the improvement of the supply chain part shortages referenced above, which continue to be at risk of negative impact by the lingering effects of the COVID-19 pandemic, and any potential worsening of the North American and overall global economy due to higher inflation and interest rates and the economic implications from the conflict in the Ukraine and other international political unrest.

Analysis of Results of Operations

Three months ended October 2, 2022 compared to the three months ended September 26, 2021

	Three Months Ended	
	October 2, 2022	September 26, 2021
Net Sales (in millions)	$ 120.4	$ 100.3

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	
	October 2, 2022	September 26, 2021
General Motors Company	$ 38.2	$ 25.7
Ford Motor Company	24.6	17.7
Stellantis	17.2	16.5
Tier 1 Customers	17.3	12.0
Commercial and Other OEM Customers	14.8	17.4
Hyundai / Kia	8.3	11.0
	$ 120.4	$ 100.3

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

- Sales to General Motors Company, Ford Motor Company and Stellantis were positively impacted in the current year quarter due to higher vehicle production volumes resulting from improved global semiconductor chip availability relative to the prior year quarter. Specifically, sales growth to General Motors Company and Ford Motor Company in the current year quarter was attributed to higher production volumes of the GMC Sierra, Chevy Silverado and Ford F-150 family of pickup trucks for which we supply a wide range of components.

- Sales to Tier 1 Customers improved in the current year quarter compared to the prior year quarter due to higher vehicle production volumes relating to the semiconductor chip availability referenced above.
- Sales to Commercial and Other OEM Customers, which are comprised of aftermarket products and vehicle access control products, such as latches, fobs, driver controls and door handles, declined in the current year quarter as compared to the prior year quarter due to continued semiconductor chip availability issues for aftermarket keys. The increases in availability of semiconductor chips were allocated toward the production of components for production vehicles ahead of aftermarket products and therefore, sales to aftermarket customers continued to be negatively impacted in the current year quarter by the global semiconductor chip shortage.
- Sales to Hyundai / Kia decreased quarter-over-quarter due to lower levels of production of the Kia Carnival, for which we supply components, in the current year quarter as compared to the prior year quarter.

	Three Months Ended			
	October 2, 2022		September 26, 2021	
	Millions of Dollars	Percent of Cost of Goods Sold	Millions of Dollars	Percent of Cost of Goods Sold
Direct Material Costs	$ 72.5	67.2%	$ 56.2	64.0%
Labor and Overhead Costs	35.4	32.8%	31.6	36.0%
Total Cost of Goods Sold	$ 107.9		$ 87.8	

The direct material cost increase between quarters was due to increased sales volumes between quarters, as discussed above, higher costs for raw material and purchased components in the current year quarter as compared to the prior year quarter, and a change in product mix between quarters. The current year quarter as compared to the prior year quarter included reduced services sales and increased latch sales, which service products have lower purchased material content and latch products have higher purchased material contents in comparison to our other products. Additionally, our increased sales dollars between quarters outpaced our increased labor and overhead costs between quarters, as discussed below. This, along with the product mix change and higher costs for raw material and purchased components in the current year quarter as compared to the prior year quarter, resulted in an increase in our direct material costs as a percentage of cost of goods sold between quarters and a decrease in our labor and overhead costs as a percentage of cost of goods sold between quarters.

Labor and overhead costs increased $3.8 million between quarters. The variable portion of our labor and overhead costs increased in the current year quarter as compared to the prior year quarter as a result of the production volume increase between quarters to support the increased sales volumes. This impact was partially offset by production efficiencies that controlled headcount and overtime costs at our Milwaukee and Mexico facilities. Labor and overhead costs were further impacted by the following:

Cost Increase:

- Mexico wages and benefits increased $1.4 million in the current year quarter as compared to the prior year quarter as a result of a January 1, 2022 government mandated minimum wage increase.

Cost Decreases:

- Royalty costs paid on sales of certain aftermarket products decreased $450,000 in the current year quarter as compared to the prior year quarter due to lower volumes stemming from the current semiconductor chip shortage.
- Prior year quarter costs included lump sum bonuses totaling $100,000 paid to our Milwaukee represented hourly workers upon the ratification of a new four-year labor contract, which contract is effective through November 1, 2025.

	Three Months Ended	
	October 2, 2022	September 26, 2021
Gross Profit (in millions)	$ 12.5	$ 12.5
Gross Profit as a percentage of net sales	10.4%	12.5%

Gross profit dollars in the current year quarter were consistent with the prior year quarter as the increase in sales between quarters was offset by an increase in cost of goods sold between quarters, as discussed above. Gross profit as a percentage of net sales decreased between quarterly periods. The decrease was the result of higher costs for direct materials and purchased parts, a product mix change involving service products and latch products that reduced margins between quarters, and increases in Mexico wages resulting from a January 1, 2022 government mandated minimum wage increase. These unfavorable impacts were partially offset by production efficiencies at our Milwaukee and Mexico facilities, a reduction in royalty costs and the impact of prior year quarter bonuses paid for the ratification of a new labor contract, all as discussed above.

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

	Three Months Ended	
	October 2, 2022	September 26, 2021
Expenses (in millions)	$ 12.7	$ 12.1
Expenses as a percentage of net sales	10.6%	12.1%

Engineering, selling and administrative expenses in the current year quarter increased in comparison to the prior year quarter due to higher outside expenditures on new product development costs associated with utilizing third party vendors for a portion of our development work as well as an increase in engineering costs related to our ADAC-STRATTEC LLC door handle and exterior trim products. These expenses decreased as a percentage of net sales due to the increase in sales between quarters as previously discussed.

Loss from operations was $204,000 in the current year quarter compared to income from operations of $428,000 in the prior year quarter due to consistent gross profit margin dollars with an increase in engineering, selling and administrative expenses between quarters, all as discussed above.

The equity earnings of joint ventures was $527,000 in the current year quarter compared to equity loss of joint ventures of $251,000 in the prior year quarter. Improved profitability from our VAST LLC joint venture resulted from increased net sales and increased profitability in VAST China's operations between quarters. VAST China's profitability in the prior year quarter was negatively impacted by the current global semiconductor chip shortage described above. We currently believe a presence in the China market is a key component of our global strategy. We anticipate that it will contribute to our overall long-term market and financial strength as the China market continues to expand and as it seeks to rebound from the ongoing impacts of the COVID-19 pandemic and resulting supply chain shortages of critical electronic component parts. Due to our limited amount of business in both India and Brazil as well as the impact of COVID-19 and the global semiconductor chip shortage described above, our VAST LLC joint venture in India continues to have break-even operating results and our VAST LLC joint venture in Brazil continues to report losses.

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

	Three Months Ended	
	October 2, 2022	September 26, 2021
Foreign Currency Transaction (Loss) Gain	$ (71)	$ 139
Unrealized Loss on Peso Forward Contracts	(35)	(98)
Realized Gain on Peso Forward Contracts, net	238	139
Pension and Postretirement Plans Cost	(126)	(120)
Rabbi Trust (Loss) Gain	(366)	22
Other	70	48
	$ (290)	$ 130

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

- Foreign currency transaction losses and gains resulted from activity associated with foreign denominated assets held by our Mexican subsidiaries.
- The Rabbi Trust assets fund our amended and restated supplemental executive retirement plan. The investments held in the Trust are considered trading securities.
- We entered into the Mexican peso currency forward contracts during fiscal 2023 and 2022 to 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 October 2, 2022 may or may not be realized in future periods, depending on actual Mexican peso to U.S. dollar exchange rates experienced during the balance of the contract period.
- Pension and postretirement plan costs include the components of net periodic benefit cost other than the service cost component.

Our effective tax rate was 37.5% and 14.3% for the three months ended October 2, 2022 and September 26, 2021, respectively. The current year effective tax rate prior to a favorable discrete benefit related to stock-based compensation was 14.8%. Our effective tax rate differs from the statutory tax rate due to the application of the Global Intangible Low Taxed Income (GILTI) tax provisions, our available R&D tax credit and the non-controlling interest portion of our pre-tax income. The non-controlling interest portion impacts the effective tax rate as ADAC-STRATTEC LLC and STRATTEC POWER ACCESS LLC entities are taxed as partnerships for U.S. tax purposes.

Liquidity and Capital Resources

Working Capital (in millions)

	October 2, 2022	July 3, 2022
Current Assets	$ 191.1	$ 188.2
Current Liabilities	81.6	81.5
Working Capital	$ 109.5	$ 106.7

Outstanding Receivable Balances from Major Customers

Our primary source of cash flow is from our major customers, which include General Motors Company, Stellantis and Ford Motor Company. As of the date of filing this Form 10-Q with the Securities and Exchange Commission, all of our major customers are making payments on their outstanding accounts receivable in accordance with the payment terms included on their purchase orders. A summary of our outstanding receivable balances from our major customers as of October 2, 2022 was as follows (in millions):

General Motors Company	$ 25.2
Stellantis	$ 9.7
Ford Motor Company	$ 16.0

Cash Balances in Mexico

We earn a portion of our operating income in Mexico. As of October 2, 2022, $1.6 million of our $10.3 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	
	October 2, 2022	September 26, 2021
Cash Flows from (in millions):		
Operating Activities	$ 4.7	$ (9.6)
Investing Activities	$ (4.7)	$ (2.8)
Financing Activities	$ 1.5	$ 5.0

The improvement in cash provided by operating activities between periods was due changes in our working capital requirements between periods, which changes were comprised of the following items (in millions):

	Increase (Decrease) in Working Capital Requirements		
	Three Months Ended		
	October 2, 2022	September 26, 2021	Change
Accounts Receivable	$ 0.8	$ (3.3)	$ 4.1
Inventory	$ (5.4)	$ 6.8	$ (12.2)
Other Assets	$ 5.5	$ 4.7	$ 0.8
Accounts Payable and Accrued Liabilities	$ (0.8)	$ 7.4	$ (8.2)

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

- The change in accounts receivable balances reflected a decrease in such balances in the prior year quarter. This prior year decrease was the result of reduced sales in the prior year quarter stemming from the global semiconductor chip shortage.
- The change in inventory levels reflected a decrease in inventory balances during the current year quarter and an increase in inventory balances during the prior year quarter. The current year quarter decrease was due to a reduction in finished goods inventory to align with historical customer production patterns. The prior year quarter increase was due to an inventory build-up during our fiscal 2022 first quarter while our OEM customers experienced assembly plant shut-downs and reduced production schedules due to certain part shortages, including semiconductor chips.
- The change in other assets in both the current year quarter and the prior year quarter is primarily the result of the change in customer tooling balances. Customer tooling balance changes result from the timing of tooling development spending required to meet customer production requirements and the timing of related customer billings for tooling cost reimbursement.

- The change in accounts payable and accrued liability balances was due to a decrease in the balances in the prior year quarter. The prior year quarter decrease resulted from the payment of fiscal 2021 accrued bonuses during August 2021, which payment totaled $6.6 million, and an increase in accounts payable balances during the prior year quarter. The prior year quarter accounts payable balance increase was due to accounts payable balances being significantly reduced as of June 2020 due to the impact of COVID-19 and lower production levels stemming from that impact. Accounts payable balances increased during our fiscal 2021 first quarter as our business ramped-up to support increased OEM production schedules as customer plants reopened. Accounts payable balances for each quarter reflected the timing of purchases and payments with our vendors based on normal, established payment terms.

Net cash used in investing activities included capital expenditures made in support of requirements for new product programs and the upgrade and replacement of existing equipment of $4.7 million during the current year quarter and $2.8 million during the prior year quarter.

Net cash provided by financing activities during the current year quarter of $1.5 million included increased borrowings under our credit facilities of $5.0 million and $126,000 received for the exercise of stock options under our stock incentive plan and purchases under our employee stock purchase plan, partially offset by $3.0 million of repayments of borrowings under our credit facilities and $600,000 of dividend payments to non-controlling interests in our subsidiaries. Net cash provided by financing activities during the prior year quarter of $5.0 million included increased borrowings under our credit facilities of $7.0 million and $619,000 received for the exercise of stock options under our stock incentive plan and purchases under our employee stock purchase plan, partially offset by $2.0 million of repayments of borrowings under our credit facilities and $600,000 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 remainder of our 2023 fiscal year to cover the future operating and capital requirements of its business. During the three month periods ended October 2, 2022 and September 26, 2021, no capital contributions were made to VAST LLC by any of the members. Due to economic conditions in Brazil, we anticipate Sistema de Acesso Veicular Ltda may require an additional capital contribution of approximately $300,000 collectively by all VAST LLC partners to fund operations during our fiscal year 2023. STRATTEC’s portion of these capital contributions is anticipated to be $100,000. During the three months ended October 2, 2022 and September 26, 2021, VAST LLC made no capital contributions to Minda-VAST Access Systems. We currently anticipate no required future capital contributions to Minda-VAST Access Systems over the remainder of our 2023 fiscal year.

Future Capital Expenditures

We anticipate capital expenditures will be approximately $13.0 million in total in fiscal 2023, of which $4.7 million has been made through October 2, 2022, 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 October 2, 2022. A total of 3,655,322 shares have been repurchased over the life of the program through October 2, 2022, at a cost of approximately $136.4 million. No shares were repurchased during the three month periods ended October 2, 2022 or September 26, 2021. Additional repurchases may occur from time to time and are expected to continue to be funded by cash flow from operations and current cash balances. Based on the current economic environment and our preference to conserve cash for other uses, we anticipate modest or no stock repurchase activity for the remainder of fiscal year 2023.

Credit Facilities

STRATTEC has a $40 million secured revolving credit facility (the “STRATTEC Credit Facility”) with BMO Harris Bank N.A. ADAC-STRATTEC LLC has a $25 million secured revolving credit facility (the “ADAC-STRATTEC Credit Facility”) with BMO Harris Bank N.A., which is guaranteed by STRATTEC. The credit facilities both expire August 1, 2024. Borrowings under either credit facility are secured by our U.S. cash balances, accounts receivable, inventory, and fixed assets located in the U.S. Interest on borrowings under both credit facilities were at varying rates based, at our option, on the 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 October 2, 2022, we were in compliance with all financial covenants required by these credit facilities. Outstanding borrowings under the STRATTEC Credit Facility totaled $1 million at October 2, 2022. There were no outstanding borrowings under the STRATTEC Credit Facility at July 3, 2022. The average outstanding borrowings and weighted average interest rate on the STRATTEC Credit Facility loans were approximately $3.0 million and 3.8 percent, respectively, during the three months ended October 2, 2022. Outstanding borrowings under the ADAC-STRATTEC Credit Facility totaled $12 million at October 2, 2022 and $11 million at July 3, 2022. The average outstanding borrowings and weighted average interest rate on the ADAC-STRATTEC Credit Facility loans were approximately $11.4 million and 3.5 percent, respectively, during the three months ended October 2, 2022.

Joint Ventures and Majority Owned Subsidiaries

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

Item 3 Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4 Controls and Procedures

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

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

Part II

Other Information

Item 1 Legal Proceedings

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

Item 1A—Risk Factors

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

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 October 2, 2022, 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 October 2, 2022.

Item 3 Defaults Upon Senior Securities—None

Item 4 Mine Safety Disclosures—None

Item 5 Other Information—None

Item 6 Exhibits

(a) Exhibits

3.1	Amended and Restated Articles of Incorporation of the Company (Incorporated by reference from Exhibit 3.1 to the Form 10-K filed on September 7, 2017.)
3.2	Amendment to Amended and Restated Articles of Incorporation of the Company (Incorporated by reference from Exhibit 3.1 to the Form 10-Q report filed on November 7, 2019.)
3.3	Amendment to Amended and Restated Articles of Incorporation of the Company (Incorporated by reference from Exhibit 3.1 to the Form 8-K report filed on October 21, 2021.)
3.4	Amended By-laws of the Company (Incorporated by reference from Exhibit 99.3 to the Form 8-K filed on October 7, 2005.)
10.1	STRATTEC SECURITY CORPORATION Amended and Restated Team Incentive Plan for STRATTEC: Bonus Plan for Executive Officers and Senior Managers
31.1	Rule 13a-14(a) Certification for Frank J. Krejci, President and Chief Executive Officer
31.2	Rule 13a-14(a) Certification for Dennis Bowe, Chief Financial Officer
32 (1)	18 U.S.C. Section 1350 Certifications
101	The following materials from STRATTEC SECURITY CORPORATION's Quarterly Report on Form 10-Q for the fiscal quarter ended October 2, 2022 formatted in XBRL (eXtensible Business Reporting Language) and furnished electronically herewith: (i) Condensed Consolidated Statements of (Loss) Income and Comprehensive Loss; (ii) Condensed Consolidated Balance Sheets; (iii) Condensed Consolidated Statements of Cash Flows; and (iv) Notes to Condensed Consolidated Financial Statements. XBRL Instance Document – the XBRL Instance Document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
104	The cover page from the Company’s Quarterly Report on Form 10-Q for the quarter ended October 2, 2022, 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 10, 2022

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

STRATTEC SECURITY CORPORATION
AMENDED AND RESTATED
TEAM INCENTIVE PLAN FOR STRATTEC

Bonus For:

- **Executive Officers**
- **Senior Managers**

Effective July 2, 2018, as amended effective October 11, 2022

STRATTEC SECURITY CORPORATION
AMENDED AND RESTATED
TEAM INCENTIVE PLAN FOR STRATTEC

Bonus For:

- **Executive Officers**
- **Senior Managers**

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I. PLAN OBJECTIVES

A. To promote the maximization of economic value over the long term by providing incentive compensation to Executive Officers and Senior Managers of STRATTEC SECURITY CORPORATION and certain of its subsidiaries (collectively, the "Company") in a form which is designed to financially reward participants for an increase in the value of the Company.

B. To provide competitive levels of compensation that enable the Company to attract and retain people who can have a positive impact on the economic value of the Company to its shareholders.

C. To encourage teamwork and cooperation in the achievement of Company goals.

II. PLAN ADMINISTRATION

A. The Compensation Committee of the STRATTEC SECURITY CORPORATION Board of Directors (the "Compensation Committee") shall be responsible for the design, administration, and interpretation of the Plan. The Compensation Committee shall have full and complete authority, in its sole and absolute discretion, (i) to exercise all of the powers granted to it under the Plan, (ii) to construe, interpret and implement the Plan and any related document, (iii) to prescribe, amend and rescind rules relating to the Plan, (iv) to make all determinations necessary or advisable in administering the Plan, and (v) to correct any defect, supply any omission and reconcile any inconsistency in the Plan.

B. The actions and determinations of the Compensation Committee or others to whom authority is delegated under the Plan on all matters relating to the Plan and any awards issued hereunder shall be final and conclusive. Such determinations need not be uniform and may be made selectively among persons who receive, or are eligible to receive, such awards under the Plan, whether or not such persons are similarly situated.

C. The Compensation Committee may retain such accountants, attorneys, and other experts as it deems necessary or desirable in connection with the administration of the Plan. The Company shall pay all reasonable expenses of administering the Plan, including, but not limited to, the payment of any such professional and expert fees of individuals and entities retained under the Plan by the Compensation Committee.

D. The Compensation Committee may delegate to others the authority to execute and deliver such instruments and documents, to do all such acts and things, and to take all such other steps deemed necessary, advisable or convenient for the effective administration of the Plan in accordance with its terms and purposes, which may include delegation of such authority and duties to the Company's TIPS Committee as determined hereunder or in the discretion of the Compensation Committee.

E. The Compensation Committee and others to whom the Compensation Committee has delegated such duties shall keep a record of all their proceedings and actions and shall maintain all such books of account, records and other data as shall be necessary for the proper administration of the Plan.

III. DEFINITIONS

In addition to the terms defined elsewhere herein, the following terms shall have the following meanings:

A. "Accrued Bonus" means the bonus, which is calculated in the manner set forth in Section V.A. below.

B. "Actual TIPS Performance" means, for the Company on a consolidated basis and in accordance with U.S. generally accepted accounting principles, pre-tax income, prior to any bonus payments, any provision for bonuses or any accrual reversals for bonuses, and after adjusting for non-controlling interests and also adjusted for other unusual income or expense items, all as determined by the Compensation Committee from the Company's annual consolidated financial statements. By way of clarification, Actual TIPS Performance and Target TIPS shall each be determined and/or set prior to taking into account any accruals or payments for bonuses earned (or any reversals for over accrual of bonuses) under this Plan, any similar team incentive plan adopted by the Company (or any successor such bonus plan) or other discretionary bonus payments earned or accrued.

C. "Code" means the Internal Revenue Code of 1986, as amended from time to time, and as interpreted by applicable regulations and rulings.

D. "Company" means STRATTEC SECURITY CORPORATION.

E. "Earned Wages" means:

(1) For Participants who are employed by the Company and STRATTEC POWER ACCESS LLC, all wages paid to or on account of such Participant in the Plan Year, but excluding employment signing bonuses, EVA or other annual incentive bonus payments, reimbursement and other expense allowances, imputed income, the value of fringe benefits (whether cash or non-cash), moving reimbursements, accrued vacation, medical leave, welfare benefits and other special payments.

(2) For Participants who are employed by STRATTEC de Mexico S.A. de C.V., such Participant's "Base Salary". "Base Salary" for such Participant means all payments in respect of such Participant's regular salary, holidays and vacations which were paid during the Plan Year. Base Salary does not include any overtime pay, profit sharing contributions, Christmas bonuses, vacation premiums, signing bonuses, EVA or other bonus payments, reimbursements and other expense allowances, imputed income, the value of fringe benefits (whether cash or non-cash), moving reimbursements and other special payments.

F. "Effective Date" means July 2, 2018. This Plan replaced and supersedes the EVA plan which began on February 27, 1995. This Plan is amended and restated effective as of October 11, 2022.

G. "Employee" means those Participants who are designated as Senior Managers or Executive Officers annually by the Compensation Committee of the Board of Directors with respect to any Plan Year.

H. "Participant" means any individual who has satisfied the eligibility requirements of the Plan as provided in Section IV. below and who is selected for participation in the Plan by the Compensation Committee during such Plan Year.

I. "Plan" means this STRATTEC SECURITY CORPORATION Team Incentive Plan For STRATTEC which has been established by the Company for participation by executive officers and senior managers.

J "Plan Year" means the one-year period coincident with the Company's fiscal year.

K. "Target Incentive Award" means the target bonus award level each Participant is eligible to receive and which is equal to a percentage of Earned Wages for such Participant.

L. "Target TIPS" means the Target Incentive Award level and target Actual TIPS Performance amount established under this Plan by the Compensation Committee for the Plan Year (See Section VI.A. below) and, with respect to the target Actual TIPS Performance amount, shall be calculated and determined in the manner consistent with the definition of Actual TIPS Performance.

M. "TIPS Committee" means the President and Chief Financial Officer of the Company.

IV. ELIGIBILITY

A. Eligible Positions: Executive Officers and Senior Managers selected annually by the Compensation Committee may be eligible for participation in the Plan.

B. Nomination and Approval. Each Plan Year, the TIPS Committee will nominate eligible employees to participate in the Plan for the next Plan Year. The Compensation Committee will have the final authority to select Plan Participants among the eligible employees nominated by the TIPS Committee. Continued participation in the Plan is contingent on approval of the Compensation Committee with respect to each Plan Year.

C. Awards. Except as otherwise provided in this Plan, the grant of an opportunity to receive cash incentive compensation under the Plan to a Participant (an "Award") and the terms of an Award shall be determined in the discretion of the Compensation Committee in accordance with the terms and purposes of the Plan. In general, each Award shall pay a bonus amount if the Company attains the specified performance targets that are measured over a specific period of time (the "Measurement Period") related to specified criteria ("Performance Criteria") established by the Compensation Committee consistent with the terms of this Plan. Awards may vary from Measurement Period to Measurement Period and from Participant to Participant. A Participant shall have no right to receive a grant of an Award hereunder. Whether to grant an Award or to pay compensation under an Award shall be completely within the discretion of the Compensation Committee. No employee of the Company or its affiliated units or other person shall have any claim or right to be a Participant in this Plan or to be granted an Award hereunder. Neither the adoption of this Plan nor any action taken hereunder shall be construed as giving any Participant any right to be retained in the employ of the Company or any subsidiary nor shall the grant of an Award hereunder constitute a request or consent to postpone the retirement date of a Participant. Nothing contained hereunder shall be construed as giving any Participant or any other person any equity or interest of any kind in any assets of the Company or creating a trust of any kind or a fiduciary relationship of any kind between the Company and any such person. As to any claim for any unpaid amounts under the Plan, any Participant or any other person having a claim for payments shall be an unsecured creditor.

V. INDIVIDUAL PARTICIPATION LEVELS

A Calculation of Accrued Bonus. Each Participant’s bonus Award under this Plan will be determined as a function of the Participant’s Earned Wages, the Participant’s Target Incentive Award (provided in Section V.B. below), the Target TIPS (provided in Section VI.A. below) and an evaluation of the Participant's performance for the Plan Year. Each Participant's bonus Award will be calculated as follows:

$$\text{Participant's Earned Wages} \times \text{Target Incentive Award} \times \frac{\text{Actual Target TIPS Performance} + \text{Individual Performance Factor}}{2}$$

The Compensation Committee may decide to eliminate a Participant's Individual Performance Factor for a particular Plan Year and as a result calculate a Participant's bonus based solely upon the Actual Target TIPS Performance factor for such Plan Year. In such an event, each Participant's bonus will be calculated as follows:

$$\text{Participant's Earned Wages} \times \text{Target Incentive Award} \times \text{Actual Target TIPS Performance}$$

Additionally, during each Plan Year the Compensation Committee shall determine, in its discretion, and set the performance factor (whether for the Actual Target TIPS Performance factor and/or the Individual Performance Factor) to be applied for actual performance between the minimum (or threshold) performance level and the maximum performance level for such Plan Year.

B. Incentive Awards. The Target Incentive Awards will be determined according to the following schedule:B. B.Target

Position	**Target Incentive Award % of Earned Wages**
President and CEO	75%
President and COO	65%
Executive Vice President	50%
Senior Vice President	45%
Vice President	25% - 35%
Senior Managers as approved each Year pursuant to Section IV.B.	12% - 20%

VI. PERFORMANCE FACTORS

A. Performance Criteria. Target TIPS minimum and maximum financial goals will be set annually by the Compensation Committee of the Board of Directors, including, if applicable, the range of the amount of Actual TIPS Performance for which the Individual Performance Factor shall not be taken into account. The minimum financial goal would have performance of zero and in the event the Company's Actual TIPS Performance is below the minimum financial goal for such Plan Year set by the Compensation Committee no bonus amount would be paid to Participants for such Plan Year. The maximum financial goal would have performance of two and any Actual TIPS Performance between the minimum and maximum financial goal would be adjusted on a pro rata basis.

For example, for fiscal 2019 (beginning July 2, 2018), the minimum financial goal for Actual TIPS Performance is set at $12 million and the maximum financial goal for Actual TIPS Performance is $36 million. After Actual TIPS Performance equals $12 million for a Plan Year, employees start accruing a bonus. The target percentage will increase incrementally starting at $12 million and ending at $36 million. For example, to earn a target of .5 the Actual TIPS Performance would need to be $18 million and to earn a target of one (1) the Actual TIPS Performance needs to be $24 million and to earn a target of two (2) the Actual TIPS Performance would need to be $36 million or higher. A target of two is the maximum level of Company performance that will be paid annually to any Participant under the Plan. If the fiscal 2019 Actual TIPS Performance is less than $12 million, no bonus amount will be paid to any Participant.

B. Adjustments to Company Performance. When Company performance is based on any quantifiable financial or accounting measure, it may be necessary to exclude significant, unusual, unbudgeted or noncontrollable gains or losses from actual financial results in order to measure performance properly. The Compensation Committee and the TIPS Committee will decide those items that shall be considered in adjusting actual results. For example, some types of items that may be considered for exclusion in determining Actual TIPS Performance are:

(1) Any gains or losses which will be treated as extraordinary in the Company's financial statements (e.g. Pension Settlement Charge)

(2) Material gains or losses not in the budget and/or the goal which are of a nonrecurring nature and are not considered to be in the ordinary course of business. Some of these would be as follows:

(a) Gains or losses from the sale or disposal of real estate or property.

(b) Gains resulting from insurance recoveries when such gains relate to claims filed in prior years.

(c) Losses resulting from natural catastrophes, when the cause of the catastrophe is beyond the control of the Company and did not result from any failure or negligence on the Company’s part.

C. Individual Performance Factor Calculation. The determination of the Individual Performance Factor will initially be established by the individual to whom the Participant reports. This determination will then be subject to approval by the TIPS Committee (or the Compensation Committee with respect to the President and/or CEO) and shall conform with the process set forth below:

(1) Quantifiable Supporting Performance Factors. The Individual Performance Factor, if applicable, or the bonus calculation will be based on the accomplishment of the individual, financial and/or other goals established for the Participant ("Supporting Performance Factors"). Whenever possible, individual performance will be evaluated according to quantifiable benchmarks of success. These Supporting Performance Factors will be enumerated from 0 to 2.0 based on the levels of achievement for each goal per the schedule shown below under Section VI.C.(2) below.

(2) Non-Quantifiable Supporting Performance Factors. When performance cannot be measured according to a quantifiable monitoring system, an assessment of the Participant's overall performance may be made based on a non-quantifiable Supporting Performance Factor (or factors). The individual to whom the Participant reports (or the Compensation Committee with respect to the President and/or CEO) will evaluate the Participant's performance based on behavioral attributes and overall performance and this evaluation will determine the Participants' Supporting Performance Factor (or factors) according to the following schedule:

Non Quantifiable Supporting Performance Rating	**Supporting Performance Factor**	**Quantifiable Supporting Performance Rating**
Significantly Exceeds Requirements	1.8 – 2.0	Significantly Exceeds Goal
Exceeds Requirements	1.4 – 1.7	Exceeds Goal
Meets Requirements	.7 – 1.3	Meets Goal
Marginally Meets Requirements	.3 - .6	Goal Not Met, but Significant Progress Made
Needs Improvements	0 - .2	Goal Not Met

(3) Aggregate Individual Performance Factor. The Individual Performance Factor to be used in the calculation of the Accrued Bonus, unless otherwise determined by the Compensation Committee for a particular Plan Year, shall be equal to the sum of

the quantifiable and/or non-quantifiable Supporting Performance Factor(s), divided by two and calculated as follows:

$$\text{Individual Performance Factor} = \frac{\text{Quantifiable Supporting Performance Factor} + \text{Non-Quantifiable Supporting Performance Factor}}{2}$$

Notwithstanding the foregoing, the individual to whom the Participant reports (with the approval of the TIPS Committee or the Compensation Committee with respect to the President and/or CEO), shall have the authority to weight the Supporting Performance Factors, according to relative importance. The weighting of each Supporting Performance Factor shall be expressed as a percentage, and the sum of the percentages applied to all of the Supporting Performance Factors shall be 100%. The Individual Performance Factor, if weighted factors are used, will then be equal to the weighted average of such Supporting Performance Factors.

(4) Minimum Company Performance. Regardless of a Participant's individual performance for a Plan Year and their actual Individual Performance Factor for such Plan Year, no Participant shall be entitled to a bonus under this Plan in the event the Company's Actual TIPS Performance is below the minimum financial goal for such Plan Year set by the Compensation Committee.

VII. CHANGE IN STATUS DURING THE PLAN YEAR

A. New Hires and Promotions and Transfers. A newly hired employee or an employee promoted during the Plan Year to a position qualifying for participation (or leaving the participating class) may receive (subject to the discretion of the Compensation Committee) a pro rata bonus under this Plan based on Earned Wages received with respect to such Plan Year.

B. Discharge. An employee discharged during the Plan Year shall not be eligible for a bonus Award under this Plan with respect to such Plan Year.

C. Termination of Employment, Death, Disability and Retirement. In general, a Participant must be a full-time employee of the Company or its affiliate on the last day of the performance period to which the Award relates (the "Earned Date") in order to be eligible to receive payment of an Award. The Compensation Committee has the discretion to nevertheless pay all or a portion of an Award to a Participant if the circumstances of his or her termination of employment prior to the end of the Measurement

Period or performance period, as applicable, warrant special consideration, including, without limitation, upon a Participant's death; disability; retirement; or related to military, position elimination, family or medical leave or other leave of absence approved by the Company. Without limiting the foregoing, an employee who terminates employment during the Plan Year will not be eligible for a bonus Award under this Plan unless the termination is a result of death, disability or retirement. Retirement is defined as terminating employment at age 65 or later with five years of continuous employment, terminating employment on or after your 55th birthday with 10 years of continuous service or a termination of employment at any age with 30 or more years of continuous service. An employee is considered to be disabled if the participant is determined to be totally disabled by the Social Security Administration during the Plan Year.

D. Needs Improvement Status. Notwithstanding anything herein to the contrary, an eligible employee who has not otherwise terminated employment during the Plan Year by reason of death, disability or retirement, shall not be eligible for a bonus hereunder for a Plan Year if his or her performance on his or her annual performance review for such Plan Year has been rated Needs Improvement. However, if such eligible employee maintains continuous employment with the Company and returns his or her performance to an acceptable level, as determined with the discretion of the Company, the bonus that was otherwise forfeit under the immediately preceding sentence shall be paid to such employee, subject to applicable withholding, on the payroll period immediately following his or her return to an acceptable level; provided that, such employee is employed with the Company on the date of payment.

VIII. BONUS PAYMENT

After approval of the Company performance for the applicable Plan Year by the Compensation Committee, payment of the Accrued Bonus earned for the Plan Year shall be made in cash, less amounts required to be withheld by law and 401(K) deferrals if elected, as soon as administratively feasible following the end of the Plan Year in which the bonus Award was earned, but in no event later than September 15 of such Plan Year.

IX. ADMINISTRATIVE PROVISIONS

A. Amendments. The Compensation Committee or the full Board of Directors of the Company shall have the right to amend or restate the Plan at any time and from time to time. The Company reserves the right to suspend or terminate the Plan at any time. No modification, amendment, suspension, or termination of the Plan shall, without the consent of any affected Participants (or beneficiaries of such Participants in the event of death), reduce the rights of any such Participants (or beneficiaries, as applicable) to a payment or distribution already earned under the terms of the Plan that were in effect prior to such change. The provisions of the Plan as in effect at the time of a Participant's termination of employment shall control as to that Participant, unless otherwise specified in the Plan.

B. Authority to Act. Except as otherwise provided herein, the Compensation Committee shall act on behalf of the Company for purposes of the Plan.

C. Interpretation of Plan. Any decision of the Compensation Committee with respect to any issues concerning individuals selected for awards, the amount, terms, form and time of payment of awards, and interpretation of any Plan guideline, definition, or requirement shall be final and binding.

D. Effect of Award on Other Employee Benefits. By acceptance of a bonus award, each recipient agrees that such award is special additional compensation and that it will not affect any employee welfare benefit, except as otherwise provided by the terms of such benefit, in which the recipient participates.

E. Right to Continued Employment; Additional Awards. The receipt of a bonus award shall not give the recipient any right to continued employment, and the right and power to dismiss any employee is specifically reserved to the Company. In addition, the receipt of a bonus award with respect to any Plan Year shall not entitle the recipient to an award with respect to any subsequent Plan Year.

X. MISCELLANEOUS

A. Fiduciary Liability; Indemnification. The Plan is not subject to ERISA. Under ERISA and related federal laws, the Company is not a fiduciary with respect to the Plan, and has no fiduciary obligation with respect to any Participant, beneficiary or other person claiming a right hereunder. Further, nothing herein contained, and no action or inaction arising pursuant hereto shall give rise under state or federal law to a trust of any kind or create any fiduciary relationship of any kind or degree for the benefit of Participants, any beneficiary, or any other person. The Compensation Committee or TIPS Committee shall not be liable for, and shall be indemnified and held harmless by the Company from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred in connection with any claim, action, suit, or proceeding to which a Compensation Committee or TIPS Committee Member may be a party by reason of any action taken or failure to act under this Plan. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such person(s) may be entitled under the Company's Articles of Incorporation of By-Laws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

B. Expenses of the Plan. The expenses of administering this Plan shall be borne by the Company.

C. Withholding Taxes. The Company shall have the right to deduct from all payments under this Plan any Federal, State or Social Security and Medicare taxes required by law to be withheld with respect to such payments.

D. Governing Law. The Plan is intended to satisfy the requirements for the deferral of compensation under Code section 409A, or an exemption thereto. All terms used in the Plan and this Agreement shall be interpreted to the maximum extent possible to satisfy Code section 409A, or an exemption thereto. This plan shall be construed in accordance with a federal law and the laws of the State of Wisconsin.

E. No Trust Created. Nothing contained in this Plan and no action taken pursuant to its terms shall create or be construed to create a trust of any kind, or a fiduciary relationship between the Company or the Compensation Committee and any Participant, his or her designated beneficiary(ies), or any other person. Participant and the beneficiaries thereof have the status of general unsecured creditors of the Company. The Plan constitutes a mere promise by the Company to make benefit payments in the future. To the extent that any person acquires a right to receive payments from the Company under this Plan, such right shall be no greater than the right of any unsecured general creditor of the Company. It is the intention of the parties that the arrangements hereunder be unfunded for tax purposes and for purposes of Title I of ERISA. Nothing in this Plan will require the Company to purchase assets or place assets in a trust or other entity to which contributions are made or otherwise to segregate any assets for the purpose of satisfying any obligations under the Plan.

F. Offset; Clawback, Restoration or Repayment. Notwithstanding any provision of the Plan to the contrary, the Company shall have the right to offset any payment to which a Participant or beneficiary is entitled hereunder by the amount of any debt or other amount owed to the Company by the Participant at the time of such payment. Each Participant in the Plan who has received an Award under such Plan acknowledges and agrees that any award, whether in the form of a cash payment, an equity grant or in any other form, is subject to any clawback policy, restoration or repayment rules or similar policy adopted now or in the future by the Company, or otherwise by operation of law.

Exhibit 31.1

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

I, Frank J. Krejci, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 10, 2022

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

Exhibit 31.2

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

I, 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 10, 2022

/s/ Dennis Bowe
Dennis Bowe,
Chief Financial Officer

Exhibit 32

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

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned officers of STRATTEC SECURITY CORPORATION (the "Company") certifies that the Quarterly Report on Form 10-Q of the Company for the quarter ended October 2, 2022 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 10, 2022

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

Dated: November 10, 2022

/s/ Dennis Bowe
Dennis Bowe,
Chief Financial Officer

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