

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

[ X ] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the quarterly period ended March 28, 1999

or

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

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

Commission File Number 0-25150

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

WISCONSIN  
(State of Incorporation)

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

3333 WEST GOOD HOPE ROAD, MILWAUKEE, WI 53209  
(Address of Principal Executive Offices)

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

Indicate by check mark whether the registrant (1) has filed all reports required  
to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during  
the preceding 12 months (or for such shorter period that the registrant was  
required to file such reports), and (2) has been subject to such filing  
requirements for the past 90 days. YES X 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: 5,653,703 shares outstanding as of  
March 28, 1999.

STRATTEC SECURITY CORPORATION

FORM 10-Q

March 28, 1999

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Item 1 Financial Statements

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

Three Months Ended		Nine Months Ended	
March 28, 1999	March 29, 1998	March 28, 1999	March 29, 1998
-----		-----	
(unaudited)		(unaudited)	

Net sales	\$ 51,220	\$ 47,420	\$ 146,111	\$ 140,010
Cost of goods sold	39,149	36,797	112,832	110,757
	-----	-----	-----	-----
Gross profit	12,071	10,623	33,279	29,253
Engineering, selling and administrative expenses	5,078	4,672	14,794	14,060
	-----	-----	-----	-----
Income from operations	6,993	5,951	18,485	15,193
Interest income	309	98	785	153
Interest expense	-	-	-	(19)
Other income (expense), net	(91)	41	(74)	26
	-----	-----	-----	-----
Income before provision for income taxes	7,211	6,090	19,196	15,353
Provision for income taxes	2,740	2,255	7,250	5,687
	-----	-----	-----	-----
Net income	\$4,471	\$3,835	\$11,946	\$9,666
	=====	=====	=====	=====
Earnings per share:				
Basic	\$ 0.79	\$ 0.67	\$ 2.11	\$ 1.69
	=====	=====	=====	=====
Diluted	\$ 0.77	\$ 0.65	\$ 2.06	\$ 1.65
	=====	=====	=====	=====

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

STRATTEC SECURITY CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(In Thousands)

	March 28, 1999	June 28, 1998
	----- (unaudited)	-----
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 21,089	\$ 14,754
Receivables, net	34,663	25,301
Inventories-		
Finished products	3,968	5,114
Work in process	13,571	11,204
Raw materials	1,258	1,179
LIFO adjustment	(2,678)	(2,535)
	-----	-----
Total inventories	16,119	14,962
Customer tooling in progress	4,613	8,692
Other current assets	4,424	4,349
	-----	-----
Total current assets	80,908	68,058
Property, plant and equipment	80,088	75,197
Less: accumulated depreciation	39,672	35,257
	-----	-----
Net property, plant and equipment	40,416	39,940
	-----	-----
	\$ 121,324	\$107,998
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		

Accounts payable	\$14,821	\$ 12,457
Environmental	2,831	2,873
Other accrued liabilities	10,153	9,775
	-----	-----
Total current liabilities	27,805	25,105
Deferred Income Taxes	357	357
Accrued pension and postretirement obligations	13,332	12,138
Shareholders' equity:		
Common stock, authorized 12,000,000 shares \$.01 par value, issued 5,928,477 shares at March 28, 1999, and 5,877,150 shares at June 28, 1998	59	59
Capital in excess of par value	43,591	42,489
Retained earnings	44,382	32,436
Cumulative translation adjustments	(2,092)	(1,863)
Less: treasury stock, at cost (274,774 shares at March 28, 1999 and 152,307 shares at June 28, 1998)	(6,110)	(2,723)
	-----	-----
Total shareholders' equity	79,830	70,398
	-----	-----
	\$ 121,324	\$107,998
	=====	=====

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

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STRATEC SECURITY CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In Thousands)

	Nine Months Ended	
	March 28, 1999	March 29, 1998
	----- (unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$11,946	\$9,666
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	5,266	5,069
Change in operating assets and liabilities:		
Increase in receivables	(9,390)	(1,758)
(Increase) decrease in inventories	(1,157)	667
(Increase) decrease in other assets	3,968	(1,647)
Increase in accounts payable and accrued liabilities	3,957	2,243
Other, net	235	146
	-----	-----
Net cash provided by operating activities	14,825	14,386
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property, plant and equipment	(6,206)	(5,706)
	-----	-----
Net cash used in investing activities	(6,206)	(5,706)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net payments on borrowings under revolving credit facility	-	(5,037)
Purchase of treasury stock	(3,428)	(591)
Exercise of stock options	1,144	1,038
	-----	-----
Net cash used in financing activities	(2,284)	(4,590)
	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,335	4,090
CASH AND CASH EQUIVALENTS		
Beginning of period	14,754	404
	-----	-----
End of period	\$ 21,089	\$4,494
	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Income taxes paid	\$6,507	\$ 5,273
Interest paid	-	33

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

STRATTEC SECURITY CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

BASIS OF FINANCIAL STATEMENTS

STRATTEC SECURITY CORPORATION (the "Company") designs, develops, manufactures and markets mechanical locks, electro-mechanical locks and related security products for major automotive manufacturers. The accompanying financial statements reflect the consolidated results of the Company, its wholly owned Mexican subsidiary, and its foreign sales corporation.

In the opinion of management, the accompanying unaudited financial statements contain all adjustments which are of a normal recurring nature, necessary to present fairly the financial position as of March 28, 1999, and the results of operations and cash flows for the period then ended. All significant intercompany transactions have been eliminated. Interim financial results are not necessarily indicative of operating results for an entire year.

Certain amounts previously reported have been reclassified to conform to the March 28, 1999 presentation.

EARNINGS PER SHARE (EPS)

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

	Nine Months Ended					
	March 28, 1999			March 29, 1998		
	Net Income	Shares	Per-Share Amount	Net Income	Shares	Per-Share Amount
Basic Earnings Per Share	\$11,946	5,654	\$2.11	\$9,666	5,706	\$1.69
Stock Options		155			148	
Diluted Earnings Per Share	\$11,946	5,809	\$2.06	\$9,666	5,854	\$1.65

	Three Months Ended					
	March 28, 1999			March 29, 1998		
	Net Income	Shares	Per-Share Amount	Net Income	Shares	Per-Share Amount
Basic Earnings Per Share	\$4,471	5,649	\$0.79	\$3,835	5,725	\$0.67
Stock Options		158			155	
Diluted Earnings Per Share	\$4,471	5,807	\$0.77	\$3,835	5,880	\$0.65

Options to purchase 159,357 shares of common stock at prices ranging from \$31.63 to \$37.88 per share and 80,000 shares of common stock at \$31.98 per share were outstanding as of March 28, 1999, and March 29, 1998, respectively, but were not included in the computation of diluted EPS because the options' exercise prices were greater than the average market price of the common shares.

COMPREHENSIVE INCOME

During fiscal 1999, the Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income." This statement establishes standards for the reporting and display of comprehensive income and its components. The following table presents the Company's comprehensive income (in thousands):

	Three Months Ended		Nine Months Ended	
	March 28, 1999	March 29, 1998	March 28, 1999	March 29, 1998
Net Income	\$4,471	\$3,835	\$11,946	\$9,666
Change in Cumulative Translation Adjustments, net	(229)	-	(229)	-
Total Comprehensive Income	\$4,242	\$3,835	\$11,717	\$9,666

Item 2

STRATTEC SECURITY CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following Management's Discussion and Analysis should be read in conjunction with the Company's accompanying Financial Statements and Notes thereto and the Company's 1998 Annual Report. Unless otherwise indicated, all references to years refer to fiscal years.

Analysis of Results of Operations

Three months ended March 28, 1999 compared to the three months ended March 29, 1998

Net sales for the three months ended March 28, 1999 were \$51.2 million, an increase of 8 percent compared to net sales of \$47.4 million for the three months ended March 29, 1998. The sales increase was primarily the result of continued robust vehicle build schedules at customers' plants and higher value content on locksets the Company supplies. Sales to all three of the Company's largest customers increased in the current quarter compared to the prior year quarter with General Motors Corporation increasing 5 percent, DaimlerChrysler Corporation increasing 20 percent and Ford Motor Company increasing 19 percent.

Gross profit as a percentage of net sales was 23.6 percent in the current quarter compared to 22.4 percent in the prior year quarter. Gross profit margins improved primarily due to increased production volumes resulting in more

favorable absorption of fixed overhead costs and a favorable mix of higher margin products.

Engineering, selling and administrative expenses were \$5.1 million in the current quarter compared to \$4.7 million in the prior year quarter. The increase was primarily related to the addition of associates to support current and future programs, and the recruiting costs to bring these associates on board.

Income from operations was \$7.0 million in the current quarter, compared to \$6.0 million in the prior year quarter. Income from operations increased reflecting the increased sales volume and improved gross profit margin as previously discussed above.

The effective income tax rate for the three months ended March 28, 1999 was 38.0 percent compared to 37.0 percent for the three months ended March 29, 1998. The increase is due to an increase in the federal statutory tax rate resulting from higher net income levels as well as an increase in the state effective tax rate. The overall effective rate differs from the federal statutory tax rate primarily due to the effects of state income taxes.

Nine months ended March 28, 1999 compared to the nine months ended March 29, 1998

Net sales for the nine months ended March 28, 1999 were \$146.1 million, an increase of 4 percent compared to net sales of \$140.0 million for the nine months ended March 29, 1998. Sales to DaimlerChrysler Corporation increased \$3.5 million or 19 percent. Sales to the Ford Motor Company increased \$4.0 million or 12 percent. Sales to these customers increased primarily due to increased unit production at these two customers and a more favorable product mix. Sales to General Motors Corporation decreased \$2.2 million or 3 percent due to labor disruptions at this customer in the first quarter of the current fiscal year. The Company also began production volume shipments totaling approximately \$1.7 million to Mitsubishi Motor Manufacturing of America early in the current fiscal year in support of the launch of the 1999 Gallant. This is the Company's initial program with Mitsubishi.

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Gross profit as a percentage of net sales was 22.8 percent in the nine months ended March 28, 1999 compared to 20.9 percent in the prior year period. Several factors contributed to the improvement in the gross profit margins including increased production volumes resulting in more favorable absorption of fixed overhead costs and a favorable mix of higher margin products. The prior year period included a charge of \$750,000 related to cash payments to the Company's represented employees upon ratification of a new collective bargaining agreement. Additional improvement in the gross profit margin resulted from the cost of zinc, which the Company uses at a rate of approximately 1 million pounds per month, being substantially lower during the nine month period ended March 28, 1999 than the prior year period levels. The average price per pound was approximately \$.53 in the nine months ended March 28, 1999 compared to approximately \$.70 in the nine months ended March 29, 1998. Also contributing to the improved gross profit margin was the devaluation of the Mexican peso during the first quarter of the current fiscal period which resulted in lower U.S. dollar costs for the Mexican assembly operations. The rate of inflation in Mexico during the 12 months ended September, 1998 was approximately 14 percent. However, the average U.S. dollar/Mexican peso exchange rate increased to approximately 9.50 in the first quarter of the current fiscal year from approximately 7.85 in the first quarter of the prior year.

Engineering, selling and administrative expenses were \$14.8 million in the current year period compared to \$14.1 million in the prior year period. The increase was primarily related to the addition of associates to support current and future programs, and the recruiting costs to bring these associates on board.

Income from operations was \$18.5 million in the nine months ended March 28, 1999, compared to \$15.2 million in the nine months ended March 29, 1998. Income from operations increased reflecting the increased sales volume and improved gross profit margin as previously discussed above.

The effective income tax rate for the nine months ended March 28, 1999 was 37.8 percent compared to 37.0 percent for the nine months ended March 29, 1998. The increase is due to an increase in the federal statutory tax rate resulting from higher net income levels as well as an increase in the state effective tax rate. The overall effective rate differs from the federal statutory tax rate primarily due to the effects of state income taxes.

#### LIQUIDITY AND CAPITAL RESOURCES

The Company generated cash from operating activities of \$14.8 million in the nine months ended March 28, 1999 which is consistent with cash generated from operating activities in the prior year period.

The Company's investment in accounts receivable increased by approximately \$9.4 million to \$34.7 million at March 28, 1999, as compared to \$25.3 million at June 28, 1998, primarily due to an increase in outstanding billings for customer tooling and higher sales levels in the current quarter as compared to the fourth quarter of fiscal 1998 during which sales were negatively impacted by labor disruptions at General Motors Corporation. Inventories increased by approximately \$1.2 million at March 28, 1999, as compared to June 28, 1998, in support of increased sales levels.

Capital expenditures during the nine months ended March 28, 1999 were \$6.2 million compared to \$5.7 million during the nine months ended March 29, 1998. The Company anticipates that capital expenditures will be approximately \$8 million in fiscal 1999, primarily in support of requirements for new product programs.

The Board of Directors of the Company authorized a stock repurchase program to buy back up to 589,395 outstanding shares. A total of 278,000 shares have been repurchased as of March 28, 1999, at a cost of approximately \$6.2 million. Additional repurchases may occur from time to time. Funding for the repurchases was provided by cash flow from operations and borrowings under existing credit facilities.

The Company has a \$25 million unsecured, revolving credit facility (the "Credit Facility") which expires October 2001. There were no outstanding borrowings under the Credit Facility at March 28, 1999. Interest on borrowings under the Credit Facility are at varying rates based, at the Company's option, on the London Interbank Offering Rate, the Federal Funds Rate, or the bank's prime rate. The Credit Facility contains various restrictive covenants including covenants that require the Company to maintain minimum levels for certain financial ratios such as tangible net worth, ratio of indebtedness to tangible net worth and fixed charge coverage. The Company believes that the Credit Facility will be adequate, along with cash flow from operations, to meet its anticipated capital expenditure, working capital and operating expenditure requirements.

The Company has not been significantly impacted by inflationary pressures over the last several years, except for zinc and Mexican assembly operations as



noted elsewhere in the Management's Discussion and Analysis.

#### Year 2000 Compliance

The Company has developed a plan to address company-wide Year 2000 readiness. The plan addresses operating systems, manufacturing operations, customers and suppliers. The Company has made significant progress toward completion of this plan and anticipates being Year 2000 compliant during fiscal 1999. All modifications to the operating systems and related hardware to be compliant with the requirements to process transactions in the Year 2000 are complete. The operating systems, as modified, are currently in use throughout the Company. Verification that all equipment used in the manufacturing operations is Year 2000 compliant has been completed. A Year 2000 readiness questionnaire has been distributed to all suppliers and a risk analysis has been prepared for each supplier based on the completed questionnaires. On-site assessments are being performed for all high risk suppliers. Based on the results of the on-site assessments, alternate sources will be identified as necessary.

The Company is participating in a program coordinated by the Automotive Industries Action Group ("AIAG"), a group sponsored by General Motors Corporation, DaimlerChrysler Corporation and the Ford Motor Company. Based upon the guidelines of a Year 2000 Readiness Self-Assessment developed by the AIAG, the Company is classified as a low risk supplier in relation to Year 2000 compliance.

The cost incurred to date by the Company to become Year 2000 compliant is not material to its financial condition or results of operations. In addition, the Company does not expect that its future additional cost to become Year 2000 compliant will be material to its financial condition or results of operations.

#### Mexican Operations

The Company has assembly operations in Juarez, Mexico. Since December 28, 1998 and prior to December 30, 1996, the functional currency of the Mexican operation has been the Mexican Peso. The effects of currency fluctuations result in adjustments to the U.S. dollar value of the Company's net assets and to the equity accounts in accordance with Statement of Financial Accounting Standard (SFAS) No. 52, "Foreign Currency Translation." During the period December 30, 1996 to December 27, 1998, the functional currency of the Mexican operation was the U.S. dollar, as Mexico was then considered to be a highly inflationary economy in accordance with SFAS No. 52. The effect of currency fluctuations in the remeasurement process was included in the determination of income.

#### Forward Looking Statements

A number of the matters and subject areas discussed in this Form 10-Q that are not historical or current facts deal with potential future circumstances and developments. These include expected future financial results, liquidity needs, financing ability, planned capital expenditures, management's or the Company's expectations and beliefs, and similar matters discussed in the Company's Management Discussion and Analysis of Results of Operations and Financial Condition. The discussions of such matters and subject areas are qualified by the inherent risk 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, demand for the Company's products, dependence on significant customers, competitive and technological developments, foreign currency fluctuations, Year

2000 compliance issues and costs of operations.

Item 3 Quantitative and Qualitative Disclosures About Market Risk

The Company does not utilize financial instruments for trading purposes and holds no derivative financial instruments which would expose the Company to significant market risk. The Company has not had outstanding borrowings since December 1997. The Company has been in an investment position since this time and expects to remain in an investment position for the foreseeable future. There is therefore no significant exposure to market risk for changes in interest rates. The Company is subject to foreign currency exchange rate exposure related to the Mexican assembly operations as discussed in the Management's Discussion and Analysis of Results of Operations and Financial Condition.

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Part II

Other Information

Item 1 Legal Proceedings - None

Item 2 Changes in Securities and Use of Proceeds - None

Item 3 Defaults Upon Senior Securities - None

Item 4 Submission of Matters to a Vote of Security Holders - None

Item 5 Other Information - None

Item 6 Exhibits and Reports on Form 8-K

(a) Exhibits

- 3.1\* Amended and Restated Articles of Incorporation of the Company
- 3.2\* By-Laws of the Company
- 4.1\* Rights Agreement dated as of February 6, 1995 between the Company and Firststar Trust Company, as Rights Agent
- 27 Financial Data Schedule

(b) Reports on Form 8-K - None

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\* Incorporated by reference to Amendment No. 2 to the Company's Form 10 filed on February 6, 1995.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

STRATTEC SECURITY CORPORATION (Registrant)

Date: May 10, 1999

By /S/ Patrick J. Hansen  
-----

Patrick J. Hansen  
Vice President,  
Chief Financial Officer,  
Treasurer and Secretary  
(Principal Accounting and Financial Officer)

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