

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K

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

Date of Report (Date of earliest event reported): January 24, 2019

STRATTEC SECURITY CORPORATION

(Exact name of registrant as specified in charter)

Wisconsin

(State or other jurisdiction of incorporation)

0-25150

(Commission File Number)

39-1804239

(I.R.S. Employer I.D. Number)

3333 West Good Hope Road
Milwaukee, WI

(Address of Principal Executive Offices)

53209

(Zip Code)

(414) 247-3333

(Registrant's telephone number; including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

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.

Section 2 – Financial Information

Item 2.02. Results of Operations and Financial Condition.

On January 24, 2019, STRATTEC SECURITY CORPORATION issued a press release (the "Press Release") announcing results for the fiscal second quarter ended December 30, 2018. A copy of the Press Release is attached as Exhibit 99.1 to this report. The attached Exhibit 99.1 is furnished pursuant to Item 2.02 of Form 8-K.

The information in this Form 8-K and the Exhibit attached hereto shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except as shall be expressly set forth by specific reference in such filing.

Section 9 - Financial Statements and Exhibits

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits

[99.1](#) -- Press Release of STRATTEC SECURITY CORPORATION, issued January 24, 2019.

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.

Date: January 24, 2019

STRATTEC SECURITY CORPORATION

By: /s/ Patrick J. Hansen
Patrick J. Hansen, Senior Vice President and
Chief Financial Officer

FOR RELEASE AT 3:00 PM CDT

Contact: Pat Hansen
Senior Vice President and
Chief Financial Officer
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STRATTEC SECURITY CORPORATION
REPORTS FISCAL 2019 SECOND QUARTER OPERATING RESULTS
AND PENSION SETTLEMENT CHARGE

Milwaukee, Wisconsin – January 24, 2019 -- STRATTEC SECURITY CORPORATION (NASDAQ:STRT) today reported operating results for the fiscal second quarter ended December 30, 2018 and a \$32.4 million non-cash pre-tax pension settlement charge that reduced diluted earnings per share in the current year quarter by \$6.67. Without the charge adjusted diluted earnings per share in the current year quarter would have been \$0.71.

Net sales for the Company's fiscal second quarter ended December 30, 2018 were \$112.9 million, compared to net sales of \$103.2 million for the prior year quarter ended December 31, 2017. Net loss for the current year quarter was \$22.2 million, compared to net income of \$2.9 million in the prior year quarter. Diluted loss per share for the current year quarter was \$5.96 compared to diluted earnings per share of \$0.78 in the prior year quarter.

During the current year quarter, the Company completed a substantial portion of terminating the STRATTEC Pension Plan that was frozen on December 31, 2009. A non-cash pre-tax pension settlement charge of \$32.4 million was recorded during the current year quarter (\$24.8 million or \$6.67 diluted per share after tax). A remaining non-cash compensation expense charge of approximately \$8 million on a pre-tax basis (approximately \$6.1 million after tax) is expected to be recorded in future periods when the Plan is fully terminated and the excess Plan assets are transferred to a STRATTEC defined contribution plan and subsequently paid out.

For the six months ended December 30, 2018, net sales were \$230.1 million compared to net sales of \$205.6 million during the prior year six month period. Net loss during the current year six month period was \$18.7 million compared to net income of \$5.3 million during the prior year six month period. Diluted loss per share was \$5.03 for the current year six month period ended December 30, 2018 compared to diluted earnings per share of \$1.44 for the prior year six month period ended December 31, 2017. As previously described, the non-cash pre-tax settlement charge of \$32.4 million or \$24.8 million after tax impacted the six month results ended December 30, 2018. See the following table for further explanation.

STRATTEC SECURITY CORPORATION

RECONCILIATION OF NON-GAAP PERFORMANCE MEASURES TO GAAP PERFORMANCE MEASURES

(in thousands, except share and earnings per share data)

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>December 30, 2018</u>	<u>December 31, 2017</u>	<u>December 30, 2018</u>	<u>December 31, 2017</u>
	Unaudited	Unaudited	Unaudited	Unaudited
Net (loss) income (GAAP measure)	\$ (22,164)	\$ 2,882	\$ (18,697)	\$ 5,338
Pension termination settlement charge, net of tax	<u>24,812</u>	<u>-</u>	<u>24,812</u>	<u>-</u>
Adjusted net income	<u>\$ 2,648</u>	<u>\$ 2,882</u>	<u>\$ 6,115</u>	<u>\$ 5,338</u>
Diluted (loss) earnings per share (GAAP measure)	\$ (5.96)	\$ 0.78	\$ (5.03)	\$ 1.44
Pension termination settlement charge, net of tax	<u>6.67</u>	<u>-</u>	<u>6.68</u>	<u>-</u>
Adjusted diluted earnings per share	<u>\$ 0.71</u>	<u>\$ 0.78</u>	<u>\$ 1.65</u>	<u>\$ 1.44</u>

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	
	December 30, 2018	December 31, 2017
Fiat Chrysler Automobiles	\$ 25.7	\$ 22.0
General Motors Company	23.8	21.4
Ford Motor Company	16.1	16.1
Tier 1 Customers	18.5	16.5
Commercial and Other OEM Customers	21.4	19.8
Hyundai / Kia	7.4	7.4
TOTAL	\$ 112.9	\$ 103.2

The sales to Fiat Chrysler Automobiles in the current year quarter increased compared to the prior year quarter due to higher content on the components we supply on certain vehicles, in particular the Dodge Ram pickup truck. The increase in sales to General Motors Company in the current year quarter was primarily attributed to higher vehicle production volumes and content on products we supply. Sales to Ford Motor Company and Hyundai/Kia in the current year quarter were flat compared to the prior year quarter. Sales to Tier 1 Customers increased in the current year quarter due to higher production volumes. Sales to Commercial and Other OEM Customers during the current year quarter increased in comparison to the prior year quarter mainly due to new customer programs at Volkswagen. These customers, along with the Tier 1 Customers, primarily represent purchasers of vehicle access control products such as latches, fobs, driver controls and door handles, that we have developed in recent years to complement our historic core business of locks and keys.

The gross profit margins were 11.3 percent in the current year quarter compared to 12.3 percent in the prior year quarter. The decrease in gross profit margin in the current year quarter compared to the prior year quarter was attributed to a continuation from our previous quarter of higher production and expediting costs associated with new product launches occurring in fiscal year 2019 and to changes in product mix. The gross profit margins in the current year quarter were positively impacted by a favorable Mexican Peso to U.S. Dollar exchange rate affecting our operations in Mexico.

Engineering, Selling and Administrative expenses as a percentage of net sales decreased to 9.3 percent in the current year quarter from 9.8 percent in the prior year quarter.

Included in “Other Income, Net” in the current year quarter compared to the prior year quarter were the following items (in thousands of dollars):

	December 30, 2018	December 31, 2017
Equity Earnings of VAST LLC Joint Venture	\$ 1,487	\$ 1,404
Equity (Loss) Earnings of STRATTEC Advanced Logic LLC Joint Venture	(11)	69
Net Foreign Currency Transaction Gain (Loss)	277	(64)
Other	(539)	173
	<u>\$ 1,214</u>	<u>\$ 1,582</u>

Frank Krejci, President and CEO commented: “I am very pleased, that after years of planning and effort, in this quarter we took the major step of contractually transferring our pension obligations to an insurance company, and did so without having to contribute any additional funds. Some companies are struggling with, or even worse, deferring focus on the enormous problem of unfunded pension liabilities. We have now eliminated that liability and its attendant risks from STRATTEC’s financial future.”

We believe that we have created significant shareholder value by eliminating the risk of stock market volatility affecting our pension assets. If there is a downturn in the economy and the stock market, we no longer need to worry about having to make pension contributions when we may be least able to afford them. This is a very positive achievement, despite the ugly pension accounting treatment associated with a transaction of this type, and well worth the non-cash accounting hit in this quarter.”

STRATTEC designs, develops, manufactures and markets automotive Access Control Products, including mechanical locks and keys, electronically enhanced locks and keys, steering column and instrument panel ignition lock housings, latches, power sliding side door systems, power lift gate systems, power deck lid systems, door handles and related products. These products are provided to customers in North America, and on a global basis through a unique strategic relationship with WITTE Automotive of Velbert, Germany and ADAC Automotive of Grand Rapids, Michigan. Under this relationship, STRATTEC, WITTE and ADAC market our companies' products to global customers under the “VAST” brand name. STRATTEC’s history in the automotive business spans over 110 years.

Certain statements contained in this release are “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.” Such forward-looking statements in this release are inherently subject to many uncertainties in the Company’s operations and business environment. These uncertainties include 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 customer product recall policies, foreign currency fluctuations, uncertainties stemming from U.S. trade policies, tariffs and reaction to same from foreign countries and costs of operations (including fluctuations in the cost of raw materials). 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 press release 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 release. In addition, such uncertainties and other operational matters are discussed further in the Company’s quarterly and annual filings with the Securities and Exchange Commission.

Non-GAAP Financial Measures

This press release contains financial measures not prepared in accordance with generally accepted accounting principles (referred to as Non-GAAP), specifically “adjusted net income” and “adjusted diluted earnings per share.” “Adjusted net income” is defined as net (loss) income attributable to STRATTEC SECURITY CORPORATION shareholders excluding the pension termination settlement charge, net of tax. “Adjusted diluted earnings per share” is defined as “Adjusted net income” divided by average diluted shares of common stock outstanding. The Company believes that these Non-GAAP measures, when presented in conjunction with comparable GAAP measures, provide additional information for evaluating STRATTEC’s performance and are important measures by which STRATTEC’s management is able to assess the profitability and liquidity of STRATTEC’s business. These Non-GAAP measures should be considered in addition to, not as a substitute for or superior to, net income (loss) as a measure of operating performance. These Non-GAAP measures may be different than Non-GAAP financial measures used by other companies.

STRATTEC SECURITY CORPORATION
Condensed Results of Operations
(In Thousands except per share amounts)
(Unaudited)

	<i>Second Quarter Ended</i>		<i>Six Months Ended</i>	
	<u>December 30, 2018</u>	<u>December 31, 2017</u>	<u>December 30, 2018</u>	<u>December 31, 2017</u>
Net Sales	\$ 112,913	\$ 103,182	\$ 230,072	\$ 205,642
Cost of Goods Sold	<u>100,177</u>	<u>90,536</u>	<u>202,153</u>	<u>179,533</u>
Gross Profit	12,736	12,646	27,919	26,109
Engineering, Selling & Administrative Expenses	<u>10,470</u>	<u>10,152</u>	<u>21,501</u>	<u>20,194</u>
Income from Operations	2,266	2,494	6,418	5,915
Interest Income	-	3	-	7
Interest Expense	(404)	(253)	(811)	(456)
Pension Termination Settlement Charge	(32,434)	-	(32,434)	-
Other Income, Net	<u>1,214</u>	<u>1,582</u>	<u>1,878</u>	<u>2,695</u>
(Loss) Income Before (Benefit) Provision for Income Taxes and Non-Controlling Interest	(29,358)	3,826	(24,949)	8,161
(Benefit) Provision for Income Taxes	<u>(7,760)</u>	<u>(9)</u>	<u>(7,780)</u>	<u>1,057</u>
Net (Loss) Income	(21,598)	3,835	(17,169)	7,104
Net Income Attributable to Non-Controlling Interest	<u>(566)</u>	<u>(953)</u>	<u>(1,528)</u>	<u>(1,766)</u>
Net (Loss) Income Attributable to STRATTEC SECURITY CORPORATION	<u>\$ (22,164)</u>	<u>\$ 2,882</u>	<u>\$ (18,697)</u>	<u>\$ 5,338</u>
(Loss) Earnings Per Share:				
Basic	<u>\$ (6.03)</u>	<u>\$ 0.79</u>	<u>\$ (5.10)</u>	<u>\$ 1.47</u>
Diluted	<u>\$ (5.96)</u>	<u>\$ 0.78</u>	<u>\$ (5.03)</u>	<u>\$ 1.44</u>
Average Basic Shares Outstanding	3,675	3,631	3,663	3,621
Average Diluted Shares Outstanding	3,718	3,715	3,715	3,698
<u>Other</u>				
Capital Expenditures	\$ 5,433	\$ 6,778	\$ 9,402	\$ 14,349
Depreciation & Amortization	\$ 4,076	\$ 3,572	\$ 8,123	\$ 6,667

STRATTEC SECURITY CORPORATION
Condensed Balance Sheet Data
(In Thousands)

	December 30, 2018 <i>(Unaudited)</i>	July 1, 2018
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 11,373	\$ 8,090
Receivables, net	67,256	73,832
Inventories, net	47,988	46,654
Other current assets	19,707	22,527
Total Current Assets	<u>146,324</u>	<u>151,103</u>
Investment in Joint Ventures	22,989	22,192
Other Long Term Assets	11,732	17,338
Property, Plant and Equipment, Net	117,793	116,542
	<u>\$ 298,838</u>	<u>\$ 307,175</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts Payable	\$ 35,652	\$ 38,439
Other	30,272	30,354
Total Current Liabilities	<u>65,924</u>	<u>68,793</u>
Accrued Pension and Post Retirement Obligations	2,338	2,379
Borrowings Under Credit Facility	46,000	51,000
Other Long-term Liabilities	819	1,757
Shareholders' Equity	316,374	331,375
Accumulated Other Comprehensive Loss	(18,648)	(33,439)
Less: Treasury Stock	<u>(135,758)</u>	<u>(135,778)</u>
Total STRATTEC SECURITY CORPORATION Shareholders' Equity	161,968	162,158
Non-Controlling Interest	21,789	21,088
Total Shareholders' Equity	<u>183,757</u>	<u>183,246</u>
	<u>\$ 298,838</u>	<u>\$ 307,175</u>

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STRATTEC SECURITY CORPORATION
Condensed Cash Flow Statement Data
(In Thousands)
(Unaudited)

	<i>Second Quarter Ended</i>		<i>Six Months Ended</i>	
	<u>December 30, 2018</u>	<u>December 31, 2017</u>	<u>December 30, 2018</u>	<u>December 31, 2017</u>
Cash Flows from Operating Activities:				
Net (Loss) Income	\$ (21,598)	\$ 3,835	\$ (17,169)	\$ 7,104
Adjustments to Reconcile Net (Loss) Income to Cash Provided by				
Operating Activities:				
Pension Settlement Charge	32,434	-	32,434	-
Equity Earnings in Joint Ventures	(1,476)	(1,473)	(2,385)	(2,499)
Depreciation and Amortization	4,076	3,572	8,123	6,667
Foreign Currency Transaction (Gain) Loss	(359)	(556)	69	(419)
Unrealized Loss (Gain) on Peso Forward Contracts	132	821	(93)	1,079
Deferred Income Taxes	(7,759)	(1,710)	(8,131)	(1,710)
Stock Based Compensation Expense	241	250	626	621
Change in Operating Assets/Liabilities	6,518	(4,027)	6,532	(9,772)
Other, net	(284)	(28)	(284)	(33)
Net Cash Provided by Operating Activities	11,925	684	19,722	1,038
Cash Flows from Investing Activities:				
Repayment of Loan to Joint Venture	-	150	-	150
Additions to Property, Plant and Equipment	(5,433)	(6,778)	(9,402)	(14,349)
Proceeds Received on Sale of Property, Plant and Equipment	12	2	12	2
Net Cash Used in Investing Activities	(5,421)	(6,626)	(9,390)	(14,197)
Cash Flow from Financing Activities:				
Borrowings on Line of Credit Facility	-	6,000	2,000	18,000
Payments on Line of Credit Facility	(5,000)	-	(7,000)	(2,000)
Dividends Paid to Non-Controlling Interest of Subsidiary	(200)	-	(984)	(2,017)
Dividends Paid	(515)	(509)	(1,029)	(1,017)
Exercise of Stock Options and Employee Stock Purchases	49	165	72	190
Net Cash (Used in) Provided by Financing Activities	(5,666)	5,656	(6,941)	13,156
Effect of Foreign Currency Fluctuations on Cash	190	173	(108)	27
Net Increase (Decrease) in Cash & Cash Equivalents	1,028	(113)	3,283	24
Cash and Cash Equivalents:				
Beginning of Period	10,345	8,498	8,090	8,361
End of Period	<u>\$ 11,373</u>	<u>\$ 8,385</u>	<u>\$ 11,373</u>	<u>\$ 8,385</u>