

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 December 28, 1997

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)

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: 5,729,150 shares outstanding as of  
December 28, 1997.

STRATTEC SECURITY CORPORATION

FORM 10-Q

December 28, 1997

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

Item 1 Financial Statements

	Three Months Ended		Six Months Ended	
	December 28, 1997	December 29, 1996	December 28, 1997	December 29, 1996
	(unaudited)		(unaudited)	
Net sales	\$49,722	\$37,926	\$92,590	\$74,140
Cost of goods sold	39,580	29,398	73,960	59,359

Gross profit	10,142	8,528	18,630	14,781
Engineering, selling and administrative expenses	4,741	4,356	9,388	8,518
Income from operations	5,401	4,172	9,242	6,263
Interest expense	(7)	(57)	(19)	(137)
Other income, net	59	73	40	14
Income before provision for income taxes	5,453	4,188	9,263	6,140
Provision for income taxes	2,020	1,590	3,432	2,341
Net income	\$3,433	\$2,598	\$5,831	\$3,799
Earnings per share:				
Basic	\$ 0.60	\$ 0.45	\$ 1.02	\$ 0.66
Diluted	\$ 0.59	\$ 0.45	\$ 1.00	\$ 0.65

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

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

	December 28, 1997	June 29, 1997
	----- (unaudited)	-----
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 2,730	\$ 404
Receivables, net	30,130	29,687
Inventories-		
Finished products	4,522	3,599
Work in process	12,355	12,446
Raw materials	1,409	1,671
LIFO adjustment	(2,837)	(2,837)
Total inventories	15,449	14,879
Customer tooling in progress	7,350	6,615
Other current assets	4,342	4,390
Total current assets	60,001	55,975
Deferred Income Taxes	186	186
Property, Plant and Equipment	72,916	69,123
Less: accumulated depreciation	32,695	29,615
Net property, plant and equipment	40,221	39,508
	\$100,408	\$95,669
	=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 14,719	\$12,367
Environmental	2,890	2,911
Other accrued liabilities	7,302	8,298
Total current liabilities	24,911	23,576
Borrowings under revolving credit facility	1,000	5,037
Accrued pension and postretirement obligations	11,535	10,963
Shareholders' equity:		
Common stock, authorized 12,000,000 shares		
\$.01 par value, issued 5,861,150 shares at		
December 28, 1997, and 5,799,150 shares at		
June 29, 1997	59	58
Capital in excess of par value	42,131	41,094

Retained earnings	24,778	18,947
Cumulative translation adjustments	(1,863)	(1,863)
Less: Treasury stock, at cost (132,000 shares at December 28, 1997 and June 29, 1997)	(2,143)	(2,143)
	-----	-----
Total shareholders' equity	62,962	56,093
	-----	-----
	\$100,408	\$95,669
	=====	=====

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

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

	Six Months Ended	
	December 28, 1997	December 29, 1996
	----- (unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 5,831	\$3,799
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,267	2,604
Change in operating assets and liabilities:		
Increase in receivables	(444)	(2,140)
Increase in inventories	(570)	(554)
(Increase) Decrease in other assets	(695)	2,182
Increase (Decrease) in accounts payable and accrued liabilities	1,931	(3,187)
Other, net	81	46
	-----	-----
Net cash provided by operating activities	9,401	2,750
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property, plant and equipment	(4,025)	(3,364)
	-----	-----
Net cash used in investing activities	(4,025)	(3,364)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from (payments on) borrowings under revolving credit facility	(4,037)	2,235
Purchase of treasury stock	-	(1,907)
Exercise of stock options	1,038	31
	-----	-----
Net cash provided by (used in) financing activities	(2,999)	359
EFFECT OF FOREIGN CURRENCY FLUCTUATIONS ON CASH	(51)	(8)
	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,326	(263)
CASH AND CASH EQUIVALENTS		
Beginning of period	404	441
	-----	-----
End of period	\$2,730	\$178
	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Income taxes paid	\$3,447	\$942
Interest paid	33	146

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

STRATTEC SECURITY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) BASIS OF FINANCIAL STATEMENTS

STRATTEC SECURITY CORPORATION (the "Company") designs, develops, manufacturers and markets mechanical locks, electro-mechanical locks and related security products for North American and select European 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 December 28, 1997, and the results of operations and cash flows for the periods 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 December 28, 1997 presentation.

(2) ENVIRONMENTAL MATTERS

In 1995, the Company recorded a provision of \$3 million for estimated costs to remediate a site at the Company's Milwaukee facility that was contaminated by a solvent spill which occurred in 1985. The environmental reserve reflects this provision.

(3) EARNINGS PER SHARE (EPS)

In the second quarter of fiscal 1998, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Share." The Company's previously reported EPS is consistent with basic EPS as calculated below under SFAS No. 128. A reconciliation of the components of the basic and diluted per-share computations follows (in 000's, except per share amounts):

	Six Months Ended					
	December 28, 1997			December 29, 1996		
	Net Income	Shares	Per-Share Amount	Net Income	Shares	Per-Share Amount
	-----	-----	-----	-----	-----	-----
Basic Earnings Per Share	\$5,831	5,696	\$1.02	\$3,799	5,762	\$0.66
			=====			=====
Stock Options		145			58	
		-----			-----	
Diluted Earnings Per Share	\$5,831	5,841	\$1.00	\$3,799	5,820	\$0.65
		=====	=====		=====	=====

Three Months Ended

	December 28, 1997			December 29, 1996		
	Net Income	Shares	Per-Share Amount	Net Income	Shares	Per-Share Amount
Basic Earnings Per Share	\$3,433	5,716	\$0.60	\$2,598	5,737	\$0.45
Stock Options		157			61	
Diluted Earnings Per Share	\$3,433	5,873	\$0.59	\$2,598	5,798	\$0.45

Options to purchase 80,000 shares of common stock at \$31.98 per share and 163,528 shares of common stock at prices ranging from \$16.63 to \$19.68 per share were outstanding as of December 28, 1997, and December 29, 1996, respectively, but were not included in the computation of diluted EPS because the options' exercise price was greater than the average market price of the common shares.

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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 1997 Annual Report. Unless otherwise indicated, all references to years refer to fiscal years.

#### Analysis of Results of Operations

Three months ended December 28, 1997 compared to the three months ended December 29, 1996

Net sales increased 31 percent to \$49.7 million for the three months ended December 28, 1997, from \$37.9 million for the three months ended December 29, 1996. The sales increase is primarily due to increased sales to all three of the Company's largest customers in the current quarter compared to prior year levels, with General Motors Corporation increasing \$9.3 million or 61 percent, Chrysler Corporation increasing \$2.9 million or 57 percent and Ford Motor Company increasing \$1.3 million or 11 percent. This sales growth is due to higher value mechanical and electro-mechanical content, and continued strong production levels of vehicles the Company supplies. In addition, prior year sales to General Motors Corporation had been negatively affected by labor disruptions at their operations.

Gross profit as a percentage of net sales was 20.4 percent in the current quarter compared to 22.5 percent in the prior year quarter. Gross profit margins decreased reflecting a \$750,000 charge during the current quarter as a result of cash payments to the Company's represented employees upon ratification of a new collective bargaining agreement. The charge reduced the gross profit margins by 1.5 percentage points. The cost of zinc, the Company's primary raw material, remained significantly above prior year levels increasing to an average of approximately \$.69 per pound in the current quarter from an average of approximately \$.55 per pound in the prior year quarter resulting in a negative effect on gross profit margins. The market cost of zinc declined in

the current quarter after increasing dramatically over the previous 12 months. Gross profit margins were also negatively impacted as inflationary cost pressures in Mexico over the past two years have resulted in higher U.S. dollar costs. The rate of inflation in Mexico during calendar years 1997 and 1996 was approximately 16 and 28 percent, respectively. The U.S. dollar/Mexican peso exchange rate remained relatively stable during this period with moderate devaluation during the current quarter. The exchange rate ranged from approximately 7.40 to 7.90 pesos to the dollar during the period January 1996 through September 1997 and from approximately 7.80 to 8.40 pesos to the dollar during the current quarter.

Engineering, selling and administrative expenses were \$4.7 million in the current quarter, compared to \$4.4 million in the prior year quarter. The increase is primarily due to increased engineering expenses in support of current and future vehicle programs.

Income from operations was \$5.4 million in the current quarter, compared to \$4.2 million in the prior year quarter. Income from operations increased reflecting the increased sales volume as previously discussed above.

The effective income tax rate for the current quarter was 37.0 percent compared to 38.0 percent in the prior year quarter. The current quarter rate is comparable to the effective rate for the entire 1997 fiscal year. The effective rate differs from the federal statutory tax rate primarily due to the effects of state income taxes.

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Six months ended December 28, 1997 compared to the six months ended December 29, 1996

Net sales increased 25 percent to \$92.6 million for the six months ended December 28, 1997, from \$74.1 million for the six months ended December 29, 1996. The sales increase is primarily due to increased sales to all three of the Company's largest customers in the current year period compared to prior year levels, with General Motors Corporation increasing \$14.3 million or 47 percent, Chrysler Corporation increasing \$4.4 million or 45 percent and Ford Motor Company increasing \$2.6 million or 12 percent. This sales growth is due to higher value mechanical and electro-mechanical content, and continued strong production levels of vehicles the Company supplies. In addition, prior year sales to General Motors Corporation had been negatively affected by labor disruptions at their operations.

Gross profit as a percentage of net sales was 20.1 percent in the six months ended December 28, 1997, compared to 19.9 percent in the six months ended December 29, 1996. Gross profit margins improved slightly compared to the prior year period as scrap and expedited freight costs decreased in the current year period as compared to the prior year period. The gross profit margin was negatively impacted by a \$750,000 charge during the current year period as a result of cash payments to the Company's represented employees upon ratification of a new collective bargaining agreement. The cost of zinc, the Company's primary raw material, remained significantly above prior year levels increasing to an average of approximately \$.74 per pound in the six months ended December 28, 1997 from an average of approximately \$.53 per pound in the six months ended December 29, 1996 resulting in a negative effect on gross profit margins. The market cost of zinc declined in the second quarter of fiscal 1998 after increasing dramatically over the previous 12 months. Gross profit margins were also negatively impacted as inflationary cost pressures in Mexico over the past two years have resulted in higher U.S. dollar costs. The rate of inflation in Mexico during calendar years 1997 and 1996 was approximately 16 and 28 percent, respectively. The U.S. dollar/Mexican peso exchange rate remained relatively stable during this period with moderate devaluation during the current quarter. The exchange rate ranged from

approximately 7.40 to 7.90 pesos to the dollar during the period January 1996 through September 1997 and from approximately 7.80 to 8.40 pesos to the dollar during the period October 1997 through December 1997.

Engineering, selling and administrative expenses were \$9.4 million for the six months ended December 28, 1997, compared to \$8.5 million for the six months ended December 29, 1996. The increase is primarily due to increased engineering expenses in support of current and future vehicle programs.

Income from operations was \$9.2 million in the six months ended December 28, 1997, compared to \$6.3 million in the six months ended December 29, 1996. Income from operations increased reflecting the increased sales volume as previously discussed above.

The effective income tax rate for the six months ended December 28, 1997 was 37.1 percent compared to 38.1 percent for the six months ended December 29, 1996. The current period rate is comparable to the effective rate for the entire 1997 fiscal year. The 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 \$9.4 million in the six months ended December 28, 1997. In the six months ended December 29, 1996, the Company generated \$2.8 million in cash from operating activities. The increased generation of cash is primarily due to increased income and increases in accounts payable and accrued liabilities in support of increased production activities.

The Company's investment in accounts receivable of \$30.1 million at December 28, 1997, is consistent with the June 29, 1997 balance. Inventories increased by approximately \$570,000 at December 28, 1997, as compared to June 29, 1997, in support of the increased sales levels.

Capital expenditures during the six months ended December 28, 1997 were \$4.0 million compared to \$3.4 million during the six months ended December 29, 1996. The Company anticipates that capital expenditures will be approximately \$9 million to \$10 million in 1998, primarily in support of requirements for additional product programs.

The Board of Directors of the Company has authorized a stock repurchase program to buy back up to 289,395 outstanding shares. A total of 132,000 shares have been repurchased as of December 28, 1997, at a cost of approximately \$2.1 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 2000. Outstanding borrowings under the Credit Facility were \$1.0 million at December 28, 1997. 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.



The Company has developed a plan to ensure its information systems are compliant with the requirements to process transactions in the year 2000. The Company does not expect that the cost to modify its information systems to be year 2000 compliant will be material to its financial condition or results of operations. The Company does not anticipate any material disruption in its operations as a result of any failure by the Company to be year 2000 compliant.

#### Mexican Operations

The Company has assembly operations in Juarez, Mexico. Effective December 30, 1996, the functional currency of the Mexican operation was the U.S. dollar, as Mexico is currently considered to be a highly inflationary economy in accordance with SFAS No. 52, "Foreign Currency Translation." The effect of currency fluctuations in the remeasurement process is included in the determination of income. The effect of currency fluctuations included in the determination of income is not material. Prior to December 30, 1996, the functional currency of the Mexican operation was the Mexican Peso. The effects of currency fluctuations resulted in adjustments to the U.S. dollar value of the Company's net assets and to the equity accounts in accordance with SFAS No. 52.

#### 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, competitive and technological developments, foreign currency fluctuations, year 2000 compliance issues and costs of operations.

## 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 -

At the Company's Annual Meeting held on October 23, 1997, the shareholders voted to elect Harold M. Stratton II and Robert Feitler as directors for a term to expire in 2000. The number of votes cast for and withheld in the election of Harold M. Stratton II were 5,296,656 and 39,339, respectively. The number of votes cast for and withheld in the election of Robert Feitler were 5,294,885 and 41,110, respectively. The shareholders also voted to approve an amendment to the STRATTEC SECURITY CORPORATION Stock Incentive Plan to, among other things, increase the aggregate number of shares of the Company's Common Stock that may be issued or transferred upon exercise, payment or vesting of stock options and other equity

incentive awards granted under such plan from 788,817 to 1,200,000. The number of votes cast for, against and withheld in the approval of the amendment were 2,896,233, 2,013,243 and 27,400, respectively.

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

\* 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: February 6, 1998

By /S/ John G. Cahill

-----  
John G. Cahill  
Executive Vice President,  
Chief Financial Officer,  
Treasurer and Secretary  
(Principal Accounting and Financial Officer)

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