

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended June 28, 2009.

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number 0-25150

**STRATTEC SECURITY CORPORATION**

(Exact name of registrant as specified in its charter)

Wisconsin

(State of Incorporation)

39-1804239

(I.R.S. Employer Identification No.)

3333 West Good Hope Road, Milwaukee, WI 53209

(Address of principal executive offices)

(414) 247-3333

(Registrant's telephone number, including area code)

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

Title of each class

Common Stock, \$.01 par value

Name of exchange on which registered

The NASDAQ Stock Market

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

None

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  Yes  No

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files).  Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment of this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller Reporting Company

(do not check if a smaller reporting company)

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

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The aggregate market value of the voting Common Stock held by non-affiliates of the registrant as of December 28, 2008 (the last business day of the Registrant's most recently completed second quarter), was approximately \$38,879,000 (based upon the last reported sale price of the Common Stock at December 28, 2008, on the NASDAQ Global Market). Shares of common stock held by any executive officer or director of the registrant have been excluded from this computation because such persons may be deemed to be affiliates. This determination of affiliate status is not a conclusive determination for other purposes.

On August 7, 2009, there were outstanding 3,262,459 shares of the Registrant's \$.01 par value Common Stock.

Documents Incorporated by Reference

<u>Document</u>	<u>Part of the Form 10-K into which incorporated</u>
Portions of the Annual Report to Shareholders for the fiscal year ended June 28, 2009	I, II, IV
Portions of the Proxy Statement dated August 28, 2009, for the Annual Meeting of Shareholders to be held on October 6, 2009.	III

**PROSPECTIVE INFORMATION**

A number of the matters and subject areas discussed in this Form 10-K as well as in portions of the Company's 2009 Annual Report to Shareholders and the Company's Proxy Statement, dated August 28, 2009, which are incorporated herein by reference, contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements may be identified by the use of forward-looking words or phrases such as "anticipate," "believe," "would," "expect," "intend," "may," "planned," "potential," "should," "will" and "could," or the negative of these terms or words of similar meaning. These statements include matters related to 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-K. The discussions of such matters and subject areas are 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, the impact on the Company of the Chrysler LLC and General Motors Corporation bankruptcy filings, customer demand for the Company's and its customers' products, competitive and technological developments, customer purchasing actions, foreign currency fluctuations, costs of operations and other matters described under "Risk Factors" in the Management's Discussion and Analysis section of the Company's 2009 Annual Report to Shareholders, which is incorporated herein by reference in Part I, Item 1A of this report and in the Company's other filings with the Securities and Exchange Commission.

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-K 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-K.

## PART I

### Item 1. Business

The information set forth under “Company Description” which appears on pages 5 through 12 of the Company’s 2009 Annual Report to Shareholders is incorporated herein by reference. For information as to export sales, see the information set forth under “Notes to Financial Statements-Export Sales” included on page 43 of the Company’s 2009 Annual Report to Shareholders, which is incorporated herein by reference.

#### Emerging Technologies

Automotive vehicle access systems, which are both theft deterrent and consumer friendly, are being developed as electro-mechanical devices. Electronic companies are developing user identification systems such as bio-systems, card holder (transmitter) systems, etc., while mechanical locks, keys, housings, and latches are evolving to accommodate the electronics. The Company believes it is positioning itself as a vehicle access control supplier by building its product, engineering and manufacturing expertise in the required electro-mechanical products, which include vehicle access latches, keys with remote entry electronic systems, and housing-ignition systems with passive start capabilities.

These technologies benefit the Company by increasing the potential customer base as a Tier 2 supplier while attaining Tier 1 status on some product lines and adding additional product line availability.

#### Sources and Availability of Raw Materials

The Company’s primary raw materials are high-grade zinc, brass, magnesium, aluminum and plastic resins. These materials are generally available from a number of suppliers, but the Company has chosen to concentrate the sourcing with one primary vendor for each commodity. The Company believes its sources for raw materials are very reliable and adequate for our needs. The Company has not experienced any significant long term supply problems in its operations and does not anticipate any significant supply problems in the foreseeable future. See further discussion under “Risk Factors-Sources of and Fluctuations in Market Prices of Raw Materials” included on page 23 of the Company’s 2009 Annual Report to Shareholders, which is incorporated herein by reference.

#### Patents, Trademarks and Other Intellectual Property

The Company believes that the success of its business will not only result from the technical competence, creativity and marketing abilities of its employees but also from the protection of its intellectual property through patents, trademarks and copyrights. As part of its ongoing research, development and manufacturing activities, the Company has a policy of seeking patents on new products, processes and improvements when appropriate.

Although, in the aggregate, the intellectual property discussed above are of considerable importance to the manufacturing and marketing of many of its products, the Company does not consider any single patent or trademark or group of patents or trademarks to be material to its business as a whole, except for the STRATTEC and STRATTEC with logo trademarks.

The Company also relies upon trade secret protection for its confidential and proprietary information. The Company maintains confidentiality agreements with its key executives. In addition, the Company enters into confidentiality agreements with selected suppliers, consultants and associates as appropriate to evaluate new products or business relationships pertinent to the success of the Company. However, there can be no assurance that others will not independently obtain similar information and techniques or otherwise gain access to the Company’s trade secrets or that the Company can effectively protect its trade secrets.

#### Dependence Upon Significant Customers

A very significant portion of the Company’s annual sales are to General Motors Corporation, Delphi Corporation, Ford Motor Company, and Chrysler LLC (which became Chrysler Group LLC on June 10, 2009). These four customers accounted for approximately 71 percent of the Company’s net sales in 2009, 75 percent of the Company’s net sales in 2008 and 80 percent of the Company’s net sales in 2007. Further information regarding sales to the Company’s largest customers is set forth under the caption “Risk Factors - Loss of Significant Customers, Vehicle Content, Vehicle Models and Market Share” and “Risk Factors – Production Slowdowns for Customers” included on page 22 of the Company’s 2009 Annual Report to Shareholders and “Notes to Financial Statements-Sales and Receivable Concentration” included on page 43 of the Company’s 2009 Annual Report to Shareholders, both of which are incorporated herein by reference.

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The products sold to these customers are model specific, fitting only certain defined applications. Consequently, the Company is highly dependent on its major customers for their business, and on these customers' ability to produce and sell vehicles which utilize the Company's products. The Company has enjoyed good relationships with General Motors Corporation, Chrysler LLC, Ford Motor Company, Delphi Corporation and other customers in the past, and expects to do so in the future. However, a significant change in the purchasing practices of, or a significant loss of volume from, one or more of these customers could have a detrimental effect on the Company's financial performance.

During fiscal year 2009, the Company's major customers, Chrysler LLC, General Motors Corporation and Ford Motor Company presented long-term viability plans to the United States Government. These plans focused on reducing North American production capacity, closing facilities, eliminating certain vehicle models, brands and overall structural costs to operate profitably at a 10 million vehicle production build level in North America. The above customers have taken steps to implement these plans over the next couple of years. The overall expectation is that North American vehicle build schedules will rebound from the historical 27 year low experienced in 2009, but will not reach the previous production build levels of 15-16 million vehicles per year during the next 5 years.

The Company's financial results for the year ended June 28, 2009 reflect the overall weakness in the U.S. economy, and in particular the sharp decline in vehicle sales and production during the year. During the quarter ended June 28, 2009, the Company's two largest customers, Chrysler LLC and General Motors Corporation, filed for Chapter 11 bankruptcy protection for their U.S. legal entities. Chrysler's filing occurred on April 30, 2009, and General Motors filed on June 1, 2009. Within days of its filing, Chrysler took the unusual step of shutting down all of its North American manufacturing facilities during May and June 2009. This development was on top of previously announced General Motors plant shutdowns idling a significant amount of its North American plant capacity for the purpose of reducing its retail inventory of new vehicles. May and June of 2009 were therefore extremely slow sales months for the Company, each nearly 45 percent below the Company's April 2009 sales levels. This slowness extended into July, the first month of the Company's fiscal 2010 year.

### **Sales and Marketing**

The Company provides its customers with engineered locksets, steering column lock housings, seatback and secondary latches, power sliding door systems, power liftgate systems, power decklids and other access products which are unique to specific vehicles. Any given vehicle will typically take 1 to 3 years of development and engineering design time prior to being offered to the public. The locksets, lock housings, power liftgates, power sliding door and other power access systems, and latches are designed concurrently with the vehicle. Therefore, commitment to the Company as the production source occurs 1 to 3 years prior to the start of production. The Company employs an engineering staff that assists in providing design and technical solutions to its customers. The Company believes that its engineering expertise is a competitive advantage and contributes toward its strong market position. For example, the Company believes it regularly provides innovative design proposals for its product offerings to its customers that will improve customer access, vehicle security system quality, theft deterrence and system cost.

The typical process used by automotive manufacturers in selecting a lock, lock housing, power liftgate, power sliding door and other power access systems, or latch supplier is to offer the business opportunity to the Company and several of the Company's competitors. Each competitor will pursue the opportunity, doing its best to provide the customer with the most attractive proposal. Price pressure is strong during this process but once an agreement is reached, a commitment is made for each year of the product program. Typically, price reductions resulting from productivity improvement by the Company are included in the contract and are estimated in evaluating each of these opportunities by the Company. A blanket purchase order, a contract indicating a specified part will be supplied at a specified price during a defined time period, is issued by customers for each model year. Production quantity releases or quantity commitments are made to that purchase order for weekly deliveries to the customer. As a consequence and because the Company is a "Just-in-Time" supplier to the automotive industry, it does not maintain a backlog of orders in the classic sense for future production and shipment.

## **Competition**

The Company competes with domestic and foreign-based competitors on the basis of custom product design, engineering support, quality, delivery and price. While the number of direct competitors is currently relatively small, the automotive manufacturers actively encourage competition between potential suppliers. The Company has a large share of the North American market for its lock and key, housing, power liftgate, power sliding door, and latch products because of its ability to provide optimal value, which is a beneficial combination of price, quality, technical support, program management, innovation and aftermarket support. In order to reduce lockset or housing, power liftgate, power sliding door, and latch product production costs while still offering a wide range of technical support, the Company utilizes assembly operations and certain light manufacturing operations in Mexico, which results in lower labor costs as compared to the United States.

As locks become more sophisticated and involve additional electronics, competitors with specific electronic expertise may emerge to challenge the Company. To address this, the Company has strengthened its electrical engineering knowledge and service. It is also working with several electronics suppliers to jointly develop and supply these advanced products.

The Company's lockset, housing and power access competitors include Huf North America, Ushin-Ortech, Tokai-Rika, Alpha-Tech, Valeo, Honda Lock, Methode, Shin Chang, Magna, Edscha, Stabilus, Aisin, Brose, Mitsuba, Ohi, Kiekert, Inteva and Gecom. For additional information related to competition, see the information set forth under "Risk Factors-Highly Competitive Automotive Supply Industry" included on page 24 of the Company's 2009 Annual Report to Shareholders, which is incorporated herein by reference.

## **Research and Development**

The Company engages in research and development activities pertinent to automotive access control. A major area of focus for research is the expanding role of vehicle access via electronic interlocks and modes of communicating authorization data between consumers and vehicles. Development activities include new products, applications and product performance improvements. In addition, specialized data collection equipment is developed to facilitate increased product development efficiency and continuous quality improvements. For fiscal years 2009, 2008, and 2007, the Company spent approximately \$1.9 million, \$1.9 million, and \$2.2 million, respectively, on research and development. The Company believes that, historically, it has committed sufficient resources to research and development and will continue to invest in the future as required to support additional product programs associated with both existing and new customers. Patents are pursued and will continue to be pursued as appropriate to protect the Company's interests resulting from these activities.

## **Customer Tooling**

The Company incurs costs related to tooling used in component production and assembly. Some of these costs are reimbursed by customers who then own the tools involved. See the information set forth under "Notes to Financial Statements-Customer Tooling in Progress" included on page 31 of the Company's 2009 Annual Report to Shareholders, which is incorporated herein by reference.

## **Environmental Compliance**

As is the case with other manufacturers, the Company is subject to Federal, state, local and foreign laws and other legal requirements relating to the generation, storage, transport, treatment and disposal of materials as a result of its manufacturing and assembly operations. These laws include the Resource Conservation and Recovery Act (as amended), the Clean Air Act (as amended), the Clean Water Act of 1990 (as amended) and the Comprehensive Environmental Response, Compensation and Liability Act (as amended). The Company has an environmental management system that is ISO-14001 certified. The Company believes that its existing environmental management system is adequate and it has no current plans for substantial capital expenditures in the environmental area.

As discussed in "Notes to Financial Statements-Commitments and Contingencies" included on page 37 of the Company's 2009 Annual Report to Shareholders, which is incorporated herein by reference, a site at the Company's Milwaukee facility is contaminated by a solvent spill from a former above-ground solvent storage tank located on the east side of the facility, which occurred in 1985. This situation is being monitored by the Company.

The Company does not currently anticipate any materially adverse impact on its financial statements or competitive position as a result of compliance with Federal, state, local and foreign environmental laws or other legal requirements. However, risk of environmental liability and charges associated with maintaining compliance with environmental laws is inherent in the nature of the Company's business and there is no assurance that material liabilities or charges could not arise.

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**Employees**

At June 28, 2009, the Company had approximately 1,655 full-time employees, of which approximately 210 or 12.7 percent were represented by a labor union, which accounts for all production associates at the Company's Milwaukee facility. In June 2008, a new contract with the unionized associates was ratified and is effective through June 30, 2012. During June 2001, there was a 16-day strike by the represented employees at the Company's Milwaukee facility. Further information regarding the strike, work stoppages and other labor matters are discussed under "Risk Factors-Disruptions Due to Work Stoppages and Other labor Matters" included on pages 23 and 24 of the Company's 2009 Annual Report to Shareholders, which is incorporated herein by reference.

**Available Information**

The Company maintains its corporate website at [www.strattec.com](http://www.strattec.com) and makes available, free of charge, through this website its code of business ethics, annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports that the Company files with, or furnishes to, the Securities and Exchange Commission (the "Commission") as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the Commission. The Company is not including all the information contained on or available through its website as a part of, or incorporating such information by reference into, this Annual Report on Form 10-K. However, this report includes (or incorporates by reference) all material information about the Company that is included on the Company's website which is otherwise required to be included in this report.

**Item 1A. Risk Factors**

The information set forth under "Risk Factors" which appears on pages 22 through 24 of the Company's 2009 Annual Report to Shareholders is incorporated herein by reference. The risks described in the section "Risk Factors" in the Company's 2009 Annual Report to Shareholders are not the only risks the Company faces. Additional risks that the Company does not yet know of or that it currently thinks are immaterial may also impair its business operations. If any of the events or circumstances described in those risks actually occur, the Company's business, financial condition or results of operations could be materially adversely affected. In such cases, the trading price of the Company's common stock could decline.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

The Company has three manufacturing plants, one warehouse, and a sales office. These facilities are described as follows:

Location	Type	Sq. Ft.	Owned or Leased
Milwaukee, Wisconsin	Headquarters and General Offices; Component Manufacturing and Service Parts Distribution	352,000	Owned
Juarez, Chihuahua Mexico	Subsidiary Offices and Assembly	97,000	Owned
Juarez, Chihuahua Mexico	Subsidiary Offices, Key Finishing, Injection Molding and Assembly Operations	140,000	Owned
El Paso, Texas	Finished Goods Warehouse	38,000	Leased**
Troy, Michigan	Sales and Engineering Office for Detroit Customer Area	18,900	Leased**

\*\* Leased unit within a complex.

The Company believes that its production facilities will be adequate for the foreseeable future.

**Item 3. Legal Proceedings**

In the normal course of business the Company may be involved in various legal proceedings from time to time. The Company does not believe it is currently involved in any claim or action the ultimate disposition of which would have a material adverse effect on the Company's financial statements.

**Item 4. Submission of Matters to a Vote of Security Holders**

There were no matters submitted to a vote of shareholders during the fourth quarter of fiscal 2009.

## PART II

### **Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

The Company's 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. At June 28, 2009, the number of shares of the Company's common stock authorized for repurchase under the program totaled 3,839,395. The program currently authorizes the repurchase of the Company's 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 June 28, 2009, a total of 3,655,322 shares have been repurchased at a cost of approximately \$136.4 million. No shares were repurchased during the quarter ended June 28, 2009.

The Company's common stock is traded on the NASDAQ Global Market under the symbol "STRT."

The information set forth under "Financial Summary – Quarterly Financial Data (Unaudited)" included on page 47 of the Company's 2009 Annual Report to Shareholders is incorporated herein by reference.

### **Item 6. Selected Financial Data**

The information set forth under "Five Year Financial Summary" which appears on page 47 of the Company's 2009 Annual Report to Shareholders is incorporated herein by reference. Such information should be read along with the Company's financial statements and the notes to those financial statements and with "Management's Discussion and Analysis of Financial Condition and Results of Operations" incorporated by reference elsewhere herein.

### **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The information set forth under "Management's Discussion and Analysis" which appears on pages 13 through 24 of the Company's 2009 Annual Report to Shareholders is incorporated herein by reference.

### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

The Company did not hold any market risk sensitive instruments during the period covered by this report.

### **Item 8. Financial Statements and Supplementary Data**

The financial statements, together with the report thereon of Grant Thornton LLP dated August 24, 2009, the report of management on internal control over financial reporting and the report of Grant Thornton LLP on internal control over financial reporting dated August 24, 2009, which appear on pages 25 through 46 of the Company's 2009 Annual Report to Shareholders, are incorporated herein by reference.

Our quarterly results of operations included under "Financial Summary-Quarterly Financial Data (Unaudited)" which appears on page 47 of the Company's 2009 Annual Report to Shareholders is incorporated herein by reference.

### **Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure**

None.



**Item 9A. Controls and Procedures**

The Company maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the 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 Securities Exchange Act of 1934 is accumulated and communicated to its management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. The Company carried out an evaluation as of the end of the period covered by this report, under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as the end of the period covered by this report 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 was necessarily required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The Company has designed its disclosure controls and procedures to reach a level of reasonable assurance of achieving the desired control objectives.

There was no change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended June 28, 2009 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

The report of management required under this Item 9A is included on page 44 of the Company's 2009 Annual Report to Shareholders under the heading "Report on Management's Assessment of Internal Control over Financial Reporting" and is incorporated herein by reference.

The attestation report required under this Item 9A is included on page 45 of the Company's 2009 Annual Report to Shareholders under the heading "Report of Independent Registered Public Accounting Firm" and is incorporated herein by reference.

**Item 9B. Other Information**

Not applicable.

## PART III

### Item 10. Directors and Executive Officers and Corporate Governance

The information included in the Company's Proxy Statement, dated August 28, 2009, under "Proposal: Election of Directors," "Corporate Governance Matters-Code of Business Ethics," "Audit Committee Matters-Audit Committee Financial Expert," "Executive Officers," "Section 16(a) Beneficial Ownership Reporting Compliance", and "Corporate Governance Matters-Director Nominations" is incorporated herein by reference.

The Audit Committee of the Company's Board of Directors is an "audit committee" for purposes of Section 3(a)(58)(A) of the Securities Exchange Act of 1934. The members of the Audit Committee consist of four outside independent Directors, Michael J. Koss, Audit Committee Chairman, Robert Feitler, Frank J. Krejci and David R. Zimmer.

### Item 11. Executive Compensation

The information included in the Company's Proxy Statement, dated August 28, 2009, under "Director Compensation" and "Executive Compensation" is incorporated herein by reference.

The information incorporated by reference from "Report of Compensation Committee" in the Company's Proxy Statement, dated August 28, 2009, 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.

### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

The information included in the Company's Proxy Statement, dated August 28, 2009, under "Security Ownership" is incorporated herein by reference.

### Equity Compensation Plan Information

The following table summarizes share information, as of June 28, 2009, for the Company's Stock Incentive Plan.

<u>Plan Category</u>	<u>Number of common shares to be issued upon exercise of outstanding options, warrants, and rights</u>	<u>Weighted-average exercise price of outstanding options, warrants, and rights</u>	<u>Number of common shares available for future issuance under equity compensation plans</u>
Equity compensation plans approved by shareholders	187,780	\$ 58.74	380,463
Equity compensation plans not approved by shareholders	—	—	—
<b>Total</b>	<b>187,780</b>	<b>\$ 58.74</b>	<b>380,463</b>

### Item 13. Certain Relationships and Related Transactions and Director Independence

The information included in the Company's Proxy Statement, dated August 28, 2009, under "Transactions With Related Persons" and "Corporate Governance Matters-Director Independence" is incorporated herein by reference.

### Item 14. Principal Accountant Fees and Services

The information included in the Company's Proxy Statement, dated August 28, 2009, under "Audit Committee Matters-Fees of Independent Registered Public Accounting Firm" is incorporated herein by reference.

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules**

(a) The following documents are filed as part of this report:

(1)(i) Financial Statements - The following financial statements of the Company, included on pages 25 through 46 of the Company's 2009 Annual Report to Shareholders, are incorporated by reference in Item 8 of this Form 10-K annual report:

Reports of Independent Registered Public Accounting Firm

Consolidated Balance Sheets - as of June 28, 2009 and June 29, 2008

Consolidated Statements of Operations - years ended June 28, 2009, June 29, 2008 and July 1, 2007

Consolidated Statements of Shareholders' Equity - years ended June 28, 2009, June 29, 2008 and July 1, 2007

Consolidated Statements of Cash Flows - years ended June 28, 2009, June 29, 2008 and July 1, 2007

Notes to Financial Statements

(2) Financial Statement Schedule

All schedules have been omitted because they are not applicable or are not required, or because the required information has been included in the Financial Statements or Notes thereto.

(3) Exhibits. See "Exhibit Index" beginning on page 12.

(b) Exhibits

See "Exhibit Index" and the exhibits attached hereto or previously filed as described in the "Exhibit Index" beginning on page 12.

(c) Financial Statement Schedules

None required.

## SIGNATURES

Pursuant to the requirements of Section 13 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

By: /s/ Harold M. Stratton II  
Harold M. Stratton II  
Chairman, President and Chief Executive Officer

Date: August 28, 2009

Pursuant to the requirement of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Harold M. Stratton II</u> Harold M. Stratton II	Chairman, President, Chief Executive Officer, and Director (Principal Executive Officer)	August 28, 2009
<u>/s/ Frank J. Krejci</u> Frank J. Krejci	Director	August 18, 2009
<u>/s/ Michael J. Koss</u> Michael J. Koss	Director	August 18, 2009
<u>/s/ Robert Feitler</u> Robert Feitler	Director	August 18, 2009
<u>/s/ David R. Zimmer</u> David R. Zimmer	Director	August 18, 2009
<u>/s/ Patrick J. Hansen</u> Patrick J. Hansen	Senior Vice President, Chief Financial Officer, Secretary and Treasurer (Principal Financial and Accounting Officer)	August 28, 2009

**EXHIBIT INDEX TO ANNUAL REPORT**

**ON FORM 10-K**

<u>Exhibit</u>		
3.1 (2)	Amended and Restated Articles of Incorporation of the Company	*
3.2 (9)	By-laws of the Company	*
4.1 (13)	Promissory Note dated November 1, 2008 by and between the Company and M&I Bank	*
10.1 (9) **	Amended STRATTEC SECURITY CORPORATION Stock Incentive Plan	*
10.2 (9) **	Form of Restricted Stock Grant Agreement	*
10.3 (3) (4) (5) (6) (7) (8) (11)**	Employment Agreements between the Company and the identified executive officers	*
10.4 (1) (3) (4) (5) (6) (7) (8) (11)**	Change In Control Agreements between the Company and the identified executive officers	*
10.5 (12) **	Amended STRATTEC SECURITY CORPORATION Economic Value Added Plan for Executive Officers and Senior Managers	*
10.6 (12) **	Amended STRATTEC SECURITY CORPORATION Economic Value Added Plan for Non-employee Members of the Board of Directors	*
10.7 (10) **	Amended STRATTEC SECURITY CORPORATION Supplemental Executive Retirement Plan	*
10.8	Employment Agreement between the Company and Richard P. Messina dated as of December 1, 2008	
10.9	Change In Control Agreement between the Company and Richard P. Messina dated as of December 1, 2008	
13	Annual Report to Shareholders for the year ended June 28, 2009	
18	Letter Regarding Change in Accounting Principle	
21	Subsidiaries of the Company	
23.1	Consent of Independent Registered Public Accounting Firm dated August 24, 2009	
31.1	Rule 13a-14(a) Certification for Harold M. Stratton II, Chairman and Chief Executive Officer	
31.2	Rule 13a-14(a) Certification for Patrick J. Hansen, Chief Financial Officer	
32 (14)	18 U.S.C. Section 1350 Certifications	

\* Previously filed

\*\* Management contract or compensatory plan or arrangement

(1) Incorporated by reference from Amendment No. 1 to the Form 10 filed on January 20, 1995.

(2) Incorporated by reference from Amendment No. 2 to the Form 10 filed on February 6, 1995.

(3) Incorporated by reference from the June 27, 1999 Form 10-K filed on September 17, 1999.

(4) Incorporated by reference from the July 1, 2001 Form 10-K filed on September 4, 2001.

(5) Incorporated by reference from the June 30, 2002 Form 10-K filed on August 28, 2002.

(6) Incorporated by reference from the June 29, 2003 Form 10-K filed on August 28, 2003.

(7) Incorporated by reference from the September 26, 2004 Form 10-Q filed on November 2, 2004.

(8) Incorporated by reference from the March 27, 2005 Form 10-Q filed on April 29, 2005.

(9) Incorporated by reference from the Form 8-K filed on October 7, 2005.

- (10) Incorporated by reference from the January 1, 2006 Form 10-Q filed on February 7, 2006.
- (11) Incorporated by reference from the April 1, 2007 Form 10-Q filed on May 8, 2007.
- (12) Incorporated by reference from the July 1, 2007 Form 10-K filed on August 30, 2007.
- (13) Incorporated by reference from the September 30, 2008 Form 10-Q filed on November 7, 2008.
- (14) 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.

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT is made as of December 1, 2008, by and between STRATTEC SECURITY CORPORATION, a Wisconsin corporation (the "Company"), and Richard Messina (the "Employee").

RECITAL

The Company desires to employ the Employee and the Employee is willing to make his services available to the Company on the terms and conditions set forth below.

AGREEMENTS

In consideration of the premises and the mutual agreements which follow, the parties agree as follows:

1. Employment. The Company hereby employs the Employee and the Employee hereby accepts employment with the Company on the terms and conditions set forth in this Agreement.
  2. Term. The term of the Employee's employment hereunder shall commence effective on December 1, 2008 and shall continue through June 30, 2009 , and shall thereafter be automatically renewed for successive fiscal year terms unless either the Company or Employee gives notice of nonrenewal not less than 30 days prior to the end of the then current term (the "Employment Period").
  3. Duties. The Employee shall serve as the Vice President -Access Control Products of the Company and will, under the direction of Chairman of the Board and Chief Executive Officer, faithfully and to the best of Employee's ability, perform the duties of the Vice President – Access Control Products. The Vice President – Access Control Products shall be one of the principal executive officers of the Company and shall, subject to the control of Chairman of the Board and Chief Executive Officer supervise the Access Control functions of the Company. The Employee shall also perform such additional duties and responsibilities which may from time to time be reasonably assigned or delegated by the Chairman of the Board and Chief Executive Officer of the Company. The Employee agrees to devote Employee's entire business time, effort, skill and attention to the proper discharge of such duties while employed by the Company. However, the Employee may engage in other business activities unrelated to, and not in conflict with, the business of the Company if the Chairman of the Board and Chief Executive Officer consents in writing to such other business activity.
  4. Compensation. The Employee shall receive a base salary of \$145,000 per year, payable in regular and semi-monthly installments (the "Base Salary"). Employee's Base Salary shall be reviewed annually by the Board of Directors of the Company to determine appropriate increases, if any, in such Base Salary.
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5. Fringe Benefits.

(a) Medical, Health, Dental, Disability and Life Coverage. The Employee shall be eligible to participate in any medical, health, dental, disability and life insurance policy in effect for senior management of the Company (collectively, the "Senior Management").

(b) Incentive Bonus and Stock Ownership Plans. The Employee shall be entitled to participate in any incentive bonus or other incentive compensation plan developed generally for the Senior Management of the Company, on a basis consistent with Employee's position and level of compensation with the Company. The Employee shall also be entitled to participate in any incentive stock option plan or other stock ownership plan developed generally for the Senior Management of the Company, on a basis consistent with Employee's position and level of compensation with the Company.

(c) Reimbursement for Reasonable Business Expenses. Subject to the terms and conditions of the Company's expense reimbursement policy, the Company shall pay or reimburse the Employee for reasonable expenses incurred by Employee in connection with the performance of Employee's duties pursuant to this Agreement, including, but not limited to, travel expenses, expenses in connection with seminars, professional conventions or similar professional functions and other reasonable business expenses.

6. Termination of Employment.

(a) Termination for Cause, Disability or Death. During the term of this Agreement, the Company shall be entitled to terminate the Employee's employment at any time upon the "Disability" of the Employee or for "Cause" upon notice to the Employee. The Employee's employment hereunder shall automatically terminate upon the death of the Employee. For purposes of this Agreement, "Disability" shall mean a physical or mental sickness or any injury which renders the Employee incapable of performing the essential functions of Employee's job (with or without reasonable accommodations) and which does or may be expected to continue for more than 4 months during any 12-month period. In the event Employee shall be able to perform the essential functions of Employee's job (with or without reasonable accommodations) following a period of disability, and does so perform such duties, or such other duties as are prescribed by the President of the Company, for a period of three continuous months, any subsequent period of disability shall be regarded as a new period of disability for purposes of this Agreement. The Company and the Employee shall determine the existence of a Disability and the date upon which it occurred. In the event of a dispute regarding whether or when a Disability occurred, the matter shall be referred to a medical doctor selected by the Company and the Employee. In the event of their failure to agree upon such a medical doctor, the Company and the Employee shall each select a medical doctor who together shall select a third medical doctor who shall make the determination. Such determination shall be conclusive and binding upon the parties hereto.



The Company may terminate the Employee's employment under this Agreement for "Cause," effective immediately upon delivery of notice to the Employee. Cause shall be deemed to exist if the Employee shall have (1) materially breached the terms of this Agreement; (2) willfully failed to substantially perform his duties, other than a failure resulting from incapacity due to physical or mental illness; or (3) serious misconduct which is demonstrably and substantially injurious to the Company. No act or failure to act will be considered "cause" if such act or failure is done in good faith and with a reasonable belief that it is in the best interests of the Company.

In the event of termination for Disability or death, payments of the Employee's Base Salary shall be made to the Employee, his designated beneficiary or Employee's estate for a period of six months after the date of the termination (even if this period would extend beyond the Employment Period); provided, however that the foregoing payments in the event of a Disability shall be reduced by the amount, if any, that is paid to Employee pursuant to a disability plan or policy maintained by the Company. During this period, the Company shall also reimburse the Employee for amounts paid, if any, to continue medical, dental and health coverage pursuant to the provisions of the Consolidated Omnibus Budget Reconciliation Act. During this period, the Company will also continue Employee's life insurance and disability coverage, to the extent permitted under applicable policies, and will pay to the Employee the fringe benefits pursuant to section 5 which have accrued prior to the date of termination. Termination of this Agreement for a Disability shall not change Employee's rights to receive benefits, if any, pursuant to any disability plan or policy then maintained by the Company.

(b) Termination Without Cause. If the Employee's employment is terminated by the Company for any reason other than for Cause, Disability or death, or if this Agreement is terminated by the Company for what the Company believes is Cause or Disability, and it is ultimately determined that the Employee was wrongfully terminated, Employee shall, as damages for such a termination, receive Employee's Base Salary, for the remainder of the Employment Period or six months, if longer. During this period, the Company shall also reimburse the Employee for amounts paid, if any, to continue medical, dental and health coverage pursuant to the provisions of the Consolidated Omnibus Budget Reconciliation Act. During this period, the Company will also continue Employee's life insurance and disability coverage, to the extent permitted under applicable policies, and will pay to the Employee the fringe benefits pursuant to section 5 which have accrued prior to the date of termination. The Company's termination of the Employee's employment under this section 6(b) shall immediately relieve the Employee of all obligations under this Agreement (except as provided in sections 7 and 8) and, except as provided below, shall not be construed to require the application of any compensation which the Employee may earn in any such other employment to reduce the Company's obligation to provide severance benefits and liquidated damages under this section 6(b).

(c) Effect of Termination. The termination of the Employee's employment pursuant to section 6 shall not affect the Employee's obligations as described in sections 7 and 8.

7. Noncompetition. The parties agree that the Company's customer contacts and relations are established and maintained at great expense and by virtue of the Employee's employment with the Company, the Employee will have unique and extensive exposure to and personal contact with the Company's customers, and that Employee will be able to establish a unique relationship with those individuals and entities that will enable Employee, both during and after employment, to unfairly compete with the Company. Further, the parties agree that the terms and conditions of the following restrictive covenants are reasonable and necessary for the protection of the Company's business, trade secrets and confidential information and to prevent great damage or loss to the Company as a result of action taken by the Employee. The Employee acknowledges that the noncompete restrictions and nondisclosure of confidential information restrictions contained in this Agreement are reasonable and the consideration provided for herein is sufficient to fully and adequately compensate the Employee for agreeing to such restrictions. The Employee acknowledges that Employee could continue to actively pursue Employee's career and earn sufficient compensation in the same or similar business without breaching any of the restrictions contained in this Agreement.

(a) During Term of Employment. The Employee hereby covenants and agrees that, during Employee's employment with the Company, Employee shall not, directly or indirectly, either individually or as an employee, principal, agent, partner, shareholder, owner, trustee, beneficiary, co-venturer, distributor, consultant or in any other capacity, participate in, become associated with, provide assistance to, engage in or have a financial or other interest in any business, activity or enterprise which is competitive with or a supplier to the Company or any successor or assign of the Company. The ownership of less than a one percent interest in a corporation whose shares are traded in a recognized stock exchange or traded in the over-the-counter market, even though that corporation may be a competitor of the Company, shall not be deemed financial participation in a competitor.

(b) Upon Termination of Employment. The Employee agrees that during a period after termination of Employee's employment with the Company equal to the shorter of one year or the duration of Employee's employment with the Company, Employee will not, directly or indirectly, either individually or as an employee, agent, partner, shareholder, owner, trustee, beneficiary, co-venturer, distributor, consultant or in any other capacity:

(i) Canvass, solicit or accept from any person or entity who is a customer of the Company (any such person or entity is hereinafter referred to individually as a "Customer" and collectively as the "Customers") any business in competition with the business of the Company or the successors or assigns of the Company, including the canvassing, soliciting or accepting of business from any individual or entity which is or was a Customer of the Company within the two-year period preceding the date on which the canvassing, soliciting or accepting of business begins.

(ii) Request or advise any of the Customers, suppliers, or other business contacts of the Company who currently have or have had business relationships with the Company within two years preceding the date hereof or within two years preceding the date of such action, to withdraw, curtail or cancel any of their business or relations with the Company.

(iii) Induce or attempt to induce any employee, sales representative, consultant or other personnel of the Company to terminate his or her relationship or breach his or her agreements with the Company.

(iv) Use, disclose, divulge or transmit or cause to be used by or disclosed, divulged or transmitted to any third party, any information acquired by the Employee during the Employment Period which relates to the trade secrets and confidential information of the Company, except as may be required by law.

(v) Participate in, become associated with, provide assistance to, engage in or have a financial or other interest in any business, activity or enterprise which is competitive with the business of the Company or any successor or assign of the Company to the extent such activities relate to products or services which are competitive with the products and services of the Company; provided, however, that the ownership of less than 1% of the stock of a corporation whose shares are traded in a recognized stock exchange or traded in the over-the-counter market, even though that corporation may be a competitor of the Company, shall not be deemed financial participation in a competitor.

For purposes of this section 7, a competitive business is defined as a business which is involved in designing, developing, manufacturing or marketing mechanical, electro-mechanical and/or electronic security and access control products in the global motor vehicle industry.

8. Confidential Information. The parties agree that the Company's customers, business connections, suppliers, customer lists, procedures, operations, techniques, and other aspects of its business are established at great expense and protected as confidential information and provide the Company with a substantial competitive advantage in conducting its business. The parties further agree that by virtue of the Employee's employment with the Company, Employee will have access to, and be entrusted with, secret, confidential and proprietary information, and that the Company would suffer great loss and injury if the Employee would disclose this information or use it to compete with the Company. Therefore, the Employee agrees that during the term of Employee's employment, and for a period of two years after the termination of his employment with the Company, Employee will not, directly or indirectly, either individually or as an employee, agent, partner, shareholder, owner, trustee, beneficiary, co-venturer, distributor, consultant or in any other capacity, use or disclose, or cause to be used or disclosed, any secret, confidential or proprietary information acquired by the Employee during Employee's employment with the Company whether owned by the Company prior to or discovered and developed by the Company subsequent to the

Employee's employment, and regardless of the fact that the Employee may have participated in the discovery and the development of that information. Employee also agrees and acknowledges that Employee will comply with all applicable laws regarding insider trading or the use of material nonpublic information in connection with the trading of securities.

9. Common Law of Torts and Trade Secrets. The parties agree that nothing in this Agreement shall be construed to limit or negate the common law of torts or trade secrets where it provides the Company with broader protection than that provided herein.

10. Specific Performance. The Employee acknowledges and agrees that irreparable injury to the Company may result in the event the Employee breaches any covenant and agreement contained in sections 7 and 8 and that the remedy at law for the breach of any such covenant will be inadequate. Therefore, if the Employee engages in any act in violation of the provisions of sections 7 and 8, the Employee agrees that the Company shall be entitled, in addition to such other remedies and damages as may be available to it by law or under this Agreement, to injunctive relief to enforce the provisions of sections 7 and 8.

11. Waiver. The failure of either party to insist, in any one or more instances, upon performance of the terms or conditions of this Agreement shall not be construed as a waiver or a relinquishment of any right granted hereunder or of the future performance of any such term, covenant or condition.

12. Notices. Any notice to be given hereunder shall be deemed sufficient if addressed in writing, and delivered by registered or certified mail or delivered personally, in the case of the Company, to its principal business office, and in the case of the Employee, to his address appearing on the records of the Company, or to such other address as he may designate in writing to the Company.

13. Severability. In the event that any provision shall be held to be invalid or unenforceable for any reason whatsoever, it is agreed such invalidity or unenforceability shall not affect any other provision of this Agreement and the remaining covenants, restrictions and provisions hereof shall remain in full force and effect and any court of competent jurisdiction may so modify the objectionable provision as to make it valid, reasonable and enforceable. Furthermore, the parties specifically acknowledge the above covenant not to compete and covenant not to disclose confidential information are separate and independent agreements.

14. Amendment. This Agreement may only be amended by an agreement in writing signed by all of the parties hereto.

15. Governing Law. This Agreement shall be governed by and construed exclusively in accordance with the laws of the State of Wisconsin, regardless of choice of law requirements. The parties hereby consent to the jurisdiction of the state

courts of the State of Wisconsin and of any federal court in the venue of Wisconsin for the purpose of any suit, action or proceeding arising out of or related to this Agreement, and expressly waive any and all objections they may have as to venue in any of such courts.

16. Dispute Resolution. The parties hereto shall attempt to resolve disputes arising out of or relating to this Agreement. Any dispute not resolved in writing within 21 days may be referred by either party to mediation involving a mediator (a third party neutral), trained and experienced in the mediation process and mutually agreed to by the parties. The mediator shall ascribe to and follow the AAA/SPIDR or ABA code of ethics for mediators in conduct and management of the mediation process. Expenses for the mediation shall be shared equally by the parties unless otherwise agreed during the mediation process. The parties may be accompanied in the mediation process by legal counsel, and/or other persons mutually agreed to by the parties and the mediator. All participants will openly and honestly participate in the mediation. The mediation may be terminated at any time, for any reason by the mediator or by either party. Any resolution reached by the parties during the mediation shall be recorded in writing and agreed to by the parties. Such resolution may be drafted and/or revised by the parties' legal counsel and shall be legally binding on the parties.

17. Benefit. This Agreement shall be binding upon and inure to the benefit of and shall be enforceable by and against the Company, its successors and assigns and the Employee, his heirs, beneficiaries and legal representatives. It is agreed that the rights and obligations of the Employee may not be delegated or assigned.

IN WITNESS WHEREOF, the parties have executed or caused this Agreement to be executed as of the day, month and year first above written.

EMPLOYEE

STRATTEC SECURITY CORPORATION

/s/ Richard Messina

BY /s/ Harold M. Stratton II

Richard Messina

Harold M. Stratton II,  
Chairman of the Board  
and Chief Executive Officer

## EMPLOYMENT AGREEMENT

AGREEMENT by and between STRATTEC SECURITY CORPORATION, a Wisconsin corporation (the "Company") and Richard Messina (the "Executive"), dated as of the 1st day of December, 2008.

The Board of Directors of the Company (the "Board"), has determined that it is in the best interests of the Company and its shareholders to assure that the Company will have the continued dedication of the Executive, notwithstanding the possibility, threat or occurrence of a Change of Control (as defined below) of the Company. The Board believes it is imperative to diminish the inevitable distraction of the Executive by virtue of the personal uncertainties and risks created by a pending or threatened Change of Control and to encourage the Executive's full attention and dedication to the Company currently and in the event of any threatened or pending Change of Control, and to provide the Executive with compensation and benefits arrangements upon a Change of Control which ensure that the compensation and benefits expectations of the Executive will be satisfied and which are competitive with those of other corporations. Therefore, in order to accomplish these objectives, the Board has caused the Company to enter into this Agreement.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. Certain Definitions.

(a) The "Effective Date" shall mean the first date during the Change of Control Period (as defined in Section 1(b)) on which a Change of Control (as defined in Section 2) occurs. Anything in this Agreement to the contrary notwithstanding, if a Change of Control occurs and if the Executive's employment with the Company or this Agreement is terminated prior to the date on which the Change of Control occurs, and if it is reasonably demonstrated by the Executive that such termination of employment or of this Agreement (i) was at the request of a third party who has taken steps reasonably calculated to effect a Change of Control or (ii) otherwise arose in connection with or anticipation of a Change of Control, then for all purposes of this Agreement the "Effective Date" shall mean the date immediately prior to the date of such termination of employment or purported termination of this Agreement.

(b) The "Change of Control Period" shall mean the period commencing on the date hereof and ending on the third anniversary of the date hereof; provided, however, that commencing on the date one year after the date hereof, and on each annual anniversary of such date (such date and each annual anniversary thereof shall be hereinafter referred to as the "Renewal Date"), unless previously terminated, the Change of Control Period shall be automatically extended so as to terminate three years from such Renewal Date, unless at least 60 days prior to the Renewal Date the Company shall give notice to the Executive that the Change of Control Period shall not be so extended.

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2. Change of Control. For the purpose of this Agreement, a “Change of Control” shall mean:

(a) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) (a “Person”) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either (i) the then outstanding shares of common stock of the Company (the “Outstanding Company Common Stock”) or (ii) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the “Outstanding Company Voting Securities”); provided, however, that the following acquisitions shall not constitute a Change of Control: (i) any acquisition directly from the Company, (ii) any acquisition by the Company, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company or (iv) any acquisition by any corporation pursuant to a transaction which complies with clauses (i), (ii) and (iii) of subsection (c) of this Section 2; or

(b) Individuals who, as of the date hereof, constitute the Board (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company’s shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(c) Approval by the shareholders of the Company of a reorganization, merger or consolidation (a “Business Combination”), in each case, unless, following such Business Combination, (i) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 60% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (ii) no Person (excluding any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 20% or more of, respectively, the then

outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination and (iii) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(d) Approval by the shareholders of the Company of (i) a complete liquidation or dissolution of the Company or (ii) the sale or other disposition of all or substantially all of the assets of the Company, other than to a corporation, with respect to which following such sale or other disposition, [a] more than 60% of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and outstanding Company Voting Securities immediately prior to such sale or other disposition in substantially the same proportion as their ownership, immediately prior to such sale or other disposition, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, [b] less than 20% of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by any Person (excluding any employee benefit plan (or related trust) of the Company or such corporation), except to the extent that such Person owned 20% or more of the Outstanding Company Common Stock or Outstanding Company Voting Securities prior to the sale or disposition, and [c] at least a majority of the members of the board of directors of such corporation were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such sale or other disposition of assets of the Company or were elected, appointed or nominated by the Board.

3. Employment Period. The Company hereby agrees to continue the Executive in its employ, and the Executive hereby agrees to remain in the employ of the Company subject to the terms and conditions of this Agreement, for the period commencing on the Effective Date and ending on the third anniversary of such date (the "Employment Period").

4. Terms of Employment.

(a) Position and Duties.

(i) During the Employment Period, [a] the Executive's position (including status, offices, titles and reporting requirements), authority, duties and responsibilities shall be at least commensurate in all material respects with the most



significant of those held, exercised and assigned at any time during the 120-day period immediately preceding the Effective Date and [b] the Executive's services shall be performed at the location where the Executive was employed immediately preceding the Effective Date or any office or location less than 35 miles from such location.

(ii) During the Employment Period, and excluding any periods of vacation and sick leave to which the Executive is entitled, the Executive agrees to devote reasonable attention and time during normal business hours to the business and affairs of the Company and, to the extent necessary to discharge the responsibilities assigned to the Executive hereunder, to use the Executive's reasonable best efforts to perform faithfully and efficiently such responsibilities. During the Employment Period it shall not be a violation of this Agreement for the Executive to [a] serve on corporate, civic or charitable boards or committees, [b] deliver lectures, fulfill speaking engagements or teach at educational institutions and [c] manage personal investments, so long as such activities do not significantly interfere with the performance of the Executive's responsibilities as an employee of the Company in accordance with this Agreement. It is expressly understood and agreed that to the extent that any such activities have been conducted by the Executive prior to the Effective Date, the continued conduct of such activities (or the conduct of activities similar in nature and scope thereto) subsequent to the Effective Date shall not thereafter be deemed to interfere with the performance of the Executive's responsibilities to the Company.

(b) Compensation.

(i) Base Salary. During the Employment Period, the Executive shall receive an annual base salary ("Annual Base Salary"), which shall be paid at a monthly rate, at least equal to twelve times the highest monthly base salary paid or payable, including any base salary which has been earned but deferred, to the Executive by the Company and its affiliated companies in respect of the 12-month period immediately preceding the month in which the Effective Date occurs. During the Employment Period, the Annual Base Salary shall be reviewed no more than 12 months after the last salary increase awarded to the Executive prior to the Effective Date and thereafter at least annually and shall be first increased no more than 12 months after the last salary increase awarded to the Executive prior to the Effective Date and thereafter at least annually by the higher of (x) the average increase (excluding promotional increases) in base salary awarded to the Executive for each of the three full fiscal years (annualized in the case of any fiscal year consisting of less than twelve full months or during which the Executive was employed for less than twelve months) prior to the Effective Date, and (y) the percentage increase (excluding promotional increases) in base salary generally awarded to peer executives of the Company and its affiliated companies for the year of determination. Any increase in Annual Base Salary shall not serve to limit or reduce any other obligation to the Executive under this Agreement. Annual Base Salary shall not be reduced after any such increase and the term Annual Base Salary as utilized in this Agreement shall refer to Annual Base Salary as so increased. As used in this Agreement, the term "affiliated companies" shall include any company controlled by, controlling or under common control with the Company.

(ii) Annual Bonus. In addition to Annual Base Salary, the Executive shall be awarded, for each fiscal year ending during the Employment Period, an annual bonus (the "Annual Bonus") in cash at least equal to the higher of (x) the average of the three highest bonuses paid or payable, including any bonus or portion thereof which has been earned but deferred, to the Executive by the Company and its affiliated companies in respect of the five fiscal years (or such shorter period during which the Executive has been employed by the Company) immediately preceding the fiscal year in which the Effective Date occurs (annualized for any fiscal year during such period consisting of less than twelve full months or with respect to which the Executive has been employed by the Company for less than twelve full months) and (y) the bonus paid or payable (annualized as described above), including any bonus or portion thereof which has been earned but deferred, to the Executive by the Company and its affiliated companies in respect of the most recently completed fiscal year prior to the Effective Date (such higher amount being referred to as the "Recent Annual Bonus"). Each such Annual Bonus shall be paid no later than the end of the third month of the fiscal year next following the fiscal year for which the Annual Bonus is awarded, unless the Executive shall elect to defer the receipt of such Annual Bonus.

(iii) Incentive, Savings and Retirement Plans. During the Employment Period, the Executive shall be entitled to participate in all incentive, savings and retirement plans, practices, policies and programs applicable generally to other peer executives of the Company and its affiliated companies, but in no event shall such plans, practices, policies and programs provide the Executive with incentive opportunities (measured with respect to both regular and special incentive opportunities, to the extent, if any, that such distinction is applicable), savings opportunities and retirement benefit opportunities, in each case, less favorable, in the aggregate, than the most favorable of those provided by the Company and its affiliated companies for the Executive under such plans, practices, policies and programs as in effect at any time during the 120-day period immediately preceding the Effective Date or if more favorable to the Executive, those provided generally at any time after the Effective Date to other peer executives of the Company and its affiliated companies.

(iv) Welfare Benefit Plans. During the Employment Period, the Executive and/or the Executive's family, as the case may be, shall be eligible for participation in and shall receive all benefits under welfare benefit plans, practices, policies and programs provided by the Company and its affiliated companies (including, without limitation, medical, prescription, dental, disability, salary continuance, employee life, group life, accidental death and travel accident insurance plans and programs) to the extent applicable generally to other peer executives of the Company and its affiliated companies, but in no event shall such plans, practices, policies and programs provide the Executive with benefits which are less favorable, in the aggregate, than the most favorable of such plans, practices, policies and programs in effect for the Executive at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive, those provided generally at any time after the Effective Date to other peer executives of the Company and its affiliated companies.

(v) Expenses. During the Employment Period, the Executive shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by the Executive in accordance with the most favorable policies, practices and procedures of the Company and the affiliated companies in effect for the Executive at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies.

(vi) Fringe Benefits. During the Employment Period, the Executive shall be entitled to fringe benefits, including, without limitation, tax and financial planning services, payment of club dues, and, if applicable, use of automobile and payment of related expenses, in accordance with the most favorable plans, practices, programs and policies of the Company and its affiliated companies in effect for the Executive at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies.

(vii) Office and Support Staff. During the Employment Period, the Executive shall be entitled to an office or offices of a size and with furnishings and other appointments, and to exclusive personal secretarial and other assistance, at least equal to the most favorable of the foregoing provided to the Executive by the Company and its affiliated companies at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive, as provided generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies.

(viii) Vacation. During the Employment Period, the Executive shall be entitled to paid vacation in accordance with the most favorable plans, policies, programs and practices of the Company and its affiliated companies as in effect for the Executive at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies.

#### 5. Termination of Employment.

(a) Death or Disability. The Executive's employment shall terminate automatically upon the Executive's death during the Employment Period. If the Company determines in good faith that the Disability of the Executive has occurred during the Employment Period (pursuant to the definition of Disability set forth below), it may give to the Executive written notice in accordance with Section 12(b) of this Agreement of its intention to terminate the Executive's employment. In such event, the Executive's employment with the Company shall terminate effective on the 30th day after receipt of such notice by the Executive (the "Disability Effective Date"), provided that, within the 30 days after such receipt, the Executive shall not have returned to full-time

performance of the Executive's duties. For purposes of this Agreement, "Disability" shall mean the absence of the Executive from the Executive's duties with the Company on a full-time basis for 180 consecutive business days as a result of incapacity due to mental or physical illness which is determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to the Executive or the Executive's legal representative (such agreement as to acceptability not to be withheld unreasonably).

(b) Cause. The Company may terminate the Executive's employment during the Employment Period for Cause. For the sole and exclusive purposes of this Agreement, "Cause" shall mean:

(i) The willful and continued failure of the Executive to perform substantially the Executive's duties with the Company or one of its affiliates (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to the Executive by the Board or the Chief Executive Officer of the Company which specifically identifies the manner in which the Board or Chief Executive Officer believes that the Executive has not substantially performed the Executive's duties, or

(ii) The willful engaging by the Executive in illegal conduct or gross misconduct which is materially and demonstrably injurious to the Company.

For purposes of this provision, no act or failure to act, on the part of the Executive, shall be considered "willful" unless it is done, or omitted to be done, by the Executive in bad faith or without reasonable belief that the Executive's action or omission was in the best interests of the Company. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board or upon the instructions of the Chief Executive Officer or a senior officer of the Company or based upon the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by the Executive in good faith and in the best interests of the Company. The cessation of employment of the Executive shall not be deemed to be for Cause unless and until there shall have been delivered to the Executive a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Board at a meeting of the Board called and held for such purpose (after reasonable notice is provided to the Executive and the Executive is given an opportunity, together with counsel, to be heard before the Board), finding that, in the good faith opinion of the Board, the Executive is guilty of the conduct described in subparagraph (i) or (ii) above, and specifying the particulars thereof in detail.

(c) Good Reason. The Executive's employment may be terminated by the Executive for Good Reason. For the sole and exclusive purposes of this Agreement, "Good Reason" shall mean:

(i) The assignment to the Executive of any duties inconsistent in any respect with the Executive's position (including status, offices, titles

and reporting requirements), authority, duties or responsibilities as contemplated by Section 4(a) of this Agreement, or any other action by the Company which results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(ii) Any failure by the Company to comply with any of the provisions of Section 4(b) of this Agreement, other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(iii) The Company's requiring the Executive to be based at any office or location other than as provided in Section 4(a)(i)(b) hereof or the Company's requiring the Executive to travel on Company business to a substantially greater extent than required immediately prior to the Effective Date;

(iv) Any purported termination by the Company of the Executive's employment otherwise than as expressly permitted by this Agreement; or

(v) Any failure by the Company to comply with and satisfy Section 11(c) of this Agreement.

For purposes of this Section 5(c), any good faith determination of "Good Reason" made by the Executive shall be conclusive. Anything in this Agreement to the contrary notwithstanding, a termination by the Executive for any reason during the 30-day period immediately following the first anniversary of the Effective Date shall be deemed to be a termination for Good Reason for all purposes of this Agreement.

(d) Notice of Termination. Any termination by the Company for Cause, or by the Executive for Good Reason, shall be communicated by Notice of Termination to the other party hereto given in accordance with Section 12(b) of this Agreement. For purposes of this Agreement, a "Notice of Termination" means a written notice which (i) indicates the specific termination provision in this Agreement relied upon, (ii) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated, and (iii) if the Date of Termination (as defined below) is other than the date of receipt of such notice, specifies the termination date (which date shall be not more than thirty days after the giving of such notice). The failure by the Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Executive or the Company, respectively, hereunder or preclude the Executive or the Company, respectively, from asserting such fact or circumstance in enforcing the Executive's or the Company's rights hereunder.

(e) Date of Termination. “Date of Termination” means (i) if the Executive’s employment is terminated by the Company for Cause, or by the Executive for Good Reason, the date of receipt of the Notice of Termination or any later date specified therein, as the case may be, (ii) if the Executive’s employment is terminated by the Company other than for Cause or Disability, the Date of Termination shall be the date on which the Company notifies the Executive of such termination, and (iii) if the Executive’s employment is terminated by reason of death or Disability, the Date of Termination shall be the date of death of the Executive or the Disability Effective Date, as the case may be.

6. Obligations of the Company upon Termination.

(a) Good Reason; Other Than for Cause, Death or Disability. If, during the Employment Period, the Company shall terminate the Executive’s employment other than for Cause, death or Disability or the Executive shall terminate employment for Good Reason:

(i) The Company shall pay to the Executive in a lump sum in cash within 30 days after the Date of Termination the aggregate of the following amounts:

[a] The sum of [i] the Executive’s Annual Base Salary through the Date of Termination to the extent not theretofore paid, [ii] the product of (x) the higher of [A] the Recent Annual Bonus and [B] the Annual Bonus paid or payable, including any bonus or portion thereof which has been earned but deferred (and annualized for any fiscal year consisting of less than 12 full months or during which the Executive was employed for less than 12 full months), for the most recently completed fiscal year during the Employment Period, if any (such higher amount being referred to as the “Highest Annual Bonus”) and (y) a fraction, the numerator of which is the number of days in the current fiscal year through the Date of Termination, and the denominator of which is 365 and [iii] any compensation previously deferred by the Executive (together with any accrued interest or earnings thereon) and any accrued vacation pay, in each case to the extent not theretofore paid (the sum of the amounts described in clauses [i], [ii] and [iii] shall be hereinafter referred to as the “Accrued Obligations”); and

[b] The amount equal to the product of [i] three and [ii] the sum of (x) the Executive’s Annual Base Salary and (y) the Highest Annual Bonus; and

[c] An amount equal to the difference between [i] the actuarial equivalent of the benefit (utilizing actuarial assumptions no less favorable to the Executive than those in effect under the Retirement Plan (as defined below) immediately prior to the Effective Date, except as specified below with respect to increases in base salary and annual bonus) under the qualified defined benefit retirement plan in which the Executive participates (the “Retirement Plan”) and any excess or supplemental retirement plan in which the Executive participates (together, the “SERP”)

which the Executive would receive if the Executive's employment continued for three years after the Date of Termination assuming for this purpose that all accrued benefits are fully vested, and, assuming that (x) the Executive's base salary increased in each of the three years by the amount required by Section 4(b)(i) (in the case of Section 4-(b)(i)(y) based on increases (excluding promotional increases) in base salary for the most recently completed fiscal year prior to the Date of Termination) had the Executive remained employed, and (y) the Executive's annual bonus (annualized for any fiscal year consisting of less than twelve full months or during which the Executive was employed for less than twelve full months) in each of the three years bears the same proportion to the Executive's base salary in such year or fraction thereof as it did for the last full year prior to the Date of Termination, and [ii] the actuarial equivalent of the Executive's actual benefit (paid or payable), if any, under the Retirement Plan and the SERP as of the Date of Termination;

(ii) For three years after the Executive's Date of Termination, or such longer period as may be provided by the terms of the appropriate plan, program, practice or policy, the Company shall continue benefits to the Executive and/or the Executive's family at least equal to those which would have been provided to them in accordance with the plans, programs, practices and policies described in Section 4(b)(iv) of this Agreement if the Executive's employment had not been terminated in accordance with the most favorable plans, practices, programs or policies of the Company and its affiliated companies applicable generally to other peer executives and their families during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies and their families, provided, however, that if the Executive becomes reemployed with another employer and is eligible to receive medical or other welfare benefits under another employer provided plan, the medical and other welfare benefits described herein shall be secondary to those provided under such other plan during such applicable period of eligibility. For purposes of determining eligibility (but not the time of commencement of benefits) of the Executive for retiree benefits pursuant to such plans, practices, programs and policies, the Executive shall be considered to have remained employed until two and one-half years after the Date of Termination and to have retired on the last day of such period;

(iii) The Company shall, at its sole expense as incurred, provide the Executive with outplacement services the scope and provider of which shall be selected by the Executive in his sole discretion; and

(iv) To the extent not theretofore paid or provided, the Company shall timely pay or provide to the Executive any other amounts or benefits required to be paid or provided or which the Executive is eligible to receive under any plan, program, policy or practice or contract or agreement of the Company and its affiliated companies (such other amounts and benefits shall be hereinafter referred to as the "Other Benefits").

(b) Death. If the Executive's employment is terminated by reason of the Executive's death during the Employment Period, this Agreement shall terminate without further obligations to the Executive's legal representatives under this Agreement, other than for payment of Accrued Obligations and the timely payment or provision of Other Benefits. Accrued Obligations shall be paid to the Executive's estate or beneficiary, as applicable, in a lump sum in cash within 30 days of the Date of Termination. With respect to the provision of Other Benefits, the term Other Benefits as utilized in this Section 6(b) shall include, without limitation, and the Executives estate and/or beneficiaries shall be entitled to receive, benefits at least equal to the most favorable benefits provided by the Company and affiliated companies to the estates and beneficiaries of peer executives of the Company and such affiliated companies under such plans, programs, practices and policies relating to death benefits, if any, as in effect with respect to other peer executives and their beneficiaries at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive's estate and/or the Executive's beneficiaries, as in effect on the date of the Executive's death with respect to other peer executives of the Company and its affiliated companies and their beneficiaries.

(c) Disability. If the Executive's employment is terminated by reason of the Executive's Disability during the Employment Period, this Agreement shall terminate without further obligations to the Executive, other than for payment of Accrued Obligations and the timely payment or provision of Other Benefits. Accrued Obligations shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination. With respect to the provision of Other Benefits, the term Other Benefits as utilized in this Section 6(c) shall include, and the Executive shall be entitled after the Disability Effective Date to receive, disability and other benefits at least equal to the most favorable of those generally provided by the Company and its affiliated companies to disabled executives and/or their families in accordance with such plans, programs, practices and policies relating to disability, if any, as in effect generally with respect to other peer executives and their families at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive and/or the Executive's family, as in effect at any time thereafter generally with respect to other peer executives of the Company and its affiliated companies and their families.

(d) Cause; Other than for Good Reason. If the Executive's employment shall be terminated for Cause during the Employment Period, this Agreement shall terminate without further obligations to the Executive other than the obligation to pay to the Executive (i) his Annual Base Salary through the Date of Termination, (ii) the amount of any compensation previously deferred by the Executive, and (iii) Other Benefits, in each case to the extent theretofore unpaid. If the Executive voluntarily terminates employment during the Employment Period, excluding a termination for Good Reason, this Agreement shall terminate without further obligations to the Executive, other than for Accrued Obligations and the timely payment or provision of Other Benefits. In such case, all Accrued Obligations shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination.



7. Nonexclusivity of Rights. Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any plan, program, policy or practice provided by the Company or any of its affiliated companies and for which the Executive may qualify, nor shall anything herein limit or otherwise affect such rights as the Executive may have under any contract or agreement with the Company or any of its affiliated companies. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan, policy, practice or program of or any contract or agreement with the Company or any of its affiliated companies at or subsequent to the Date of Termination shall be payable in accordance with such plan, policy, practice or program or contract or agreement except as explicitly modified by this Agreement.

8. Full Settlement. The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Executive or others. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement and such amounts shall not be reduced whether or not the Executive obtains other employment. The Company agrees to pay as incurred, to the full extent permitted by law, all legal fees and expenses which the Executive may reasonably incur as a result of any contest (regardless of the outcome thereof) by the Company, the Executive or others of the validity or enforceability of, or liability under, any provision of this Agreement or any guarantee of performance thereof (including as a result of any contest by the Executive about the amount of any payment pursuant to this Agreement), plus in each case interest on any delayed payment at the applicable Federal rate provided for in Section 7872(f)(2)(A) of the Internal Revenue Code of 1986, as amended (the "Code").

9. Certain Additional Payments by the Company.

(a) Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any payment or distribution by the Company to or for the benefit of the Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Section 9) (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties are incurred by the Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by the Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.

(b) Subject to the provisions of Section 9(c), all determinations required to be made under this Section 9, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by Arthur Andersen & Co. or such other certified public accounting firm as may be designated by the Executive (the "Accounting Firm") which shall provide detailed supporting calculations both to the Company and the Executive within 15 business days of the receipt of notice from the Executive that there has been a Payment, or such earlier time as is requested by the Company. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Change of Control, the Executive shall appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment, as determined pursuant to this Section 9, shall be paid by the Company to the Executive within five days of the receipt of the Accounting Firm's determination. If the Accounting Firm determines that no Excise Tax is payable by the Executive, it shall furnish the Executive with a written opinion that failure to report the Excise Tax on the Executive's applicable federal income tax return would not result in the imposition of a negligence or similar penalty. Any determination by the Accounting Firm shall be binding upon the Company and the Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to Section 9(c) and the Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive.

(c) The Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable but no later than ten business days after the Executive is informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. The Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which it gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall:

- (i) Give the Company any information reasonably requested by the Company relating to such claim,
- (ii) Take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including,

without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company,

(iii) Cooperate with the Company in good faith in order effectively to contest such claim, and

(iv) Permit the Company to participate in any proceedings relating to such claim; provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 9(c), the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to the Executive, on an interest-free basis and shall indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 9(c), the Executive becomes entitled to receive any refund with respect to such claim, the Executive shall (subject to the Company's complying with the requirements of Section 9(c)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 9(c), a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

10. Confidential Information. The Executive shall hold in a fiduciary capacity for the benefit of the Company all secret or confidential information, knowledge or data relating to the Company or any of its affiliated companies, and their respective businesses, which shall have been obtained by the Executive during the Executive's employment by the Company or any of its affiliated companies and which shall not be or become public knowledge (other than by acts by the Executive or representatives of the Executive in violation of this Agreement). After termination of the Executive's employment with the Company, the Executive shall not, without the prior written consent of the Company or as may otherwise be required by law or legal process, communicate or divulge any such information, knowledge or data to anyone other than the Company and those designated by it. In no event shall an asserted violation of the provisions of this Section 10 constitute a basis for deferring or withholding any amounts otherwise payable to the Executive under this Agreement.

11. Successors.

(a) This Agreement is personal to the Executive and without the prior written consent of the Company shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

(c) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise.

12. Miscellaneous.

(a) This Agreement shall be governed by and construed in accordance with the laws of the State of Wisconsin, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(b) All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive, to his address appearing on the records of the Company.

If to the Company:

STRATTEC SECURITY CORPORATION  
3333 West Good Hope Road  
Milwaukee, WI 53209  
Attn: Chairman and Chief Executive Officer

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

(c) The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(d) The Company may withhold from any amounts payable under this Agreement such Federal, state, local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(e) The Executive's or the Company's failure to insist upon strict compliance with any provision hereof or any other provision of this Agreement or the failure to assert any right the Executive or the Company may have hereunder, including, without limitation, the right of the Executive to terminate employment for Good Reason pursuant to Section 5(c)(i)-(v) of this Agreement, shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

(f) The Executive and the Company acknowledge that, except as may otherwise be provided under any other written agreement between the Executive and the Company, the employment of the Executive by the Company is "at will" and, prior to the Effective Date, the Executive's employment and this Agreement may be terminated by either the Executive or the Company at any time prior to the Effective Date, in which case the Executive shall have no further rights under this Agreement. From and after the Effective Date this Agreement shall supersede any other agreement between the parties with respect to the subject matter hereof.

IN WITNESS WHEREOF, the Executive has hereunto set the Executive's hand and, pursuant to the authorization from its Board of Directors, the Company has caused these presents to be executed in its name on its behalf, all as of the day and year first above written.

/s/ Richard Messina

Richard Messina

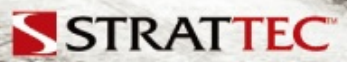
STRATTEC SECURITY CORPORATION

BY /s/ Harold M. Stratton II

Harold M. Stratton, II,  
Chairman of the Board  
and Chief Executive Officer



2009 ANNUAL REPORT

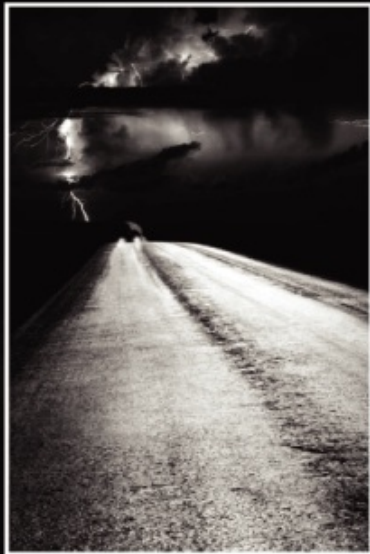


*Surviving the Storm*





## *Surviving the Storm*



The stormy economic climate ushered in by the Great Recession of 2008-2009 has wreaked havoc on the entire auto industry and brought chaos to the normal routines of business. STRATTEC, like most companies tied to the global auto industry, got caught in the storm. But being surrounded by economic uncertainty and unprecedented waves of change has strengthened our resolve to not only survive the storm, but emerge in the calmer days ahead as a stronger company, ready for the future.





## 2009 ANNUAL REPORT



STRATTEC SECURITY CORPORATION designs, develops, manufactures and markets automotive security products including mechanical locks and keys, electronically enhanced locks and keys, steering column and instrument panel ignition lock housings; and access control products including latches, power sliding side door systems, power lift gate systems, power deck lid systems, door handles and related access control products for North American automotive customers. We also supply global automotive manufacturers through the VAST Alliance in which we participate with WITTE Automotive of Velbert, Germany and ADAC Automotive of Grand Rapids, Michigan. Our products are shipped to customer locations in the United States, Canada, Mexico, Europe, South America, Korea and China, and we provide full service and aftermarket support.

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### PROSPECTIVE INFORMATION

A number of the matters and subject areas discussed in this Annual Report (see above "Contents" section) contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements may be identified by the use of forward-looking words or phrases such as "anticipate," "believe," "would," "expect," "intend," "may," "planned," "potential," "should," "will," and "could." These 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 the Letter to the Shareholders, Company's Management's Discussion and Analysis, and other sections of this Annual Report. The discussions of such matters and subject areas are 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, customer demand for the Company's and its customer's products, competitive and technological developments, customer purchasing actions, foreign currency fluctuations, costs of operations and other matters described under "Risk Factors" in the Management's Discussion and Analysis section of this report. In addition, such uncertainties and other operational matters are discussed further in the Company's quarterly and annual report filings with the Securities and Exchange Commission.

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 Annual Report 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 Annual Report.

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## LETTER TO THE SHAREHOLDERS

**AUGUST, 2009**

Fellow Shareholders:

It is with great relief that I can declare the end of what has been the worst year in our history.

The theme of this report's cover alludes to the difficult times with which we have been dealing. In the past 18 months, we have encountered seven out of the eleven major risk categories we have historically discussed in our annual reports, plus some we never expected. During the fiscal year, we were hit with a barrage of bad news over which we had no control. Our focus shifted from profitability to preserving cash. The significant level of uncertainty as to how the economy, and in particular the auto industry, would evolve during this uncertain time was perhaps the most frustrating part of dealing with the negative developments we were seeing on a daily basis. All of this culminated in May and June with the Chapter 11 bankruptcy filings by our two largest customers, Chrysler LLC and General Motors Corporation. That left us with three of our four largest customers in bankruptcy as we ended this fiscal year. It has indeed been a stormy year.

Despite the circumstances surrounding our fiscal 2009, we believe the U.S. auto industry will survive, and will undergo additional changes that will be positive in the long term. Our intent has therefore been to not only survive the short term industry turmoil, but to also be in a position to take advantage of opportunities that may present themselves as a result of significant distress in the automotive supply base. In addition, we continued to pursue identified strategic activities to position the company for the future.

Early in the fiscal year, we moved ahead with our planned construction of a new facility in Juarez, Mexico. This new facility replaced a leased facility and provided additional space for the assimilation of the Power Products business we acquired from Delphi Corporation. The acquisition was completed on November 30, 2008 at which time the U.S. portion of that business became STRATTEC POWER ACCESS LLC. While the transaction occurred at the beginning of a low point in sales for these products, we have been pleased with the new depth of product and expertise this acquisition has brought to STRATTEC. We believe it has significant potential for our business.

The new plant in Juarez and the creation of STRATTEC POWER ACCESS were two major uses of cash during the year. We began the year with \$51.5 million in cash, and ended the year with \$22.8 million. The plant project expenditures were \$6.0 million, while the acquisition and related expenses amounted to \$4.9 million. Other discretionary uses of cash included pension contributions of \$3.0 million, stock repurchases of \$6.2 million, and dividend payments of \$1.5 million.

As the recession deepened and the financial viability of our customers became more of an issue, the uncertainty as to how and when these economic forces would be resolved caused us to be increasingly concerned with preserving cash. During the last nine months of fiscal 2009 we took actions to curtail our spending, and made longer-term cost reductions such as a 10% reduction in our salaried work force, as well as reductions in salaries and 401(k) matching contributions. From an operations standpoint, we made permanent and temporary layoffs to tailor our hourly work force to the lower production volumes we experienced. Our goal was to maintain cash reserves of at least \$20 million, and through the cost reduction and cost avoidance actions we took, we were successful in remaining at the

## LETTER TO THE SHAREHOLDERS

\$22-23 million range of cash on hand for the last four months of the fiscal year.

One of the actions we took to preserve cash was to suspend the payment of dividends. While this was not a desirable outcome for any shareholder, I believe it was the correct and prudent thing to do under the circumstances.

The threat and the reality of Chrysler and GM entering bankruptcy were perhaps our major concerns over the last eight months. We were not as concerned over the short-term financial hit we would take with our receivables as we were for the long term implications these bankruptcies could have on the whole North American auto industry.

I do not have the space to detail here all the implications these events have for our industry. Yet from our perspective the outcomes from the bankruptcies have so far been mainly positive. While in bankruptcy, both Chrysler and GM petitioned the bankruptcy courts to allow them to pay suppliers for pre- and post-filing invoices under normal established terms. The courts allowed this, thereby avoiding payment problems for suppliers. On top of the U.S. Treasury program to guarantee auto supplier receivables, the courts' action removed the financial stress frozen receivables would have inflicted. The U.S. government pledged to back both Chrysler and GM vehicle warranties while the companies were in bankruptcy, thus negating a major consumer concern. Collectively, these actions helped stabilize a truly ugly situation. And most surprising was the rapid exit of both companies from bankruptcy. As I write this letter (end of July), both companies have resumed production and are focusing on demonstrating their agility as "new" forms of their former selves.

While this particular chapter in automotive history is far from over, there has been a welcome relief in that there is more certainty and optimism in the outlook for the industry's future. We believe there is even a hint of an upturn in automotive production, indicating that at last we may have seen the bottom. I don't believe there will be a quick recovery, but a slow recovery is certainly better than what we have experienced over the last nine months.

On balance, I believe we have reacted to the events of the last year with a measured, reasoned approach. We have successfully walked the thin line between reducing costs and decimating our ability to remain a viable supplier. With the actions we have taken we believe we are positioned to once again return to profitability, even at the reduced levels of production anticipated for the domestic auto industry as it regains positive momentum. Our customers value the support we have given them through these tough times, and the relative financial stability we have demonstrated. Operationally and strategically we were able to stay on track, and these things will help us as consumer confidence and spending resume with an improving economy.

I will always be mindful of those people who lost their jobs at STRATTEC as we adjusted to the reality of the recession and the restructuring of the auto industry. For them, surviving the storm took on a deeper, more personal challenge than those of us who remain with the business. My fellow STRATTEC associates and I hope that they are the first to be able to benefit from an improving economy.

Sincerely,



Harold M. Stratton II

Chairman, President and Chief Executive Officer





## FINANCIAL HIGHLIGHTS

(IN MILLIONS)

	2009	2008	2007
Net Sales	\$126.1	\$159.6	\$167.7
Gross Profit	13.2	24.8	26.5
(Loss) Income from Operations	(12.7)	.8	6.3
Net (Loss) Income	(6.1)	2.8	8.2
Total Assets	128.2	144.2	151.4
Total Debt	—	—	—
Shareholders' Equity	71.4	98.0	106.0

### ECONOMIC VALUE ADDED (EVA®)

All U.S. associates and many of our Mexico-based salaried associates participate in incentive plans that are based upon our ability to add economic value to the enterprise. During 2008, our EVA® Plan was modified to include cash and cash equivalents as part of the Company's net capital employed in the business. Because cash and cash equivalents were a significant component of the capital employed in the business in 2008 and 2009 they increased the capital charge, thereby contributing to our negative EVA. The EVA® performance for 2009 was a negative \$13.7 million. We believe that EVA® represents an accurate measure of STRATTEC's overall performance and shareholder value. (For further explanation of our EVA® Plan and the effect negative EVA® has on awards granted under our incentive plans, see our 2009 definitive Proxy Statement.)

Net Operating Loss After Cash-Basis Taxes		\$ (5.2)
Average Monthly Net Capital Employed	\$ 84.8	
Cost of Capital	10%	
Capital Charge		(8.5)
Economic Value Added		<u>\$ (13.7)</u>

EVA® is not a traditional financial measurement under U.S. GAAP and may not be similar to EVA® calculations used by other companies. However, STRATTEC believes the reporting of EVA® provides investors with greater visibility of economic profit. The following is a reconciliation of the relevant GAAP financial measures to the non-GAAP measures used in the calculation of STRATTEC's EVA®.

#### Net Operating Loss After Cash-Basis Taxes:

2009 Net Loss as Reported	\$ (6.1)
Deferred Tax Provision	(3.0)
Other	3.9
Net Operating Profit After Cash-Basis Taxes	<u>\$ (5.2)</u>

#### Average Monthly Net Capital Employed:

Total Shareholders' Equity as Reported at June 28, 2009	\$ 71.4
Long-Term Liabilities	24.8
Deferred Tax Asset	(15.3)
Other	(2.4)
Net Capital Employed at June 28, 2009	<u>\$ 78.5</u>
Impact of 12 Month Average	<u>6.3</u>

Average Monthly Net Capital Employed

\$ 84.8

EVA® is a registered trademark of Stern, Stewart & Co.

## COMPANY DESCRIPTION

### BASIC BUSINESS

STRATTEC SECURITY CORPORATION designs, develops, manufactures and markets automotive security products including mechanical locks and keys, electronically enhanced locks and keys, steering column and instrument panel ignition lock housings; and access control products including latches, power sliding side door systems, power lift gate systems, power deck lid systems, door handles and related access control products for North American automotive customers. We also supply global automotive manufacturers through the VAST Alliance in which we participate with WITTE Automotive of Velbert, Germany and ADAC Automotive of Grand Rapids, Michigan. Our products are shipped to customer locations in the United States, Canada, Mexico, Europe, South America, Korea and China, and we provide full service and aftermarket support.



### HISTORY

STRATTEC formerly was a division of Briggs & Stratton Corporation. In 1995, STRATTEC was spun off from Briggs & Stratton through a tax-free distribution to the then-existing Briggs & Stratton shareholders and has since been an independent public company for fourteen years.

Our history in the automotive security business spans 100 years. STRATTEC has been the world's largest producer of automotive locks and keys since the late 1920s, and we currently maintain a dominant share of the North American markets for these products.

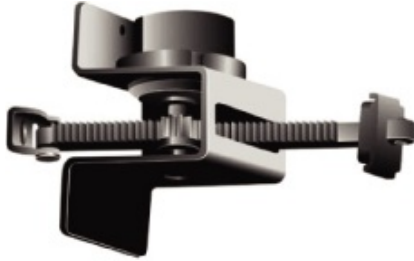


### PRODUCTS

Our traditional products are locks and keys for cars and light trucks. A typical new car uses a set of two to three locks. A typical 3-way lockset contains a steering column/ignition lock, a driver's door lock and a rear compartment (trunk, hatch or liftgate) lock.



Pickup trucks also use two to three locks, while sport utility vehicles and vans use three to five locks. Some vehicles have additional locks for consoles, storage compartments or folding rear seats. Pickup truck tailgate locks and spare tire locks are offered as options. Usually, two keys are provided with each vehicle lockset. Many of the vehicles we currently supply are using keys with sophisticated radio frequency identification technology for theft prevention. However, keys with remote entry devices integrated into a single unit have been added to our product line and are gaining in popularity.



A growing product line for us is ignition lock housings. These housings are the mating part for our ignition locks and typically are part of the steering column structure, although there are instrument panel-mounted versions for certain vehicle applications. These

## COMPANY DESCRIPTION

housings are either zinc, or magnesium die castings or plastic and can include electronic components for theft deterrent systems.

We are also developing business for additional access control products, including trunk latches, liftgate latches, tailgate latches, hood latches, side door latches and related hardware for this product category. With our completed acquisition of Delphi Corporation's Power Products Group in fiscal 2009, we are now supplying power access devices for sliding side doors, liftgates and trunk lids. Through a joint venture formed with ADAC Automotive during fiscal 2007, we also supply door handle components and related vehicle access hardware.

## MARKETS

We are a direct supplier to OEM auto and light truck manufacturers as well as other transportation-related manufacturers. Our largest customers are General Motors Company, Chrysler Group LLC and Ford Motor Company. Our product mix varies by customer, but generally our sales tend to be highest in lock and key products, followed by ignition lock housings, power access products, the door handle and trim products produced by ADAC-STRATTEC de Mexico and latch products.

Direct sales to various OEMs represented approximately 69% of our total sales for fiscal 2009. The remainder of our revenue is received primarily through sales to the OEM service channels, the aftermarket and Tier 1 customers.



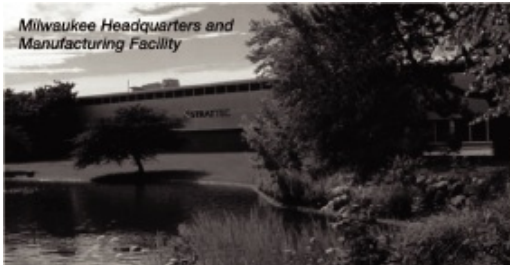
Sales to our major automotive customers, both OEM and Tier 1, are coordinated through direct sales personnel located in our Detroit-area office. Sales are also facilitated through daily interaction between our customer Program Managers and Application Engineers located in Detroit, and other product engineering personnel. Sales to other OEM customers are accomplished through a combination of our own sales personnel located in Detroit and personnel in our Milwaukee headquarters office. STRATTEC's products are supported by an extensive staff of experienced product engineers. This staff, which includes product design, quality and manufacturing engineers, is capable of providing complete design, development and testing of new products for our customers. This staff also is available for customer problem solving, warranty analysis, and other activities that arise during a product's life cycle. Our customers receive after-sales support in the form of special field service kits, service manuals, and specific in-plant production repair programs.



The majority of our OEM products are sold in North America. While a modest amount of exporting is done to automotive assembly plants in Europe, Asia and South America, we are in the process of expanding our

## COMPANY DESCRIPTION

presence in these markets and elsewhere through our Vehicle Access Systems Technology (VAST) Alliance with WITTE-Automotive GmbH and ADAC Automotive. This Alliance is described in more detail on page 9.



OEM service and replacement parts are sold to the OEM's own service operations. In addition, we distribute our components and security products to the automotive aftermarket through approximately 50 authorized wholesale distributors, as well as other marketers and users of component parts, including export customers. Increasingly, our products find their way into the retail channel, specifically the hardware store channel. Our ability to provide a full line of keys to that channel has been accomplished through the introduction of the STRATTEC "XL" key line. This extension to our line includes keys that we currently do not supply on an OE basis, including keys for Toyota, Honda and other popular domestic and import vehicles. This extended line of keys enable automotive repair specialists to satisfy consumer needs for repair or replacement parts. Our aftermarket activities are serviced through a warehousing operation integral to our Milwaukee headquarters and manufacturing facility.



## CUSTOMER FOCUS

To bring the proper focus to the relationships with our major customers, we have seven customer-focused teams, each with a Director of Sales, a Product Business Manager, one or two Engineering Program Managers and Customer Application Engineers. In addition to customer teams for General Motors, Ford and Chrysler, we currently have teams for New Domestic Vehicle Manufacturers, Access Controls (power and manual devices), Driver Control/Ignition Lock Housing customers, Tiered Products, and Service and Aftermarket customers. Sales and engineering for





*The Aston Martin DBS uses an electronic key fob and mating docking station developed by STRATTEC exclusively for Aston Martin.*





## **COMPANY DESCRIPTION**

ADAC-STRATTEC LLC are supported by our JV partner, ADAC Automotive.

Each Sales Director is responsible for the overall relationship between STRATTEC and a specific customer group. Engineering Program Managers report to their respective teams and are responsible for coordinating engineering resources and managing new product programs for their customers.

To serve our customers' product needs, STRATTEC's engineering resources are organized by product type. We currently have four product groups: Locks and Keys, Latches and Power Access Devices, Driver Control/Ignition Lock Housings and Electrical. Each group has an Engineering Manager and a complement of skilled engineers who design and develop products for specific applications. In doing this, each engineering group works closely with the Product Business Managers, team Engineering Program Managers, sales personnel and application engineers.

Underlying this organization is a formalized product development process to identify and meet customer needs in the shortest possible time. By following this streamlined development system, we shorten product lead times, tighten our response to market changes and provide our customers with the optimum value solution to their security/access control requirements. STRATTEC is also ISO/TS 16949 and ISO 14001 certified. This means we embrace the philosophy that quality should exist not only in the finished product, but in every step of our processes as well.

## **OPERATIONS**

A significant number of the components that go into our products are manufactured at our main facility and headquarters in Milwaukee, Wisconsin. This facility produces zinc die cast components, stampings and key blanks. We have two owned production facilities in Juarez, Mexico operating as STRATTEC de Mexico. Plant No. 1 houses assembly operations for locksets and ignition lock housings. Plant No. 2 houses our key finishing operations as well as dedicated space for the assembly operations of STRATTEC POWER ACCESS de Mexico and ADAC-STRATTEC de Mexico.

Plant No. 2 in Juarez is a new facility we built during fiscal 2009 to replace a leased facility. This leased facility had housed STRATTEC Componentes Automotrices, a wholly-owned subsidiary under which our key finishing operations operated. This subsidiary was merged into STRATTEC de Mexico at the end of fiscal 2009.

## **ADVANCED DEVELOPMENT**

Research and development activities are centered around a dedicated research engineering staff we call our Advanced Development Group. This group has the responsibility for developing future products and processes that will keep us in the forefront of the markets we serve. Projects we are pursuing focus on electronic and mechanical access control products, modularization of related access/security control components and new manufacturing processes to reduce costs for ourselves and our customers. Once our Advanced Development Group establishes a proof-of-concept product utilizing new technology, further product development shifts to our engineering groups for commercialization and product applications.

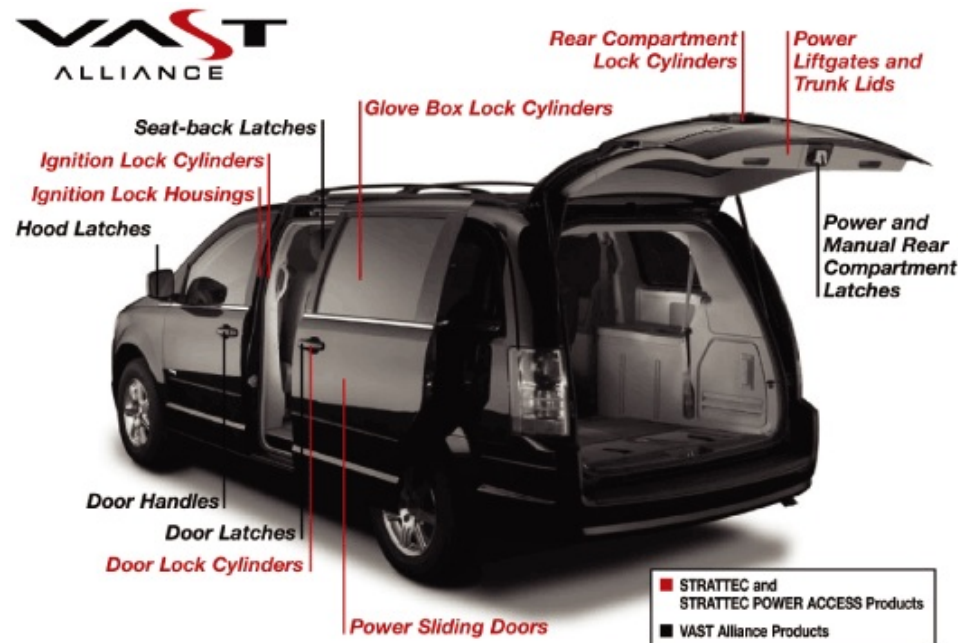
## COMPANY DESCRIPTION

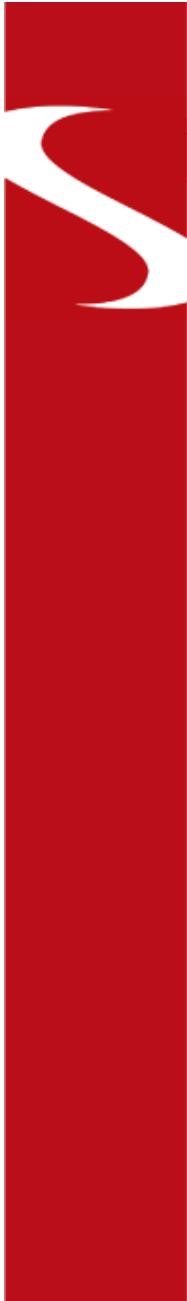
### VAST ALLIANCE

In fiscal 2001, we entered into a formal Alliance with WITTE-Velbert GmbH, an automotive supplier based in Germany which designs, develops, manufactures and markets automotive access control products for European-based customers. This Alliance consisted of two initiatives. The first was a cross licensing agreement which allowed STRATTEC to manufacture and market WITTE's core products in North America, and WITTE to manufacture and market STRATTEC's core products in Europe. The second initiative was a 50-50 joint venture to invest in operations with local partners in strategic markets outside of Europe and North America.

In February of 2006, we announced the expansion of the Alliance and related joint venture with the addition of ADAC Plastics, Inc. ADAC, of Grand Rapids, Michigan adds North American expertise in door handles, a part of WITTE's core product line that STRATTEC did not support, and an expertise in color-matched painting of these components which we believe is unique in the world.

With the expansion of the Alliance, we now have a full range of access control related products available on a global basis to support customer programs. To identify this powerful combination of independent companies focused on working together, we renamed the joint venture Vehicle Access Systems Technology LLC, and the Alliance is now called the VAST Alliance. WITTE is now called WITTE Automotive, and ADAC is now doing business as ADAC Automotive. We have adopted a common graphic image in which we share a logo mark and colors, and a specific logo for the Alliance itself to be used on the partners' printed and electronic presentation materials. Our VAST LLC partners in China and Brazil adopted the name and image change so that VAST now truly has a global brand awareness.





**COMPANY DESCRIPTION**

**ADAC-STRATTEC de MEXICO**

During fiscal 2007, we formed a joint venture with ADAC Automotive called ADAC-STRATTEC LLC including a wholly owned Mexican subsidiary ADAC-STRATTEC de MEXICO (ASdM). The purpose of this joint venture is to produce certain ADAC and STRATTEC products utilizing ADAC's plastic molding expertise and STRATTEC's assembly capability. ASdM currently operates out of defined space in one of STRATTEC's manufacturing facilities located in Juarez, Mexico. Initial products from this joint venture include door handle components and exterior trim components for customers producing in Mexico. Financial results for this JV are consolidated into STRATTEC's financial statements. As a start-up operation, ASdM had a minimal financial impact on STRATTEC's fiscal 2007 through 2009 operating results. However, beginning in our fiscal 2010, we expect there will be growing activity in this joint venture.



***STRATTEC has just introduced the world's first codeable padlock. In a simple one-step process, users can code the padlock to their vehicle key. This provides significant convenience by reducing the number of keys users need to secure their lockers, storage sheds and vehicle accessories such as tool boxes, trailer hitches, etc.***

**STRATTEC POWER ACCESS LLC**

During fiscal year 2009, we formed a new subsidiary with WITTE Automotive called STRATTEC POWER ACCESS LLC (SPA) to acquire the North American business of the Delphi Power Products Group. WITTE is a minority owner. SPA in turn owns a Mexican subsidiary, STRATTEC Power Access de Mexico. The purpose of this subsidiary is to produce power access devices for sliding side doors, liftgates and trunk lids. SPA de Mexico currently operates out of defined space in one of STRATTEC's manufacturing facilities located in Juarez, Mexico. Financial results for SPA are consolidated in

STRATTEC's financial statements. As a new operation effective November 30, 2008, SPA had a negative impact on STRATTEC's fiscal 2009 operating results due to the overall economic slowdown that was experienced throughout the global economy. Beginning with our first full year of operation in fiscal 2010, we expect there will be improved results in this new joint venture.

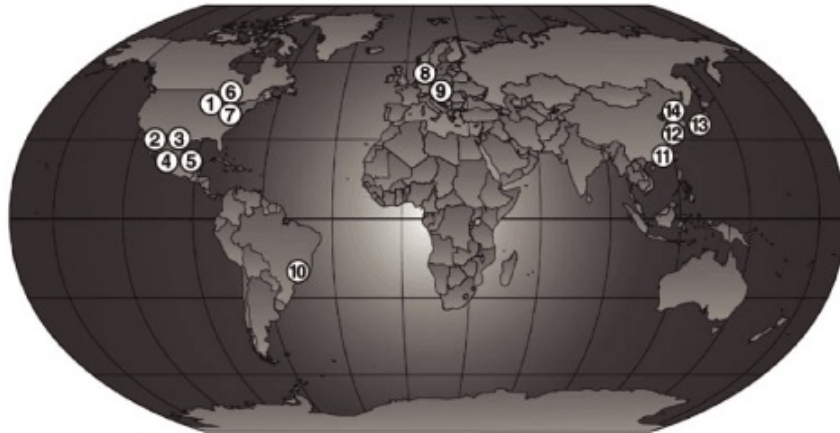
#### **SEASONAL NATURE OF THE BUSINESS**

The manufacturing of components used in automobiles is driven by the normal peaks and valleys associated with the automotive industry. Typically, the months of July and August are relatively slow as summer vacation shutdowns and model year changeovers occur at the automotive assembly plants. Further, September volumes increase rapidly as the new model

## COMPANY DESCRIPTION

year begins. This volume strength continues through October and into early November. As the holiday and winter seasons approach, the demand for automobiles slows as does production. March usually brings a major sales and production increase, which then continues through most of June. This results in our first fiscal quarter (ending in September) sales and operating results typically being our weakest, with the remaining quarters being more consistent. The recession of 2008-2009 abnormally altered this pattern resulting in dramatically reduced production levels throughout the period. We believe the more normal peaks and valleys will return as the economy emerges from the recession.

## GLOBAL PRESENCE



1. STRATTEC — Milwaukee, Wisconsin
2. STRATTEC de Mexico — Juarez, Mexico
3. STRATTEC de Mexico — Key Finishing — Juarez, Mexico
4. ADAC-STRATTEC de Mexico — Juarez, Mexico
5. STRATTEC Power Access de Mexico — Juarez, Mexico
6. ADAC Automotive — Grand Rapids and Muskegan, Michigan
7. ADAC Automotive, STRATTEC and STRATTEC POWER ACCESS  
(Sales/Engineering Offices — Detroit, Michigan)
8. WITTE Automotive — Velbert, Germany
9. WITTE Automotive — Nejdek, Czech Republic
10. VAST do Brasil — Sao Paulo, Brazil
11. VAST Fuzhou — Fuzhou, China
12. VAST Great Shanghai Co. — Shanghai, China
13. VAST Japan — Tokyo, Japan (Branch Office)
14. VAST Korea — Anyang, Korea (Branch Office)

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<sup>1</sup> Members of the VAST Alliance. <sup>2</sup> Units of VAST LLC joint venture.

## ECONOMIC VALUE COMMITMENT

The underlying philosophy of our business, and the means by which we measure our performance, is Economic Value Added (EVA<sup>®</sup>). Simply stated, economic value is created when our business enterprise yields a return greater than the cost of capital we and our shareholders have invested in STRATTEC. The amount by which our return exceeds the cost of our capital is EVA<sup>®</sup>. In line with this philosophy, EVA<sup>®</sup> bonus plans are in effect for all our U.S. associates, outside directors and many of our Mexico-based salaried associates as an incentive to help positively drive the business.

STRATTEC's significant market presence is the result of a 100-year commitment to creating quality products and systems that are responsive to changing needs. As technologies advance and markets grow, STRATTEC retains that commitment to meeting and exceeding the expectations of our customers, and

providing economic value to our shareholders.





## VEHICLE LIST

### 2010 VEHICLES

We are proud to be associated with many of the quality vehicles produced in North America and elsewhere. The following model year 2010 cars and light trucks are equipped with STRATTEC products.

#### CARS AND CAR BASED UTILITY VEHICLES

Aston Martin DBS	Chevrolet Impala	Holden Commodore (Australia only)
Aston Martin DB9	Chevrolet Malibu	Honda Civic
Aston Martin V8 Vantage	Chevrolet Traverse	Hyundai Veracruz
Aston Martin Rapide	Chrysler 300/300C	Jeep Compass
Aston Martin V12 Vantage	Chrysler PT Cruiser	Jeep Patriot
Buick Enclave	Chrysler Sebring	Lincoln MKS
Buick LaCrosse	Dodge Avenger	Lincoln Town Car
Buick Lucerne	Dodge Caliber	Pontiac G5 (2009 model)
Cadillac CTS	Dodge Challenger	Pontiac G6 (2009 model)
Cadillac DTS	Dodge Charger	Pontiac G8 (2009 model)
Cadillac SRX	Dodge Journey	Pontiac Solstice (2009 model)
Cadillac STS	Dodge Viper	Saab 9-4X (late introduction)
Chevrolet Camaro	Ford Crown Victoria	Saturn Aura
Chevrolet Cobalt	Ford Mustang	Saturn Outlook
Chevrolet Equinox	Ford Taurus	Saturn Sky (2009 model)
Chevrolet Corvette	GMC Acadia	
Chevrolet HHR	GMC Terrain	

#### LIGHT TRUCKS, VANS AND SPORT UTILITY VEHICLES

Cadillac Escalade	Ford Expedition	Jeep Commander
Cadillac Escalade ESV	Ford Expedition EL	Jeep Grand Cherokee
Cadillac Escalade EXT	Ford Explorer	Jeep Liberty
Chevrolet Avalanche	Ford Explorer Sport Trac	Jeep Wrangler/Wrangler Unlimited
Chevrolet Express Van	Ford F-Series Pickup	Kia Sedona
Chevrolet Silverado Pickup	Ford F-Series Supercrew	Lincoln Navigator
Chevrolet Suburban	Ford F-Series Super Duty	Lincoln Navigator L
Chevrolet Tahoe	Ford Ranger Pickup	Mazda B-Series Pickup
Chrysler Town & Country	GMC Savana	Mercury Mountaineer
Dodge Grand Caravan	GMC Sierra Pickup	Nissan Titan
Dodge Dakota Pickup	GMC Yukon	Volkswagen Routan
Dodge Nitro	GMC Yukon XL	
Dodge Ram Pickup	Hummer H2	



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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following Discussion and Analysis should be read in conjunction with STRATTEC SECURITY CORPORATION's Financial Statements and Notes thereto. Unless otherwise indicated, all references to years or quarters refer to fiscal years or fiscal quarters.

### **Purchase of Delphi Power Products Business**

Effective November 30, 2008, STRATTEC SECURITY CORPORATION in combination with WITTE Automotive of Velbert, Germany, and Vehicle Access Systems Technology LLC (VAST), a joint venture between STRATTEC, WITTE and ADAC Automotive of Grand Rapids, Michigan, completed the acquisition of certain assets, primarily equipment and inventory, and assumption of certain employee liabilities of Delphi Corporation's global Power Products business for approximately \$7.3 million. For the purposes of owning and operating the North American portion of this acquired business, STRATTEC established a new subsidiary, STRATTEC POWER ACCESS LLC (SPA), which is 80 percent owned by STRATTEC and 20 percent owned by WITTE. The purchase price of the North American portion of the acquired business totaled approximately \$4.4 million, of which STRATTEC paid approximately \$3.5 million. WITTE acquired the European portion of the business for approximately \$2.4 million. Effective February 12, 2009, SPA acquired the Asian portion of the business for approximately \$500,000.

The acquisition of the North American and Asian portions of this business by SPA was not material to STRATTEC's consolidated financial statements. Amortizable intangible assets acquired totaled \$890,000 and are subject to amortization over a period of nine years. In addition, goodwill of approximately \$223,000 was recorded as part of the transaction. The amortizable intangibles and goodwill are included in Other Long-Term Assets in the Consolidated Balance Sheets. All goodwill and other intangible assets resulting from the purchase are expected to be deductible for tax purposes. The purchase accounting was completed as of the end of fiscal 2009.

The operating results of SPA for the period December 1, 2008 through June 28, 2009 are consolidated with the financial results of STRATTEC and resulted in increased net loss to STRATTEC of approximately \$2.1 million during fiscal 2009.

SPA designs, develops, tests, manufactures, markets and sells power systems to operate vehicle sliding side doors and rear compartment access points such as liftgates and trunk lids. In addition, the product line includes power cinching latches and cinching strikers used in these systems. Current customers for these products supplied from North America are Chrysler LLC, Hyundai Motor Company, General Motors and Ford.

## **RESULTS OF OPERATIONS**

### ***Fiscal 2009 Highlights***

During fiscal year 2009, our major customers, Chrysler LLC, General Motors Corporation and Ford Motor Company presented long-term viability plans to the United States Government. These plans focused on reducing North American production capacity, closing facilities, eliminating certain vehicle models and brands and reducing overall structural costs to operate profitably at a 10 million vehicle production build level in North America. The above customers have taken steps to implement these plans over the next few years. The overall expectation is that North American vehicle build schedules will rebound from the historical 27 year low experienced in 2009, but will not reach the previous annual production build levels of 15-16 million vehicles again during the next 5 years.

Our financial results for the year ended June 28, 2009 reflect the overall weakness in the U.S. economy, and in particular the sharp decline in vehicle sales and production during the year. In our quarter ended June 28, 2009, our two largest customers, Chrysler LLC and General Motors Corporation, filed for Chapter 11 bankruptcy protection for their U.S. legal entities. Chrysler's filing occurred on April 30, 2009, and

General Motors filed on June 1, 2009. Within days of its filing, Chrysler took the unusual step of shutting down all of its North American manufacturing facilities during May and June 2009. This development was on top of previously announced General Motors plant shutdowns idling a significant amount of its North American plant capacity for the purpose of reducing its retail inventory of new vehicles. May and June of 2009 were therefore extremely slow sales months for STRATTEC, each nearly 45 percent below our April 2009 sales levels. This slowness extended into July 2009, the first month of our fiscal 2010 year.

We are reacting to the unprecedented decline in the North American auto industry in several ways. During our second, third and fourth fiscal quarters of 2009, we reduced our productive work force at both our Milwaukee, Wisconsin and Juarez, Mexico facilities through a combination of temporary and permanent layoffs. We will continue to adjust our productive workforce in this way until the business improves or stabilizes at a predictable level. Since the beginning of 2009, we have not replaced salaried associates who retired or left through normal attrition, saving nearly \$1 million on an annualized basis. On January 15, 2009, we reduced our U.S. salaried workforce by approximately 10 percent. Effective January 1, 2009, we also froze executive officer salaries at their calendar year 2008 levels, and reduced our 401(k) match for salaried associates. Effective May 15, 2009, we reduced salaries for all salaried associates to the September 1, 2008 levels. We expect these changes will save approximately \$2.5 million on an annual basis. However, these savings were offset during our third fiscal quarter with a charge to earnings of \$350,000 for severance and outplacement costs. Other cost reduction activities aimed at reducing



## MANAGEMENT'S DISCUSSION AND ANALYSIS

general overhead costs are in place and continue to be implemented on an ongoing basis.

In addition, with the November 2008 completion of our new manufacturing facility in Juarez, Mexico we vacated two leased facilities, one in Juarez and one in Matamoros, Mexico. We incurred approximately \$205,000 of relocation costs to vacate the leased facility in Juarez. We anticipate annual savings of approximately \$500,000 related to vacating the Juarez leased facility. The moves from the leased facilities to the new facility were completed during our third fiscal quarter. We did not incur lease termination costs as a result of vacating the leased facilities. The contractual lease term for the facility in Matamoros expired in July 2009. The lease related to this facility was assumed as part of the November 30, 2008 purchase of Delphi Power Products. The building was occupied through February 2009. We continued to make lease payments for the Matamoros facility through the end of the lease term. The lease payments made during the period the building was occupied were recorded as rent expense. A purchase accounting reserve was established as of the purchase date in accordance with our plan to move the operations from the Matamoros facility to the new facility in Juarez. The lease payments made from March 2009 through July 2009 were charged against this reserve. The contractual lease term for the facility in Juarez expired on February 2, 2009. This building was occupied through the end of January 2009. Lease payments for the Juarez facility were made and recorded as rent expense through the end of the lease term.

A large volume ignition lock housing program originally planned for our VAST Fuzhou joint venture plant in China will soon be sourced from our North American operations, providing additional sales and increased production of this product line at both our Milwaukee and Juarez facilities. Production for this program began late in our 2009 fiscal year, and if current forecasts are correct, it should enhance sales by more than \$12 million over the next two year period.

The following is a discussion and analysis of our financial position and results of operations for the periods ended June 28, 2009 and June 29, 2008. As of the fourth quarter of 2009, we changed our method of accounting for inventory from the LIFO method to the FIFO method. Certain prior year amounts have been restated to reflect the LIFO to FIFO inventory costing change. See further discussion of the accounting change in Notes to Financial Statements.

### **2009 Compared to 2008**

Net sales were \$126.1 million in 2009 compared to \$159.6 million in 2008. The sales decreases in the current year were experienced across all of our largest customers. Sales to General Motors Corporation in the current year were \$39.2 million compared to \$45.0 million in the prior year due to lower vehicle production volumes on the vehicles we supply. The impact of the lower volumes was partially offset by the takeover of certain passenger car lockset production from another supplier and \$800,000 of sales generated by SPA primarily relating to products supplied on the Buick minivan produced in China. The prior year sales to General Motors were impacted by production reductions as a direct result of a strike called by the UAW against a major General Motors supplier. Sales to Chrysler LLC were \$31.9 million in the current year compared to \$40.2 million in the prior year. This sales reduction was due to a combination of lower vehicle production volumes and reduced component content in the security products we supply, offset by \$9.8 million of sales generated by SPA relating primarily to the products supplied on the Dodge, Chrysler and Volkswagen minivans. Sales to Ford Motor Company were \$12.6 million in the current year compared to \$19.4 million in the prior year and sales to Delphi Corporation were \$6.3 million in the current year compared to \$14.9 million in the prior year. Included in the current year Ford sales were \$800,000 of sales generated by SPA primarily relating to products supplied on the Lincoln Town Car. The lower sales to Ford and Delphi were primarily due to lower vehicle production volumes. The impact of the above mentioned strike in the prior year reduced sales to General Motors and Delphi Corporation by approximately \$3.5 million in 2008.

Gross profit as a percentage of net sales was 10.5 percent in the current year compared to 15.5 percent in

the prior year. The decrease in the gross profit margin was primarily attributed to our customers' reduced vehicle production volumes, which lowered the absorption of our fixed manufacturing costs. The impact of the reduced production volumes was partially offset by lower purchased material costs for zinc and brass along with a favorable Mexican peso to U.S. dollar exchange rate affecting our operations in Mexico. The current year was also negatively impacted by approximately \$205,000 of relocation costs related to the move from our leased facility in Juarez, Mexico to our new owned manufacturing facility in Juarez, a non-recurring inventory adjustment of \$152,000 and severance costs of \$154,000 relating to a work force reduction in Mexico in January 2009. Construction of our new facility was completed in November 2008, and the move from our leased facility in Juarez to our new facility was completed in February 2009. The non-recurring inventory adjustment related to finished goods inventory that was acquired in the Delphi Power Products business acquisition. The value of the finished goods inventory acquired was adjusted to its selling price less costs to sell, and gross profit was negatively impacted by the inventory that was sold during the year. The 2008 year was also negatively impacted by non-recurring items including a lump sum bonus totaling \$243,000 paid to our Milwaukee represented hourly workers resulting from a new four-year labor contract ratified

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on June 22, 2008 as well as the disposal of a customer specific fixed asset resulting in a fixed asset disposal loss of \$382,000.

The average zinc price paid per pound decreased to \$1.21 in the current year from \$1.53 in the prior year. During the current year, we used approximately 5.3 million pounds of zinc. This resulted in decreased zinc costs of approximately \$1.7 million in the current year compared to the prior year. The average brass price paid per pound decreased to \$3.05 in the current year from \$3.84 in the prior year. During the current year, we used approximately 830,000 pounds of brass. This resulted in decreased brass costs of approximately \$655,000 in the current year compared to the prior year.

The inflation rate in Mexico for the twelve months ended June 28, 2009 was approximately 5.6 percent and increased our operating costs by approximately \$880,000 in the current year over the prior year. The average U.S. dollar/Mexican peso exchange rate increased to approximately 12.75 pesos to the dollar in the current year from approximately 10.75 pesos to the dollar in the prior year. This resulted in decreased costs related to our Mexican operations of approximately \$2.7 million in the current year compared to the prior year.

Engineering, selling and administrative expenses were \$25.5 million in the current year, compared to \$24.0 million in the prior year. The increase was primarily attributed to hiring SPA engineering personnel, contracting with Delphi for temporary transition services related to the acquisition, outside legal costs incurred to defend a STRATTEC patent net of a recovery from a third party and a charge of \$350,000 for severance and outplacement costs relating to a 10 percent reduction in our U.S. salaried work force on January 15, 2009. These added costs were partially offset by the cost savings from the salary work force reduction, reduced 401(k) match for salaried associates implemented in January 2009 and a salary reduction and temporary work furloughs for our U.S. salaried associates, each of which were implemented in May 2009.

The provision for bad debts of \$500,000 in the current year was recorded in connection with Chrysler's filing for Chapter 11 bankruptcy protection for certain of their U.S. legal entities on April 30, 2009. The Chrysler and General Motors bankruptcy filings had little affect on our receivables with Chrysler and General Motors, as both Companies were able to continue making payments to suppliers for parts they had purchased prior to their bankruptcy filings. We increased our reserve for doubtful accounts at the end of our fiscal 2009 third quarter by \$500,000 in anticipation of difficulties collecting on our receivables from Chrysler. While a majority of our pre-bankruptcy receivables from both Chrysler and General Motors have been paid under normal terms, there remain some minor pre-bankruptcy past-due receivable balances still outstanding. We expect these to be resolved or adequately accounted for through the reserve recorded in the third quarter. Subsequently, both Companies emerged from bankruptcy and started to resume production in July.

The loss from operations in the current year was \$12.7 million compared to income from operations of \$805,000 in the prior year. This reduction was the result of the decrease in sales and gross profit margin, the increase in operating expenses and the provision for doubtful accounts as discussed above.

Interest income was \$731,000 in the current year compared to \$2,749,000 in the prior year. The decrease was due to both lower invested cash and cash equivalent balances and investment returns on these assets in the current year compared to the prior year.

Net other income was \$885,000 in the current year compared to \$230,000 in the prior year. The increase was primarily due to favorable gains resulting from foreign currency transactions entered into by our Mexican subsidiaries of \$918,000 in the current year compared to transaction losses of \$320,000 in the prior year. The foreign currency transaction gains were offset by increased losses on the Rabbi Trust which funds our supplemental executive retirement plan totaling \$393,000 in the current year compared to \$174,000 in the prior year. The investments held in the Rabbi Trust are considered trading securities. Also offsetting the foreign currency transaction gains were reduced gains from our joint venture investment in China. Our

portion of the joint venture gain totaled \$245,000 in the current year compared to \$561,000 in the prior year. The reduction was primarily due to lower income generated by this joint venture.

Our effective income tax rate for 2009 was 40.7 percent compared to 25.0 percent in 2008. The 2009 tax benefit was impacted by a higher U.S. effective tax rate applied to pre-tax U.S. losses and a lower Mexican tax rate being applied to pre-tax income in Mexico. The overall U.S. effective tax rate differed from the Federal statutory tax rate primarily due to the effects of state income taxes. The 2008 provision included a favorable tax adjustment primarily related to Mexican tax benefits allowed for our Mexican subsidiaries. The favorable adjustment totaled \$573,000. In addition, reduced 2008 earnings resulted in a larger percentage of our consolidated taxable income being taxed in Mexico, which has a lower effective rate as compared to the U.S. rate. At June 28, 2009, we have deferred tax assets resulting from unused operating losses and unused tax credits that we are allowed to carry-forward to future years. The deferred tax asset relating to these losses and credit carry-forwards total approximately \$3.3 million at June 28, 2009. The loss and credit carry-forwards expire in years 2017 through 2029. We evaluated the need to maintain a valuation allowance against our deferred tax assets. Based on this evaluation, which included a review of recent profitability and projections of future profitability, we concluded that a valuation allowance is not necessary.

#### **2008 Compared to 2007**

Net sales were \$159.6 million in 2008 compared to \$167.7 million in 2007. The lower sales primarily resulted from a 12-week strike against a major supplier to General Motors



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Corporation and a dramatic shift in vehicle demand by consumers. The strike, which occurred over the last four weeks of our fiscal 2008 third quarter and eight weeks of our fourth quarter, affected General Motors' production, resulting in the temporary closure of several vehicle plants we supply. These were normally high-volume production plants. Most of these plants had been producing large pickup trucks and SUVs. During our fiscal 2008 fourth quarter gasoline prices reached and then exceeded \$4.00 per gallon, significantly accelerating a shift in consumer preferences away from large vehicles. The resulting glut of large vehicles at retail outlets caused all of our major customers to re-align their production schedules and mix, emphasizing smaller vehicles. The volume of vehicles produced by our customers during this re-alignment had declined, resulting in lower sales and production. While the effect of the strike was a one-time event, we believe the re-alignment of production to reflect changing consumer preferences is a long-term issue.

Sales to our largest customers overall decreased in 2008 as compared to 2007. Sales to General Motors increased to \$45.0 million in 2008 from \$35.7 million in 2007. The increase was due to higher product content on certain General Motors' vehicles, the takeover of certain passenger car lockset production from another supplier and price adjustments received to partially recover raw material cost increases (these price concessions are described in greater detail below), which we experienced last year. These increases were partially offset by production reductions as a direct result of a strike called by the UAW against a major General Motors supplier and lower vehicle production volumes for trucks and SUVs. Sales to Ford Motor Company were \$19.4 million during 2008 compared to \$21.0 million during 2007 due to lower Ford vehicle production volumes. Sales to Chrysler LLC decreased to \$40.2 million during 2008 from \$58.1 million during 2007 due to a combination of reduced component content in the products we supply and lower vehicle production volumes. Sales to Delphi Corporation were \$14.9 million during 2008 compared to \$18.4 million during 2007. This decrease was primarily due to reduced component content and lower production volumes, somewhat offset by price adjustments received to partially recover raw material cost increases experienced last year. The impact of the above mentioned strike reduced sales to General Motors and Delphi Corporation by approximately \$3.5 million in 2008. Sales of ignition lock housings to other Tier 1 suppliers increased \$4.3 million in 2008 compared to 2007. Sales related to our joint venture with ADAC Automotive totaled \$5.2 million in 2008, which includes \$3.3 million of sales to our largest customers discussed above. This joint venture was not in full operation during all of 2007.

Gross profit as a percentage of net sales was 15.5 percent in 2008 compared to 15.8 percent in 2007. The gross profit margin was favorably impacted by lower purchased raw material costs for zinc, cost reductions resulting from the move of our service product assembly operation from our Milwaukee, Wisconsin facility to our Juarez, Mexico facilities and price increases received from some of our customers to recover the higher purchased raw material costs we experienced in 2007 as discussed above in connection with our net sales. In addition, 2007 included a charge for severance and separation costs related to the service product assembly operation move which reduced our gross profit margin by \$366,000. The move of the service product assembly operation took place in January 2007. The overall increase in the gross profit margin was offset by reductions in our customers' vehicle production volumes during the last six months of 2008 which lowered overhead absorption of our manufacturing costs. In addition, 2008 included a lump sum bonus totaling \$243,000 paid to our Milwaukee represented hourly workers resulting from a new four-year labor contract ratified on June 22, 2008 as well as the disposal of a customer specific fixed asset resulting in a fixed asset disposal loss of \$382,000. The average zinc price paid per pound decreased to \$1.53 in 2008 from \$1.77 in 2007. During 2008, we used approximately 7.7 million pounds of zinc. This resulted in decreased zinc costs of approximately \$1.8 million in 2008 compared to 2007. Given the significant financial impact on us relating to changes in the cost of our primary raw materials, commencing with fiscal 2008, we began quoting quarterly material price adjustments for changes in our raw material costs in our negotiations with our customers. Our success in obtaining these quarterly price adjustments in our customer contracts is dependant on separate negotiations with each customer. It is not a standard practice for our customers to



include such price adjustments in their contracts. We have been successful in obtaining quarterly price adjustments in some of our customer contracts. However, we have not been successful in obtaining the adjustments with all of our customers.

Engineering, selling and administrative expenses were \$24.0 million in 2008 compared to \$20.2 million in 2007. The increased expense was attributed to hiring additional engineers to support new product development and new customer programs that were under launch.

Income from operations decreased to \$805,000 in 2008 from \$6.3 million in 2007. This decrease was primarily the result of reductions in our net sales and increases in our operating expenses as discussed above.

Other income, net, decreased \$485,000 to \$230,000 in 2008. The reduction is primarily due to a loss of \$174,000 related to our Rabbi Trust during 2008 compared to a gain of \$450,000 in 2007. The Rabbi Trust funds our supplemental executive retirement plan. In addition, our equity in earnings from joint ventures increased to \$561,000 during 2008 from \$394,000 during 2007.

Our effective tax rate in both 2008 and 2007 was not our normal effective income tax rate of 37.0 percent. Our effective income tax rate for 2008 was 25.0 percent compared to 23.6 percent in 2007. The 2008 provision included a favorable tax adjustment primarily

## MANAGEMENT'S DISCUSSION AND ANALYSIS

related to Mexican tax benefits allowed for our Mexican subsidiaries. The favorable adjustment totaled \$573,000. In addition, reduced 2008 earnings resulted in a larger percentage of our consolidated taxable income being taxed in Mexico, which has a lower effective rate as compared to the U.S. rate. The 2007 provision included a state refund claim recovery and a favorable tax adjustment primarily related to foreign tax adjustments. The claim recovery, net of the Federal income tax impact, was \$329,000. The favorable tax adjustment totaled \$1.1 million.

## LIQUIDITY AND CAPITAL RESOURCES

Our primary source of cash flow is from our major customers, which include General Motors Corporation, Ford Motor Company and Chrysler LLC. A summary of our outstanding receivable balances from our major customers as of June 28, 2009 is as follows (in thousands of dollars):

	U.S.	Canada	Mexico	Total
General Motors	\$6,814	\$ —	\$215	\$7,029
Ford	\$2,192	\$ 184	\$ —	\$2,376
Chrysler	\$1,599	\$ 543	\$485	\$2,627

As discussed under results of operations, our two largest customers, Chrysler and General Motors, filed for Chapter 11 bankruptcy protection for their U.S. legal entities in our quarter ended June 28, 2009. As a result of the filing, Chrysler shut down all of its North American manufacturing facilities during May and June. General Motors also had plant shutdowns idling a significant amount of its North American plant capacity for the purpose of reducing its retail inventory of new vehicles. These reductions in production will negatively impact our cash flow from operations during the first quarter of fiscal 2010. However, we believe that our existing cash balances along with our Line of Credit, which is discussed below, is adequate to meet our anticipated capital expenditure, working capital and operating expenditure requirements. A provision for doubtful accounts of \$500,000 was recorded in our current year in connection with these bankruptcy filings. The Chrysler and General Motors bankruptcy filings did not significantly impact the collection of pre-bankruptcy receivable balances as both companies were able to continue making payments to suppliers for parts they had purchased prior to their bankruptcy filings. While a majority of our receivables from both Chrysler and General Motors have been paid under normal terms, there remain some minor past-due pre-bankruptcy receivable balances still outstanding. We expect these to be resolved or adequately accounted for through the reserve recorded in our third quarter. Subsequently, both companies emerged from bankruptcy and started to resume production in July.

The Ford Motor Company has been able to avoid a bankruptcy filing to date by restructuring their operations, reducing their work force and by obtaining concessions from both their unionized work force and debt holders. The above actions taken by the Ford Motor Company do not assure that a bankruptcy filing or request for financial assistance from the U.S. Government will not occur in the near future. Any bankruptcy filing or assistance from the U.S. Government could negatively impact the revenues we generate from sales of our products to Ford as well as the resulting cash flow.

Cash flow used in operating activities was \$6.8 million in 2009 compared to cash provided by operating activities of \$3.8 million in 2008. Current year operating cash flow was negatively impacted by our overall financial results and the initial funding of working capital related to the SPA operations. Pension contributions to our qualified plan totaled \$3 million in 2009 and \$5 million in 2008.

On February 26, 2009, our Board of Directors took action to suspend payment of our quarterly dividend to conserve cash. During the first three quarters of fiscal 2009 approximately \$1.5 million of cash dividends were paid to our shareholders.

Our 2008 prepaid pension obligations relate to our qualified pension plan. The 2009 balance related to the qualified plan is a liability of \$14.5 million and is included in Accrued Pension Obligations on the

Consolidated Balance Sheets. The change in the balance during 2009 is the result of the net impact of pension contributions, the actuarially calculated pension expense for each year and the impact of the recognition of the funded status of the plan. The 2009 pre-tax funded status adjustment increased our liability position by \$17.8 million at June 28, 2009. We anticipate pension contributions will be approximately \$4 million in 2010 to fund the underfunded status of our qualified pension plan.

Capital expenditures were \$12.5 million in 2009 compared to \$10.9 million in 2008. Expenditures were primarily in support of requirements for new product programs, the upgrade and replacement of existing equipment and the construction of a new building in Juarez, Mexico to replace a leased facility. We anticipate capital expenditures will be approximately \$5 million in fiscal 2010 in support of requirements for new product programs and the upgrade and replacement of existing equipment.

Our Board of Directors has authorized a stock repurchase program to buy back outstanding shares of our common stock. Shares authorized for repurchase under the program totaled 3,839,395 at June 28, 2009. Over the life of the repurchase program through June 28, 2009, a total of 3,655,322 shares have been repurchased at a cost of approximately \$136.4 million. During fiscal year 2009, 193,989 shares were repurchased at a cost of approximately \$6.2 million. Additional repurchases may occur from time to time and



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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, we anticipate minimal or no stock repurchase activity in fiscal year 2010.

We have a \$50 million short-term, unsecured line of credit ("Line of Credit") with M&I Marshall & Ilsley Bank which expires October 31, 2009. Interest on borrowings under the Line of Credit is at varying rates based on the London Interbank Offering Rate or the bank's prime rate. There were no outstanding borrowings at June 28, 2009 or June 29, 2008. There were no borrowings under any third party debt facilities during 2009, 2008 or 2007. The Line of Credit is not subject to any covenants. We are also in process of negotiating a new Line of Credit and anticipate this facility to be renewed but at a reduced available borrowing amount. We believe the Line of Credit is adequate, along with cash flow from operations, to meet our anticipated capital expenditure, working capital and operating expenditure requirements as we manage our business through these unusually low automotive vehicle production levels.

Over the past several years, we have been impacted by rising health care costs, which have increased our cost of employee medical coverage. A portion of these increases have been offset by plan design changes and employee wellness initiatives. We have also been impacted by increases in the market price of zinc, brass and magnesium and inflation in Mexico, which impacts the U.S. dollar costs of our Mexican operations. We have negotiated raw material price adjustment clauses with certain customers to offset some of the market price fluctuations. We do not hedge against our Mexican peso exposure.

### OFF-BALANCE SHEET ARRANGEMENTS

Contractual obligations are as follows as of June 28, 2009 (thousands of dollars):

Contractual Obligation	Payments Due By Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Operating Leases	\$ 2,784	\$ 645	\$ 1,150	\$ 789	\$ 200
Other Purchase Obligations	9,997	7,941	2,056	—	—
Pension and Postretirement Obligations (a)	7,492	7,492	—	—	—
Total	<u>\$20,273</u>	<u>\$ 16,078</u>	<u>\$ 3,206</u>	<u>\$ 789</u>	<u>\$ 200</u>

(a) As disclosed in our Notes to Financial Statements, estimated cash funding related to our pension and postretirement benefit plans totals \$7.5 million in 2010. Because the timing of funding related to these plans beyond 2010 is uncertain, and is dependent on future movements in interest rates and investment returns, changes in laws and regulations, and other variables, pension and postretirement outflows beyond 2010 have not been included in the table above.

Liabilities recognized for uncertain tax benefits of \$1.2 million are not presented in the table above due to uncertainty as to amounts and timing regarding future payments.

### JOINT VENTURES

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 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 provides 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 the companies' products in areas of the world outside of North America and Europe.

VAST LLC participates in joint ventures in Brazil and China. VAST do Brasil, a joint venture between VAST LLC and Ifer do Brasil Ltda., was formed to service customers in South America. VAST Fuzhou and VAST Great Shanghai, joint ventures between VAST LLC, Fortitude Corporation and a unit of Elitech Technology Co. Ltd. of Taiwan, are the base of operations to service our automotive customers in the Asian market. VAST LLC also maintains branch offices in South Korea and Japan in support of customer sales and engineering requirements.

The VAST investments are accounted for using the equity method of accounting. The activities related to the VAST joint ventures resulted in equity in earnings of joint ventures to STRATTEC of approximately \$245,000 during 2009 and \$561,000 during 2008. During the current year, the VAST partners made capital contributions to VAST totaling approximately \$1.7 million in support of general operating expenses. STRATTEC's portion of the capital contributions totaled \$551,000.

In fiscal year 2007, we entered into a joint venture with ADAC, in which STRATTEC holds a 50.1 percent interest and ADAC holds a 49.9 percent interest. The joint venture was created to establish injection molding and door handle assembly operations in Mexico. ADAC-STRATTEC LLC, a Delaware limited liability company, was formed on October 27, 2006. An additional

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Mexican entity, ADAC-STRATTEC de Mexico, which is wholly owned by ADAC-STRATTEC LLC, was formed on February 21, 2007. ADAC-STRATTEC de Mexico production activities began in July 2007. ADAC-STRATTEC LLC's financial results are consolidated with the financial results of STRATTEC and resulted in no change in net income to STRATTEC in 2009 and increased net income to STRATTEC of \$26,000 in 2008.

As previously noted, effective November 30, 2008, STRATTEC and WITTE established a new subsidiary, STRATTEC POWER ACCESS LLC, which is 80 percent owned by STRATTEC and 20 percent owned by WITTE. STRATTEC POWER ACCESS LLC operates the North American portion of the Power Products business which was acquired from Delphi Corporation.

## **RECENTLY ISSUED ACCOUNTING STANDARDS**

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment to ARB No. 51." SFAS No. 160 establishes accounting and reporting standards that require the ownership interest in subsidiaries held by parties other than the parent be clearly identified and presented in the consolidated balance sheets within equity, but separate from the parent's equity, the amount of consolidated net income attributable to the parent and the noncontrolling interest be clearly identified and presented on the face of the Consolidated Statements of Operations, and changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently. This statement is effective for fiscal years beginning after December 15, 2008 and will be effective for us beginning in fiscal 2010. We do not expect the new standard to have a material impact on our financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations." SFAS No. 141(R) retains the underlying concepts of SFAS No. 141 in that all business combinations are required to be accounted for at fair value under the acquisition method of accounting, but SFAS No. 141(R) changed the method of applying the acquisition method in a number of aspects. SFAS No. 141(R) requires that (1) for all business combinations, the acquirer record all assets and liabilities of the acquired business, including goodwill, generally at their fair values; (2) certain contingent assets and liabilities acquired be recognized at their fair value on the acquisition date; (3) contingent consideration be recognized at its fair value on the acquisition date and, for certain arrangements, changes in fair value will be recognized in earnings when settled; (4) acquisition related transaction and restructuring costs be expensed rather than treated as part of the cost of the acquisition and included in the amount recorded for assets acquired; (5) in step acquisitions, previous equity interests in an acquiree held prior to obtaining control be remeasured to their acquisition date fair values, with any gain or loss recognized in earnings; and (6) when making adjustments to finalize initial accounting, companies revise any previously issued post-acquisition financial information in future financial statements to reflect any adjustments as if they had been recorded on the acquisition date. SFAS No. 141(R) is effective on a prospective basis for all business combinations for which the acquisition date is on or after the beginning of the first annual period subsequent to December 15, 2008, with the exception of the accounting for valuation allowances on deferred taxes and acquired tax contingencies. SFAS No. 141(R) amends SFAS No. 109 such that the adjustments made to valuation allowances on deferred taxes and acquired tax contingencies associated with acquisitions that closed prior to the effective date of this statement should also apply the provisions of SFAS No. 141(R). This standard will be applied to all future business combinations in accordance with the effective dates as early adoption is prohibited.

On December 30, 2008, the FASB issued FASB Staff Position (FSP) FAS 132R-1, "Employers' Disclosures about Postretirement Benefit Plan Assets," which significantly expands the disclosures required by employers for postretirement plan assets. The FSP requires plan sponsors to provide extensive new disclosures about assets in defined benefit postretirement benefit plans as well as any concentrations of associated risks. In addition, the FSP requires new disclosures similar to those in FASB Statement 157, *Fair Value Measurements*, in terms of the three-level fair value hierarchy, including a reconciliation of the

beginning and ending balances of plan assets that fall within Level 3 of the hierarchy. FSP FAS 132R-1 is effective for periods ending after December 15, 2009. The disclosure requirements are annual and do not apply to interim financial statements.

In May 2009, the FASB issued Statement 165, *Subsequent Events*, to incorporate the accounting and disclosure requirements for subsequent events into U.S. generally accepted accounting principles. Statement 165 introduces new terminology, defines a date through which management must evaluate subsequent events, and lists the circumstances under which an entity must recognize and disclose events or transactions occurring after the balance sheet date. We adopted Statement 165 as of June 28, 2009. We evaluated our June 28, 2009 financial statements for subsequent events through August 4, 2009, the date the financial statements were available to be issued. We are not aware of any subsequent events which would require recognition or disclosure in the financial statements.

In June 2009, FASB issued, "Accounting Standards Update No. 2009-1, Topic 105 – Generally Accepted Accounting Principles amendments based on the Statement of Financial Standards No. 168 – the FASB Accounting Standard Codifications and the Hierarchy of Generally Accepted Accounting Principles and Statement of Financial Accounting Standard No. 168, the FASB Accounting Standards Codification and the Hierarchy of Generally



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Accepted Accounting Principles, a replacement of FASB Statement No. 62." The Accounting Standards Update and SFAS No. 168 make the FASB Codification the authoritative source of GAAP. The FASB Codification is effective for interim and annual reporting periods ending after September 15, 2009. We will update GAAP referencing for our September 27, 2009 Form 10-Q. The FASB Codification is not expected to have a material impact on our financial reporting.

### CRITICAL ACCOUNTING POLICIES

We believe the following represents our critical accounting policies:

**Pension and Postretirement Health Benefits**—Pension and postretirement health obligations and costs are developed from actuarial valuations. The determination of the obligation and expense for pension and postretirement health benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in the Notes to Financial Statements and include, among others, the discount rate, expected long-term rate of return on plan assets, retirement age and rates of increase in compensation and health care costs. We evaluate and update all of the assumptions annually on June 30, the measurement date. Refer to Notes to Financial Statements for the impact of the pension and postretirement plans on the financial statements.

We determine the discount rate used to measure plan liabilities using prevailing market rates of a large population of high-quality, non-callable, corporate bonds currently available that, if the obligation was settled at the measurement date, would provide the necessary future cash flows to pay the benefit obligation when due. Using this methodology, we determined a discount rate of 6.86 percent to be appropriate as of June 30, 2009, which is a decrease of .27 percentage points from the rate used at June 30, 2008. The impact of this change decreased our year-end 2009 projected pension benefit obligations by approximately \$2.3 million, the year-end 2009 accumulated pension benefit obligations by approximately \$2.1 million and the year-end 2009 accumulated postretirement obligation by approximately \$164,000. This change is also expected to decrease our 2010 pension expense by \$247,000 and is not expected to have an impact on the postretirement expense.

As of June 30, 2009, we decreased the salary scale from 3.5% to 3%. The impact of this change decreased our year-end 2009 projected pension benefit obligations by approximately \$652,000 and increased our year-end 2009 accumulated pension benefit obligations by approximately \$253,000. This change is also expected to decrease our 2010 pension expense by \$179,000.

As of June 30, 2008, we increased the assumed probability of early retirement for eligible associates with at least 30 years of service. The impact of this change increased our year-end 2008 projected pension benefit obligations by approximately \$2.2 million, the year-end 2008 accumulated pension benefit obligations by approximately \$2.8 million and the year-end 2008 accumulated postretirement obligation by approximately \$470,000. This change also increased our 2009 pension expense by \$370,000 and postretirement expense by \$120,000.

As of June 30, 2007, we converted to the RP 2000 Mortality Table projected to 2014 for annuitants and 2022 for non-annuitants for calculating the year-end 2007 pension and postretirement obligations. The impact of this change increased our year-end 2007 projected pension benefit obligations by \$2.4 million, the year-end 2007 accumulated pension benefit obligations by \$2.1 million and the year-end 2007 accumulated postretirement obligation by \$85,000. This change increased our 2008 pension expense by \$462,000 and postretirement expense by \$10,000.

A significant element in determining the pension expense in accordance with SFAS No. 87 and SFAS No. 158 is the expected return on plan assets. Our assumption for the expected return on plan assets is based on historical results for similar allocations among asset classes and was 8.5 percent for 2008, 8.25 percent for 2009 and was reduced to 8.0 percent for 2010. This reduced the expected return on plan



assets by approximately \$200,000 in both 2009 and 2010. Refer to Notes to Financial Statements for additional information on how this rate was determined.

The difference between the expected return and actual return on plan assets is deferred and, under certain circumstances, amortized over future years of service. Therefore, the deferral of past asset gains and losses ultimately affects future pension expense. This is also the case with changes to actuarial assumptions. As of June 30, 2009, we had \$36.2 million of net unrecognized pension actuarial losses, which includes deferred asset losses of \$19.3 million. As of June 30, 2009, we had unrecognized postretirement actuarial losses of \$10.1 million. These amounts represent potential future pension and post-retirement expenses that would be amortized over average future service periods. The average remaining service period is about 11 years for the pension plans and 13 years for the postretirement plan.

During fiscal years 2009, 2008 and 2007, we contributed \$3 million, \$5 million and \$7 million, respectively, to our qualified pension plan. Future pension contributions are expected to be \$3 to \$4 million annually depending on market conditions. We have evaluated the potential impact of the Pension Protection Act (the "Act"), which was passed into law on August 17, 2006, on future pension plan funding requirements based on current market conditions. The Act has not had and is not anticipated to have in future periods a material effect on our level of future funding requirements or on our liquidity and capital resources.

A significant element in determining the postretirement health expense in accordance with SFAS No. 106 is the health care cost trend rates. We develop these rates based on historical

## MANAGEMENT'S DISCUSSION AND ANALYSIS

cost data, the near-term outlook and an assessment of likely long-term trends. Changes in the health care cost trend rate assumption will have a significant effect on the post-retirement benefit amounts reported. Refer to Notes to Financial Statements for an analysis of the impact of a one percent change in the trend rate.

While we believe that the assumptions used are appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect our pension and postretirement health obligations and future expense.

**Other Reserves** —We have reserves such as an environmental reserve, an incurred but not reported claim reserve for self-insured health plans, a workers' compensation reserve, an allowance for doubtful accounts related to trade accounts receivable and a repair and maintenance supply parts reserve. These reserves require the use of estimates and judgment with regard to risk exposure, ultimate liability and net realizable value.

**Environmental Reserve** — We have a liability recorded related to the estimated costs to remediate a site at our Milwaukee facility, which was contaminated by a solvent spill from a former above ground solvent storage tank occurring in 1985. The recorded environmental liability balance involves judgment and estimates. Our reserve estimate is based on a third party assessment of the costs to adequately cover the cost of active remediation of the contamination at this site. Actual costs might vary from this estimate for a variety of reasons including changes in laws and changes in the assessment of the level of remediation actually required at this site. Therefore, future changes in laws or the assessment of the level of remediation required could result in changes in our estimate of the required liability. Refer to the discussion of Commitments and Contingencies included in the Notes to Financial Statements on page 37 of this 2009 Annual Report.

**Incurred But Not Reported Claim Reserve for Self-Insured Health plans and Workers' Compensation Reserve** — We have self-insured medical and dental plans covering all eligible U.S. associates. We also maintain an insured workers' compensation program covering all U.S. associates. The insurance is renewed annually and may be covered under a loss sensitive plan. Under a loss sensitive plan, the ultimate cost is dependent upon losses incurred during the policy period. The incurred loss amount for loss sensitive policies will continue to change as claims develop and are settled in future periods. The expected ultimate cost of claims incurred under these plans is subject to judgment and estimation. We estimate the ultimate expected cost of claims incurred under these plans based upon the aggregate liability for reported claims and an estimated additional liability for claims incurred but not reported. Our estimate of claims incurred but not reported is based on an analysis of historical data, current trends related to claims and health care costs and information available from the insurance carrier. Actual ultimate costs may vary from estimates due to variations in actual claims experience from past trends and large unexpected claims being filed. Therefore, changes in claims experience and large unexpected claims could result in changes to our estimate of the claims incurred but not reported liabilities. Refer to the discussion of Self Insurance and Loss Sensitive Plans under Organization and Summary of Significant Accounting Policies included in Notes to Financial Statements on page 33 of this 2009 Annual Report.

**Allowance for Doubtful Accounts Related to Trade Accounts Receivable** — Our trade accounts receivable consist primarily of receivables due from Original Equipment Manufacturers in the automotive industry and locksmith distributors relating to our service and aftermarket business. Our evaluation of the collectability of our trade accounts receivable involves judgment and estimates and includes a review of past due items, general economic conditions and the economic climate of the industry as a whole. The estimate of the required reserve involves uncertainty as to future collectability of receivable balances. This uncertainty is magnified by the financial difficulty currently experienced by our customers as discussed under Risk-Factors-Loss of Significant Customers, Vehicle Content, Vehicle Models and Market Share on page 22 of this 2009 Annual Report. Refer to the discussion of Receivables under Organization and Summary of Significant

Accounting Policies included in Notes to Financial Statements on page 30 of this 2009 Annual Report. We increased our allowance for uncollectible trade accounts receivable by \$500,000 during 2009 in connection with Chrysler LLC's filing for Chapter 11 bankruptcy protection for certain of their U.S. legal entities on April 30, 2009. General Motors filed for Chapter 11 bankruptcy for their U.S. legal entities on June 1, 2009. The bankruptcy filings did not significantly impact the collection of pre-bankruptcy receivable balances as both Companies were able to continue to make payments to suppliers for parts they had purchased prior to their bankruptcy filings. While a majority of our receivables from both Chrysler and General Motors have been paid under normal terms, there remain some minor past-due pre- bankruptcy receivable balances still outstanding. We expect these to be resolved or adequately accounted for through the reserve recorded in 2009.

Repair and Maintenance Supply Parts Reserve — We maintain an inventory of repair and maintenance parts in support of operations. The inventory includes critical repair parts for all production equipment as well as general maintenance items. The inventory of critical repair parts is required to avoid disruptions in our customers' just-in-time production schedules due to lack of spare parts when equipment break-downs occur. Depending on maintenance requirements during the life of the equipment, excess quantities of repair parts arise. A repair and maintenance supply parts reserve is maintained to recognize the normal adjustment of inventory for obsolete and slow-moving repair and maintenance supply parts. Our evaluation of the reserve level involves judgment and estimates, which are based on a review of historical



## MANAGEMENT'S DISCUSSION AND ANALYSIS

obsolescence and current inventory levels. Actual obsolescence may differ from estimates due to actual maintenance requirements differing from historical levels. This could result in changes to our estimated required reserve. Refer to the discussion of Repair and Maintenance Supply Parts under Organization and Summary of Significant Accounting Policies included in the Notes to Financial Statements on page 31 of this 2009 Annual Report.

We believe the reserves discussed above are estimated using consistent and appropriate methods. However, changes to the assumptions could materially affect the recorded reserves.

**Stock-Based Compensation** —We account for stock-based compensation in accordance with SFAS No. 123(R), "Share Based Payments." Under the fair value recognition provisions of this statement, share-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the vesting period. Determining the fair value of share-based awards at the grant date requires judgment, including estimating future volatility of our stock, the amount of share-based awards that are expected to be forfeited and the expected term of awards granted. We estimate the fair value of stock options granted using the Black-Scholes option valuation model. We amortize the fair value of all awards on a straight-line basis over the vesting periods. The expected term of awards granted represents the period of time they are expected to be outstanding. We determine the expected term based on historical experience with similar awards, giving consideration to the contractual terms and vesting schedules. We estimate the expected volatility of our common stock at the date of grant based on the historical volatility of our common stock. The volatility factor used in the Black-Scholes option valuation model is based on our historical stock prices over the most recent period commensurate with the estimated expected term of the award. We base the risk-free interest rate used in the Black-Scholes option valuation model on the implied yield currently available on U.S. Treasury zero-coupon issues with a remaining term commensurate with the expected term of the award. We use historical data to estimate pre-vesting option forfeitures. We record stock-based compensation only for those awards that are expected to vest. If actual results differ significantly from these estimates, stock-based compensation expense and our results of operations could be materially impacted.

## RISK FACTORS

We recognize we are subject to the following risk factors based on our operations and the nature of the automotive industry in which we operate:

**Loss of Significant Customers, Vehicle Content, Vehicle Models and Market Share** —Sales to General Motors Company, Ford Motor Company, Chrysler Group LLC and Delphi Corporation represent approximately 75 percent of our annual net sales and, accordingly, these customers account for a significant percentage of our outstanding accounts receivable. The contracts with these customers provide for supplying the customer's requirements for a particular model. The contracts do not specify a specific quantity of parts. The contracts typically cover the life of a model, which averages approximately four to five years. Components for certain customer models may also be "market tested" annually. Therefore, the loss of any one of these customers, the loss of a contract for a specific vehicle model, reduction in vehicle content, early cancellation of a specific vehicle model, technological changes or a significant reduction in demand for certain key models could occur, and if so, could have a material adverse effect on our existing and future revenues and net income.

On April 27, 2009, General Motors announced certain aspects of its Revised Viability Plan including reduced production volumes for calendar year 2009 and the subsequent five years. The announcement indicated that certain vehicle brands, including Pontiac, Saturn, Hummer and Saab, will be discontinued or sold. In addition, subsequent to Chrysler LLC's filing for Chapter 11 bankruptcy protection on April 30, 2009, they implemented temporary plant shutdowns for May and June and announced certain vehicle models planned for discontinuation (Jeep Commander, Dodge Nitro, Dodge Avenger, Dodge Durango, Dodge Dakota, Chrysler Sebring, Chrysler Aspen, etc.). Subsequently certain of these models have been reaffirmed

for continued production over the next two years. We will be evaluating the impact these evolving plans will have on our business as more details become available.

Our major customers also have significant underfunded legacy liabilities related to pension and postretirement health care obligations. The future impact of these items along with a continuing loss in their North American automotive market share to the “New Domestic” automotive manufacturers (primarily the Japanese automotive manufacturers) and/or a significant decline in the overall market demand for new vehicles may ultimately result in severe financial difficulty for these customers, including bankruptcy. If our major customers cannot fund their operations, we may incur significant write-offs of accounts receivable, incur impairment charges or require additional restructuring actions. For example, on October 8, 2005, Delphi Corporation filed for Chapter 11 bankruptcy protection. As a result, we wrote-off \$1.6 million of uncollectible pre-petition Chapter 11 accounts receivable due from Delphi Corporation. This directly reduced our pre-tax net income during fiscal 2006. On April 30, 2009, Chrysler LLC filed for Chapter 11 bankruptcy protection for certain of their U.S. legal entities. As discussed under Critical Accounting Policies — Other Reserves — Allowance for Doubtful Accounts Related to Trade Accounts Receivable herein, during 2009 we recorded a provision for bad debts of \$500,000 related to this filing. This directly reduced our pre-tax net income during 2009.

**Production Slowdowns for Customers** — Our major customers and many of their

## MANAGEMENT'S DISCUSSION AND ANALYSIS

suppliers have been significantly impacted by the slowing economy. Many of our major customers have instituted production cut backs during fiscal 2009. Moreover, certain of our major customers have announced plans to continue these production cut backs into future fiscal years. For example, during April 2009, General Motors Corporation announced assembly plant downtime for the months of May through July in order to reduce excess inventories at their dealer locations. Most of the 190,000 vehicles removed from General Motors' production schedules are those that we supply. Consequently, this downtime reduced our production schedules and affected both our sales and profitability for our fiscal fourth quarter ending June 28, 2009. Additionally, on April 27, 2009, General Motors announced some aspects of its Revised Viability Plan including reduced production volumes for the remainder of calendar 2009 and the subsequent five calendar years. The continuation of these production cut backs could have a material adverse effect on our existing and future revenues and net income.

**Financial Distress of Automotive Supply Base** —Automotive industry conditions have adversely affected STRATTEC and our supply base. Lower production levels for our major customers, increases in certain raw material and energy costs and the global credit market crisis have resulted in severe financial distress among many companies within the automotive supply base. Several automotive suppliers have filed for bankruptcy protection or ceased operations. The continuation of financial distress within the supply base and suppliers' inability to obtain credit from lending institutions may lead to commercial disputes and possible supply chain interruptions. In addition, the adverse industry environment may require us to take measures to ensure uninterrupted production. The continuation or worsening of these industry conditions could have a material adverse effect on our existing and future revenues and net income.

**Cost Reduction** —There is continuing pressure from our major customers to reduce the prices we charge for our products. This requires us to generate cost reductions, including reductions in the cost of components purchased from outside suppliers. If we are unable to generate sufficient production cost savings in the future to offset pre-programmed price reductions, our gross margin and profitability will be adversely affected.

**Cyclical and Seasonality in the Automotive Market** —The automotive market is cyclical and is dependent on consumer spending and to a certain extent on customer sales incentives. Economic factors adversely affecting consumer demand for automobiles and automotive production, such as rising fuel costs, could adversely impact our net sales and net income. We typically experience decreased sales and operating income during the first fiscal quarter of each year due to the impact of scheduled customer plant shut-downs in July and new model changeovers.

**Foreign Operations** —As discussed under "Joint Ventures", we have joint venture investments in Mexico, Brazil and China. These operations are currently not material. However, as these operations expand, their success will depend, in part, on our and our partners' ability to anticipate and effectively manage certain risks inherent in international operations including: enforcing agreements and collecting receivables through certain foreign legal systems, payment cycles of foreign customers, compliance with foreign tax laws, general economic and political conditions in these countries and compliance with foreign laws and regulations.

**Currency Exchange Rate Fluctuations** —We incur a portion of our expenses in Mexican pesos. Exchange rate fluctuations between the U.S. dollar and the Mexican peso could have an adverse effect on our financial results.

**Sources of and Fluctuations in Market Prices of Raw Materials** —Our primary raw materials are high-grade zinc, brass, magnesium, aluminum, steel and plastic resins. These materials are generally available from a number of suppliers, but we have chosen to concentrate our sourcing with one primary vendor for each commodity or purchased component. We believe our sources of raw materials are reliable and adequate for our needs. However, the development of future sourcing issues related to using existing or alternative raw materials and the global availability of these materials as well as significant fluctuations in the

market prices of these materials may have an adverse affect on our financial results if the increased raw material costs cannot be recovered from our customers.

Given the significant financial impact on us relating to changes in the cost of our primary raw materials, commencing with fiscal 2008, we began quoting quarterly material price adjustments for changes in our raw material costs in our negotiations with our customers. Our success in obtaining these quarterly price adjustments in our customer contracts is dependant on separate negotiations with each customer. It is not a standard practice for our customers to include such price adjustments in their contracts. We have been successful in obtaining quarterly price adjustments in some of our customer contracts. However, we have not been successful in obtaining the adjustments with all of our customers.

**Disruptions Due to Work Stoppages and Other Labor Matters** —Our major customers and many of their suppliers have unionized work forces. Work stoppages or slowdowns experienced by our customers or their suppliers could result in slow-downs or closures of assembly plants where our products are included in assembled vehicles. For example, strikes by a critical supplier and the United Auto Workers led to extended shut-



## MANAGEMENT'S DISCUSSION AND ANALYSIS

downs of most of General Motors Corporation's North American assembly plants in February 2008 and 1998. A material work stoppage experienced by one or more of our customers could have an adverse effect on our business and our financial results. In addition, all production associates at our Milwaukee facility are unionized. A sixteen-day strike by these associates in June 2001 resulted in increased costs as all salaried associates worked with additional outside resources to produce the components necessary to meet customer requirements. The current contract with the unionized associates is effective through June 30, 2012. We may encounter further labor disruption after the expiration date of this contract and may also encounter unionization efforts in our other plants or other types of labor conflicts, any of which could have an adverse effect on our business and our financial results.

**Environmental and Safety Regulations**—We are subject to Federal, state, local and foreign laws and other legal requirements related to the generation, storage, transport, treatment and disposal of materials as a result of our manufacturing and assembly operations. These laws include the Resource Conservation and Recovery Act (as amended), the Clean Air Act (as amended) and the Comprehensive Environmental Response, Compensation and Liability Act (as amended). We have an environmental management system that is ISO-14001 certified. We believe that our existing environmental management system is adequate for current and anticipated operations and we have no current plans for substantial capital expenditures in the environmental area. An environmental reserve was established in 1995 for estimated costs to remediate a site at our Milwaukee facility. The site was contaminated by a former above-ground solvent storage tank, located on the east side of the facility. The contamination occurred in 1985. This is being monitored in accordance with Federal, state and local requirements. We do not currently anticipate any material adverse impact on our results of operations, financial condition or competitive position as a result of compliance with Federal, state, local and foreign environmental laws or other legal requirements. However, risk of environmental liability and changes associated with maintaining compliance with environmental laws is inherent in the nature of our business and there is no assurance that material liabilities or changes could not arise.

**Highly Competitive Automotive Supply Industry**—The automotive component supply industry is highly competitive. Some of our competitors are companies, or divisions or subsidiaries of companies, that are larger than STRATTEC and have greater financial and technology capabilities. Our products may not be able to compete successfully with the products of these other companies, which could result in loss of customers and, as a result, decreased sales and profitability. Some of our major customers have also announced that they will be reducing their supply base. This could potentially result in the loss of these customers and consolidation within the supply base. The loss of any of our major customers could have a material adverse effect on our existing and future net sales and net income.

In addition, our competitive position in the North American automotive component supply industry could be adversely affected in the event that we are unsuccessful in making strategic acquisitions, alliances or establishing joint ventures that would enable us to expand globally. We principally compete for new business at the beginning of the development of new models and upon the redesign of existing models by our major customers. New model development generally begins two to five years prior to the marketing of such new models to the public. The failure to obtain new business on new models or to retain or increase business on redesigned existing models could adversely affect our business and financial results. In addition, as a result of relatively long lead times for many of our components, it may be difficult in the short-term for us to obtain new sales to replace any unexpected decline in the sale of existing products. Finally, we may incur significant product development expense in preparing to meet anticipated customer requirements which may not be recovered.

**Program Volume and Pricing Fluctuations**—We incur costs and make capital expenditures for new program awards based upon certain estimates of production volumes over the anticipated program life for certain vehicles. While we attempt to establish the price of our products for variances in production volumes,



if the actual production of certain vehicle models is significantly less than planned, our net sales and net income may be adversely affected. We cannot predict our customers' demands for the products we supply either in the aggregate or for particular reporting periods.

**Investments in Customer Program Specific Assets** —We make investments in machinery and equipment used exclusively to manufacture products for specific customer programs. This machinery and equipment is capitalized and depreciated over the expected useful life of each respective asset. Therefore, the loss of any one of our major customers, the loss of specific vehicle models or the early cancellation of a vehicle model could result in impairment in the value of these assets and may have a material adverse effect on our financial results.

**Financial Industry / Credit Market Risk** —The U.S. capital and credit markets have been experiencing volatility and disruption for over a year. In many cases this has resulted in pressures on borrowers and reduced credit availability from certain issuers without regard to the underlying financial strength of the borrower or issuer. If current levels of financial market disruption and volatility continue or worsen, there can be no assurance that such conditions will not have an effect on the Company's ability to access debt and, in turn, result in a material adverse effect on the Company's business, financial condition and results of operations.

## CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Years Ended		
	June 28, 2009	June 29, 2008	July 1, 2007
<b>NET SALES</b>	\$ 126,097	\$ 159,642	\$ 167,707
Cost of goods sold	<u>112,857</u>	<u>134,875</u>	<u>141,187</u>
<b>GROSS PROFIT</b>	13,240	24,767	26,520
Engineering, selling, and administrative expenses	25,480	23,962	20,189
Provision for doubtful accounts, net	<u>500</u>	<u>—</u>	<u>—</u>
<b>(LOSS) INCOME FROM OPERATIONS</b>	(12,740)	805	6,331
Interest income	731	2,749	3,611
Interest expense	—	—	—
Other income, net	885	230	715
Minority interest	<u>801</u>	<u>(76)</u>	<u>75</u>
<b>(LOSS) INCOME BEFORE PROVISION FOR INCOME TAXES</b>	(10,323)	3,708	10,732
(Benefit) provision for income taxes	<u>(4,201)</u>	<u>927</u>	<u>2,533</u>
<b>NET (LOSS) INCOME</b>	<u>\$ (6,122)</u>	<u>\$ 2,781</u>	<u>\$ 8,199</u>
<b>(LOSS) EARNINGS PER SHARE:</b>			
<b>BASIC</b>	<u>\$ (1.87)</u>	<u>\$ 0.80</u>	<u>\$ 2.31</u>
<b>DILUTED</b>	<u>\$ (1.86)</u>	<u>\$ 0.80</u>	<u>\$ 2.31</u>
<b>AVERAGE SHARES OUTSTANDING:</b>			
<b>BASIC</b>	3,280	3,487	3,552
<b>DILUTED</b>	3,284	3,494	3,555

The years ended June 29, 2008 and July 1, 2007 have been retrospectively adjusted for our change in 2009 from the last-in, first-out method of inventory accounting to the first-in, first-out method. Additional details are available in Notes to Financial Statements.

The accompanying Notes to Financial Statements are an integral part of these Consolidated Statements of Operations.

**CONSOLIDATED BALANCE SHEETS***(IN THOUSANDS, EXCEPT SHARE AMOUNTS AND PER SHARE AMOUNTS)*

	<u>June 28, 2009</u>	<u>June 29, 2008</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 22,764	\$ 51,501
Receivables, less allowance for doubtful accounts of \$750 at June 28, 2009 and \$250 at June 29, 2008	17,235	23,518
Inventories	16,589	14,314
Customer tooling in progress	1,714	3,914
Deferred income taxes	2,124	1,715
Income taxes recoverable	1,181	1,815
Other current assets	<u>10,951</u>	<u>8,997</u>
Total current assets	72,558	105,774
<b>DEFERRED INCOME TAXES</b>	13,143	3,684
<b>INVESTMENT IN JOINT VENTURES</b>	4,483	3,642
<b>PREPAID PENSION OBLIGATIONS</b>	—	758
<b>OTHER LONG-TERM ASSETS</b>	1,069	27
<b>PROPERTY, PLANT AND EQUIPMENT, NET</b>	<u>36,936</u>	<u>30,336</u>
	<u>\$ 128,189</u>	<u>\$ 144,221</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 11,369	\$ 15,974
Accrued liabilities:		
Payroll and benefits	8,232	7,319
Environmental	2,636	2,648
Income taxes	—	—
Other	<u>8,611</u>	<u>6,998</u>
Total current liabilities	30,848	32,939
<b>COMMITMENTS AND CONTINGENCIES — see note on page 37</b>		
<b>BORROWINGS UNDER LINE OF CREDIT</b>	—	—
<b>ACCRUED PENSION OBLIGATIONS</b>	15,183	2,606
<b>ACCRUED POSTRETIREMENT OBLIGATIONS</b>	9,601	9,783
<b>MINORITY INTEREST</b>	1,139	953
<b>SHAREHOLDERS' EQUITY:</b>		
Common stock, authorized 12,000,000 shares, \$.01 par value, issued 6,897,957 shares at June 28, 2009 and 6,887,757 shares at June 29, 2008	69	69
Capital in excess of par value	79,247	78,885
Retained earnings	159,285	166,397
Accumulated other comprehensive loss	(31,094)	(17,495)
Less: Treasury stock at cost (3,635,989 shares at June 28, 2009 and 3,444,548 shares at June 29, 2008)	<u>(136,089)</u>	<u>(129,916)</u>
Total shareholders' equity	<u>71,418</u>	<u>97,940</u>

\$ 128,189      \$ 144,221

The June 29, 2008 and July 1, 2007 balances have been retrospectively adjusted for our change in 2009 from the last-in, first-out method of inventory accounting to the first-in, first-out method. Additional details are available in Notes to Financial Statements.

The accompanying Notes to Financial Statements are an integral part of these Consolidated Balance Sheets.

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Comprehensive Income
<b>BALANCE JULY 2, 2006</b>	<u>\$ 69</u>	<u>\$ 77,175</u>	<u>\$160,723</u>	<u>\$ (2,958)</u>	<u>\$(121,756)</u>	
Net Income	—	—	8,199	—	—	\$ 8,199
Translation adjustments	—	—	—	449	—	449
Minimum pension liability, net of tax of \$14	—	—	—	24	—	24
Comprehensive income						<u>\$ 8,672</u>
Purchase of common stock	—	—	—	—	(5,075)	
Stock-Based Compensation	—	698	—	—	—	
Exercise of stock options and employee stock purchases, including tax benefit of \$69	—	249	—	—	13	
Adjustments to initially adopt SFAS No. 158:						
Prior service costs, net of tax of \$1363	—	—	—	2,224	—	
Net losses, net of tax of \$8,629	—	—	—	(14,080)	—	
<b>BALANCE JULY 1, 2007</b>	<u>\$ 69</u>	<u>\$ 78,122</u>	<u>\$168,922</u>	<u>\$ (14,341)</u>	<u>\$(126,818)</u>	
Net Income	—	—	2,781	—	—	\$ 2,781
Translation adjustments	—	—	—	714	—	714
Pension and postretirement status adjustment, net of tax of \$2,371	—	—	—	(3,868)	—	(3,868)
Comprehensive loss						<u>\$ (373)</u>
Purchase of common stock	—	—	—	—	(3,109)	
Cash dividends declared (\$1.60 per share)	—	—	(5,652)	—	—	
Stock-Based Compensation, including tax benefit on restricted stock dividends of \$13	—	745	—	—	—	
Adoption of FIN 48	—	—	346	—	—	
Employee stock purchases	—	18	—	—	11	
<b>BALANCE JUNE 29, 2008</b>	<u>\$ 69</u>	<u>\$ 78,885</u>	<u>\$166,397</u>	<u>\$ (17,495)</u>	<u>\$(129,916)</u>	
Net loss	—	—	(6,122)	—	—	\$ (6,122)

Translation adjustments	—	—	—	(2,485)	—	(2,485)
Pension and postretirement funded status adjustment, net of tax of \$6,812	—	—	—	(11,114)	—	(11,114)
Comprehensive loss						<u>\$ (19,721)</u>
Purchase of common stock	—	—	—	—	(6,214)	
Cash dividends declared (\$0.30 per share)	—	—	(990)	—	—	
Stock-Based Compensation, including tax benefit on restricted stock dividends of \$5	—	363	—	—	—	
Employee stock purchases	<u>—</u>	<u>(1)</u>	<u>—</u>	<u>—</u>	<u>41</u>	
<b>BALANCE JUNE 28,</b>						
<b>2009</b>	<u>\$ 69</u>	<u>\$ 79,247</u>	<u>\$159,285</u>	<u>\$ (31,094)</u>	<u>\$ (136,089)</u>	

The years ended June 29, 2008 and July 1, 2007 have been retrospectively adjusted for our change in 2009 from the last-in, first-out method of inventory accounting to the first-in, first-out method. Additional details are available in Notes to Financial Statements.

The accompanying Notes to Financial Statements are an integral part of these Consolidated Statements of Shareholders' Equity.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	Years Ended		
	June 28, 2009	June 29, 2008	July 1, 2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net (Loss) Income	\$ (6,122)	\$ 2,781	\$ 8,199
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Minority Interest	(780)	26	(75)
Depreciation and amortization	6,264	6,830	6,988
Foreign Currency Transaction (Gain) Loss	(918)	320	296
Loss on disposition of property, plant and equipment	39	434	58
Deferred income taxes	(2,986)	622	(349)
Tax benefit from options exercised	—	—	23
Stock-based compensation expense	419	741	738
Provision for doubtful accounts	500	—	—
Change in operating assets and liabilities:			
Receivables	5,235	3,465	1,434
Inventories	1,033	(2,319)	2,145
Other assets	(1,966)	(8,413)	(7,277)
Accounts payable and accrued liabilities	(7,326)	163	(1,937)
Other, net	(228)	(832)	(392)
Net cash (used) provided by operating activities	<u>(6,836)</u>	<u>3,818</u>	<u>9,851</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment in joint ventures	(551)	—	(100)
Additions to property, plant and equipment	(12,492)	(10,930)	(5,748)
Purchase of Delphi Power Products	(4,931)	—	—
Proceeds received on sale of property, plant and equipment	8	—	21
Net cash used in investing activities	<u>(17,966)</u>	<u>(10,930)</u>	<u>(5,827)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Purchase of common stock	(6,214)	(3,109)	(5,075)
Exercise of stock options and employee stock purchases	40	29	238
Dividends paid	(1,511)	(5,133)	—
Loan from minority interest	2,175	1,050	—
Contribution from minority interest	986	349	649
Net cash used in financing activities	<u>(4,524)</u>	<u>(6,814)</u>	<u>(4,188)</u>
<b>FOREIGN CURRENCY IMPACT ON CASH</b>	<u>589</u>	<u>(64)</u>	<u>(57)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<u>(28,737)</u>	<u>(13,990)</u>	<u>(221)</u>
<b>CASH AND CASH EQUIVALENTS</b>			
Beginning of year	<u>51,501</u>	<u>65,491</u>	<u>65,712</u>
End of year	<u>\$ 22,764</u>	<u>\$ 51,501</u>	<u>\$ 65,491</u>

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**SUPPLEMENTAL DISCLOSURE OF CASH FLOW  
INFORMATION**

Income taxes (recovered) paid	\$ (1,869)	\$ 3,238	\$ 3,231
Interest paid	—	—	—

The years ended June 29, 2008 and July 1, 2007 have been retrospectively adjusted for our change in 2009 from the last-in, first-out method of inventory accounting to the first-in, first-out method. Additional details are available in Notes to Financial Statements.

The accompanying Notes to Financial Statements are an integral part of these Consolidated Statements of Cash Flows.



## NOTES TO FINANCIAL STATEMENTS

### ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

STRATTEC SECURITY CORPORATION designs, develops, manufactures and markets automotive security products including mechanical locks and keys, electronically enhanced locks and keys, steering column and instrument panel ignition lock housings; and access control products including latches, power sliding side door systems, power lift gate systems, power deck lid systems, door handles and related access control products for North American automotive customers. We also supply global automotive manufacturers through the VAST Alliance in which we participate with WITTE Automotive of Velbert, Germany and ADAC Automotive of Grand Rapids, Michigan. Our products are shipped to customer locations in the United States, Canada, Mexico, Europe, South America, Korea and China, and we provide full service and aftermarket support.

The accompanying 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, Mexico. Equity investments in China and Brazil relating to the VAST LLC for which we exercise significant influence but do not control and are not the primary beneficiary are accounted for using the equity method. STRATTEC has only one reporting segment.

The significant accounting policies followed in the preparation of these financial statements, as summarized in the following paragraphs, are in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

**Purchase of Delphi Power Products Business:** Effective November 30, 2008, STRATTEC SECURITY CORPORATION in combination with WITTE Automotive of Velbert, Germany, and Vehicle Access Systems Technology LLC (VAST), a joint venture between STRATTEC, WITTE and ADAC Automotive of Grand Rapids, Michigan, completed the acquisition of certain assets, primarily equipment and inventory, and assumption of certain employee liabilities of Delphi Corporation's global Power Products business for approximately \$7.3 million. For the purposes of owning and operating the North American portion of this acquired business, STRATTEC established a new subsidiary, STRATTEC POWER ACCESS LLC (SPA), which is 80 percent owned by STRATTEC and 20 percent owned by WITTE. The purchase price of the North American portion of the acquired business totaled approximately \$4.4 million, of which STRATTEC paid approximately \$3.5 million. WITTE acquired the European portion of the business for approximately \$2.4 million. Effective February 12, 2009, SPA acquired the Asian portion of the business for approximately \$500,000.

The acquisition of the North American and Asian portions of this business by SPA was not material to STRATTEC's consolidated financial statements. Amortizable intangible assets acquired totaled \$890,000 and are subject to amortization over a period of nine years. Goodwill of \$223,000 was recorded as part of the transaction. The amortizable intangibles and goodwill are included in Other Long-Term Assets in the Consolidated Balance Sheets. All goodwill and other intangible assets resulting from the purchase are expected to be deductible for tax purposes. The purchase accounting was completed as of the end of fiscal 2009.

The operating results of SPA for the period December 1, 2008 through June 28, 2009 are consolidated with the financial results of STRATTEC and resulted in increased net loss to STRATTEC of approximately \$2.1 million during the year ended June 28, 2009.

SPA designs, develops, tests, manufactures, markets and sells power systems to operate vehicle sliding side doors and rear compartment access points such as liftgates and trunk lids. In addition, the product line includes power cinching latches and cinching strikers used in these systems. Current customers for these

products supplied from North America are Chrysler LLC, Hyundai Motor Company, General Motors and Ford.

**Principles of Consolidation and Presentation:** The accompanying consolidated financial statements include the accounts of STRATTEC SECURITY CORPORATION, its wholly owned Mexican subsidiaries, and its majority owned subsidiaries. Equity investments for which STRATTEC exercises significant influence but does not control and is not the primary beneficiary are accounted for using the equity method. All intercompany transactions and balances have been eliminated.

**Reclassifications:** Certain reclassifications have been made to the 2007 and 2008 financial statements to conform to the 2009 presentation, including the impact of a change in accounting for inventories from the last-in, first-out (LIFO) method to the first-in, first-out method (FIFO). Additional details are included under "Inventories" herein.

**Fiscal Year:** Our fiscal year ends on the Sunday nearest June 30. The years ended June 28, 2009, June 29, 2008 and July 1, 2007 are each comprised of 52 weeks.

**Use of Estimates:** The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses for the periods presented. These estimates and assumptions could also affect the disclosure of contingencies. Actual results and outcomes may differ from management's estimates and assumptions.

**Cash and Cash Equivalents:** Cash and cash equivalents include all short-term investments with an original maturity of three months or less due to the short-term nature of the instruments. Excess cash balances are placed in a money market account at a high quality financial institution and in short-term commercial paper.

**Fair Value of Financial Instruments:** The fair value of our cash and cash equivalents, accounts receivable and accounts payable approximated book value as of June 28, 2009 and June 29, 2008. Fair

## NOTES TO FINANCIAL STATEMENTS

Value is defined under SFAS No. 157 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 for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under SFAS No. 157 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard established a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable. Level 1 — Quoted prices in active markets for identical assets or liabilities. These are typically obtained from real-time quotes for transactions in active exchange markets involving identical assets. Level 2 — Inputs, other than quoted prices included within Level 1, which are observable for the asset or liability, either directly or indirectly. These are typically obtained from readily-available pricing sources for comparable instruments. Level 3 — Unobservable inputs where there is little or no market activity for the asset or liability. These inputs reflect the reporting entity's own assumptions of the data that market participants would use in pricing the asset or liability, based on the best information available in the circumstances. The following table summarizes our financial assets and liabilities measured at fair value on a recurring basis in accordance with SFAS No. 157 as of June 28, 2009 (thousands of dollars):

	Level 1	Level 2	Level 3	Total
Rabbi Trust assets	\$3,534	\$ —	\$ —	\$3,534

The Rabbi Trust assets fund our supplemental executive retirement plan and are included in Other Current Assets in the Consolidated Balance Sheets. Assets held in the trust include U.S. Treasury securities and large, medium and small-cap index funds.

**Receivables:** Receivables consist primarily of trade receivables due from Original Equipment Manufacturers in the automotive industry and locksmith distributors relating to our service and aftermarket business. We evaluate the collectability of receivables based on a number of factors. An allowance for doubtful accounts is recorded for significant past due receivable balances based on a review of the past due items, general economic conditions and the industry as a whole. We increased our allowance for uncollectible trade accounts receivable by \$500,000 as of March 29, 2009 in connection with Chrysler LLC's filing for Chapter 11 bankruptcy protection for certain of their U.S. legal entities on April 30, 2009. Prior to the Chapter 11 bankruptcy filing, we had been accepted into the United States Department of Treasury "Auto Supplier Support Program" relating to our open accounts receivable with Chrysler LLC. Based on information currently available, we believe the increase in our reserve is adequate to cover the potential loss exposure related to our trade accounts receivable from Chrysler LLC as of June 28, 2009. Changes in the allowance for doubtful accounts are as follows (thousands of dollars):

	Balance, Beginning of Year	Provision Charged to Expense	Balances Written Off	Balance, End of Year
Year ended June 28, 2009	\$ 250	\$ 500	\$ —	\$ 750
Year ended June 29, 2008	\$ 250	\$ —	\$ —	\$ 250
Year ended July 1, 2007	\$ 250	\$ —	\$ —	\$ 250

**Inventories:** Inventories are comprised of material, direct labor and manufacturing overhead, and are stated at the lower of cost or market using the first-in, first-out (FIFO) cost method of accounting. Prior to the fourth quarter of 2009, the majority of the inventories were accounted for using the last-in, first-out (LIFO) method of accounting. During the fourth quarter of 2009, we changed the method of accounting for this inventory from the LIFO method to the FIFO method. We believe the FIFO method is a preferable method which better reflects the current cost of inventory on our Consolidated Balance Sheets. After this change, all our inventories will have a consistent inventory costing method. All periods have been retrospectively adjusted on a FIFO basis in accordance with SFAS No. 154. Inventories consist of the following on a FIFO

basis (thousands of dollars):

	June 28, 2009	June 29, 2008
Finished products	\$ 3,812	\$ 2,521
Work in process	3,432	4,379
Purchased materials	<u>9,345</u>	<u>7,414</u>
	<u>\$ 16,589</u>	<u>\$ 14,314</u>

Historically, the majority of the inventories were determined using the LIFO method of accounting. During the fourth quarter of 2009, we determined the FIFO method to be a preferable method which better reflects the current cost of inventory on our Consolidated Balance Sheets. Therefore, in the fourth quarter of 2009, the accounting policy was changed to record all inventories using the FIFO method of accounting. For comparative purposes, all periods presented have been retrospectively adjusted on a FIFO basis in accordance with SFAS No. 154, resulting in an approximate \$2.2 million increase in retained earnings as of July 3, 2006. The following table summarizes the effect of the accounting change on our consolidated financial statements for 2008 and 2007 (thousands of dollars):

## NOTES TO FINANCIAL STATEMENTS

	2008		2007	
	Originally Reported	As Computed Under FIFO	Originally Reported	As Computed Under FIFO
<b>Consolidated Statements of Operations:</b>				
Cost of goods sold	\$134,091	\$ 134,875	\$141,213	\$ 141,187
Provision for income taxes	1,225	927	2,523	2,533
Net income	3,267	2,781	8,183	8,199
Basic earnings per share	0.94	0.80	2.30	2.31
Diluted earnings per share	0.94	0.80	2.30	2.31
<b>Consolidated Balance Sheets</b>				
Inventories	10,269	14,314	7,166	11,995
Deferred income taxes — current	3,252	1,715	2,729	894
Retained earnings	163,889	166,397	165,928	168,922
<b>Consolidated Statements of Cash Flows</b>				
Deferred income taxes	920	622	(359)	(349)
Change in inventories	(3,103)	(2,319)	2,171	2,145

The following table summarizes the effect of the accounting change on our condensed consolidated financials statements for the following quarterly periods of 2009:

	September 28, 2008		December 28, 2008		March 29, 2009	
	Originally Reported	As Computed Under FIFO	Originally Reported	As Computed Under FIFO	Originally Reported	As Computed Under FIFO
<b>Consolidated Statements of Operations:</b>						
Cost of goods sold	\$ 29,289	\$ 29,307	\$ 30,919	\$ 30,888	\$ 27,295	\$ 27,285
Net income (loss)	38	20	(1,233)	(1,202)	(2,832)	(2,822)
Basic earnings (loss) per share	0.01	0.01	(0.38)	(0.37)	(0.87)	(0.87)
Diluted earnings per share	0.01	0.01	(0.38)	(0.37)	(0.87)	(0.87)
<b>Consolidated Balance Sheets</b>						
Inventories	10,625	14,652	14,793	18,851	11,513	15,581
Other current assets	19,123	17,586	19,313	17,776	18,870	17,333
Retained earnings	163,430	165,920	161,703	164,224	158,872	161,403

If we had not changed our method of inventory accounting from LIFO to FIFO, cost of sales for the year ended June 28, 2009 would have been \$168,000 lower than reported in the Consolidated Statement of Operations, the tax benefit would have been \$57,000 lower. On a per share basis, basic loss per share would have been lower by \$0.03 and diluted loss per share would have been lower by \$0.03.

**Customer Tooling in Progress:** We incur costs related to tooling used in component production and

assembly. Costs for development of certain tooling, which will be directly reimbursed by the customer whose parts are produced from the tool, are accumulated on the balance sheet and are then billed to the customer. The accumulated costs are billed upon formal acceptance by the customer of products produced with the individual tool. Other tooling costs are not directly reimbursed by the customer. These costs are capitalized and amortized over the life of the related product based on the fact that the related tool will be used over the life of the supply arrangement.

**Repair and Maintenance Supply Parts:** We maintain an inventory of repair and maintenance supply parts in support of operations. This inventory includes critical repair parts for all production equipment as well as general maintenance items. The inventory of critical repair parts is required to avoid disruptions in our customers' just-in-time production schedules due to a lack of spare parts when equipment break-downs occur. All required critical repair parts are on hand when the related production equipment is placed in service and maintained to satisfy the customer model life production and service requirements, which may be 12 to 15 years. As repair parts are used, additional repair parts are purchased to maintain a minimum level of spare parts inventory. Depending on maintenance requirements during the life of the equipment, excess quantities of repair parts arise. Excess quantities are kept on hand and are not disposed of until the equipment is no longer in service. A repair and maintenance supply parts reserve is maintained to recognize the normal adjustment of inventory for obsolete and slow moving supply and maintenance parts. The adequacy of the reserve is reviewed periodically in relation to the repair parts inventory balances. The gross balance of the repair and maintenance supply parts inventory was approximately \$1.9 million at both June 28, 2009 and June 29, 2008, and \$1.8 million at July 1, 2007. The repair and maintenance supply parts inventory balance is included in Other Current Assets in the Consolidated Balance Sheets. The activity related to the repair and maintenance supply parts reserve is as follows (thousands of dollars):

## NOTES TO FINANCIAL STATEMENTS

	Balance, Beginning of Year	Provision Charged to Expense	Amounts Written Off	Balance, End of Year
Year ended June 28, 2009	\$ 650	\$ 80	\$ 100	\$ 630
Year ended June 29, 2008	\$ 640	\$ 145	\$ 135	\$ 650
Year ended July 1, 2007	\$ 650	\$ 32	\$ 42	\$ 640

**Property, Plant and Equipment:** Property, plant and equipment are stated at cost. Plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets as follows:

Classification	Expected Useful Lives
Land improvements	20 years
Buildings and improvements	20 to 35 years
Machinery and equipment	3 to 10 years

Property, plant and equipment consist of the following (thousands of dollars):

	June 28, 2009	June 29, 2008
Land and improvements	\$ 2,841	\$ 3,349
Buildings and improvements	17,862	12,913
Machinery and equipment	110,799	103,183
	131,502	119,445
Less: accumulated depreciation	(94,566)	(89,109)
	<u>\$ 36,936</u>	<u>\$ 30,336</u>

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment recognized is measured by the excess of the carrying amount of the assets over the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less estimated costs to sell. In 2008, a loss was recognized for a customer program specific fixed asset in the amount of \$382,000.

Expenditures for repairs and maintenance are charged to expense as incurred. Expenditures for major renewals and betterments, which significantly extend the useful lives of existing plant and equipment, are capitalized and depreciated. Upon retirement or disposition of plant and equipment, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income.

**Supplier Concentrations:** Approximately 24 percent of all inventory purchases were made from four major suppliers during 2009. Approximately 25 percent and 31 percent of all inventory purchases were made from three major suppliers during 2008 and 2007, respectively. We have long-term contracts or arrangements with most of our suppliers to guarantee the availability of merchandise.

**Labor Concentrations:** We had approximately 1,655 full-time employees of which approximately 210 or 12.7 percent were represented by a labor union at June 28, 2009. The employees represented by a labor union account for all production associates at our Milwaukee facility. The current contract with the unionized associates is effective through June 30, 2012.

**Revenue Recognition:** Revenue is recognized upon the shipment of products, which is when title passes, payment terms are final, we have no remaining obligations and the customer is required to pay. Revenue is recognized net of estimated returns and discounts, which is recognized as a deduction from revenue at the time of the shipment.

**Research and Development Costs:** Expenditures relating to the development of new products and processes, including significant improvements and refinements to existing products, are expensed as incurred. Research and development expenditures were approximately \$1.9 million in 2009, \$1.9 million in 2008, and \$2.2 million in 2007.

**Other Income, Net:** Net other income included in the Consolidated Statements of Operations primarily includes foreign currency transaction gains and losses, equity in earnings from our VAST LLC joint ventures and Rabbi Trust gains and losses. Foreign currency transaction gains are the result of foreign currency transactions entered into by our Mexican subsidiaries and foreign currency cash balances. The Rabbi Trust funds our supplemental executive retirement plan. The investments held in the trust are considered trading securities. The impact of these items for the periods presented is as follows (thousands of dollars):



## NOTES TO FINANCIAL STATEMENTS

	Years Ended		
	June 28, 2009	June 29, 2008	July 1, 2007
Foreign currency transaction gain (loss)	\$ 918	\$ (320)	\$ (296)
Equity in earnings from joint venture	245	561	394
Rabbi Trust (loss) gain	(393)	(174)	450
	<u>\$ 770</u>	<u>\$ 67</u>	<u>\$ 548</u>

**Self Insurance and Loss Sensitive Plans:** We have self-insured medical and dental plans covering all eligible U.S. associates. The claims handling process for the self-insured plans are managed by a third party administrator. Stop-loss insurance coverage limits our liability on a per individual per calendar year basis. The per individual per calendar year stop-loss limit was \$150,000 in each calendar year 2007 through 2009. Each covered individual can receive up to \$2 million in total benefits during his or her lifetime. Once an individual's medical claims reach \$2 million, we are no longer liable for any additional claims for that individual.

We maintain an insured workers' compensation program covering all U.S. associates. The insurance is renewed annually, with a renewal date of February 27. The policy may be a guaranteed cost policy or a loss sensitive policy. Under a guaranteed cost policy, the ultimate cost is known at the beginning of the policy period and is subject to change only as a result of changes in payrolls. Under a loss sensitive policy, the ultimate cost is dependent upon losses incurred during each policy period. The incurred loss amount for loss sensitive policies will continue to change as claims develop and are settled in future reporting periods.

The expected ultimate cost for claims incurred under the self-insured medical and dental plans and loss sensitive workers' compensation plan as of the balance sheet date is not discounted and is recognized as an expense. The expected ultimate cost of claims is estimated based upon the aggregate liability for reported claims and an estimated liability for claims incurred but not reported, which is based on analysis of historical data, current trends and information available from the insurance carrier. The expected ultimate cost for claims incurred under the self-insured medical and dental plans that has not been paid as of the balance sheet date is included in the accrued payroll and benefits liabilities amount in our Consolidated Balance Sheets. The schedule of premium payments due under the workers compensation plan requires a larger percentage of the estimated premium dollars to be paid during the beginning of the policy period. The excess of the premium payments over the expected ultimate cost for claims incurred as of the balance sheet date is included in other current assets in our Consolidated Balance Sheets.

Changes in the balance sheet amounts for self-insured and loss sensitive plans are as follows (thousands of dollars):

	Balance, Beginning of Year	Provision Charged to Expense	Payments	Balance, End of Year
<b>Year ended June 28, 2009</b>				
Incurring but not reported claims reserve for self-insured plans	\$ 300	\$ 2,468	\$ 2,468	\$ 300
Workers' Compensation	(140)	208	146	(78)
<b>Year ended June 29, 2008</b>				
Incurring but not reported claims reserve for self-insured plans	\$ 300	\$ 2,408	\$ 2,408	\$ 300
Workers' Compensation	(251)	254	143	(140)
<b>Year ended July 1, 2007</b>				
Incurring but not reported claims reserve for self-insured plans	\$ 400	\$ 2,250	\$ 2,350	\$ 300

Workers' Compensation	(185)	331	397	(251)
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**Product Warranty:** We provide a specific accrual for known product issues. Historical activity for product issues has not been significant.



## NOTES TO FINANCIAL STATEMENTS

**Foreign Currency Translation:** The financial statements of our foreign subsidiaries and equity investees are translated into U.S. dollars using the exchange rate at each balance sheet date for assets and liabilities and the average exchange rate for each applicable period for sales, costs and expenses. Foreign currency translation adjustments are included as a component of other accumulated comprehensive loss. Foreign currency transaction gains and losses are included in other income, net in the Consolidated Statements of Operations.

**Accumulated Other Comprehensive Loss:** Accumulated other comprehensive loss is comprised of the following (thousands of dollars):

	June 28, 2009	June 29, 2008	July 1, 2007
Unrecognized pension and postretirement benefit liabilities, net of tax	\$ 26,876	\$ 15,762	\$ 11,894
Foreign currency translation	4,218	1,733	2,447
	<u>\$ 31,094</u>	<u>\$ 17,495</u>	<u>\$ 14,341</u>

Deferred taxes have not been provided for the foreign currency translation adjustments in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes."

**Accounting For 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. The Board of Directors has designated 1,700,000 shares of common stock available for the grant of awards under the plan. Remaining shares available to be granted under the plan as of June 28, 2009 were 332,003. Awards that expire or are cancelled 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 and specified employees under the 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 5 to 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. 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. Restricted shares granted have voting and dividend rights. The restricted stock granted vests 3 years after the date of grant.

The fair value of each stock option grant was estimated as of the date of grant using the Black-Scholes pricing model. 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. The expected term of awards granted is determined based on historical experience with similar awards, giving consideration to the expected term and vesting schedules. The expected volatility is determined based on our historical stock prices over the most recent period commensurate with the expected term of the award. The risk-free interest rate is based on U.S. Treasury zero-coupon issues with a remaining term commensurate with the expected term of the award. Expected pre-vesting option forfeitures are based primarily on historical data. 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 is amortized on a straight line basis over the vesting period. We record stock based compensation only for those awards that are expected to vest.

As of June 28, 2009, there was \$317,000 of total unrecognized compensation cost related to stock options granted under the plan. This cost is expected to be recognized over a weighted average period of 1.8 years. As of June 28, 2009, there was \$379,000 of total unrecognized compensation cost related to restricted stock grants under the plan. This cost is expected to be recognized over a weighted average period of 10 months.

Total unrecognized compensation cost will be adjusted for any future changes in estimated and actual forfeitures.

No stock options were exercised during fiscal 2009.

The intrinsic value of stock options exercised and the fair value of stock options vested are as follows (in thousands of dollars):

	Years Ended		
	June 28, 2009	June 29, 2008	July 1, 2007
Intrinsic value of options exercised	\$ 0	\$ 0	\$ 186
Fair value of stock options vesting	\$ 469	\$ 273	\$ 762

Nonqualified stock options were granted to certain of our key employees during 2009. No options were granted during 2008 or 2007. The grant date fair values and assumptions used to determine compensation expense in 2009 are as follows:

## NOTES TO FINANCIAL STATEMENTS

2009

Options Granted During	
Weighted average grant date fair value:	
Options issued at grant date market value	\$3.80
Options issued above grant date market value	n/a
<b>Assumptions:</b>	
Risk free interest rates	2.22%
Expected volatility	32.96%
Dividends	1.67%
Expected term (in years)	5.5

The range of options outstanding as of June 28, 2009, is as follows:

	Number of Options Outstanding/Exercisable	Weighted Average Exercise Price Outstanding/Exercisable	Weighted Average Remaining Contractual Life Outstanding (In Years)
\$10.92-\$18.00	96,800/-	\$11.80/-	9.6
\$31.95-\$44.99	5,100/5,100	\$39.27/\$39.27	2.7
\$53.07-\$56.08	54,500/54,500	\$53.90/\$53.90	4.4
Over \$61.21	70,840/70,840	\$61.72/\$61.72	2.9
		\$38.08/\$57.58	

**Recent Accounting Pronouncements:** In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations." SFAS No. 141(R) retains the underlying concepts of SFAS No. 141 in that all business combinations are required to be accounted for at fair value under the acquisition method of accounting, but SFAS No. 141(R) changed the method of applying the acquisition method in a number of aspects. SFAS No. 141(R) requires that (1) for all business combinations, the acquirer record all assets and liabilities of the acquired business, including goodwill, generally at their fair values; (2) certain contingent assets and liabilities acquired be recognized at their fair value on the acquisition date; (3) contingent consideration be recognized at its fair value on the acquisition date and, for certain arrangements, changes in fair value will be recognized in earnings when settled; (4) acquisition related transaction and restructuring costs be expensed rather than treated as part of the cost of the acquisition and included in the amount recorded for assets acquired; (5) in step acquisitions, previous equity interests in an acquiree held prior to obtaining control be remeasured to their acquisition date fair values, with any gain or loss recognized in earnings; and (6) when making adjustments to finalize initial accounting, companies revise any previously issued post-acquisition financial information in future financial statements to reflect any adjustments as if they had been recorded on the acquisition date. SFAS No. 141(R) is effective on a prospective basis for all business combinations for which the acquisition date is on or after the beginning of the first annual period subsequent to December 15, 2008, with the exception of the accounting for valuation allowances on deferred taxes and acquired tax contingencies. SFAS No. 141(R) amends SFAS No. 109 such that the adjustments made to valuation allowances on deferred taxes and acquired tax contingencies associated with acquisitions that closed prior to the effective date of this statement should also apply the provisions of SFAS No. 141(R). This standard will be applied to all future business combinations in accordance with the effective dates as early adoption is prohibited.

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 160, "Noncontrolling Interests in Consolidated Financial Statements — an amendment to ARB No. 51." SFAS No. 160 establishes accounting and reporting standards that require the ownership interest in subsidiaries held by parties other than the parent be clearly identified and presented in the consolidated balance sheets within equity, but separate from the parent's equity, the amount of consolidated net income attributable to the parent and the noncontrolling interest be clearly identified and

presented on the face of the Consolidated Statements of Operations, and changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently. This statement is effective for fiscal years beginning after December 15, 2008 and will be effective for us beginning in fiscal 2010. We do not expect the new standard to have a material impact on our financial position or results of operations.

On December 30, 2008, the FASB issued FASB Staff Position (FSP) FAS 132R-1, "Employers' Disclosures about Postretirement Benefit Plan Assets," which significantly expands the disclosures required by employers for postretirement plan assets. The FSP requires plan sponsors to provide extensive new disclosures about assets in defined benefit postretirement benefit plans as well as any concentrations of associated risks. In addition, the FSP requires new disclosures similar to those in FASB Statement 157, *Fair Value Measurements*, in terms of the three-level fair value hierarchy, including a reconciliation of the beginning and ending balances of plan assets that fall within Level 3 of the hierarchy. FSP FAS 132R-1 is effective for periods ending after December 15, 2009. The disclosure requirements are annual and do not apply to interim financial statements.



## NOTES TO FINANCIAL STATEMENTS

In May 2009, the FASB issued Statement 165, *Subsequent Events*, to incorporate the accounting and disclosure requirements for subsequent events into U.S. generally accepted accounting principles. Statement 165 introduces new terminology, defines a date through which management must evaluate subsequent events, and lists the circumstances under which an entity must recognize and disclose events or transactions occurring after the balance sheet date. We adopted Statement 165 as of June 28, 2009. We evaluated our June 28, 2009 financial statements for subsequent events through August 4, 2009, the date the financial statements were available to be issued. We are not aware of any subsequent events which would require recognition or disclosure in the financial statements.

In June 2009, FASB issued, "Accounting Standards Update No. 2009-1, Topic 105 — Generally Accepted Accounting Principles amendments based on the Statement of Financial Standards No. 168 — the FASB Accounting Standard Codifications and the Hierarchy of Generally Accepted Accounting Principles and Statement of Financial Accounting Standard No. 168, the FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 62." The Accounting Standards Update and SFAS No. 168 make the FASB Codification the authoritative source of GAAP. The FASB Codification is effective for interim and annual reporting periods ending after September 15, 2009. We will update GAAP referencing for our September 27, 2009 Form 10-Q. The FASB Codification is not expected to have a material impact on our financial reporting.

### INVESTMENT IN JOINT VENTURES

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 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 provides 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 the companies' products in areas of the world outside of North America and Europe.

VAST LLC participates in joint ventures in Brazil and China. VAST do Brasil, a joint venture between VAST LLC and Ifer do Brasil Ltda., was formed to service customers in South America. VAST Fuzhou and VAST Great Shanghai, joint ventures between VAST LLC, Fortitude Corporation and a unit of Elitech Technology Co. Ltd. of Taiwan, are the base of operations to service our automotive customers in the Asian market. 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. The activities related to the VAST joint ventures resulted in equity in earnings of joint ventures of approximately \$245,000 in 2009 and \$561,000 in 2008. During 2009, the VAST partners made capital contributions to VAST totaling approximately \$1.7 million in support of general operating expenses. STRATTEC's portion of the capital contributions totaled \$551,000. No capital contributions were made to VAST by STRATTEC during 2008.

In fiscal year 2007, we entered into a joint venture with ADAC, in which STRATTEC holds a 50.1 percent interest and ADAC holds a 49.9 percent interest. The joint venture was created to establish injection molding and door handle assembly operations in Mexico. ADAC-STRATTEC LLC, a Delaware limited liability company, was formed on October 27, 2006. An additional Mexican entity, ADAC-STRATTEC de Mexico,

which is wholly owned by ADAC-STRATTEC LLC, was formed on February 21, 2007. ADAC-STRATTEC de Mexico production activities began in July 2007. ADAC-STRATTEC LLC's financial results are consolidated with the financial results of STRATTEC and resulted in no change in net income to STRATTEC in 2009 and increased net income to STRATTEC of \$26,000 in 2008.

Effective November 30, 2008, STRATTEC and WITTE established a new entity, STRATTEC POWER ACCESS LLC (SPA), which is 80 percent owned by STRATTEC and 20 percent owned by WITTE. SPA operates the North American portion of the Power Products business which was acquired from Delphi Corporation. For the seven months ended June 28, 2009, the operating results of SPA resulted in an increased net loss to STRATTEC of approximately \$2.1 million.

#### **LINE OF CREDIT**

We have a \$50 million short-term, unsecured line of credit ("Line of Credit") with M&I Marshall & Ilsley Bank which expires October 31, 2009. Interest on borrowings under the Line of Credit is at varying rates



## NOTES TO FINANCIAL STATEMENTS

based on the London Interbank Offering Rate or the bank's prime rate. There were no outstanding borrowings at June 28, 2009 or June 29, 2008. There were no borrowings under any third party debt facilities during 2009, 2008 or 2007. The Line of Credit is not subject to any covenants. We are also in the process of negotiating a new Line of Credit and anticipate this facility to be renewed but at a reduced available borrowing amount. We believe the Line of Credit is adequate, along with cash flow from operations, to meet our anticipated capital expenditure, working capital and operating expenditure requirements as we manage our business through these unusually low automotive vehicle production levels.

## COMMITMENTS AND CONTINGENCIES

In 1995, we recorded a provision of \$3.0 million for estimated costs to remediate a site at our Milwaukee facility. The site 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 established based on third party estimates to adequately cover the cost for active remediation of the contamination. We continue to monitor and evaluate the site with the use of groundwater monitoring wells that are installed on the property. An environmental consultant samples these wells one to 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, 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. The reserve is not measured on a discounted basis. Management believes, based upon findings-to-date and known environmental regulations, that the environmental reserve at June 28, 2009, is adequate to cover any future developments.

At June 28, 2009, we had purchase commitments for zinc, aluminum, other purchased parts and natural gas totaling approximately \$7.9 million payable in 2010 and \$2.1 million payable in 2011. Minimum rental commitments under all non-cancelable operating leases with a term in excess of one year are payable as follows: 2010-\$645,000; 2011-\$588,000; 2012-\$562,000; 2013-\$392,000; 2014-\$397,000; 2015-\$200,000. Rental expense under all non-cancelable operating leases totaled approximately \$516,000 in 2009, \$622,000 in 2008 and \$595,000 in 2007.

## INCOME TAXES

The provision for income taxes and deferred tax asset data presented below for 2008 and 2007 have been retrospectively adjusted for our change in 2009 from the last-in, first-out method of inventory accounting to the first-in, first-out method.

The (benefit) provision for income taxes consists of the following (thousands of dollars):

	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b>Currently (refundable) payable:</b>			
Federal	\$(1,747)	\$ 62	\$2,624
State	150	226	485
State refund claim recovery	—	—	(506)
Foreign	<u>382</u>	<u>17</u>	<u>279</u>
	(1,215)	305	2,882
Deferred tax (benefit) provision	<u>(2,986)</u>	<u>622</u>	<u>(349)</u>
	<u>\$(4,201)</u>	<u>\$ 927</u>	<u>\$2,533</u>

The items accounting for the difference between income taxes computed at the Federal statutory tax rate and the provision for income taxes are as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
U.S. statutory rate	34.0%	34.0%	34.0%
State taxes, net of Federal tax benefit	1.3	4.7	2.6
State refund claim recovery	—	—	(3.1)
Foreign sales benefit	—	—	(4.2)
Foreign Subsidiaries	4.6	(9.8)	(4.9)
Other	<u>.8</u>	<u>(3.9)</u>	<u>(.8)</u>
	<u>40.7%</u>	<u>25.0%</u>	<u>23.6%</u>



**NOTES TO FINANCIAL STATEMENTS**

The 2008 and 2007 income tax provisions include favorable tax benefits related to the expiration of expiring

The 2008 and 2007 income tax provisions include favorable tax benefits related to the operation of our Mexican subsidiaries as Maquiladora entities. The 2007 income tax provision includes a state refund claim recovery. The 2007 claim recovery, net of the Federal income tax impact, was approximately \$329,000.

The components of deferred tax assets and (liabilities) are as follows (thousands of dollars):

	<u>June 28, 2009</u>	<u>June 29, 2008</u>
<b>Deferred income taxes—current:</b>		
Repair and maintenance supply parts reserve	\$ 239	\$ 247
Payroll-related accruals	814	850
Environmental reserve	1,002	1,006
Accrued customer pricing	934	1,245
Method change for inventory valuation	(1,317)	(1,537)
Other	452	(96)
	<u>\$ 2,124</u>	<u>\$ 1,715</u>
<b>Deferred income taxes—noncurrent:</b>		
Accrued pension obligations	\$ (7,384)	\$ (6,513)
Unrecognized pension and postretirement benefit plan liabilities	16,472	9,661
Accumulated depreciation	(1,807)	(2,319)
Stock-based compensation	707	806
Postretirement obligations	1,625	1,721
NOL/credit carry-forwards	3,259	—
Other	271	328
	<u>\$ 13,143</u>	<u>\$ 3,684</u>

Deferred income tax balances reflect the effects of temporary differences between the carrying amounts of assets and liabilities and their tax basis and are stated at enacted tax rates expected to be in effect when taxes are actually paid or recovered.

Federal operating loss carry-forwards for tax purposes were \$6.9 million at June 28, 2009 and result in tax benefits of approximately \$2.3 million. These loss carry-forwards expire in 2029. Federal tax credits available to offset future tax liabilities were \$625,000 at June 28, 2009 and expire in years 2017 through 2022. State operating loss and credit carry-forwards at June 28, 2009 result in future benefits of approximately \$310,000 and begin to expire in 2024. We evaluated the need to maintain a valuation allowance against our deferred tax assets. Based on this evaluation, which included a review of recent profitability and future projections of profitability, we concluded a valuation allowance is not necessary at June 28, 2009.

Foreign income before the provision for income taxes was \$2.9 million in 2009, \$1.6 million in 2008 and \$1.5 million in 2007. No provision for Federal income taxes was made on earnings of foreign subsidiaries and joint ventures that are considered permanently invested or that would be offset by foreign tax credits upon distribution. Such undistributed earnings at June 28, 2009 were \$12.0 million.

We adopted the provisions for FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes, on July 2, 2007. As a result of the implementation of FIN 48, we recognized a decrease of \$346,000 in accrued income taxes and a corresponding adjustment to the beginning balance of retained earnings on the Consolidated Balance Sheet. The total liability for unrecognized tax benefits was \$1.2 million as of June 28, 2009 and June 29, 2008. This liability includes approximately \$118,000 of accrued interest at June 28, 2009, and \$113,000 of accrued interest at June 29, 2008. The liability does not include an amount for accrued penalties. The amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was approximately \$949,000 at June 28, 2009 and \$886,000 at June 29, 2008. We recognize interest and penalties related to unrecognized tax benefits in the provision for income taxes.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (thousands of dollars):

Unrecognized tax benefits June 29, 2008	\$1,178
Gross increases — tax positions in prior years	362
Gross decreases — tax positions in prior years	(4)
Gross increases — current period tax positions	310
Lapse of statute of limitations	<u>(626)</u>
Unrecognized tax benefits June 28, 2009	<u>\$1,220</u>

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## NOTES TO FINANCIAL STATEMENTS

We or one of our subsidiaries files income tax returns in the United States (Federal), Wisconsin (state), Michigan (state) and various other states, Mexico and other foreign jurisdictions. We are currently subject to income tax examinations in Wisconsin for fiscal years 2005, 2006, 2007 and 2008 and in Texas for fiscal years 2005 and 2006. Tax years open to examination by tax authorities under the statute of limitations include fiscal 2006 through 2009 for Federal, fiscal 2005 through 2009 for most states and calendar 2004 through 2008 for foreign jurisdictions.

### RETIREMENT PLANS AND POSTRETIREMENT COSTS

We have a noncontributory defined benefit pension plan covering substantially all U.S. associates. Benefits are based on years of service and final average compensation. Our policy is to fund at least the minimum actuarially computed annual contribution required under the Employee Retirement Income Security Act of 1974 (ERISA). Plan assets consist primarily of listed equity and fixed income securities.

We have a noncontributory supplemental executive retirement plan (SERP), which is a nonqualified defined benefit plan. The SERP will pay supplemental pension benefits to certain key employees upon retirement based upon the employees' years of service and compensation. The SERP is being funded through a Rabbi Trust with M&I Trust Company. The trust assets had a value of \$3.5 million at June 28, 2009 and \$3.9 million at June 29, 2008. These assets are included in Other Current Assets in the Consolidated Balance Sheets. The projected benefit obligation was \$3.0 million at June 28, 2009 and \$2.7 million at June 29, 2008. The SERP liabilities are included in the pension tables below. However, the trust assets are excluded from the table as they do not qualify as plan assets.

We also sponsor a postretirement health care plan for all U.S. associates hired prior to June 2, 2001. The expected cost of retiree health care benefits is recognized during the years that the associates who are covered under the plan render service. In June 2005, amendments were made to the postretirement plan including a change in the number of years of allowed benefit and a change in the medical plan providing the benefit coverage. The maximum number of years of benefit was reduced from 10 to 5 for unionized associates retiring after June 27, 2005 and for non-unionized associates retiring after October 1, 2005. Effective with these dates in 2005, eligibility for the benefit requires 30 years of service and the benefit ends at age 65. The postretirement health care plan is unfunded.

Amounts included in accumulated other comprehensive loss, net of tax, at June 28, 2009, which have not yet been recognized in net periodic benefit cost are as follows (thousands of dollars):

	Pension and SERP Benefits	Postretirement Benefits
Prior service cost (credit)	\$ 400	\$ (2,216)
Net actuarial loss	<u>22,423</u>	<u>6,269</u>
	<u>\$ 22,823</u>	<u>\$ 4,053</u>

Included in accumulated other comprehensive loss at June 28, 2009 are prior service costs of \$79,000 (\$49,000 net of tax) and unrecognized net actuarial losses of \$803,000 (\$498,000 net of tax) expected to be

recognized in pension and SERP net periodic benefit cost during 2010.

Included in accumulated other comprehensive loss at June 28, 2009 are prior service credits of \$388,000 (\$241,000 net of tax) and unrecognized net actuarial losses of \$685,000 (\$425,000 net of tax) expected to be recognized in postretirement net periodic benefit cost during 2010.

The following tables summarize the pension, SERP and postretirement plans' income and expense, funded status and actuarial assumptions for the years indicated (thousands of dollars). We use a June 30 measurement date for our pension and postretirement plans.

## NOTES TO FINANCIAL STATEMENTS

	Pension and SERP Benefits			Postretirement Benefits		
	2009	2008	2007	2009	2008	2007
<b>COMPONENTS OF NET PERIODIC BENEFIT COST:</b>						
Service cost	\$ 1,935	\$ 2,018	\$ 1,974	\$ 191	\$ 221	\$ 219
Interest cost	5,083	4,680	4,348	737	718	688
Expected return on plan assets	(6,562)	(6,210)	(5,348)	—	—	—
Amortization of prior service cost	79	64	64	(388)	(378)	(378)
Amortization of unrecognized net loss	255	643	473	695	702	641
Net periodic benefit cost	<u>\$ 790</u>	<u>\$ 1,195</u>	<u>\$ 1,511</u>	<u>\$ 1,235</u>	<u>\$ 1,263</u>	<u>\$ 1,170</u>

	Pension and SERP Benefits		Postretirement Benefits	
	June 28, 2009	June 29, 2008	June 28, 2009	June 29, 2008
<b>WEIGHTED-AVERAGE ASSUMPTIONS</b>				
Benefit Obligations:				
Discount rate	6.86%	7.13%	6.86%	7.13%
Expected return on plan assets	8.0%	8.0%	n/a	n/a
Rate of compensation increases	3.0%	3.5%	n/a	n/a
Net Periodic Benefit Cost:				
Discount rate	7.13%	6.41%	7.13%	6.41%
Expected return on plan assets	8.25%	8.5%	n/a	n/a
Rate of compensation increases	3.5%	3.5%	n/a	n/a

	2009	2008	2009	2008
<b>CHANGE IN PROJECTED BENEFIT OBLIGATION:</b>				
Benefit obligation at beginning of year	\$ 72,939	\$74,494	\$ 10,871	\$ 11,748
Service cost	1,935	2,018	191	221
Interest cost	5,083	4,680	737	718
Plan amendments	—	167	—	(131)
Actuarial loss (gain)	1,567	(5,399)	502	(441)
Benefits paid	(3,466)	(3,021)	(1,489)	(1,244)
Benefit obligation at end of year	<u>\$ 78,058</u>	<u>\$72,939</u>	<u>\$ 10,812</u>	<u>\$ 10,871</u>

<b>CHANGE IN PLAN ASSETS:</b>				
Fair value of plan assets at beginning of year	\$ 70,996	\$75,881	\$ —	\$ —
Actual return on plan assets	(9,936)	(6,864)	—	—
Employer contribution	3,000	5,000	1,489	1,244
Benefits paid	(3,466)	(3,021)	(1,489)	(1,244)
Fair value of plan assets at end of year	<u>60,594</u>	<u>70,996</u>	<u>—</u>	<u>—</u>

Funded status — prepaid (accrued) benefit obligations	<u>\$ (17,464)</u>	<u>\$ (1,943)</u>	<u>\$ (10,812)</u>	<u>\$ (10,871)</u>
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**AMOUNTS RECOGNIZED IN CONSOLIDATED****BALANCE SHEETS:**

Accrued payroll and benefits (current liabilities)	\$ (2,282)	\$ (95)	\$ (1,211)	\$ (1,088)
Accrued benefit obligations (long-term liabilities)	(15,183)	(2,606)	(9,601)	(9,783)
Prepaid pension obligations (long-term assets)	<u>0</u>	<u>758</u>	<u>—</u>	<u>—</u>
Net amount recognized	<u>\$(17,465)</u>	<u>\$(1,943)</u>	<u>\$(10,812)</u>	<u>\$(10,871)</u>



## NOTES TO FINANCIAL STATEMENTS

	Pension and SERP Benefits		Postretirement Benefits	
	June 28, 2009	June 29, 2008	June 28, 2009	June 29, 2008
<b>CHANGES IN PLAN ASSETS AND BENEFIT OBLIGATIONS RECOGNIZED IN OTHER COMPREHENSIVE INCOME:</b>				
Net periodic benefit cost	\$ 790	\$ 1,195	\$ 1,235	\$ 1,263
Net actuarial (gain) loss	18,065	7,675	502	(441)
Prior service cost	—	167	—	(131)
Amortization of prior service (cost) credits	(79)	(64)	388	378
Amortization of unrecognized net loss	(255)	(643)	(695)	(702)
Total recognized in other comprehensive income, before tax	17,731	7,135	195	(896)
Total recognized in net periodic benefit cost and other comprehensive income	\$ 18,521	\$ 8,330	\$ 1,430	\$ 367

The pension benefits have a separately determined accumulated benefit obligation, which is the actuarial present value of benefits based on service rendered and current and past compensation levels. This differs from the projected benefit obligation in that it includes no assumptions about future compensation levels. The following table summarizes the accumulated benefit obligations and projected benefit obligations for the pension and SERP (thousands of dollars):

	Pension		SERP	
	June 28, 2009	June 29, 2008	June 28, 2009	June 29, 2008
Accumulated benefit obligation	\$ 71,167	\$ 65,626	\$ 2,826	\$ 2,434
Projected benefit obligation	\$ 75,079	\$ 70,238	\$ 2,979	\$ 2,701

For measurement purposes, an 8.5 percent annual rate increase in the per capita cost of covered health care benefits was assumed for 2010; the rate was assumed to decrease gradually to 5 percent by the year 2017 and remain at that level thereafter.

The health care cost trend assumption has a significant effect on the postretirement benefit amounts reported. A 1% change in the health care cost trend rates would have the following effects (thousands of dollars):

	1% Increase	1% Decrease
Effect on total of service and interest cost components in fiscal 2009	\$ 67	\$ (59)
Effect on postretirement benefit obligation as of June 28, 2009	\$ 653	\$ (589)

We employ a total return investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return of plan assets for a prudent level of risk. Risk tolerance is established through careful consideration of short and long-term plan liabilities, plan funded status and corporate financial condition. The investment portfolio contains a diversified blend of equity and fixed income investments. Furthermore, equity investments are diversified across U.S. and non-U.S. stocks, as well as growth and value style managers, and small, mid and large market capitalizations. The investment portfolio does not include any real estate holdings. The investment policy of the plan prohibits investment in STRATTEC stock. Investment risk is measured and monitored on an ongoing basis through periodic investment portfolio reviews, annual liability measurements and periodic asset/liability studies. The pension plan weighted-average asset allocations by asset category are as follows:

Target Allocation	June 28, 2009	June 29, 2008
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Equity investments	65%	61%	59%
Fixed-income investments	35%	39%	41%
Total	100%	100%	100%

The expected long-term rate of return on U.S. pension plan assets used to calculate the 2009 net periodic benefit cost was 8.25%. The target asset allocation is 65% public equity and 35% fixed income. The 8.25% is approximated by applying returns of 10% on public equity and 6% on fixed income to the target allocation. The actual historical returns are also relevant. Annualized returns for periods ended June 28, 2009 were 2.57% for 10 years, 6.97% for 15 years, 7.60% for 20 years, 9.71% for 25 years and 10.28% for 30 years. Effective June 30, 2009, the expected long-term rate of return was reduced to 8.0%.

We expect to contribute approximately \$4 million to our qualified pension plan, \$2.3 million to our SERP and \$1.2 million to our postretirement health care plan in 2010. The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (thousands of dollars):

	<u>Pension and SERP Benefits</u>	<u>Postretirement Benefits</u>
2010	\$ 6,386	\$ 1,211
2011	4,397	1,404
2012	4,694	1,500
2013	5,126	1,532
2014	5,308	1,502
2015-2019	30,131	4,570

## NOTES TO FINANCIAL STATEMENTS

All U.S. associates may participate in a 401(k) Plan. We contribute a fixed percentage up to the first 6 percent of eligible compensation that a participant contributes to the plan. The fixed percentage contribution for all U.S. salaried associates was reduced from 50% to 20% effective January 1, 2009. Our contributions totaled approximately \$464,000 in 2009, \$613,000 in 2008 and \$603,000 in 2007.

### SHAREHOLDERS' EQUITY

We have 12,000,000 shares of authorized common stock, par value \$.01 per share, with 3,261,968 and 3,443,209 shares issued and outstanding at June 28, 2009 and June 29, 2008, respectively. Holders of our common stock are entitled to one vote for each share on all matters voted on by shareholders.

Our Board of Directors authorized a stock repurchase program to buy back up to 3,839,395 outstanding shares as of June 28, 2009. As of June 28, 2009, 3,655,322 shares have been repurchased under this program at a cost of approximately \$136.4 million.

### (LOSS) EARNINGS PER SHARE (LPS) (EPS)

Basic (loss) earnings per share is computed on the basis of the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed on the basis of the weighted average number of shares of common stock plus the dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares include outstanding stock options and restricted stock awards. The reconciliation of the components of the basic and diluted per share computations that follows includes amounts for 2008 and 2007 that have been retrospectively adjusted for our change in 2009 from the last-in, first-out method of inventory accounting to the first-in, first-out method (in thousands, except per share amounts):

	2009			2008			2007		
	Net Loss	Shares	Per Share Amount	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
Basic (LPS) EPS	\$(6,122)	3,280	\$ (1.87)	\$2,781	3,487	\$ 0.80	\$8,199	3,552	\$ 2.31
Stock-based compensation		4			7			3	
Diluted (LPS) EPS	\$(6,122)	3,284	\$ (1.86)	\$2,781	3,494	\$ 0.80	\$8,199	3,555	\$ 2.31

As of June 28, 2009, options to purchase 227,240 shares of common stock at a weighted-average exercise price of \$38.07 were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive. As of June 29, 2008, options to purchase 184,680 shares of common stock at a weighted-average exercise price of \$59.13 were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive. As of July 1, 2007, options to purchase 230,320 shares of common stock at a weighted-average exercise price of \$59.14 were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive.

### STOCK OPTION AND PURCHASE PLANS

A summary of stock option activity under the plan is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Balance at July 2, 2006	283,530	\$ 56.53		
Granted	—	\$ —		

Exercised	(7,300)	\$ 21.74		
Expired	(35,810)	\$ 49.24		
Terminated	<u>(5,000)</u>	\$ 56.72		
Balance at July 1, 2007	<u>235,420</u>	\$ 58.71		
Granted	—	\$ —		
Exercised	—	\$ —		
Expired	(47,640)	\$ 58.59		
Terminated	<u>—</u>	\$ —		
Balance at June 29, 2008	<u>187,780</u>	\$ 58.74		
Granted	96,800	\$ 11.80		
Exercised	—	\$ —		
Expired	(52,340)	\$ 61.68		
Terminated	<u>(5,000)</u>	\$ 58.55		
Balance at June 28, 2009	<u>227,240</u>	\$ 38.07	6.1	\$ 253
Exercisable as of:				
June 28, 2009	130,440	\$ 57.57	3.5	\$ —
June 29, 2008	148,440	\$ 58.09	3.6	\$ 3
July 1, 2007	181,080	\$ 58.05	3.2	\$ 39
Available for grant as of June 28, 2009				
	332,003			

No options included above were granted at a price greater than the market value on the date of grant.

## NOTES TO FINANCIAL STATEMENTS

A summary of restricted stock activity under the plan is as follows:

	Shares	Weighted Average Grant Date Fair Value
Nonvested Balance at July 2, 2006	9,600	\$ 51.24
Granted	10,000	\$ 40.00
Vested	—	\$ —
Forfeited	(200)	\$ 40.00
Nonvested Balance at July 1, 2007	19,400	\$ 45.56
Granted	10,000	\$ 47.78
Vested	—	\$ —
Forfeited	—	\$ —
Nonvested Balance at June 29, 2008	29,400	\$ 46.32
Granted	10,000	\$ 29.00
Vested	(10,200)	\$ 50.58
Forfeited	(1,000)	\$ 46.22
Nonvested Balance at June 28, 2009	28,200	\$ 38.64

We have an Employee Stock Purchase Plan to provide substantially all U.S. full-time associates an opportunity to purchase shares of STRATTEC common stock through payroll deductions. A participant may contribute a maximum of \$5,200 per calendar year to the plan. On the last day of each month, participant account balances are used to purchase shares of stock at the average of the highest and lowest reported sales prices of a share of STRATTEC common stock on the NASDAQ Global Market. A total of 100,000 shares may be issued under the plan. Shares issued from treasury stock under the plan totaled 2,548 at an average price of \$15.63 during 2009, 704 at an average price of \$41.62 during 2008 and 771 at an average price of \$43.15 during 2007. A total of 80,667 shares are available for purchase under the plan as of June 28, 2009.

## EXPORT SALES

Export sales are summarized below (thousands of dollars):

	2009	2008	2007
Export Sales	\$28,050	\$25,714	\$30,643
Percent of Net Sales	22%	16%	18%

These sales were primarily to automotive manufacturing assembly plants in Canada, Mexico and Korea.

## SALES AND RECEIVABLE CONCENTRATION

Sales to our largest customers were as follows (thousands of dollars and percent of total net sales):

	2009		2008		2007	
	Sales	%	Sales	%	Sales	%
General Motors Corporation	\$39,156	31%	\$ 45,039	28%	\$ 35,687	21%
Ford Motor Company	12,575	10%	19,419	12%	21,013	13%
Chrysler LLC	31,864	25%	40,209	25%	58,099	35%
Delphi Corporation	6,326	5%	14,872	9%	18,398	11%
	<u>\$89,921</u>	<u>71%</u>	<u>\$119,539</u>	<u>75%</u>	<u>\$133,197</u>	<u>80%</u>

Receivables from our largest customers were as follows (thousands of dollars and percent of gross receivables):

	June 28, 2009		June 29, 2008	
	Receivables	%	Receivables	%
General Motors Corporation	\$ 7,029	41%	\$ 8,367	35%
Ford Motor Company	2,376	14%	2,030	9%
Chrysler LLC	2,627	15%	6,582	28%
Delphi Corporation	139	1%	830	3%
	<u>\$ 12,171</u>	<u>71%</u>	<u>\$ 17,809</u>	<u>75%</u>



## REPORTS

### REPORT ON MANAGEMENT'S ASSESSMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING

STRATTEC SECURITY CORPORATION is responsible for the preparation, integrity, and fair presentation of the consolidated financial statements included in this annual report. The consolidated financial statements and notes included in this annual report have been prepared in conformity with accounting principles generally accepted in the United States of America and necessarily include some amounts that are based on management's best estimates and judgments.

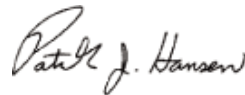
We, as management of STRATTEC SECURITY CORPORATION, are responsible for establishing and maintaining effective internal control over financial reporting that is designed to produce reliable financial statements in conformity with United States generally accepted accounting principles. The system of internal control over financial reporting as it relates to the financial statements is evaluated for effectiveness by management and tested for reliability through a program of internal audits. Actions are taken to correct potential deficiencies as they are identified. Any system of internal control, no matter how well designed, has inherent limitations, including the possibility that a control can be circumvented or overridden and misstatements due to error or fraud may occur and not be detected. Also, because of changes in conditions, internal control effectiveness may vary over time. Accordingly, even an effective system of internal control will provide only reasonable assurance with respect to financial statement preparation.

The Audit Committee of the Company's Board of Directors, consisting entirely of independent directors, meets regularly with management and the independent registered public accounting firm, and reviews audit plans and results, as well as management's actions taken in discharging responsibilities for accounting, financial reporting, and internal control. Grant Thornton LLP, independent registered public accounting firm, has direct and confidential access to the Audit Committee at all times to discuss the results of their examinations.

Management assessed the Corporation's system of internal control over financial reporting as of June 28, 2009, in relation to criteria for effective internal control over financial reporting as described in "Internal Control – Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the assessment, management concludes that, as of June 28, 2009, its system of internal control over financial reporting is effective and meets the criteria of the "Internal Control – Integrated Framework." Grant Thornton LLP, independent registered public accounting firm, has issued an attestation report on the Corporation's internal control over financial reporting, which is included herein.



Harold M. Stratton II  
Chairman, President and  
Chief Executive Officer



Patrick J. Hansen  
Senior Vice President and  
Chief Financial Officer

## REPORTS

### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders of STRATTEC SECURITY CORPORATION:

We have audited STRATTEC SECURITY CORPORATION'S (a Wisconsin Corporation) and subsidiaries', collectively the "Company," internal control over financial reporting as of June 28, 2009, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report on Management's Assessment of Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 28, 2009, based on criteria established in Internal Control — Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of STRATTEC SECURITY CORPORATION and subsidiaries as of June 28, 2009 and June 29, 2008 and the related Consolidated Statements of Operations, shareholders' equity and cash flows for the three years ended June 28, 2009 and our report dated August 24, 2009 expressed an unqualified opinion on those financial statements.



Grant Thornton LLP  
Milwaukee, Wisconsin  
August 24, 2009







## REPORTS

### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders of STRATTEC SECURITY CORPORATION:

We have audited the accompanying consolidated balance sheets of STRATTEC SECURITY CORPORATION (a Wisconsin Corporation) and subsidiaries, collectively the "Company", as of June 28, 2009 and June 29, 2008, and the related statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended June 28, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of STRATTEC SECURITY CORPORATION as of June 28, 2009 and June 29, 2008, and the results of its operations and its cash flows for each of the three years in the period ended June 28, 2009 in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), STRATTEC SECURITY CORPORATION'S internal control over financial reporting as of June 28 2009, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated August 24, 2009 expressed an unqualified opinion on the effectiveness of internal control over financial reporting.

As discussed in the notes to the consolidated financial statements as of June 28, 2009, the Company changed its method of accounting for inventory from the last-in, first-out (LIFO) method to the first-in, first-out (FIFO) method, and applied this change retrospectively in accordance with Statement of Financial Accounting Standards (SFAS) No. 154, "Accounting Changes and Error Corrections".



Grant Thornton LLP  
Milwaukee, Wisconsin  
August 24, 2009

## FINANCIAL SUMMARY

### FIVE-YEAR FINANCIAL SUMMARY

The financial data for each period presented below reflects the consolidated results of STRATTEC SECURITY CORPORATION and its wholly owned subsidiaries. Fiscal years 2005 through 2008 have been retrospectively adjusted for our change in 2009 from the last-in, first-out method of inventory accounting to the first-in, first-out method. Additional details are available in Notes to Financial Statements. The information below should be read in conjunction with "Management's Discussion and Analysis," and the Financial Statements and Notes thereto included elsewhere herein. The following data are in thousands of dollars except per share amounts.

	Fiscal Years				
	2009	2008	2007	2006	2005
<b>INCOME STATEMENT DATA</b>					
Net sales	\$126,097	\$159,642	\$167,707	\$181,197	\$190,314
Gross profit	13,240	24,767	26,520	38,354	42,912
Engineering, selling, and administrative expenses	25,480	23,962	20,189	22,067	20,688
Provision for doubtful accounts, net	500	—	—	1,622	80
(Loss) Income from operations	(12,740)	805	6,331	14,665	22,144
Interest income	731	2,749	3,611	2,563	1,169
Interest expense	—	—	—	—	—
Other income, net	885	230	715	960	320
Minority interest	801	(76)	75	—	—
(Loss) Income before taxes	(10,323)	3,708	10,732	18,188	23,633
(Benefit) Provision for income taxes	(4,201)	927	2,533	4,900	8,511
Net (loss) income	<u>\$ (6,122)</u>	<u>\$ 2,781</u>	<u>\$ 8,199</u>	<u>\$ 13,288</u>	<u>\$ 15,122</u>
<b>(Loss) Earnings per share:</b>					
Basic	\$ (1.87)	\$ 0.80	\$ 2.31	\$ 3.58	\$ 3.99
Diluted	(1.86)	0.80	2.31	3.57	3.96
<b>Cash dividends declared per share:</b>	\$ 0.30	\$ 1.60	\$ —	\$ —	\$ —

### BALANCE SHEET DATA

Net working capital	\$ 41,710	\$ 72,835	\$ 84,077	\$ 83,242	\$ 76,786
Total assets	128,189	144,221	151,440	157,270	140,257
Long-term liabilities	24,784	12,389	13,431	10,510	16,271
Shareholders' Equity	71,418	97,940	105,954	113,253	93,918

### QUARTERLY FINANCIAL DATA (UNAUDITED)

Quarterly data presented below has been retrospectively adjusted for our change in 2009 from the last-in, first-out method of inventory accounting to the first-in, first-out method. The following data are in thousands of dollars except per share amounts.

	Quarter	Net Sales	Gross Profit	Net Income (Loss)	(Loss) Earnings Per Share		Cash Dividends	Market Price Per Share	
					Basic	Diluted	Per Share	High	Low
2009	First	\$ 34,731	\$ 5,424	\$ 20	\$ 0.01	\$ 0.01	\$ 0.15	\$ 38.45	\$ 25.63
	Second	33,799	2,911	(1,202)	(0.37)	(0.37)	0.15	28.90	12.06
	Third	29,348	2,063	(2,822)	(0.87)	(0.87)	0.00	18.89	6.26
	Fourth	28,219	2,842	(2,118)	(0.65)	(0.65)	0.00	16.03	7.40
	<b>TOTAL</b>	<u>\$126,097</u>	<u>\$ 13,240</u>	<u>\$ (6,122)</u>	<u>\$ (1.87)</u>	<u>\$ (1.86)</u>	<u>\$ 0.30</u>		

2008	First	\$ 42,739	\$ 7,965	\$ 1,990	\$ 0.57	\$ 0.56	\$ 1.15	\$ 51.04	\$ 45.03
	Second	39,908	6,873	1,290	0.37	0.37	\$ 0.15	49.18	42.00
	Third	38,428	6,229	408	0.12	0.12	\$ 0.15	44.87	35.06
	Fourth	<u>38,567</u>	<u>3,700</u>	<u>(907)</u>	<u>(0.26)</u>	<u>(0.26)</u>	<u>\$ 0.15</u>	43.95	34.57
	TOTAL	<u>\$159,642</u>	<u>\$ 24,767</u>	<u>\$ 2,781</u>	<u>\$ 0.80</u>	<u>\$ 0.80</u>	<u>\$ 1.60</u>		

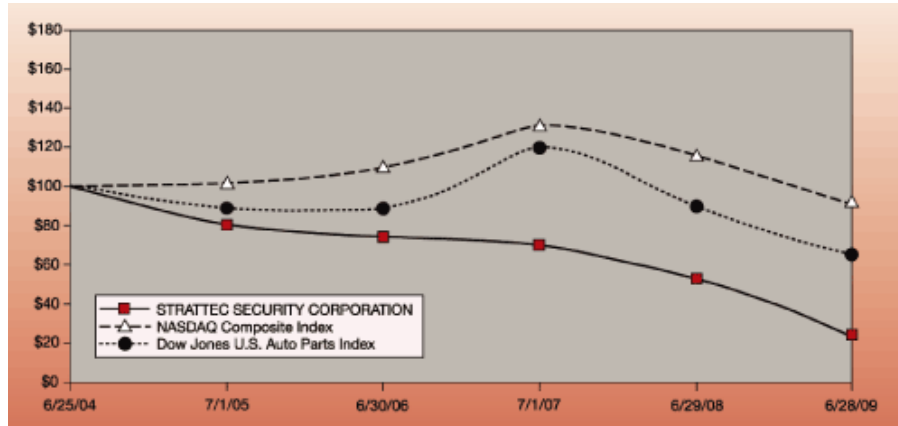
Registered shareholders of record at June 28, 2009, were 2,268.



**PERFORMANCE GRAPH**

The chart below shows a comparison of the cumulative return since June 24, 2004 had \$100 been invested at the close of business on June 24, 2004 in STRATTEC Common Stock, the NASDAQ Composite Index (all issuers), and the Dow Jones U.S. Auto Parts Index.

**COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN\***  
 Among STRATTEC SECURITY CORPORATION, The NASDAQ Composite Index  
 And The Dow Jones U.S. Auto Parts Index



	6/25/04	7/1/05	6/30/06	7/1/07	6/29/08	6/28/09
STRATTEC**	100	80	74	70	54	22
NASDAQ Composite Index	100	101	109	132	117	93
Dow Jones U.S. Auto Parts Index	100	88	88	120	89	65

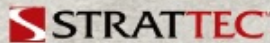
\* \$100 invested on June 25, 2004 in stock or index-including reinvestment of dividends. Indexes calculated on a month-end basis.

\*\* The fiscal year end closing price of STRATTEC Common Stock on June 25, 2004 was \$67.57, the closing price on July 1, 2005 was \$53.82, the closing price on June 30, 2006 was \$49.81, the closing price on June 29, 2007, was \$46.97, the closing price on June 27, 2008 was \$34.99, and the closing price on June 26, 2009 was \$13.90.

## DIRECTORS/OFFICERS/SHAREHOLDERS' INFORMATION



STRATTEC Board of Directors:  
(Left to Right) Frank J. Krejci, Michael J. Koss,  
Robert Feitler, Harold M. Stratton II, David R. Zimmer



### BOARD OF DIRECTORS

**Harold M. Stratton II, 61**  
Chairman, President and Chief Executive Officer

**Robert Feitler, 78**  
Former President and Chief Operating Officer  
of Weyco Group, Inc.  
Chairman of the Executive Committee and  
Director of Weyco Group, Inc.

**Michael J. Koss, 55**  
President and Chief Executive Officer of  
Koss Corporation  
Director of Koss Corporation

**Frank J. Krejci, 59**  
President and Chief Executive Officer of  
The Custom Shoppe

**David R. Zimmer, 63**  
Managing Partner of  
Stonebridge Business Partners



### CORPORATE OFFICERS

**Harold M. Stratton II, 61**

**Patrick J. Hansen, 50**  
Senior Vice President-Chief Financial  
Officer, Treasurer and Secretary

**Dennis A. Kazmierski, 57**  
Vice President-Marketing and Sales

**Kathryn E. Scherbarth, 53**  
Vice President-Milwaukee Operations

**Rolando J. Guillot, 41**  
Vice President-Mexican Operations

**Milan R. Bundalo, 58**  
Vice President-Materials

**Brian J. Reetz, 51**  
Vice President-Security Products

**Richard P. Messina, 44**  
Vice President-Access Products

### SHAREHOLDERS' INFORMATION

**Annual Meeting**  
The Annual Meeting of Shareholders will  
convene at 8:00 a.m. (CST)  
on October 6, 2009, at the  
Radisson Hotel,  
7065 North Port Washington Road,  
Milwaukee, WI 53217

**Common Stock**  
STRATTEC SECURITY CORPORATION  
common stock is traded on the NASDAQ  
Global Market under the symbol: STRT.

**Form 10-K**  
You may receive a copy of the  
STRATTEC SECURITY CORPORATION  
Form 10-K, filed with the Securities and  
Exchange Commission, by writing to the  
Secretary at STRATTEC SECURITY  
CORPORATION, 3333 W. Good Hope  
Road, Milwaukee, WI 53209.

**Corporate Governance**  
To review the Company's corporate  
governance, board committee charters  
and code of business ethics, please visit  
the "Corporate Governance" section of  
our Web site at [www.strattec.com](http://www.strattec.com).

**Shareholder Inquiries**  
Communications concerning the transfer  
of shares, lost certificates or changes of  
address should be directed to the  
Transfer Agent.

**Transfer Agent and Registrar**  
Wells Fargo Bank, N.A.  
Shareholder Services  
P.O. Box 64854  
St. Paul, MN 55164-0854  
1.800.468.9716





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STRATTEC SECURITY CORPORATION

3333 WEST GOOD HOPE ROAD

MILWAUKEE, WI 53209

PHONE 414.247.3333 FAX 414.247.3329

[www.strattec.com](http://www.strattec.com)





August 24, 2009

Board of Directors  
STRATTEC Security Corporation  
3333 W Good Hope Road  
Milwaukee, WI 53209

Dear Directors:

We are providing this letter solely for inclusion as an exhibit to STRATTEC Security Corporation's (the "Company") Form 10-K filing pursuant to Item 601 of Regulation S-K.

We have audited the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended June 28, 2009, as set forth in our report dated August 24, 2009. As stated in the notes to those financial statements, the Company changed its method of accounting for inventories from the LIFO method to the FIFO method. The notes also state management's belief that the newly adopted accounting principle is preferable in the circumstances because it more accurately reflects the current cost of inventory on the Consolidated Balance Sheets, and the change allows for all inventories to have a consistent inventory costing method.

With regard to the aforementioned accounting change, it should be understood that authoritative criteria have not been established for evaluating the preferability of one acceptable method of accounting over another acceptable method and, in expressing our concurrence below, we have relied on management's business planning and judgment and on management's determination that this change in accounting principle is preferable.

Based on our reading of management's stated reasons and justification for this change in accounting principle in the Form 10-K, and our discussions with management as to their judgment about the relevant business planning factors relating to the change, we concur with management that the newly adopted method of accounting is preferable in the Company's circumstances.

Very truly yours,

/s/ GRANT THORNTON LLP

GRANT THORNTON LLP

## SUBSIDIARIES OF THE COMPANY

<u>Subsidiary</u>	<u>Country of Incorporation</u>	<u>Percent Owned</u>
STRATTEC de Mexico S.A. de C.V.	Mexico	100%
ADAC-STRATTEC LLC	United States	50.1%
STRATTEC POWER ACCESS LLC	United States	80%

**CONSENT OF INDEPENDENT  
REGISTERED PUBLIC ACCOUNTANTS**

We have issued our reports dated August 24, 2009, with respect to the consolidated financial statements, schedules and internal control over financial reporting included in the Annual Report of STRATTEC SECURITY CORPORATION on Form 10-K for the year ended June 28, 2009. We hereby consent to the incorporation by reference of said reports in the Registration Statements of STRATTEC SECURITY CORPORATION on Forms S-8 (File No. 333-140715, effective February 14, 2007; 333-103219, effective February 14, 2003; 333-31002, effective February 24, 2000; 333-45221, effective January 30, 1998; and 333-4300, effective April 29, 1996).

/s/ GRANT THORNTON LLP

GRANT THORNTON LLP  
Milwaukee, Wisconsin  
August 24, 2009

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

I, Harold M. Stratton II, certify that:

1. I have reviewed this annual report on Form 10-K 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: August 28, 2009

/s/ Harold M. Stratton II

Harold M. Stratton II,  
Chief Executive Officer

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

I, Patrick J. Hansen, certify that:

1. I have reviewed this annual report on Form 10-K 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: August 28, 2009

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

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

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned officers of STRATTEC SECURITY CORPORATION (the "Company") certifies that the Annual Report on Form 10-K of the Company for the year ended June 28, 2009 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and information contained in that Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 28, 2009

/s/ Harold M. Stratton II

Harold M. Stratton II,  
Chief Executive Officer

Dated: August 28, 2009

/s/ Patrick J. Hansen

Patrick J. Hansen,  
Chief Financial Officer

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