

STRATTEC SECURITY CORP  
Form 10-Q  
November 05, 2009

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended September 27, 2009

or

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

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

Commission File Number 0-25150

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

Wisconsin  
(State of Incorporation)

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

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

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

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

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company” in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer  Accelerated filer  Non-accelerated filer  (Do not check if a smaller reporting company) 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

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

Common stock, par value \$0.01 per share: 3,271,709 shares outstanding as of September 27, 2009

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STRATTEC SECURITY CORPORATION  
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September 27, 2009

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**PROSPECTIVE INFORMATION**

A number of the matters and subject areas discussed in this Form 10-Q contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements may be identified by the use of forward-looking words or phrases such as "anticipate," "believe," "would," "expect," "intend," "may," "planned," "potential," "will," and "could," or the negative of these terms or words of similar meaning. These statements include expected future financial results, product offerings, global expansion, liquidity needs, financing ability, planned capital expenditures, management's or the Company's expectations and beliefs, and similar matters discussed in this Form 10-Q. The 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 customers' products, the impact on the Company from bankruptcy filings involving the Company's customers, 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 of Financial Condition and Results of Operations section of this Form 10-Q and in the section titled "Risk Factors" in the Company's Form 10-K report filed with the Securities and Exchange Commission for the year ended June 28, 2009.

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

## Item 1 Financial Statements

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

|   | Three Months Ended      |                         |
|---|-------------------------|-------------------------|
|   | September<br>27<br>2009 | September<br>28<br>2008 |
| Net sales   | \$41,181                | \$34,731                |
| Cost of goods sold  | 34,383                  | 29,307                  |
| Gross profit  | 6,798                   | 5,424                   |
| Engineering, selling and administrative expenses                          | 6,199                   | 5,952                   |
| Recovery of bad debts   | (220 )                  | -                       |
| Income (Loss) from operations   | 819                     | (528 )                  |
| Interest income   | 23                      | 318                     |
| Other income, net   | 428                     | 223                     |
| Income before provision for income taxes                                  | 1,270                   | 13                      |
| Provision for (benefit from) income taxes                                 | 341                     | (193 )                  |
| Net income  | 929                     | 206                     |
| Net loss (income) attributed to non-controlling interest                  | 14                      | (186 )                  |
| Net income attributable to STRATTEC SECURITY CORPORATION                  | \$943                   | \$20                    |
| Comprehensive Income (Loss):  |                         |                         |
| Net income  | \$929                   | \$206                   |
| Change in cumulative translation adjustments, net                         | (312 )                  | (457 )                  |
| Total other comprehensive loss  | (312 )                  | (457 )                  |
| Comprehensive income (loss)   | 617                     | (251 )                  |
| Comprehensive loss (income) attributed to non-controlling interest        | 14                      | (182 )                  |
| Comprehensive income (loss) attributable to STRATTEC SECURITY CORPORATION | \$631                   | \$(433 )                |
| Earnings per share:   |                         |                         |
| Basic   | \$0.29                  | \$0.01                  |
| Diluted   | \$0.29                  | \$0.01                  |
| Average shares outstanding:   |                         |                         |
| Basic   | 3,266                   | 3,332                   |
| Diluted   | 3,271                   | 3,340                   |
| Cash dividends declared per share   | \$-                     | \$0.15                  |

The condensed consolidated statement of operations and comprehensive income (loss) for the three months ended September 28, 2008 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. Additional details are available in the accompanying notes.

The accompanying notes are an integral part of these condensed consolidated statements of operations and comprehensive income (loss).

## STRATTEC SECURITY CORPORATION AND SUBSIDIARIES

## Condensed Consolidated Balance Sheets

(In Thousands, Except Share Amounts)

|  | September<br>27,<br>2009<br>(Unaudited) | June 28,<br>2009 |
|--|---|------------------|
| <b>ASSETS</b>  |   |                  |
| Current Assets:  |   |                  |
| Cash and cash equivalents  | \$22,230                                | \$22,764         |
| Receivables, net   | 28,425                                  | 17,235           |
| Inventories-   |   |                  |
| Finished products  | 3,171                                   | 3,812            |
| Work in process  | 3,703                                   | 3,432            |
| Purchased materials  | 8,283                                   | 9,345            |
| Total inventories  | 15,157                                  | 16,589           |
| Other current assets   | 13,779                                  | 15,970           |
| Total current assets   | 79,591                                  | 72,558           |
| Deferred income taxes  | 12,935                                  | 13,143           |
| Investment in joint ventures   | 4,580                                   | 4,483            |
| Other long-term assets   | 1,041                                   | 1,069            |
| Property, plant and equipment  | 131,834                                 | 131,502          |
| Less: accumulated depreciation   | (95,118 )                               | (94,566 )        |
| Net property, plant and equipment  | 36,716                                  | 36,936           |
|  | \$134,863                               | \$128,189        |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |   |                  |
| Current Liabilities:   |   |                  |
| Accounts payable   | \$17,555                                | \$11,369         |
| Accrued Liabilities:   |   |                  |
| Payroll and benefits   | 8,741                                   | 8,232            |
| Environmental reserve  | 2,628                                   | 2,636            |
| Other  | 8,603                                   | 8,611            |
| Total current liabilities  | 37,527                                  | 30,848           |
| Accrued pension obligations  | 14,399                                  | 15,183           |
| Accrued postretirement obligations   | 9,646                                   | 9,601            |
| Shareholders' Equity:  |   |                  |
| Common stock, authorized 12,000,000 shares, \$.01 par value, issued<br>6,906,957 shares at September 27, 2009 and at June 28, 2009 | 69                                      | 69               |
| Capital in excess of par value   | 79,352                                  | 79,247           |
| Retained earnings  | 160,228                                 | 159,285          |
| Accumulated other comprehensive loss   | (31,406 )                               | (31,094 )        |
| Less: treasury stock, at cost (3,635,248 shares at September 27,<br>2009 and 3,635,989 shares at June 28, 2009)                    | (136,077 )                              | (136,089 )       |
| Total STRATTEC SECURITY CORPORATION shareholders' equity   | 72,166                                  | 71,418           |
| Non-controlling interest   | 1,125                                   | 1,139            |
| Total shareholders' equity   | 73,291                                  | 72,557           |
|  | \$134,863                               | \$128,189        |

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



STRATTEC SECURITY CORPORATION AND SUBSIDIARIES  
Condensed Consolidated Statements of Cash Flows  
(In Thousands)  
(Unaudited)

|   | Three Months Ended    |                       |
|---|-----------------------|-----------------------|
|   | September<br>27, 2009 | September<br>28, 2008 |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |                       |                       |
| Net income attributable to STRATTEC SECURITY CORPORATION                          | \$943                 | \$20                  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                       |                       |
| Non-controlling interest  | (14 )                 | 186                   |
| Depreciation and amortization   | 1,751                 | 1,380                 |
| Foreign currency transaction gain   | (65 )                 | (238 )                |
| Stock based compensation expense  | 106                   | 128                   |
| Recovery of bad debts   | (220 )                | -                     |
| Change in operating assets and liabilities:                                       |                       |                       |
| Receivables   | (11,031 )             | 1,546                 |
| Inventories   | 1,432                 | (338 )                |
| Other assets  | 2,683                 | (1,234 )              |
| Accounts payable and accrued liabilities  | 5,665                 | (727 )                |
| Other, net  | (64 )                 | (40 )                 |
| Net cash provided by operating activities   | 1,186                 | 683                   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |                       |                       |
| Investment in joint ventures  | -                     | (125 )                |
| Purchase of property, plant and equipment   | (1,762 )              | (5,316 )              |
| Net cash used in investing activities   | (1,762 )              | (5,441 )              |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |                       |                       |
| Purchase of treasury stock  | -                     | (5,714 )              |
| Dividends paid  | -                     | (521 )                |
| Exercise of stock options and employee stock purchases                            | 11                    | 10                    |
| Loan from non-controlling interest  | -                     | 375                   |
| Net cash provided by (used in) financing activities                               | 11                    | (5,850 )              |
| Foreign currency impact on cash   | 31                    | 165                   |
| <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>                                  | <b>(534 )</b>         | <b>(10,443 )</b>      |
| <b>CASH AND CASH EQUIVALENTS</b>  |                       |                       |
| Beginning of period   | 22,764                | 51,501                |
| End of period   | \$22,230              | \$41,058              |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>                          |                       |                       |
| Income taxes paid   | \$109                 | \$150                 |
| Interest paid   | -                     | -                     |

The condensed consolidated statement of cash flows for the three months ended September 28, 2008 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. Additional details are available in the accompanying notes.

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

STRATTEC SECURITY CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
(Unaudited)

Basis of Financial Statements

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 door systems, power life 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 (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. We have only one reporting segment.

The accompanying condensed consolidated financial statements reflect the consolidated results of STRATTEC SECURITY CORPORATION, its wholly owned Mexican subsidiary, STRATTEC de Mexico, and its majority owned subsidiaries, ADAC-STRATTEC, LLC and STRATTEC POWER ACCESS LLC. STRATTEC SECURITY CORPORATION is located in Milwaukee, Wisconsin. STRATTEC de Mexico is located in Juarez, Mexico. ADAC-STRATTEC, LLC and STRATTEC POWER ACCESS LLC have operations in El Paso, Texas and Juarez, Mexico. Equity investments in Vehicle Access Systems Technology LLC (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.

In the opinion of management, the accompanying condensed consolidated balance sheet as of June 28, 2009, which has been derived from our audited financial statements, and the related unaudited interim condensed consolidated financial statements contain all adjustments, consisting only of normal recurring items, necessary for their fair presentation in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") and in accordance with Rule 10-01 of Regulation S-X. All significant intercompany transactions have been eliminated.

Interim financial results are not necessarily indicative of operating results for an entire year. The information included in this Form 10-Q should be read in conjunction with Management's Discussion and Analysis and the financial statements and notes thereto included in the STRATTEC SECURITY CORPORATION 2009 Annual Report, which was filed with the Securities and Exchange Commission as an exhibit to our Form 10-K on August 28, 2009.

Certain reclassifications have been made to the fiscal 2009 interim financial statements to conform to the fiscal 2010 presentation. The fiscal 2010 presentation is based on the adoption of a new accounting standard issued by the Financial Accounting Standards Board (FASB) related to non-controlling interests in consolidated financial statements. The adoption of the new standard resulted in the retrospective adjustment to the presentation of prior year quarter financial information and additional disclosures. The adoption did not impact previously reported net income or retained earnings amounts but did require a reclassification of the non-controlling interest to a component of total shareholders' equity. The FASB Accounting Standards Codification (ASC) was also adopted during the quarter. The adoption the ASC did not result in any restatements of previously reported financial statements.

On December 30, 2008, the FASB issued a new accounting standard which significantly expands the disclosures required by employers for postretirement plan assets. The new standard requires plan sponsors to provide extensive new disclosures about assets in defined benefit postretirement benefit plans as well as any concentrations of associated risks. The new standard is effective for periods ending after December 15, 2009. The disclosure requirements are

annual and do not apply to interim financial statements. We are required to provide the expanded pension plan asset disclosure in our annual financial statements for the year ending June 27, 2010.

#### Subsequent Events

Subsequent events have been evaluated through November 5, 2009, the date the financial statements were issued. On October 8, 2009, STRATTEC's U.S. hourly represented associates agreed to an amendment to the U.S. qualified defined benefit pension plan, which discontinues the benefit accruals for salary increases and credited service rendered after December 31, 2009. A similar amendment to the Company's defined benefit pension plan for its U.S. based salaried associates will become effective at the same time. To offset these benefit reductions, STRATTEC will supplement its existing defined contribution 401(k) savings plan effective January 1, 2010 with a higher Company matching contribution. In addition, STRATTEC's retiree health insurance benefit program for eligible U.S. participants will also be changed to limit the amount of future health benefit payments for associates who retire after December 31, 2009. Along with these changes, the U.S. hourly represented associates agreed to delay wage increases originally scheduled for June 2010 and 2011. The wage increases will instead be effective in June 2012 and 2013. The contract with the U.S. hourly represented associates has also been extended two years and will expire June 29, 2014. The financial impacts of the above changes are not currently available. Necessary actuarial calculations will be completed using associate data as of the effective date of the plan changes. The financial impacts will be disclosed in future financial statements upon completion of the necessary actuarial calculations.

On October 29, 2009, VAST LLC entered into an agreement to purchase the non-controlling interest of its two Chinese joint ventures, VAST Fuzhou and VAST Great Shanghai, for \$9.6 million. STRATTEC's share of the purchase price will total \$3.2 million. The transaction is expected to be completed during STRATTEC's second quarter of fiscal 2010 and is pending customary government approval in China. Upon completion of the transaction, VAST LLC will own 100% of the Chinese joint ventures. In connection with this transaction, \$7.5 million of the purchase price will be paid upon receipt of government approval in China. The remaining \$2.1 million will be paid in three installments over the next 18 months. A \$2.1 million stand-by letter of credit was issued by VAST LLC, and is guaranteed by STRATTEC, related to the future installment payments.

#### Purchase of Delphi Power Products Business

Effective November 30, 2008, STRATTEC in combination with WITTE Automotive of Velbert, Germany, completed the acquisition of certain assets, primarily equipment and inventory, and assumption of certain employee liabilities of Delphi Corporation's Power Products business for approximately \$7.3 million. For 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 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 Condensed Consolidated Balance Sheets. All goodwill and other intangible assets resulting from the purchase are expected to be deductible for tax purposes.

The financial results of SPA are consolidated with the financial results of STRATTEC and resulted in reduced net income to STRATTEC of approximately \$140,000 for the three months ended September 27, 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 truck 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 Group LLC, Hyundai Kia Automotive Group, General Motors Company and Ford Motor Company.

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## Fair Value of Financial Instruments

The fair value of our cash and cash equivalents, accounts receivable and accounts payable approximate book value as of September 27, 2009 and September 28, 2008. Fair value is defined as the exchange price that would be received for an asset or paid for a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. The following table summarizes our financial assets and liabilities measured at fair value on a recurring basis as of September 27, 2009 (in thousands of dollars):

|                    | Quoted Prices<br>In Active Market | Fair Value Inputs                       |                                 |
|--------------------|-----------------------------------|---|---------------------------------|
|                    |                                   | Observable Inputs<br>Than Market Prices | Other<br>Unobservable<br>Inputs |
| Rabbi Trust assets | \$3,817                           | \$-                                     | \$-                             |

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

## 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 fiscal 2009, the majority of our inventories were accounted for using the last-in, first-out (LIFO) method of accounting. During the fourth quarter of 2009, we changed our 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 inventories have a consistent costing method. For comparative purposes, all periods presented have been retrospectively adjusted on a FIFO basis. The following table summarizes the effect of the accounting change on our condensed consolidated financial statements for the three months ended September 28, 2008 (in thousands, except per share amounts):

|  | Originally<br>Reported | As<br>Reported<br>Under<br>FIFO |
|--|------------------------|---------------------------------|
| Condensed Consolidated Statements of Operations: |                        |                                 |
| Cost of goods sold                               | \$29,289               | \$29,307                        |
| Net income                                       | \$38                   | \$20                            |
| Basic earnings per share                         | \$0.01                 | \$0.01                          |
| Diluted Earnings per share                       | \$0.01                 | \$0.01                          |
| Condensed Consolidated Statements of Cash Flows: |                        |                                 |
| Change in inventories                            | \$(356)                | \$(338)                         |

## Shareholder's Equity

A summary of activity impacting shareholders' equity for the three month period ended September 27, 2009 is as follows (in thousands):

|                        | Total<br>Shareholders'<br>Equity | Equity<br>Attributed to<br>STRATTEC | Equity<br>Attributed<br>to<br>Non-Controlling<br>Interest |
|------------------------|----------------------------------|-------------------------------------|---|
| Balance, June 28, 2009 | \$ 72,557                        | \$ 71,418                           | \$ 1,139  |

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|                             |           |           |      |       |   |
|-----------------------------|-----------|-----------|------|-------|---|
| Net income (loss)           | 929       | 943       | (14  | )     |   |
| Translation adjustments     | (312      | )         | (312 | )     | - |
| Stock Based Compensation    | 106       | 106       | -    |       |   |
| Employee Stock Purchases    | 11        | 11        | -    |       |   |
| Balance, September 27, 2009 | \$ 73,291 | \$ 72,166 | \$   | 1,125 |   |

Other Income, net

Net other income included in the Condensed Consolidated Statements of Operations primarily includes foreign currency transaction gains and losses, 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 each of the periods presented is as follows (in thousands):

|                                   | Three Months Ended |           |
|-----------------------------------|--------------------|-----------|
|                                   | September          | September |
|                                   | 27,                | 28,       |
|                                   | 2009               | 2008      |
| Foreign Currency Transaction Gain | \$65               | \$238     |
| Rabbi Trust Gain (Loss)           | \$283              | \$(69     |
|                                   |                    | )         |



### Income Taxes

The income tax provision (benefit) for the three month periods ended September 27, 2009 and September 28, 2008 is impacted by a lower effective tax rate for income subject to tax in Mexico as compared to the effective tax rate for income subject to tax in the U.S. The effective tax rate for income subject to tax in Mexico is approximately 19 percent.

We did not have a significant change to the total amounts of unrecognized tax benefits during the three months ended September 27, 2009. However, STRATTEC is currently subject to income tax examinations in our Wisconsin jurisdiction for fiscal years 2005, 2006, 2007 and 2008. The audit is currently in process and preliminary results are not yet available.

### Earnings Per Share (EPS)

Basic 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.

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

|                               | Three Months Ended                           |                               |                     |  |                               |                     |
|-------------------------------|--|-------------------------------|---------------------|--|-------------------------------|---------------------|
|                               | September 27, 2009                           |                               |                     | September 28, 2008                           |                               |                     |
|                               | Net Income<br>Attributable<br>to<br>STRATTEC | Weighted<br>Average<br>Shares | Per-Share<br>Amount | Net Income<br>Attributable<br>to<br>STRATTEC | Weighted<br>Average<br>Shares | Per-Share<br>Amount |
| Basic Earnings Per<br>Share   | \$943  | 3,266                         | \$0.29              | \$20   | 3,332                         | \$0.01              |
| Stock-Based<br>Compensation   |  | 5                             |                     |  | 8                             |                     |
| Diluted Earnings<br>Per Share | \$943  | 3,271                         | \$0.29              | \$20   | 3,340                         | \$0.01              |

As of September 27, 2009, options to purchase 142,440 shares of common stock at a weighted-average exercise price of \$54.24 were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive. As of September 28, 2008, options to purchase 135,440 shares of common stock at a weighted-average exercise price of \$57.61 were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive.

### Stock-based Compensation

We maintain an omnibus stock incentive plan. This plan provides for the granting of stock options, shares of restricted stock and stock appreciation rights. 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 September 27, 2009 were 322,003. Awards that expire or are canceled without delivery of shares become available for re-issuance under the plan. We issue new shares of common stock to satisfy stock option exercises.

Nonqualified and incentive stock options and shares of restricted stock have been granted to our officers and specified employees under our stock incentive plan. Stock options granted under the plan may not be issued with an exercise price less than the fair market value of the common stock on the date the option is granted. Stock options

become exercisable as determined at the date of grant by the Compensation Committee of the Board of Directors. The options expire 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 and have a minimum vesting period of three years from the date of grant. Restricted shares granted have voting and dividend rights. The restricted stock grants issued to date vest 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 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.

There was no stock option activity under the stock incentive plan for the three months ended September 27, 2009. Stock options outstanding and exercisable as of September 27, 2009 are as follows:

|                                 | Shares  | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term<br>(years) | Aggregate<br>Intrinsic<br>Value<br>(in<br>thousands) |
|---------------------------------|---------|--|--|--|
| Outstanding, September 27, 2009 | 227,240 | \$38.07                                  | 5.9  | \$253  |
| Exercisable, September 27, 2009 | 130,440 | \$57.57                                  | 3.2  | \$-  |

The intrinsic value of stock options exercised and the fair value of stock options vesting during the three month periods presented is as follows (in thousands):

|                                      | Three Months Ended<br>September<br>27,<br>2009 | September<br>28<br>2008 |
|--------------------------------------|--|-------------------------|
| Intrinsic Value of Options Exercised | \$-  | \$-                     |
| Fair Value of Stock Options Vesting  | \$-  | \$469                   |

A summary of restricted stock activity under the stock incentive plan for the three months ended September 27, 2009 is as follows:

|                                       | Shares   | Weighted<br>Average Grant<br>Date<br>Fair Value |
|---------------------------------------|----------|---|
| Nonvested Balance, June 28, 2009      | 28,200   | \$ 38.64  |
| Granted                               | 10,000   | \$ 14.75  |
| Vested                                | (9,000 ) | \$ 40.00  |
| Forfeited                             | -        | \$ -  |
| Nonvested Balance, September 27, 2009 | 29,200   | \$ 30.04  |

As of September 27, 2009, there was \$294,000 of total unrecognized compensation cost related to stock options granted under the stock incentive plan. This cost is expected to be recognized over a weighted average period of 1.7 years. As of September 27, 2009, there was \$439,000 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 1 year. Total unrecognized compensation cost will be adjusted for any future changes in estimated and actual forfeitures of awards granted under the plan.

#### Pension and Other Postretirement Benefits

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. We also sponsor a postretirement health care plan for all of our 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. The postretirement health care plan is unfunded.

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

|                                       | Pension Benefits   |           | Postretirement Benefits |           |
|---------------------------------------|--------------------|-----------|-------------------------|-----------|
|                                       | Three Months Ended |           | Three Months Ended      |           |
|                                       | September          | September | September               | September |
|                                       | 27,                | 28,       | 27,                     | 28,       |
|                                       | 2009               | 2008      | 2009                    | 2008      |
| Service cost                          | \$470              | \$463     | \$31                    | \$48      |
| Interest cost                         | 1,285              | 1,271     | 175                     | 184       |
| Expected return on plan assets        | (1,588 )           | (1,641 )  | -                       | -         |
| Amortization of prior service cost    | 20                 | 20        | (97 )                   | (97 )     |
| Amortization of unrecognized net loss | 201                | 63        | 171                     | 174       |
| Net periodic benefit cost             | \$388              | \$176     | \$280                   | \$309     |

Voluntary contributions made to the qualified pension plan totaled \$1.0 million during the three month period ending September 27, 2009. No contributions were made to the qualified pension plan during the three months ended September 28, 2008. Voluntary contributions made during the second quarter of fiscal 2009 totaled \$3.0 million. Additional voluntary contributions of \$3.0 million are anticipated to be made during the remainder of fiscal 2010.

As noted above under Subsequent Events, certain amendments to the qualified pension plan have been adopted and are effective January 1, 2010.

Item 2

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

The following Management's Discussion and Analysis should be read in conjunction with STRATTEC SECURITY CORPORATION's accompanying Condensed Consolidated Financial Statements and Notes thereto and its 2009 Annual Report which was filed with the Securities and Exchange Commission as an exhibit to our Form 10-K on August 28, 2009. Unless otherwise indicated, all references to years refer to fiscal years.

Purchase of Delphi Power Products Business

Effective November 30, 2008, STRATTEC in combination with WITTE Automotive of Velbert, Germany, completed the acquisition of certain assets, primarily equipment and inventory, and assumption of certain employee liabilities of Delphi Corporation's Power Products business for approximately \$7.3 million. For 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 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 Condensed Consolidated Balance Sheets. All goodwill and other intangible assets resulting from the purchase are expected to be deductible for tax purposes.

The financial results of SPA are consolidated with the financial results of STRATTEC and resulted in reduced net income to STRATTEC of approximately \$140,000 for the three months ended September 27, 2009.

SPA designs, develops, tests, manufacturers, markets and sells power systems to operate vehicle sliding side doors and rear compartment access points such as liftgates and truck 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 Group LLC, Hyundai Kia Automotive Group, General Motors Company and Ford Motor Company.

Analysis of Results of Operations

Three months ended September 27, 2009 compared to the three months ended September 28, 2008

Net sales for the three months ended September 27, 2009 were \$41.2 million compared to net sales of \$34.7 million for the three months ended September 28, 2008. Sales to our largest customers overall increased in the current quarter compared to the prior year quarter levels. Sales to Chrysler Group LLC were \$12.8 million in the current quarter compared to \$7.1 million in the prior year quarter. Included in the current quarter were sales generated by SPA, offset by a combination of lower vehicle production volumes and reduced component content in the other security products we supply. Sales to General Motors Company were \$9.9 million in the current quarter compared to

\$12.3 million in the prior year quarter. The reduction was primarily due to lower vehicle production volumes. Sales to Ford Motor Company increased to \$3.7 million in the current quarter compared to \$2.3 million in the prior year quarter largely due to higher Ford vehicle production volumes. Also, in the current quarter, sales generated by SPA to Hyundai Kia were \$3.0 million.

Gross profit as a percentage of net sales was 16.5 percent in the current quarter compared to 15.6 percent in the prior year quarter. The increase in the gross profit margin was impacted by a favorable Mexican Peso to U.S. Dollar exchange rate affecting our operations in Mexico, partially offset by higher expediting and overtime costs incurred during September 2009 to meet significantly increased production requirements from our customers as they rebuilt retail inventories following the U.S. Government's "Cash for Clunkers" program that ended in August 2009. The inflation rate in Mexico for the twelve months ended September 27, 2009 was approximately 4.8 percent and increased our operating costs by approximately \$185,000 in the current quarter over the prior year quarter. The average U.S. dollar/Mexican peso exchange rate increased to approximately 13.30 pesos to the dollar in the current quarter from approximately 10.25 pesos to the dollar in the prior year quarter. This resulted in decreased costs related to our Mexican operations of approximately \$1.2 million in the current quarter over the prior year quarter.

Engineering, selling and administrative expenses were \$6.2 million in the current quarter compared to \$6.0 million in the prior year quarter. The current quarter includes expenses for SPA engineering and administrative personnel that were hired as of the acquisition date. These additional costs were partially offset by reduced salary costs due to the majority of U.S. associates taking unpaid time off in July 2009 and a January 2009 reduction in our salaried workforce.

The current quarter results include a \$220,000 recovery of allowance for doubtful accounts. In our third quarter ended March 29, 2009, we recorded a \$500,000 provision for doubtful accounts in connection with Chrysler LLC's filing for Chapter 11 bankruptcy protection for certain of their U.S. legal entities on April 30, 2009. As of September 27, 2009, all uncollectible amounts related to the bankruptcy filings were written off against the reserve.

The income from operations in the current quarter was \$819,000 compared to loss from operations of \$528,000 in the prior year quarter. This change was primarily the result of the increase in sales and gross profit margin as discussed above.

Net other income was \$428,000 in the current quarter compared to \$223,000 in the prior year quarter. The increase was primarily due to gains on the Rabbi Trust in the current quarter, partially offset by a reduction in favorable transaction gains resulting from foreign currency transactions entered into by our Mexican subsidiaries in the current quarter compared to the prior year quarter. The Rabbi Trust funds our supplemental executive retirement plan. Gains related to the Rabbi Trust totaled \$283,000 in the current quarter compared to losses of \$69,000 in the prior year quarter. The investments held in the Trust are considered trading securities. Foreign currency transaction gains totaled \$65,000 in the current quarter compared to \$238,000 in the prior year quarter.

The income tax provision (benefit) for the three month periods ended September 27, 2009 and September 28, 2008 is impacted by a lower effective tax rate for income subject to tax in Mexico as compared to the effective tax rate for income subject to tax in the U.S.

#### Liquidity and Capital Resources

Our primary source of cash flow is from our major customers, which include General Motors Company, Ford Motor Company, and Chrysler Group LLC. As of the date of filing this Form 10-Q with the Securities and Exchange Commission, all of our customers are making payments on their outstanding accounts receivable in accordance with the payment terms included on their purchase orders. A summary of our outstanding receivable balances from our major customers as of September 27, 2009 is as follows (in thousands of dollars):

|                | U.S.    | Canada | Mexico | Total   |
|----------------|---------|--------|--------|---------|
| General Motors | \$6,888 | \$700  | \$789  | \$8,377 |
| Ford           | 1,862   | 55     | 203    | 2,120   |
| Chrysler       | 3,501   | 6,182  | 1,061  | 10,744  |





On April 30, 2009, Chrysler LLC filed for Chapter 11 bankruptcy protection for certain of their U.S. legal entities. During the quarter ended March 29, 2009, we increased our provision for bad debts by \$500,000 to cover the portion of the pre-bankruptcy receivable balances which we believed could be uncollectible. As of September 27, 2009, all uncollectible amounts related to the bankruptcy filings were written off against the reserve. During the current quarter, \$220,000 of the \$500,000 provision was recorded as a recovery of allowance for doubtful accounts.

Cash flow provided by operating activities was \$1.2 million during the three months ended September 27, 2009 compared to \$683,000 during the three months ended September 28, 2008. Current period operating cash flow was negatively impacted by planned assembly plant downtime experienced by both General Motors and Chrysler during the months of May through July. Pension contributions to our qualified plan totaled \$1 million during the current year quarter. No pension contributions were made during the prior year quarter.

Capital expenditures during the three months ended September 27, 2009, were \$1.8 million. Capital expenditures during the three months ended September 28, 2008, were \$5.3 million, which included approximately \$3.2 million for the construction of a new facility in Mexico. The construction of the new facility was completed in fiscal 2009. We anticipate that capital expenditures will be approximately \$5 million to \$6 million in fiscal 2010, primarily relating to expenditures 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 buy back under the program totaled 3,839,395 at September 27, 2009. A total of 3,655,322 shares have been repurchased as of September 27, 2009, at a cost of approximately \$136.4 million. No shares were repurchased during the three months ended September 27, 2009. Additional repurchases may occur from time to time and are expected to continue to be funded by cash flow from operations and current cash balances. Based on the current economic environment and our preference to conserve cash, we anticipate minimal or no stock repurchase activity in fiscal year 2010.

We have a \$20.0 million unsecured line of credit (the "Line of Credit") with M&I Marshall & Ilsley Bank, which expires October 30, 2010. This unsecured line of credit replaced a \$50.0 million unsecured line of credit with M&I Marshall & Ilsley Bank which terminated on October 31, 2009. There were no outstanding borrowings under the Line of Credit at September 27, 2009 or September 28, 2008. Interest on borrowings under our line of credit is at varying rates based on the London Interbank Offering Rate with a minimum annual rate of 4 percent. We believe that the Line of Credit is adequate, along with existing cash balances and cash flow from operations, to meet our anticipated capital expenditure, working capital and operating expenditure requirements. The Line of Credit is not subject to any covenants.

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 and brass and inflation in Mexico, which impacts the U. S. dollar costs of our Mexican operations. We have negotiated raw material price adjustments clauses with certain customers to offset some of the market price fluctuations. We do not hedge against our Mexican peso exposure.

#### 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. On October 29, 2009, VAST LLC entered into an agreement to purchase the non-controlling interest of its two Chinese joint ventures, VAST Fuzhou and VAST Great Shanghai, for \$9.6 million. STRATTEC’s share of the purchase price will total \$3.2 million. The transaction is expected to be completed during STRATTEC’s second quarter of fiscal 2010 and is pending customary government approval in China. Upon completion of the transaction, VAST LLC will own 100% of the Chinese joint ventures. 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 LLC joint ventures resulted in equity earnings of joint ventures of approximately \$96,000 during the three months ended September 27, 2009 and \$41,000 during the three months ended September 28, 2008. No capital contributions were made to VAST LLC during the current quarter. During the quarter ended September 28, 2008, the VAST partners made capital contributions to VAST LLC totaling \$375,000 in support of general operating expenses. STRATTEC’s portion of the capital contributions totaled \$125,000.

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 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 an increase in net income to STRATTEC of \$28,000 during the three months ended September 27, 2009 and increased net income to STRATTEC of \$186,000 during the three months ended September 28, 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. SPA’s financial results are consolidated with the financial results of STRATTEC. For the three months ended September 27, 2009, the operating results of SPA resulted in decreased net income to STRATTEC of approximately \$140,000.

#### Recently Issued Accounting Standards

On December 30, 2008, the FASB issued a new accounting standard which significantly expands the disclosures required by employers for postretirement plan assets. The new standard requires plan sponsors to provide extensive new disclosures about assets in defined benefit postretirement benefit plans as well as any concentrations of associated risks. The new standard is effective for periods ending after December 15, 2009. The disclosure requirements are annual and do not apply to interim financial statements. We are required to provide the expanded pension plan asset disclosure in our annual financial statements for the year ending June 27, 2010.



### Critical Accounting Policies

The Company believes the following represents its 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 in our 2009 Annual Report 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. Actual results that differ from these assumptions are deferred and, under certain circumstances, amortized over future periods. 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. Refer to the discussion of Critical Accounting Policies included in the Management’s Discussion and Analysis and Retirement Plans and Postretirement Costs included in the Notes to Financial Statements in our 2009 Annual Report filed with the Securities and Exchange Commission as an exhibit to our Form 10-K on August 28, 2009.

**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 in our 2009 Annual Report filed with the Securities and Exchange Commission as an exhibit to our Form 10-K on August 28, 2009.

**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 in our 2009 Annual Report filed with the Securities and Exchange Commission as an exhibit to our Form 10-K on August 28, 2009.



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 collectibility 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 collectibility 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 included in the Management’s Discussion and Analysis in our 2009 Annual Report filed with the Securities and Exchange Commission as an exhibit to our Form 10-K on August 28, 2009. Also, refer to the discussion of Receivables under Organization and Summary of Significant Accounting Policies included in Notes to Financial Statements in our 2009 Annual Report filed with the Securities and Exchange Commission as an exhibit to our Form 10-K on August 28, 2009. 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 protection 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. As of September 27, 2009, all uncollectible amounts related to the bankruptcy filings were written off against the \$500,000 reserve and \$220,000 of the \$500,000 provision was recorded as a recovery of allowance for doubtful accounts.

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 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 in our 2009 Annual Report filed with the Securities and Exchange Commission as an exhibit to our Form 10-K on August 28, 2009.

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 – 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 71 percent of our annual net sales (based on fiscal 2009 results) 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 announced certain vehicle models planned for discontinuation (Jeep Commander, Jeep Compass, Jeep Patriot, Dodge Nitro, Dodge Avenger, Dodge Caliber, Dodge Durango, Dodge Dakota, Dodge Viper, Chrysler Sebring, Chrysler Aspen etc.). Subsequently, certain of the models have been reaffirmed for continued production over the next two years. We continue to evaluate the impact these evolving plans have on our business as more details become available.

Our major customers also have significant under-funded 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, of which we subsequently recovered \$220,000 of the \$500,000 provision. This directly reduced our pre-tax net income during 2009.

Production Slowdowns by Customers – Our major customers and many of their suppliers have been significantly impacted by the slowing economy. Many of our major customers have instituted production cuts during fiscal 2009 and fiscal 2010. Moreover, certain of our major customers have announced plans to continue these production cuts 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. Consequently, this downtime reduced our production schedules and affected both our sales and profitability for our fiscal fourth quarter ending June 28, 2009 and our fiscal 2010 first quarter ending September 27, 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 cuts 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 at 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 effect 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 dependent 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 our all of 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 slow-downs 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-downs of most of General Motors' North American assembly plants in February 2008 and in 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 29, 2014. 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.



### Item 3 Quantitative and Qualitative Disclosures About Market Risk

Our exposure to market risk is limited to foreign currency exchange rate risk associated with STRATTEC's foreign operations. We do not utilize financial instruments for trading purposes and hold no derivative financial instruments which would expose us to significant market risk. We have not had outstanding borrowings since December 1997. To the extent that we incur future borrowings under our line of credit, we would be subject to interest rate risk related to such borrowings. There is, therefore, currently no significant exposure to market risk for changes in interest rates. However, we are subject to foreign currency exchange rate exposure related to the U.S. dollar costs of our Mexican operations. A material increase in the value of the Mexican peso relative to the U.S. dollar would increase our expenses and, therefore, could adversely affect our profitability.

### Item 4 Controls and Procedures

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

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II  
Other Information

Item 1 Legal Proceedings

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

Item 1A. - Risk Factors

Please refer to the section titled "Risk Factors" herein for disclosures regarding the risks and uncertainties relating to our business. There are no material changes to the risk factors disclosed in our Form 10-K as filed with the Securities and Exchange Commission on August 28, 2009.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds –

Issuer Purchases of Equity Securities

Our Board of Directors authorized a stock repurchase program on October 16, 1996, and the program was publicly announced on October 17, 1996. The Board of Directors has periodically increased the number of shares authorized under the program, most recently in August 2008. The program currently authorizes the repurchase of up to 3,839,395 shares of our common stock from time to time, directly or through brokers or agents, and has no expiration date. Over the life of the repurchase program through September 27, 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 September 27, 2009.

Item 3 Defaults Upon Senior Securities - None

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

Item 5 Other Information - None

Item 6 Exhibits

(a) Exhibits

- 4.4 Promissory Note dated as of October 31, 2009 by and between the Company and M&I Bank
- 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 18 U.S.C. Section 1350 Certifications
- (1)

(1) This certification is not "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.



SIGNATURE

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

STRATTEC SECURITY CORPORATION (Registrant)

Date: November 5, 2009

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