

**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 July 3, 2016.
- 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  (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

The aggregate market value of the voting Common Stock held by non-affiliates of the registrant as of December 24, 2015 (the last business day immediately preceding the Registrant's most recently completed fiscal second quarter), was approximately \$199,262,000 (based upon the last reported sale price of the Common Stock at December 24, 2015 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 5, 2016, there were outstanding 3,636,517 shares of the Registrant's \$.01 par value Common Stock (which includes any unvested restricted shares previously awarded).

Documents Incorporated by Reference

Document  
Portions of the Annual Report to Shareholders for the fiscal year ended July 3, 2016

Part of the Form 10-K  
into which incorporated  
I, II, IV

Portions of the Proxy Statement dated on or about September 8, 2016, for the Annual Meeting of Shareholders to be held on October 11, 2016.

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 2016 Annual Report to Shareholders and the Company's Proxy Statement, dated September 8, 2016, 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 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, or otherwise incorporated herein by reference, 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, consumer demand for the Company's and its customers' products, competitive and technological developments, customer purchasing actions, changes in warranty provisions and customers' recall policies, foreign currency fluctuations, fluctuations in costs of operations (including fluctuations in the cost of raw materials), the volume and scope of product returns and warranty claims and other matters described under "Risk Factors" in the Management's Discussion and Analysis section of the Company's 2016 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 2016 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 58 of the Company’s 2016 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 trending toward 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 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 ignition interface systems with passive start capabilities.

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

#### Sources and Availability of Raw Materials

The Company’s primary raw materials are high-grade zinc, brass, nickel silver, steel, aluminum and plastic resins. These materials are generally available from a number of suppliers, but the Company has chosen to concentrate its sourcing with one primary vendor for each commodity. The Company believes its sources for raw materials are very reliable and adequate for its 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 32 of the Company’s 2016 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 herein are of considerable importance to the manufacturing and marketing of many of its access control products, the Company does not consider any single patent or trademark or group of related 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 Company, Ford Motor Company, and Fiat Chrysler Automobiles. These three customers accounted for approximately 63 percent of the Company’s net sales in 2016, 65 percent of the Company’s net sales in 2015 and 70 percent of the Company’s net sales in 2014. 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 by Customers” included on page 30 of the Company’s 2016 Annual Report to Shareholders and “Notes to Financial Statements-Sales and Receivable Concentration” included on page 58 of the Company’s 2016 Annual Report to Shareholders, all of which are incorporated herein by reference.

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 Company, Fiat Chrysler Automobiles, Ford Motor Company and other customers in the past, and expects to continue 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. We cannot provide any assurance that any lost sales volume could be replaced despite our historical relationships with our customers.

### **Sales and Marketing**

The Company provides its customers with engineered access control products including locksets, fobs, push button ignition systems, steering column lock housings, seatback and secondary latches, power sliding door systems, power liftgate systems, power decklids, door handles, door handle components and trim 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 access control products are designed concurrently with the vehicle. Therefore, commitment to the Company as the production source for such products and components occurs 1 to 3 years prior to the start of production for such components. 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 in its industry. 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 supplier for access control products 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 over the life of the product program 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 and, accordingly, it is unable to provide a meaningful backlog comparison from year to year.

### **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 access control 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 access control 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 and keys 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, latches and power access competitors include Huf North America, Ushin, Valeo, Tokai-Rika, Alpha-Tech, Honda Lock, Shin Chang, Magna, Edscha, Stabilus, Aisin, Brose, Mitsuba, Ohi, Kiekert, Inteva, Key Plastics and Gecom. For additional information related to competition, see the information set forth under "Risk Factors-Highly Competitive Automotive Supply Industry" included on pages 32 and 33 of the Company's 2016 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 2016, 2015, and 2014, the Company spent approximately \$430,000, \$280,000, and \$700,000, respectively, on research and development. The Company believes that, historically, it has committed sufficient resources to research and development and it intends to 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-Organization and Summary of Significant Accounting Policies-Customer Tooling in Progress" included on page 41 of the Company's 2016 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 pages 51 and 52 of the Company's 2016 Annual Report to Shareholders, 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 spill 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.

## **Employees**

At July 3, 2016, the Company had approximately 3,877 full-time employees, of which approximately 275 or 7.1 percent were represented by a labor union, which accounts for all production associates at the Company's Milwaukee facility. The current contract with the unionized associates is effective through September 17, 2018. 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 page 32 of the Company's 2016 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, proxy statements for annual shareholder meetings 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 30 through 33 of the Company’s 2016 Annual Report to Shareholders is incorporated herein by reference. The risks described in the section “Risk Factors” in the Company’s 2016 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 four manufacturing plants, one warehouse, and one sales office. These facilities are described as follows:

<u>Location</u>	<u>Type</u>	<u>Sq. Ft.</u>	<u>Owned or Leased</u>
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 and Assembly	76,000	Owned
Juarez, Chihuahua Mexico	Subsidiary Offices, Key Finishing, Injection Molding and Assembly Operations	140,000	Owned
El Paso, Texas	Finished Goods Warehouse	94,530	Leased**
Auburn Hills, Michigan	Sales and Engineering Office for Detroit Customer Area	58,700	Owned

\*\* Leased unit within a complex.

On March 17, 2016, ADAC-STRATTEC de Mexico (ASdM), a wholly owned subsidiary of ADAC-STRATTEC LLC, which is a joint venture between STRATTEC SECURITY CORPORATION and ADAC Automotive, purchased land in Leon, Mexico. ASdM is in the process of constructing a new manufacturing facility on this land. This facility is expected to be used primarily to paint and assemble door handle products and is expected to be completed and operational at the end of our fiscal year 2017.

**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, action or proceeding the ultimate disposition of which would have a material adverse effect on the Company’s financial statements.

**Item 4. Mine Safety Disclosures**

None.

## 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. Since inception of the stock repurchase program, the Board of Directors has periodically increased the number of shares authorized for repurchase under the program. At July 3, 2016, 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 July 3, 2016, 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 or year ended July 3, 2016.

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 63 of the Company's 2016 Annual Report to Shareholders is incorporated herein by reference.

### Item 6. Selected Financial Data

The information set forth under "Financial Summary – Five Year Financial Summary," which appears on page 62 of the Company's 2016 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 14 through 33 of the Company's 2016 Annual Report to Shareholders, is incorporated herein by reference.

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

Our exposure to market risk is limited to interest rate fluctuations on borrowings under our secured revolving credit facilities, foreign currency exchange rate risk associated with our foreign operations, and fluctuations in raw material commodity prices. We do not utilize financial instruments for trading purposes.

**Interest Rates:** We are subject to interest rate fluctuations on borrowings under our revolving credit facilities. At July 3, 2016, we had \$20 million of outstanding borrowings under our credit facilities. The interest expense related to borrowings under these credit facilities during the year ended July 3, 2016 was \$176,000. A 10% increase or decrease in the interest rate on borrowings would not have a material effect on our financial position, results of operations or cash flows.

**Foreign Currency:** We are subject to foreign currency exchange rate exposure related to the U.S. dollar costs of our manufacturing operations in Mexico. A portion of our manufacturing costs are incurred in Mexican pesos. Our earnings and cash flows are subject to fluctuations as a result of changes in the U.S. dollar / Mexican peso exchange rate. During 2016, we executed contracts with Bank of Montreal that provide for bi-weekly and monthly Mexican peso currency forward contracts for a portion of our estimated peso denominated operating costs. The current peso currency forward contracts include settlement dates that began on October 16, 2015 and end on June 15, 2017. No forward contracts were in place during fiscal 2015 or 2014. Our objective in entering into these currency forward contracts is to minimize our earnings volatility resulting from changes in exchange rates affecting the U.S. dollar cost of our Mexican operations. The Mexican peso forward contracts are not used for speculative purposes and are not designated as hedges. As a result, all currency forward contracts are recognized in our accompanying consolidated financial statements at fair value and changes in the fair value are reported in current earnings as part of Other Income, net.

The following table quantifies the outstanding Mexican peso forward contracts as of July 3, 2016 (thousands of dollars, except average forward contractual exchange rates):

	Effective Dates	Notional Amount	Average Forward Contractual Exchange Rate	Fair Value
Buy MXP/Sell USD	July 15, 2016 - June 15, 2017	\$ 24,000	17.95	\$ (996)
Buy MXP/Sell USD	July 15, 2017 - June 15, 2018	\$ 6,000	19.80	\$ 107

The fair market value of all outstanding Mexican peso forward contracts in the accompanying Consolidated Balance Sheets was as follows (thousands of dollars):

	July 3, 2016	June 28, 2015
Not Designated as Hedging Instruments:		
Other Long-Term Assets:		
Mexican Peso Forward Contracts	\$ 107	\$ —
Other Current Liabilities:		
Mexican Peso Forward Contracts	\$ 996	\$ —

The pre-tax effects of the Mexican peso forward contracts are included in Other Income, net on the accompanying Consolidated Statements of Operations and Comprehensive Income and consisted of the following (thousands of dollars):

	Years Ended		
	July 3, 2016	June 28, 2015	June 29, 2014
Not Designated as Hedging Instruments:			
Realized Loss	\$ 1,196	\$ —	\$ —
Unrealized Loss	\$ 889	\$ —	\$ —

See “Risk Factors – Currency Exchange Rate Fluctuations” included on pages 31 and 32 of the Company’s 2016 Annual Report to Shareholders, which is incorporated herein by reference, for more information.

**Raw Materials Commodity Prices:** Our primary raw materials are high-grade zinc, brass, nickel silver, 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 zinc 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 all of our customers. See “Risk Factors – Sources of and Fluctuations in Market Prices of Raw Materials” included on page 32 of the Company’s 2016 Annual Report to Shareholders, which is incorporated herein by reference, for more information.

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

The financial statements, together with the report thereon of Deloitte & Touche LLP dated September 8, 2016, the report of management on internal control over financial reporting and the report of Deloitte & Touche LLP on internal control over financial reporting dated September 8, 2016, which appear on pages 34 through 61 of the Company’s 2016 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 63 of the Company’s 2016 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, as amended (the “Exchange Act”)), that are designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the U.S. Securities 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 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 of 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 July 3, 2016 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 59 of the Company’s 2016 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 60 of the Company’s 2016 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, Executive Officers and Corporate Governance

The information included in the Company's Proxy Statement, dated on or about September 8, 2016, under "Proposal 1: Election of a Director," "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 three outside independent directors, David R. Zimmer, Audit Committee Chairman, Thomas W. Florsheim, Jr., and Michael J. Koss.

### Item 11. Executive Compensation

The information included in the Company's Proxy Statement, dated on or about September 8, 2016, under "Director Compensation" and "Executive Compensation" is incorporated herein by reference.

The information incorporated by reference from "Report of the Compensation Committee" in the Company's Proxy Statement, dated on or about September 8, 2016, 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 on or about September 8, 2016, under "Security Ownership" is incorporated herein by reference.

### Equity Compensation Plan Information

The following table summarizes share information, as of July 3, 2016, for the Company's Amended and Restated 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	144,998	\$ 28.86	230,289
Equity compensation plans not approved by shareholders	—	—	—
Total	<u>144,998</u>	<u>\$ 28.86</u>	<u>230,289</u>

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

The information included in the Company's Proxy Statement, dated on or about September 8, 2016, 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 on or about September 8, 2016, 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) Financial Statements - The following financial statements of the Company, included on pages 34 through 61 of the Company's 2016 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 (Deloitte & Touche LLP)

Consolidated Balance Sheets - as of July 3, 2016 and June 28, 2015

Consolidated Statements of Operations and Comprehensive Income - years ended July 3, 2016, June 28, 2015 and June 29, 2014

Consolidated Statements of Shareholders' Equity – years ended July 3, 2016, June 28, 2015 and June 29, 2014

Consolidated Statements of Cash Flows - years ended July 3, 2016, June 28, 2015 and June 29, 2014

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 13 of this report.

(b) Exhibits

See "Exhibit Index" and the exhibits attached hereto or previously filed as described in the "Exhibit Index" beginning on page 13 of this report.

(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/ Frank J. Krejci  
Frank J. Krejci  
President and Chief Executive Officer

Date: September 8, 2016

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/ Frank J. Krejci</u> Frank J. Krejci	President, Chief Executive Officer, and Director (Principal Executive Officer)	September 8, 2016
<u>/s/ Harold M. Stratton II</u> Harold M. Stratton II	Chairman and Director	August 24, 2016
<u>/s/ Michael J. Koss</u> Michael J. Koss	Director	August 24, 2016
<u>/s/ Thomas W. Florsheim, Jr.</u> Thomas W. Florsheim, Jr.	Director	August 24, 2016
<u>/s/ David R. Zimmer</u> David R. Zimmer	Director	August 24, 2016
<u>/s/ Patrick J. Hansen</u> Patrick J. Hansen	Senior Vice President, Chief Financial Officer, Secretary and Treasurer (Principal Financial and Accounting Officer)	September 8, 2016

**EXHIBIT INDEX TO ANNUAL REPORT  
ON FORM 10-K**

<u>Exhibit</u>		
3.1 (1)	Amended and Restated Articles of Incorporation of the Company	*
3.2 (2)	By-laws of the Company	*
4.1 (4)	Credit Agreement, dated as of August 1, 2011, between STRATTEC SECURITY CORPORATION and BMO Harris Bank N.A., as lender	*
4.2 (4)	Security Agreement, dated as of August 1, 2011, made by STRATTEC SECURITY CORPORATION in favor of BMO Harris Bank N.A., as lender	*
4.3 (10)	Amendment No. 1 to Credit Agreement, dated as of December 27, 2013, between STRATTEC SECURITY CORPORATION and BMO Harris Bank N.A., as lender	*
4.4 (9)	Amendment No. 2 to Credit Agreement, dated as of June 25, 2015, between STRATTEC SECURITY CORPORATION and BMO Harris Bank N.A., as lender	*
4.5 (16)	Amendment No. 3 to Credit Agreement, dated as of June 24, 2016, between STRATTEC SECURITY CORPORATION and BMO Harris Bank N.A., as lender	*
4.6 (9)	Credit Agreement, dated as of June 28, 2012, between ADAC-STRATTEC LLC and BMO Harris Bank N.A., as lender	*
4.7 (9)	Amendment No. 1 to Credit Agreement, dated as of January 22, 2014, between ADAC-STRATTEC LLC and BMO Harris Bank N.A., as lender	*
4.8 (9)	Amendment No. 2 to Credit Agreement, dated as of June 25, 2015, between ADAC-STRATTEC LLC and BMO Harris Bank N.A., as lender	*
4.9 (15)	Amendment No. 3 to Credit Agreement, dated as of April 27, 2016, between ADAC-STRATTEC LLC and BMO Harris Bank N.A., as lender	*
10.1 (11)**	Amended and Restated STRATTEC SECURITY CORPORATION Stock Incentive Plan	*
10.2 (13)**	Form of Restricted Stock Grant Agreement with employees	*
10.3 (14)**	Amended STRATTEC SECURITY CORPORATION Economic Value Added Bonus Plan for Executive Officers and Senior Managers	*
10.4 (6)**	Amended STRATTEC SECURITY CORPORATION Economic Value Added Bonus Plan for Non-employee Members of the Board of Directors	*
10.5 (12)**	Amended and Restated STRATTEC SECURITY CORPORATION Supplemental Executive Retirement Plan	*
10.6 (5)**	Employment Agreement between the Company and Frank J. Krejci, Patrick J. Hansen, Rolando J. Guillot, Brian J. Reetz and Richard P. Messina made as of May 5, 2010.	*
10.7 **	Change of Control Employment Agreement between the Company and Frank J. Krejci made as of July 1, 2016.	
10.8 **	Change of Control Employment Agreement between the Company and Patrick J. Hansen made as of July 1, 2016.	
10.9 **	Change of Control Employment Agreement between the Company and Rolando J. Guillot made as of July 1, 2016.	
10.10 **	Change of Control Employment Agreement between the Company and Brian J. Reetz made as of July 1, 2016.	
10.11 **	Change of Control Employment Agreement between the Company and Richard P. Messina made as of July 1, 2016.	
10.12 (13)**	Form of Restricted Stock Grant Agreement with non-employee directors	*
10.13 (8)**	Amended STRATTEC SECURITY CORPORATION Employee Stock Purchase Plan	*
10.14 (7)**	Letter Agreement between the Company and Harold M. Stratton II made as of September 1, 2012	*
13	Annual Report to Shareholders for the year ended July 3, 2016	
21 (3)	Subsidiaries of the Company	*
23	Consent of Independent Registered Public Accounting Firm dated September 8, 2016	
31.1	Rule 13a-14(a) Certification for Frank J. Krejci, Chief Executive Officer	
31.2	Rule 13a-14(a) Certification for Patrick J. Hansen, Chief Financial Officer	
32 (17)	18 U.S.C. Section 1350 Certifications	
101	Interactive Data Files pursuant to Rule 405 of Regulation S-T	

\* Previously filed  
\*\* Management contract or compensatory plan or arrangement

- (1) Incorporated by reference from Amendment No. 2 to the Form 10 filed on February 6, 1995.  
(2) Incorporated by reference from the exhibit to the Form 8-K filed on October 7, 2005.  
(3) Incorporated by reference from the exhibit to the June 29, 2008 Form 10-K filed on August 29, 2008.  
(4) Incorporated by reference from the exhibit to the Form 8-K filed on August 4, 2011.

- (5) Incorporated by reference from the exhibit to the March 28, 2010 Form 10-Q filed on May 6, 2010.
- (6) Incorporated by reference from the exhibit to the July 3, 2011 Form 10-K filed on September 8, 2011.
- (7) Incorporated by reference from the exhibit to the July 1, 2012 Form 10-K filed on September 6, 2012.
- (8) Incorporated by reference from the exhibit to the Form 8-K filed on January 2, 2013.
- (9) Incorporated by reference from the exhibit to the Form 8-K filed on June 25, 2015.
- (10) Incorporated by reference from the exhibit to the Form 8-K filed on December 27, 2013.
- (11) Incorporated by reference from the exhibit to the Form 10-Q filed on November 6, 2014.
- (12) Incorporated by reference from the exhibit to the Form 8-K filed on October 10, 2013.
- (13) Incorporated by reference from the exhibit to the Form 10-K filed on September 5, 2014.
- (14) Incorporated by reference from the exhibit to the Form 10-K filed on September 4, 2015.
- (15) Incorporated by reference from the exhibit to the Form 8-K filed on April 29, 2016.
- (16) Incorporated by reference from the exhibit to the Form 8-K filed on June 24, 2016.
- (17) 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

AGREEMENT by and between STRATTEC SECURITY CORPORATION, a Wisconsin corporation (the "Company"), and Frank Krejci (the "Executive"), dated as of the 1st day of July, 2016.

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.

All references in this section 2 to common stock shall include, to the extent applicable, references to equity interests, and all references in this section 2 to directors or board of directors shall include, to the extent applicable, references to any other applicable management body of a person.

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 in cash at least equal to the highest cash bonus paid to the Executive by the Company and its affiliated companies in respect of the ten 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) (referred to herein as the "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 business 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 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 unreasonably withheld, delayed or conditioned).

(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 reasonably believes that the Executive willfully and continuously failed to perform substantially the Executive's duties and which failure by the Executive has not been cured within 30 days' after receipt of such notice, 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) Subject to Section 9 hereof, 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 Annual Bonus, which amount shall be calculated in accordance with section 4(b)(ii) above except that the ten year period shall end with the most recently completed fiscal year prior to the Date of Termination, 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 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 subject to ordinary tax withholding and all required deductions; and

[b] The amount equal to (i) three (3) years of Executive's Annual Base Salary as of the Date of Termination plus (ii) the Annual Bonus], subject to ordinary tax withholding and all required deductions; and

(ii) For a period of three (3) years after the Executive's Dates of Termination (such period of time is referred to herein as the "Benefit Period"),] the Company shall, to the extent permitted by the terms and conditions of any relevant plan, program or policy, continue paying its normal portion of Executive's medical, dental and health insurance premiums pursuant to the provisions of the Consolidated Omnibus Budget Reconciliation Act ("COBRA"), provided that Executive first timely elects to continue such coverage under COBRA, and subject to any federal COBRA premium subsidies (if any) for which Executive may be eligible; 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. Additionally, during the Benefit Period, the Company will also continue Employee's life insurance and disability coverage and other benefits (other than the medical and other welfare benefits covered by the foregoing sentence) under the plans, programs, practices and policies described in Section 4(b)(iv) above, to the extent permitted under such applicable plans, programs, practices and policies, and will pay to the Employee the fringe benefits pursuant to Section 4(b)(vi) which have accrued prior to the Date of Termination.

(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, including, without limitation, any retirement plan, supplemental retirement plan, deferred compensation plan or other arrangement (such other amounts and benefits shall be hereinafter referred to as the "Other Benefits").

(v) To the extent not otherwise vested, the Executive shall immediately vest in any compensation previously deferred by the Executive (together with any accrued interest or earnings thereon).

(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 Executive's 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 his or her Accrued Obligations and the timely payment or provision of Other Benefits, but only to the extent vested or earned and not paid as of the date of termination. 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. 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, but only to the extent vested or earned and not paid as of the date of termination. 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. To the extent not otherwise vested, the Executive shall immediately vest in any compensation previously deferred by the Executive (together with any accrued interest or earnings thereon).

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 Tax Matters.

(a) Excise Taxes. If any payments or benefits paid or provided or to be paid or provided to the Executive or for the Executive's benefit pursuant to the terms of this Agreement or otherwise in connection with, or arising out of, employment with the Company or its subsidiaries or the termination thereof (a "Employment Payment" and, collectively, the "Employment Payments") would be subject to the excise tax imposed by section 4999 of the Code (the "Excise Tax"), then the Executive may elect for such Employment Payments to be reduced to one dollar less than the amount that would constitute a "parachute payment" under section 280G of the Code (the "Scaled Back Amount"). Any such election must be in writing and delivered to the Company. If the Executive does not elect to have Employment Payments reduced to the Scaled Back Amount, the Executive shall be responsible for payment of any Excise Tax resulting from the Employment Payments and the Executive shall not be entitled to a gross-up payment under this Agreement or any other arrangement for such Excise Tax. If the Employment Payments are to be reduced, they shall be reduced in the following order of priority: (i) first from cash compensation, (ii) next from equity compensation, then (iii) pro-rated among all remaining Employment Payments and benefits. Within each such priority category, Employment Payments shall be reduced on a last to be paid, first reduced basis;

provided that if there is a question as to which Employment Payments within any of the foregoing categories are to be reduced first, the Employment Payments that will produce the greatest present value reduction in the Employment Payments with the least reduction in economic value provided to the Executive shall be reduced first.

(b) Code Section 409A.

(i) To the extent applicable, it is intended that this Agreement and any payment made hereunder shall comply with the requirements of section 409A of the Code or any exemption or exclusion therefrom, and any related regulations or other guidance promulgated with respect to such section by the Internal Revenue Service ("Code section 409A") and shall in all respects be administered in accordance with Code section 409A. Any provision that would cause this Agreement or any payment hereof to fail to satisfy Code section 409A shall have no force or effect until amended to comply with Code section 409A in the least restrictive manner necessary and without any diminution in the value of the payments to the Executive, which amendment may be retroactive to the extent permitted by Code section 409A. Notwithstanding anything in this Agreement to the contrary, to the extent that any amount or benefit that would constitute "nonqualified deferred compensation" under Code section 409A would otherwise be payable or distributable hereunder by reason of the Employee's termination of employment, such amount or benefit will not be payable or distributable to the Executive by reason of such circumstance unless (i) the circumstances giving rise to such termination of employment meet any description or definition of "separation from service" in Code section 409A or (ii) the payment or distribution of such amount or benefit would be exempt from the application of Code section 409A by reason of the short-term deferral exemption or otherwise. If this provision prevents the payment or distribution of any amount or benefit, such payment or distribution shall be made on the date, if any, on which an event occurs that constitutes a Code section 409A-compliant "separation from service."

(ii) All reimbursements and in-kind benefits provided under this Agreement shall be made or provided in accordance with the requirements of Code section 409A, including, without limitation, that [a] in no event shall reimbursements by the Company under this Agreement be made later than the end of the calendar year next following the calendar year in which the applicable fee and expenses were incurred, [b] the amount of in-kind benefits that the Company is obligated to pay or provide in any given calendar year shall not affect the in-kind benefits that the Company is obligated to pay or provide in any other calendar year; and [c] the Executive's right to have the Company pay or provide such reimbursements and in-kind benefits may not be liquidated or exchanged for any other benefit.

(iii) To the extent the Executive is a "specified employee," as defined in section 409A(a)(2)(B)(i) of the Code and the regulations and other guidance promulgated thereunder and any elections made by the Company in accordance therewith, notwithstanding the timing of payment provided in any other section of this Agreement, no payment, distribution or benefit under this Agreement that constitutes a distribution of nonqualified deferred compensation (within the meaning of Treasury Regulation section 1.409A-1(b)) upon the Executive's "separation from service" (within

the meaning of Treasury Regulation section 1.409A-1(h)), after taking into account all available exemptions, that would otherwise be payable during the six-month period after the Executive's separation from service, will not be made during such six-month period, and any such payment, distribution or benefit will instead be paid on the first business day after such six-month period (the "Delayed Payment Date"); provided, however, that if the Executive dies following a separation from service but before the Delayed Payment Date, such amounts shall be paid to the personal representative of the Executive's estate within thirty (30) days following the Executive's death.

#### 10. Confidential Information; Trade Secrets.

(a) Confidential Information. For purposes of this Agreement, "Confidential Information" means confidential information, to the extent it is not a trade secret, that is possessed by or developed for the Company and that relates to the Company's business or technology, including but not limited to computer program object and source codes, business plans and strategies, existing or proposed bids, technical developments, existing or proposed research projects, financial or business projections, investments, marketing plans and strategies, pricing and cost information, negotiations strategies, sales strategies, training information and materials, employee compensation and other employee information, customer or potential customer lists, customer purchasing history, and information generated for customer engagements. Confidential Information also includes information received by the Company from others which the Company has an obligation to treat as confidential, including information obtained in connection with customer engagements. Confidential Information shall not include information that is or becomes available to the public through no wrongful act or omission of Executive. The parties agree that the Company's Confidential Information was established at great expense and protected as confidential information and provides the Company with a substantial competitive advantage in conducting its business. The parties further agree that by virtue of the Executive's employment with the Company, Executive will have access to, and be entrusted with, Confidential Information and that the Company would suffer great loss and injury if the Executive would disclose this information or use it to compete with the Company. Therefore, the Executive agrees that during the term of Executive's employment, and until the first to occur of (i) such time as the Confidential Information becomes generally available to the public through no fault of Executive, (ii) such time as the Confidential Information no longer provides a benefit to the Company or (iii) the second anniversary of the termination of Executive's employment with the Company, Executive will not, directly or indirectly, in any capacity, use or disclose, or cause to be used or disclosed, in any geographic area in which such use or disclosure could harm the Company's business interests, any Confidential Information. This provision does not prohibit Executive's use of general skills acquired prior to or during employment by the Company, as long as such use does not involve the use or disclosure of Confidential Information or trade secrets. The restrictions contained in this paragraph apply to Confidential Information regardless of the fact that the Executive may have participated in the discovery and the development of that information. Executive also agrees and acknowledges that Executive will comply with all applicable laws regarding insider trading or the use of material nonpublic information in connection with the trading of securities. For purposes of this Section 10, Company

shall include any subsidiaries of the Company. 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.

(b) 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. During the Executive's employment by the Company, Executive shall do what is reasonably necessary to prevent misappropriation or unauthorized disclosure of the Company's trade secrets. After termination of Executive's employment, Executive shall not use or disclose the Company's trade secrets for as long as they remain trade secrets.

#### 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 or her address appearing on the records of the Company.

If to the Company:

STRATTEC SECURITY CORPORATION  
3333 West Good Hope Road  
Milwaukee, WI 53209  
Attn: 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/ Frank Krejci

Frank Krejci

STRATTEC SECURITY CORPORATION

BY /s/ Patrick J. Hansen

Patrick J. Hansen  
Sr. VP-Chief Financial Officer

EMPLOYMENT AGREEMENT

AGREEMENT by and between STRATTEC SECURITY CORPORATION, a Wisconsin corporation (the "Company"), and Patrick Hansen (the "Executive"), dated as of the 1st day of July, 2016.

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.

All references in this section 2 to common stock shall include, to the extent applicable, references to equity interests, and all references in this section 2 to directors or board of directors shall include, to the extent applicable, references to any other applicable management body of a person.

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 in cash at least equal to the highest cash bonus paid to the Executive by the Company and its affiliated companies in respect of the ten 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) (referred to herein as the "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 business 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 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 unreasonably withheld, delayed or conditioned).

(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 reasonably believes that the Executive willfully and continuously failed to perform substantially the Executive's duties and which failure by the Executive has not been cured within 30 days' after receipt of such notice, 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) Subject to Section 9 hereof, 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 Annual Bonus, which amount shall be calculated in accordance with section 4(b)(ii) above except that the ten year period shall end with the most recently completed fiscal year prior to the Date of Termination, 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 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 subject to ordinary tax withholding and all required deductions; and



[b] The amount equal to (i) two (2) years of Executive's Annual Base Salary as of the Date of Termination plus (ii) the Annual Bonus subject to ordinary tax withholding and all required deductions; and

(ii) For a period of two (2) years after the Executive's Date of Termination (such period of time is referred to herein as the "Benefit Period"), the Company shall, to the extent permitted by the terms and conditions of any relevant plan, program or policy, continue paying its normal portion of Executive's medical, dental and health insurance premiums pursuant to the provisions of the Consolidated Omnibus Budget Reconciliation Act ("COBRA"), provided that Executive first timely elects to continue such coverage under COBRA, and subject to any federal COBRA premium subsidies (if any) for which Executive may be eligible; 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. Additionally, during the Benefit Period, the Company will also continue Employee's life insurance and disability coverage and other benefits (other than the medical and other welfare benefits covered by the foregoing sentence) under the plans, programs, practices and policies described in Section 4(b)(iv) above, to the extent permitted under such applicable plans, programs, practices and policies, and will pay to the Employee the fringe benefits pursuant to Section 4(b)(vi) which have accrued prior to the Date of Termination.

(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, including, without limitation, any retirement plan, supplemental retirement plan, deferred compensation plan or other arrangement (such other amounts and benefits shall be hereinafter referred to as the "Other Benefits").

(v) To the extent not otherwise vested, the Executive shall immediately vest in any compensation previously deferred by the Executive (together with any accrued interest or earnings thereon).

(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 Executive's 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 his or her Accrued Obligations and the timely payment or provision of Other Benefits, but only to the extent vested or earned and not paid as of the date of termination. 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. 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, but only to the extent vested or earned and not paid as of the date of termination. 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. To the extent not otherwise vested, the Executive shall immediately vest in any compensation previously deferred by the Executive (together with any accrued interest or earnings thereon).

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 Tax Matters.

(a) Excise Taxes. If any payments or benefits paid or provided or to be paid or provided to the Executive or for the Executive's benefit pursuant to the terms of this Agreement or otherwise in connection with, or arising out of, employment with the Company or its subsidiaries or the termination thereof (a "Employment Payment" and, collectively, the "Employment Payments") would be subject to the excise tax imposed by section 4999 of the Code (the "Excise Tax"), then the Executive may elect for such Employment Payments to be reduced to one dollar less than the amount that would constitute a "parachute payment" under section 280G of the Code (the "Scaled Back Amount"). Any such election must be in writing and delivered to the Company. If the Executive does not elect to have Employment Payments reduced to the Scaled Back Amount, the Executive shall be responsible for payment of any Excise Tax resulting from the Employment Payments and the Executive shall not be entitled to a gross-up payment under this Agreement or any other arrangement for such Excise Tax. If the Employment Payments are to be reduced, they shall be reduced in the following order of priority: (i) first from cash compensation, (ii) next from equity compensation, then (iii) pro-rated among all remaining Employment Payments and benefits. Within each such priority category, Employment Payments shall be reduced on a last to be paid, first reduced basis;

provided that if there is a question as to which Employment Payments within any of the foregoing categories are to be reduced first, the Employment Payments that will produce the greatest present value reduction in the Employment Payments with the least reduction in economic value provided to the Executive shall be reduced first.

(b) Code Section 409A.

(i) To the extent applicable, it is intended that this Agreement and any payment made hereunder shall comply with the requirements of section 409A of the Code or any exemption or exclusion therefrom, and any related regulations or other guidance promulgated with respect to such section by the Internal Revenue Service ("Code section 409A") and shall in all respects be administered in accordance with Code section 409A. Any provision that would cause this Agreement or any payment hereof to fail to satisfy Code section 409A shall have no force or effect until amended to comply with Code section 409A in the least restrictive manner necessary and without any diminution in the value of the payments to the Executive, which amendment may be retroactive to the extent permitted by Code section 409A. Notwithstanding anything in this Agreement to the contrary, to the extent that any amount or benefit that would constitute "nonqualified deferred compensation" under Code section 409A would otherwise be payable or distributable hereunder by reason of the Employee's termination of employment, such amount or benefit will not be payable or distributable to the Executive by reason of such circumstance unless (i) the circumstances giving rise to such termination of employment meet any description or definition of "separation from service" in Code section 409A or (ii) the payment or distribution of such amount or benefit would be exempt from the application of Code section 409A by reason of the short-term deferral exemption or otherwise. If this provision prevents the payment or distribution of any amount or benefit, such payment or distribution shall be made on the date, if any, on which an event occurs that constitutes a Code section 409A-compliant "separation from service."

(ii) All reimbursements and in-kind benefits provided under this Agreement shall be made or provided in accordance with the requirements of Code section 409A, including, without limitation, that [a] in no event shall reimbursements by the Company under this Agreement be made later than the end of the calendar year next following the calendar year in which the applicable fee and expenses were incurred, [b] the amount of in-kind benefits that the Company is obligated to pay or provide in any given calendar year shall not affect the in-kind benefits that the Company is obligated to pay or provide in any other calendar year; and [c] the Executive's right to have the Company pay or provide such reimbursements and in-kind benefits may not be liquidated or exchanged for any other benefit.

(iii) To the extent the Executive is a "specified employee," as defined in section 409A(a)(2)(B)(i) of the Code and the regulations and other guidance promulgated thereunder and any elections made by the Company in accordance therewith, notwithstanding the timing of payment provided in any other section of this Agreement, no payment, distribution or benefit under this Agreement that constitutes a distribution of nonqualified deferred compensation (within the meaning of Treasury Regulation section 1.409A-1(b)) upon the Executive's "separation from service" (within

the meaning of Treasury Regulation section 1.409A-1(h)), after taking into account all available exemptions, that would otherwise be payable during the six-month period after the Executive's separation from service, will not be made during such six-month period, and any such payment, distribution or benefit will instead be paid on the first business day after such six-month period (the "Delayed Payment Date"); provided, however, that if the Executive dies following a separation from service but before the Delayed Payment Date, such amounts shall be paid to the personal representative of the Executive's estate within thirty (30) days following the Executive's death.

#### 10. Confidential Information; Trade Secrets.

(a) Confidential Information. For purposes of this Agreement, "Confidential Information" means confidential information, to the extent it is not a trade secret, that is possessed by or developed for the Company and that relates to the Company's business or technology, including but not limited to computer program object and source codes, business plans and strategies, existing or proposed bids, technical developments, existing or proposed research projects, financial or business projections, investments, marketing plans and strategies, pricing and cost information, negotiations strategies, sales strategies, training information and materials, employee compensation and other employee information, customer or potential customer lists, customer purchasing history, and information generated for customer engagements. Confidential Information also includes information received by the Company from others which the Company has an obligation to treat as confidential, including information obtained in connection with customer engagements. Confidential Information shall not include information that is or becomes available to the public through no wrongful act or omission of Executive. The parties agree that the Company's Confidential Information was established at great expense and protected as confidential information and provides the Company with a substantial competitive advantage in conducting its business. The parties further agree that by virtue of the Executive's employment with the Company, Executive will have access to, and be entrusted with, Confidential Information and that the Company would suffer great loss and injury if the Executive would disclose this information or use it to compete with the Company. Therefore, the Executive agrees that during the term of Executive's employment, and until the first to occur of (i) such time as the Confidential Information becomes generally available to the public through no fault of Executive, (ii) such time as the Confidential Information no longer provides a benefit to the Company or (iii) the second anniversary of the termination of Executive's employment with the Company, Executive will not, directly or indirectly, in any capacity, use or disclose, or cause to be used or disclosed, in any geographic area in which such use or disclosure could harm the Company's business interests, any Confidential Information. This provision does not prohibit Executive's use of general skills acquired prior to or during employment by the Company, as long as such use does not involve the use or disclosure of Confidential Information or trade secrets. The restrictions contained in this paragraph apply to Confidential Information regardless of the fact that the Executive may have participated in the discovery and the development of that information. Executive also agrees and acknowledges that Executive will comply with all applicable laws regarding insider trading or the use of material nonpublic information in connection with the trading of securities. For purposes of this Section 10, Company

shall include any subsidiaries of the Company. 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.

(b) 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. During the Executive's employment by the Company, Executive shall do what is reasonably necessary to prevent misappropriation or unauthorized disclosure of the Company's trade secrets. After termination of Executive's employment, Executive shall not use or disclose the Company's trade secrets for as long as they remain trade secrets.

#### 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 or her address appearing on the records of the Company.

If to the Company:

STRATTEC SECURITY CORPORATION  
3333 West Good Hope Road  
Milwaukee, WI 53209  
Attn: 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/ Patrick J. Hansen

Patrick J. Hansen

STRATTEC SECURITY CORPORATION

BY /s/ Frank Krejci

Frank Krejci, President and Chief Executive  
Officer



EMPLOYMENT AGREEMENT

AGREEMENT by and between STRATTEC SECURITY CORPORATION, a Wisconsin corporation (the "Company"), and Rolando Guillot (the "Executive"), dated as of the 1st day of July, 2016.

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.

All references in this section 2 to common stock shall include, to the extent applicable, references to equity interests, and all references in this section 2 to directors or board of directors shall include, to the extent applicable, references to any other applicable management body of a person.

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 in cash at least equal to the highest cash bonus paid to the Executive by the Company and its affiliated companies in respect of the ten 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) (referred to herein as the "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 business 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 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 unreasonably withheld, delayed or conditioned).

(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 reasonably believes that the Executive willfully and continuously failed to perform substantially the Executive's duties and which failure by the Executive has not been cured within 30 days' after receipt of such notice, 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) Subject to Section 9 hereof, 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 Annual Bonus, which amount shall be calculated in accordance with section 4(b)(ii) above except that the ten year period shall end with the most recently completed fiscal year prior to the Date of Termination, 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 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 subject to ordinary tax withholding and all required deductions; and

[b] The amount equal to (i) two (2) years of Executive's Annual Base Salary as of the Date of Termination plus (ii) the Annual Bonus subject to ordinary tax withholding and all required deductions; and

(ii) For a period of two (2) years after the Executive's Date of Termination (such period of time is referred to herein as the "Benefit Period"), the Company shall, to the extent permitted by the terms and conditions of any relevant plan, program or policy, continue paying its normal portion of Executive's medical, dental and health insurance premiums pursuant to the provisions of the Consolidated Omnibus Budget Reconciliation Act ("COBRA"), provided that Executive first timely elects to continue such coverage under COBRA, and subject to any federal COBRA premium subsidies (if any) for which Executive may be eligible; 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. Additionally, during the Benefit Period, the Company will also continue Employee's life insurance and disability coverage and other benefits (other than the medical and other welfare benefits covered by the foregoing sentence) under the plans, programs, practices and policies described in Section 4(b)(iv) above, to the extent permitted under such applicable plans, programs, practices and policies, and will pay to the Employee the fringe benefits pursuant to Section 4(b)(vi) which have accrued prior to the Date of Termination.

(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, including, without limitation, any retirement plan, supplemental retirement plan, deferred compensation plan or other arrangement (such other amounts and benefits shall be hereinafter referred to as the "Other Benefits").

(v) To the extent not otherwise vested, the Executive shall immediately vest in any compensation previously deferred by the Executive (together with any accrued interest or earnings thereon).

(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 Executive's 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 his or her Accrued Obligations and the timely payment or provision of Other Benefits, but only to the extent vested or earned and not paid as of the date of termination. 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. 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, but only to the extent vested or earned and not paid as of the date of termination. 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. To the extent not otherwise vested, the Executive shall immediately vest in any compensation previously deferred by the Executive (together with any accrued interest or earnings thereon).

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 Tax Matters.

(a) Excise Taxes. If any payments or benefits paid or provided or to be paid or provided to the Executive or for the Executive's benefit pursuant to the terms of this Agreement or otherwise in connection with, or arising out of, employment with the Company or its subsidiaries or the termination thereof (a "Employment Payment" and, collectively, the "Employment Payments") would be subject to the excise tax imposed by section 4999 of the Code (the "Excise Tax"), then the Executive may elect for such Employment Payments to be reduced to one dollar less than the amount that would constitute a "parachute payment" under section 280G of the Code (the "Scaled Back Amount"). Any such election must be in writing and delivered to the Company. If the Executive does not elect to have Employment Payments reduced to the Scaled Back Amount, the Executive shall be responsible for payment of any Excise Tax resulting from the Employment Payments and the Executive shall not be entitled to a gross-up payment under this Agreement or any other arrangement for such Excise Tax. If the Employment Payments are to be reduced, they shall be reduced in the following order of priority: (i) first from cash compensation, (ii) next from equity compensation, then (iii) pro-rated among all remaining Employment Payments and benefits. Within each such priority category, Employment Payments shall be reduced on a last to be paid, first reduced basis;

provided that if there is a question as to which Employment Payments within any of the foregoing categories are to be reduced first, the Employment Payments that will produce the greatest present value reduction in the Employment Payments with the least reduction in economic value provided to the Executive shall be reduced first.

(b) Code Section 409A.

(i) To the extent applicable, it is intended that this Agreement and any payment made hereunder shall comply with the requirements of section 409A of the Code or any exemption or exclusion therefrom, and any related regulations or other guidance promulgated with respect to such section by the Internal Revenue Service ("Code section 409A") and shall in all respects be administered in accordance with Code section 409A. Any provision that would cause this Agreement or any payment hereof to fail to satisfy Code section 409A shall have no force or effect until amended to comply with Code section 409A in the least restrictive manner necessary and without any diminution in the value of the payments to the Executive, which amendment may be retroactive to the extent permitted by Code section 409A. Notwithstanding anything in this Agreement to the contrary, to the extent that any amount or benefit that would constitute "nonqualified deferred compensation" under Code section 409A would otherwise be payable or distributable hereunder by reason of the Employee's termination of employment, such amount or benefit will not be payable or distributable to the Executive by reason of such circumstance unless (i) the circumstances giving rise to such termination of employment meet any description or definition of "separation from service" in Code section 409A or (ii) the payment or distribution of such amount or benefit would be exempt from the application of Code section 409A by reason of the short-term deferral exemption or otherwise. If this provision prevents the payment or distribution of any amount or benefit, such payment or distribution shall be made on the date, if any, on which an event occurs that constitutes a Code section 409A-compliant "separation from service."

(ii) All reimbursements and in-kind benefits provided under this Agreement shall be made or provided in accordance with the requirements of Code section 409A, including, without limitation, that [a] in no event shall reimbursements by the Company under this Agreement be made later than the end of the calendar year next following the calendar year in which the applicable fee and expenses were incurred, [b] the amount of in-kind benefits that the Company is obligated to pay or provide in any given calendar year shall not affect the in-kind benefits that the Company is obligated to pay or provide in any other calendar year; and [c] the Executive's right to have the Company pay or provide such reimbursements and in-kind benefits may not be liquidated or exchanged for any other benefit.

(iii) To the extent the Executive is a "specified employee," as defined in section 409A(a)(2)(B)(i) of the Code and the regulations and other guidance promulgated thereunder and any elections made by the Company in accordance therewith, notwithstanding the timing of payment provided in any other section of this Agreement, no payment, distribution or benefit under this Agreement that constitutes a distribution of nonqualified deferred compensation (within the meaning of Treasury Regulation section 1.409A-1(b)) upon the Executive's "separation from service" (within

the meaning of Treasury Regulation section 1.409A-1(h)), after taking into account all available exemptions, that would otherwise be payable during the six-month period after the Executive's separation from service, will not be made during such six-month period, and any such payment, distribution or benefit will instead be paid on the first business day after such six-month period (the "Delayed Payment Date"); provided, however, that if the Executive dies following a separation from service but before the Delayed Payment Date, such amounts shall be paid to the personal representative of the Executive's estate within thirty (30) days following the Executive's death.

#### 10. Confidential Information; Trade Secrets.

(a) Confidential Information. For purposes of this Agreement, "Confidential Information" means confidential information, to the extent it is not a trade secret, that is possessed by or developed for the Company and that relates to the Company's business or technology, including but not limited to computer program object and source codes, business plans and strategies, existing or proposed bids, technical developments, existing or proposed research projects, financial or business projections, investments, marketing plans and strategies, pricing and cost information, negotiations strategies, sales strategies, training information and materials, employee compensation and other employee information, customer or potential customer lists, customer purchasing history, and information generated for customer engagements. Confidential Information also includes information received by the Company from others which the Company has an obligation to treat as confidential, including information obtained in connection with customer engagements. Confidential Information shall not include information that is or becomes available to the public through no wrongful act or omission of Executive. The parties agree that the Company's Confidential Information was established at great expense and protected as confidential information and provides the Company with a substantial competitive advantage in conducting its business. The parties further agree that by virtue of the Executive's employment with the Company, Executive will have access to, and be entrusted with, Confidential Information and that the Company would suffer great loss and injury if the Executive would disclose this information or use it to compete with the Company. Therefore, the Executive agrees that during the term of Executive's employment, and until the first to occur of (i) such time as the Confidential Information becomes generally available to the public through no fault of Executive, (ii) such time as the Confidential Information no longer provides a benefit to the Company or (iii) the second anniversary of the termination of Executive's employment with the Company, Executive will not, directly or indirectly, in any capacity, use or disclose, or cause to be used or disclosed, in any geographic area in which such use or disclosure could harm the Company's business interests, any Confidential Information. This provision does not prohibit Executive's use of general skills acquired prior to or during employment by the Company, as long as such use does not involve the use or disclosure of Confidential Information or trade secrets. The restrictions contained in this paragraph apply to Confidential Information regardless of the fact that the Executive may have participated in the discovery and the development of that information. Executive also agrees and acknowledges that Executive will comply with all applicable laws regarding insider trading or the use of material nonpublic information in connection with the trading of securities. For purposes of this Section 10, Company

shall include any subsidiaries of the Company. 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.

(b) 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. During the Executive's employment by the Company, Executive shall do what is reasonably necessary to prevent misappropriation or unauthorized disclosure of the Company's trade secrets. After termination of Executive's employment, Executive shall not use or disclose the Company's trade secrets for as long as they remain trade secrets.

#### 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 or her address appearing on the records of the Company.

If to the Company:

STRATTEC SECURITY CORPORATION  
3333 West Good Hope Road  
Milwaukee, WI 53209  
Attn: 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/ Rolango Guillot

Rolando Guillot

STRATTEC SECURITY CORPORATION

BY /s/ Frank Krejci

Frank Krejci, President and Chief Executive  
Officer

EMPLOYMENT AGREEMENT

AGREEMENT by and between STRATTEC SECURITY CORPORATION, a Wisconsin corporation (the "Company"), and Brian Reetz (the "Executive"), dated as of the 1st day of July, 2016.

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.

All references in this section 2 to common stock shall include, to the extent applicable, references to equity interests, and all references in this section 2 to directors or board of directors shall include, to the extent applicable, references to any other applicable management body of a person.

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 in cash at least equal to the highest cash bonus paid to the Executive by the Company and its affiliated companies in respect of the ten 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) (referred to herein as the "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 business 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 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 unreasonably withheld, delayed or conditioned).

(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 reasonably believes that the Executive willfully and continuously failed to perform substantially the Executive's duties and which failure by the Executive has not been cured within 30 days' after receipt of such notice, 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) Subject to Section 9 hereof, 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 Annual Bonus, which amount shall be calculated in accordance with section 4(b)(ii) above except that the ten year period shall end with the most recently completed fiscal year prior to the Date of Termination, 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 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 subject to ordinary tax withholding and all required deductions; and

[b] The amount equal to (i) two (2) years of Executive's Annual Base Salary as of the Date of Termination plus (ii) the Annual Bonus subject to ordinary tax withholding and all required deductions; and

(ii) For a period of two (2) years after the Executive's Date of Termination (such period of time is referred to herein as the "Benefit Period"), the Company shall, to the extent permitted by the terms and conditions of any relevant plan, program or policy, continue paying its normal portion of Executive's medical, dental and health insurance premiums pursuant to the provisions of the Consolidated Omnibus Budget Reconciliation Act ("COBRA"), provided that Executive first timely elects to continue such coverage under COBRA, and subject to any federal COBRA premium subsidies (if any) for which Executive may be eligible; 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. Additionally, during the Benefit Period, the Company will also continue Employee's life insurance and disability coverage and other benefits (other than the medical and other welfare benefits covered by the foregoing sentence) under the plans, programs, practices and policies described in Section 4(b)(iv) above, to the extent permitted under such applicable plans, programs, practices and policies, and will pay to the Employee the fringe benefits pursuant to Section 4(b)(vi) which have accrued prior to the Date of Termination.

(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, including, without limitation, any retirement plan, supplemental retirement plan, deferred compensation plan or other arrangement (such other amounts and benefits shall be hereinafter referred to as the "Other Benefits").

(v) To the extent not otherwise vested, the Executive shall immediately vest in any compensation previously deferred by the Executive (together with any accrued interest or earnings thereon).

(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 Executive's 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 his or her Accrued Obligations and the timely payment or provision of Other Benefits, but only to the extent vested or earned and not paid as of the date of termination. 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. 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, but only to the extent vested or earned and not paid as of the date of termination. 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. To the extent not otherwise vested, the Executive shall immediately vest in any compensation previously deferred by the Executive (together with any accrued interest or earnings thereon).

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 Tax Matters.

(a) Excise Taxes. If any payments or benefits paid or provided or to be paid or provided to the Executive or for the Executive's benefit pursuant to the terms of this Agreement or otherwise in connection with, or arising out of, employment with the Company or its subsidiaries or the termination thereof (a "Employment Payment" and, collectively, the "Employment Payments") would be subject to the excise tax imposed by section 4999 of the Code (the "Excise Tax"), then the Executive may elect for such Employment Payments to be reduced to one dollar less than the amount that would constitute a "parachute payment" under section 280G of the Code (the "Scaled Back Amount"). Any such election must be in writing and delivered to the Company. If the Executive does not elect to have Employment Payments reduced to the Scaled Back Amount, the Executive shall be responsible for payment of any Excise Tax resulting from the Employment Payments and the Executive shall not be entitled to a gross-up payment under this Agreement or any other arrangement for such Excise Tax. If the Employment Payments are to be reduced, they shall be reduced in the following order of priority: (i) first from cash compensation, (ii) next from equity compensation, then (iii) pro-rated among all remaining Employment Payments and benefits. Within each such priority category, Employment Payments shall be reduced on a last to be paid, first reduced basis;

provided that if there is a question as to which Employment Payments within any of the foregoing categories are to be reduced first, the Employment Payments that will produce the greatest present value reduction in the Employment Payments with the least reduction in economic value provided to the Executive shall be reduced first.

(b) Code Section 409A.

(i) To the extent applicable, it is intended that this Agreement and any payment made hereunder shall comply with the requirements of section 409A of the Code or any exemption or exclusion therefrom, and any related regulations or other guidance promulgated with respect to such section by the Internal Revenue Service ("Code section 409A") and shall in all respects be administered in accordance with Code section 409A. Any provision that would cause this Agreement or any payment hereof to fail to satisfy Code section 409A shall have no force or effect until amended to comply with Code section 409A in the least restrictive manner necessary and without any diminution in the value of the payments to the Executive, which amendment may be retroactive to the extent permitted by Code section 409A. Notwithstanding anything in this Agreement to the contrary, to the extent that any amount or benefit that would constitute "nonqualified deferred compensation" under Code section 409A would otherwise be payable or distributable hereunder by reason of the Employee's termination of employment, such amount or benefit will not be payable or distributable to the Executive by reason of such circumstance unless (i) the circumstances giving rise to such termination of employment meet any description or definition of "separation from service" in Code section 409A or (ii) the payment or distribution of such amount or benefit would be exempt from the application of Code section 409A by reason of the short-term deferral exemption or otherwise. If this provision prevents the payment or distribution of any amount or benefit, such payment or distribution shall be made on the date, if any, on which an event occurs that constitutes a Code section 409A-compliant "separation from service."

(ii) All reimbursements and in-kind benefits provided under this Agreement shall be made or provided in accordance with the requirements of Code section 409A, including, without limitation, that [a] in no event shall reimbursements by the Company under this Agreement be made later than the end of the calendar year next following the calendar year in which the applicable fee and expenses were incurred, [b] the amount of in-kind benefits that the Company is obligated to pay or provide in any given calendar year shall not affect the in-kind benefits that the Company is obligated to pay or provide in any other calendar year; and [c] the Executive's right to have the Company pay or provide such reimbursements and in-kind benefits may not be liquidated or exchanged for any other benefit.

(iii) To the extent the Executive is a "specified employee," as defined in section 409A(a)(2)(B)(i) of the Code and the regulations and other guidance promulgated thereunder and any elections made by the Company in accordance therewith, notwithstanding the timing of payment provided in any other section of this Agreement, no payment, distribution or benefit under this Agreement that constitutes a distribution of nonqualified deferred compensation (within the meaning of Treasury Regulation section 1.409A-1(b)) upon the Executive's "separation from service" (within

the meaning of Treasury Regulation section 1.409A-1(h)), after taking into account all available exemptions, that would otherwise be payable during the six-month period after the Executive's separation from service, will not be made during such six-month period, and any such payment, distribution or benefit will instead be paid on the first business day after such six-month period (the "Delayed Payment Date"); provided, however, that if the Executive dies following a separation from service but before the Delayed Payment Date, such amounts shall be paid to the personal representative of the Executive's estate within thirty (30) days following the Executive's death.

#### 10. Confidential Information; Trade Secrets.

(a) Confidential Information. For purposes of this Agreement, "Confidential Information" means confidential information, to the extent it is not a trade secret, that is possessed by or developed for the Company and that relates to the Company's business or technology, including but not limited to computer program object and source codes, business plans and strategies, existing or proposed bids, technical developments, existing or proposed research projects, financial or business projections, investments, marketing plans and strategies, pricing and cost information, negotiations strategies, sales strategies, training information and materials, employee compensation and other employee information, customer or potential customer lists, customer purchasing history, and information generated for customer engagements. Confidential Information also includes information received by the Company from others which the Company has an obligation to treat as confidential, including information obtained in connection with customer engagements. Confidential Information shall not include information that is or becomes available to the public through no wrongful act or omission of Executive. The parties agree that the Company's Confidential Information was established at great expense and protected as confidential information and provides the Company with a substantial competitive advantage in conducting its business. The parties further agree that by virtue of the Executive's employment with the Company, Executive will have access to, and be entrusted with, Confidential Information and that the Company would suffer great loss and injury if the Executive would disclose this information or use it to compete with the Company. Therefore, the Executive agrees that during the term of Executive's employment, and until the first to occur of (i) such time as the Confidential Information becomes generally available to the public through no fault of Executive, (ii) such time as the Confidential Information no longer provides a benefit to the Company or (iii) the second anniversary of the termination of Executive's employment with the Company, Executive will not, directly or indirectly, in any capacity, use or disclose, or cause to be used or disclosed, in any geographic area in which such use or disclosure could harm the Company's business interests, any Confidential Information. This provision does not prohibit Executive's use of general skills acquired prior to or during employment by the Company, as long as such use does not involve the use or disclosure of Confidential Information or trade secrets. The restrictions contained in this paragraph apply to Confidential Information regardless of the fact that the Executive may have participated in the discovery and the development of that information. Executive also agrees and acknowledges that Executive will comply with all applicable laws regarding insider trading or the use of material nonpublic information in connection with the trading of securities. For purposes of this Section 10, Company

shall include any subsidiaries of the Company. 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.

(b) 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. During the Executive's employment by the Company, Executive shall do what is reasonably necessary to prevent misappropriation or unauthorized disclosure of the Company's trade secrets. After termination of Executive's employment, Executive shall not use or disclose the Company's trade secrets for as long as they remain trade secrets.

#### 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 or her address appearing on the records of the Company.

If to the Company:

STRATTEC SECURITY CORPORATION  
3333 West Good Hope Road  
Milwaukee, WI 53209  
Attn: 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/ Brian Reetz

Brian Reetz

STRATTEC SECURITY CORPORATION

BY /s/ Frank Krejci

Frank Krejci, President 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 July, 2016.

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.

All references in this section 2 to common stock shall include, to the extent applicable, references to equity interests, and all references in this section 2 to directors or board of directors shall include, to the extent applicable, references to any other applicable management body of a person.

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 in cash at least equal to the highest cash bonus paid to the Executive by the Company and its affiliated companies in respect of the ten 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) (referred to herein as the "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 business 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 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 unreasonably withheld, delayed or conditioned).

(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 reasonably believes that the Executive willfully and continuously failed to perform substantially the Executive's duties and which failure by the Executive has not been cured within 30 days' after receipt of such notice, 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) Subject to Section 9 hereof, 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 Annual Bonus, which amount shall be calculated in accordance with section 4(b)(ii) above except that the ten year period shall end with the most recently completed fiscal year prior to the Date of Termination, 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 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 subject to ordinary tax withholding and all required deductions; and

[b] The amount equal to (i) two (2) years of Executive's Annual Base Salary as of the Date of Termination plus (ii) the Annual Bonus subject to ordinary tax withholding and all required deductions; and

(ii) For a period of two (2) years after the Executive's Date of Termination (such period of time is referred to herein as the "Benefit Period"), the Company shall, to the extent permitted by the terms and conditions of any relevant plan, program or policy, continue paying its normal portion of Executive's medical, dental and health insurance premiums pursuant to the provisions of the Consolidated Omnibus Budget Reconciliation Act ("COBRA"), provided that Executive first timely elects to continue such coverage under COBRA, and subject to any federal COBRA premium subsidies (if any) for which Executive may be eligible; 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. Additionally, during the Benefit Period, the Company will also continue Employee's life insurance and disability coverage and other benefits (other than the medical and other welfare benefits covered by the foregoing sentence) under the plans, programs, practices and policies described in Section 4(b)(iv) above, to the extent permitted under such applicable plans, programs, practices and policies, and will pay to the Employee the fringe benefits pursuant to Section 4(b)(vi) which have accrued prior to the Date of Termination.

(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, including, without limitation, any retirement plan, supplemental retirement plan, deferred compensation plan or other arrangement (such other amounts and benefits shall be hereinafter referred to as the "Other Benefits").

(v) To the extent not otherwise vested, the Executive shall immediately vest in any compensation previously deferred by the Executive (together with any accrued interest or earnings thereon).

(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 Executive's 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 his or her Accrued Obligations and the timely payment or provision of Other Benefits, but only to the extent vested or earned and not paid as of the date of termination. 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. 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, but only to the extent vested or earned and not paid as of the date of termination. 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. To the extent not otherwise vested, the Executive shall immediately vest in any compensation previously deferred by the Executive (together with any accrued interest or earnings thereon).

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 Tax Matters.

(a) Excise Taxes. If any payments or benefits paid or provided or to be paid or provided to the Executive or for the Executive's benefit pursuant to the terms of this Agreement or otherwise in connection with, or arising out of, employment with the Company or its subsidiaries or the termination thereof (a "Employment Payment" and, collectively, the "Employment Payments") would be subject to the excise tax imposed by section 4999 of the Code (the "Excise Tax"), then the Executive may elect for such Employment Payments to be reduced to one dollar less than the amount that would constitute a "parachute payment" under section 280G of the Code (the "Scaled Back Amount"). Any such election must be in writing and delivered to the Company. If the Executive does not elect to have Employment Payments reduced to the Scaled Back Amount, the Executive shall be responsible for payment of any Excise Tax resulting from the Employment Payments and the Executive shall not be entitled to a gross-up payment under this Agreement or any other arrangement for such Excise Tax. If the Employment Payments are to be reduced, they shall be reduced in the following order of priority: (i) first from cash compensation, (ii) next from equity compensation, then (iii) pro-rated among all remaining Employment Payments and benefits. Within each such priority category, Employment Payments shall be reduced on a last to be paid, first reduced basis; provided that if there is a question as to which Employment Payments within any of the foregoing categories are to be reduced first, the Employment Payments that will produce the greatest present value reduction in the Employment Payments with the least reduction in economic value provided to the Executive shall be reduced first.

(b) Code Section 409A.

(i) To the extent applicable, it is intended that this Agreement and any payment made hereunder shall comply with the requirements of section 409A of the Code or any exemption or exclusion therefrom, and any related regulations or other guidance promulgated with respect to such section by the Internal Revenue Service ("Code section 409A") and shall in all respects be administered in accordance with Code section

409A. Any provision that would cause this Agreement or any payment hereof to fail to satisfy Code section 409A shall have no force or effect until amended to comply with Code section 409A in the least restrictive manner necessary and without any diminution in the value of the payments to the Executive, which amendment may be retroactive to the extent permitted by Code section 409A. Notwithstanding anything in this Agreement to the contrary, to the extent that any amount or benefit that would constitute "nonqualified deferred compensation" under Code section 409A would otherwise be payable or distributable hereunder by reason of the Employee's termination of employment, such amount or benefit will not be payable or distributable to the Executive by reason of such circumstance unless (i) the circumstances giving rise to such termination of employment meet any description or definition of "separation from service" in Code section 409A or (ii) the payment or distribution of such amount or benefit would be exempt from the application of Code section 409A by reason of the short-term deferral exemption or otherwise. If this provision prevents the payment or distribution of any amount or benefit, such payment or distribution shall be made on the date, if any, on which an event occurs that constitutes a Code section 409A-compliant "separation from service."

(ii) All reimbursements and in-kind benefits provided under this Agreement shall be made or provided in accordance with the requirements of Code section 409A, including, without limitation, that [a] in no event shall reimbursements by the Company under this Agreement be made later than the end of the calendar year next following the calendar year in which the applicable fee and expenses were incurred, [b] the amount of in-kind benefits that the Company is obligated to pay or provide in any given calendar year shall not affect the in-kind benefits that the Company is obligated to pay or provide in any other calendar year; and [c] the Executive's right to have the Company pay or provide such reimbursements and in-kind benefits may not be liquidated or exchanged for any other benefit.

(iii) To the extent the Executive is a "specified employee," as defined in section 409A(a)(2)(B)(i) of the Code and the regulations and other guidance promulgated thereunder and any elections made by the Company in accordance therewith, notwithstanding the timing of payment provided in any other section of this Agreement, no payment, distribution or benefit under this Agreement that constitutes a distribution of nonqualified deferred compensation (within the meaning of Treasury Regulation section 1.409A-1(b)) upon the Executive's "separation from service" (within the meaning of Treasury Regulation section 1.409A-1(h)), after taking into account all available exemptions, that would otherwise be payable during the six-month period after the Executive's separation from service, will not be made during such six-month period, and any such payment, distribution or benefit will instead be paid on the first business day after such six-month period (the "Delayed Payment Date"); provided, however, that if the Executive dies following a separation from service but before the Delayed Payment Date, such amounts shall be paid to the personal representative of the Executive's estate within thirty (30) days following the Executive's death.

#### 10. Confidential Information; Trade Secrets.

(a) Confidential Information. For purposes of this Agreement, "Confidential Information" means confidential information, to the extent it is not a trade secret, that is possessed by or developed for the Company and that relates to the Company's business or technology, including but not limited to computer program object and source codes, business plans and strategies, existing or proposed bids, technical developments, existing or proposed research projects, financial or business projections, investments, marketing plans and strategies, pricing and cost information, negotiations strategies, sales strategies, training information and materials, employee compensation and other employee information, customer or potential customer lists, customer purchasing history, and information generated for customer engagements. Confidential Information also includes information received by the Company from others which the Company has an obligation to treat as confidential, including information obtained in connection with customer engagements. Confidential Information shall not include information that is or becomes available to the public through no wrongful act or omission of Executive. The parties agree that the Company's Confidential Information was established at great expense and protected as confidential information and provides the Company with a substantial competitive advantage in conducting its business. The parties further agree that by virtue of the Executive's employment with the Company, Executive will have access to, and be entrusted with, Confidential Information and that the Company would suffer great loss and injury if the Executive would disclose this information or use it to compete with the Company. Therefore, the Executive agrees that during the term of Executive's employment, and until the first to occur of (i) such time as the Confidential Information becomes generally available to the public through no fault of Executive, (ii) such time as the Confidential Information no longer provides a benefit to the Company or (iii) the second anniversary of the termination of Executive's employment with the Company, Executive will not, directly or indirectly, in any capacity, use or disclose, or cause to be used or disclosed, in any geographic area in which such use or disclosure could harm the Company's business interests, any Confidential Information. This provision does not prohibit Executive's use of general skills acquired prior to or during employment by the Company, as long as such use does not involve the use or disclosure of Confidential Information or trade secrets. The restrictions contained in this paragraph apply to Confidential Information regardless of the fact that the Executive may have participated in the discovery and the development of that information. Executive also agrees and acknowledges that Executive will comply with all applicable laws regarding insider trading or the use of material nonpublic information in connection with the trading of securities. For purposes of this Section 10, Company shall include any subsidiaries of the Company. 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.



(b) 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. During the Executive's employment by the Company, Executive shall do what is reasonably necessary to prevent misappropriation or unauthorized disclosure of the Company's trade secrets. After termination of Executive's employment, Executive shall not use or disclose the Company's trade secrets for as long as they remain trade secrets.

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 or her address appearing on the records of the Company.

If to the Company:

STRATTEC SECURITY CORPORATION  
3333 West Good Hope Road  
Milwaukee, WI 53209  
Attn: 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.

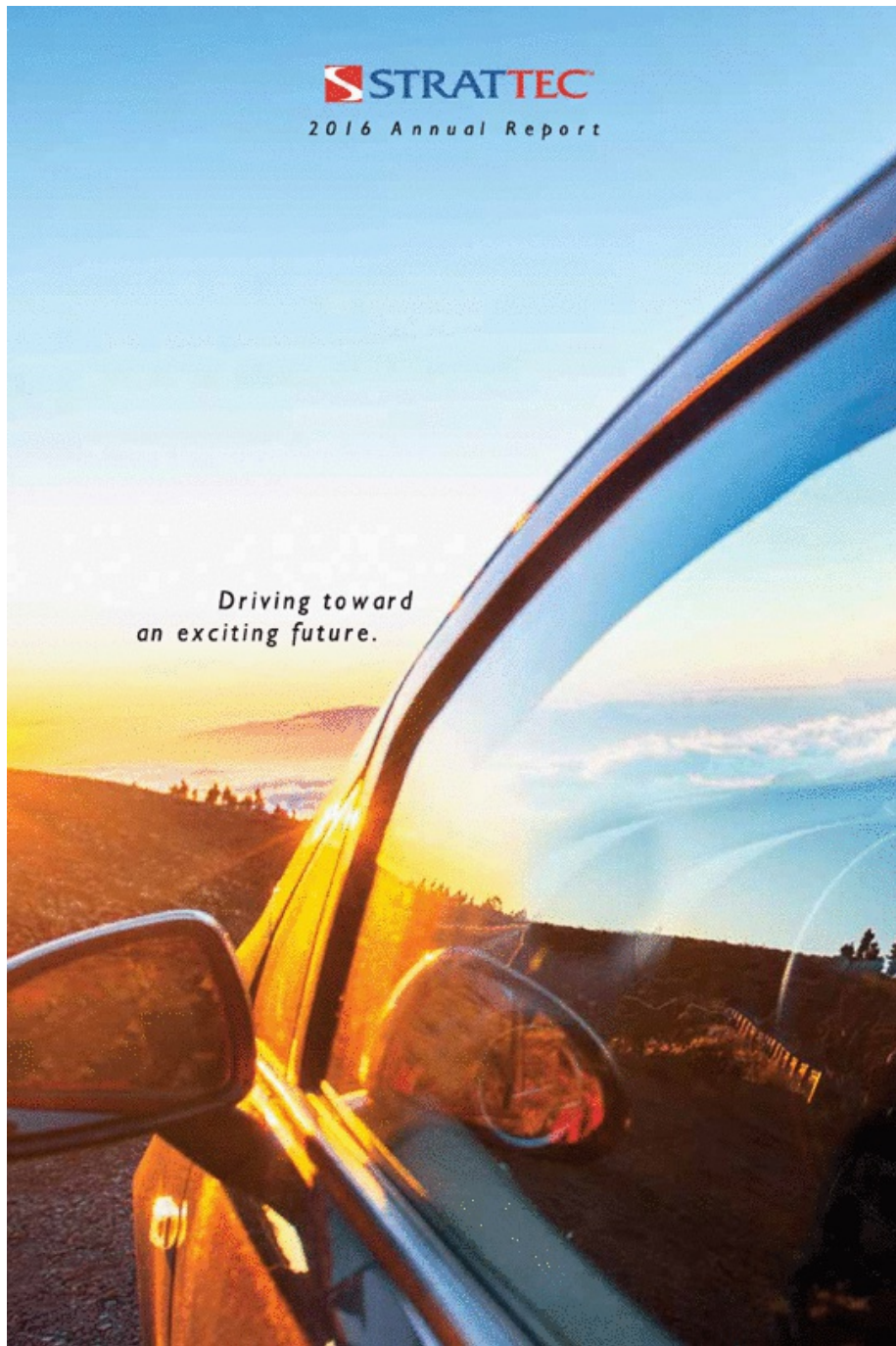
/s/ Richard Messina

Richard Messina

STRATTEC SECURITY CORPORATION

BY /s/ Frank Krejci

Frank Krejci, President and Chief Executive  
Officer



**STRATTEC**  
2016 Annual Report

*Driving toward  
an exciting future.*

*Driving toward an exciting future.*



#### **STRATTEC STRATEGIC FOCUS**

This annual report contains a significant amount of information about the activity and results of our efforts. It is valuable to clearly articulate the guiding principles which drive the thinking behind our day-to-day decisions and the establishment of our long term strategic direction.

#### **COLLABORATION**

For nearly two decades, we have successfully partnered with Wite Automotive and ADAC Automotive under the brand name of VAST. We share ideas, expenses, and product development and support each other with manufacturing capabilities. It has resulted in a family of related products and worldwide support to better serve our customers.

#### **GLOBALIZATION**

To service our customers in the automotive industry, we must be able to offer global support. In addition to STRATTEC's production facilities in the USA and Mexico, through our VAST partnership, our global footprint to support customer needs includes China, India, Germany, Czech Republic, Bulgaria, Brazil, Japan and Korea.

#### **EFFICIENT USE OF CAPITAL**

Economic Value Added (EVA®) is fundamental to our decision making. Not only are we looking at opportunities to grow our profitability, but we also place significant

consideration on the amount of assets needed to achieve our goals. We are mindful of our true cost of capital, not just the prevailing interest rate.

#### **SHARING SUCCESS**

STRATTEC associates have an opportunity to earn a bonus primarily based on corporate performance. Rewards are calculated using EVA® principles of continuous improvement and generating returns in excess of our cost of capital. In acting like owners, there are years when bonuses are paid and years when bonuses are not paid.

#### **ACT LIKE OWNERS**

STRATTEC is organized with business units featuring clear bottom line responsibility. Each has their own advisory board of directors. We try to duplicate customer/supplier relationships between departments.

#### **DIVERSIFICATION**

Most of our current business is defined by VAST, which is an acronym for Vehicle Access System Technology. We have redefined our business as access products by taking the V off of VAST and removing that limitation. We look for multiple ways to partner with external companies. Just as important, we look for complimentary ways to leverage our people, engineering and operational skills. In EVA® terms, we endeavor to find ways to achieve greater return on all of our assets.



## 2016 ANNUAL REPORT



STRATTEC SECURITY CORPORATION ("STRATTEC" or the "Company") designs, develops, manufactures and markets automotive access control products including mechanical locks and keys, electronically enhanced locks and keys, steering column and instrument panel ignition lock housings, latches, power sliding side door systems, power lift gate systems, power deck lid systems, door handles and related products for North American automotive customers. We also supply global automotive manufacturers through a unique strategic relationship with WITTE Automotive of Veilbert, Germany and ADAC Automotive of Grand Rapids, Michigan. Under this relationship STRATTEC, WITTE and ADAC market each company's products to global customers under the "VAST" brand name. 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 statements regarding 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 customers' products, competitive and technological developments, customer purchasing actions, changes in warranty provisions and customers' product recall policies, 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.



## LETTER TO THE SHAREHOLDERS

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Dear STRATTEC Shareholders,

Fiscal 2016 was a year in which we saw a return to a more normal sales pattern after fiscal 2015's exceptional growth in revenue and profits. In addition to increased sales of parts for vehicle production, much of that 2015 growth was due to a spike in service parts business to support a customer recall. Fiscal 2016 had a more limited amount of service part sales, resulting in lower overall sales, a less favorable product mix, and lower asset utilization, making comparisons with the prior year challenging. Despite the lower total sales year-over-year, we did increase sales of production parts to our customers, reflecting the continued robust demand for new vehicles, some increased vehicle product content on parts we supply as well as new product placements.

I am pleased to report that during the year we were able to put some strategic initiatives in motion which should have very positive long term benefits for our company. With hard work by our teams and the respect that we have gained from our customers, this was the best year in winning new business that we have had in many, many years. As most of you know, in the automotive industry that does not turn into immediate sales. During fiscal 2017, we will therefore be busy refining designs, building prototypes and performing extensive testing to achieve the high quality standards expected by our customers and our customers' customers. As usual, timelines will be aggressive, so in advance, I thank our associates for their efforts to satisfy our customers' expectations. Some of the new business is in new market niches which hold promise for significant growth. Winning this business gives us great optimism for the foreseeable future.

### OPERATIONS

In our manufacturing operations, we added equipment to enhance capacity and efficiency. More is on order and will be delivered throughout this coming fiscal year. We restructured our organization to ensure that our design and manufacturing processes meet stricter quality standards. With our products shipped globally, even a minor issue can prove to be very expensive to contain and correct, which unfortunately we experienced in fiscal 2016. One of the main pillars of our strategic plan for 2017 is to avoid those unnecessary costs through a comprehensive Quality Improvement Plan focused on adding resources, refining checks and balances and increased commitment to more training which is a need which will never go away.

There has been a significant migration of automotive assembly to the central part of Mexico. Through our joint venture with ADAC Automotive, we broke ground in April on a new facility in Leon, Mexico to manufacture painted door handles for both existing and future customers currently in, or moving to, that region. This significant incremental business will have a positive impact on STRATTEC earnings in Fiscal 2018 and beyond. For fiscal 2017, we will be concentrating on facility construction and refining the manufacturing processes.

### FINANCIAL

In addition to product mix having a large negative impact on earnings in fiscal 2016, we faced additional costs associated with winning new business, some product containment / replacement costs, and continued losses associated with our diversification efforts which we still believe will create long term value. We also recognized an impairment charge related to our investment in India, as explained in the next section.

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## LETTER TO THE SHAREHOLDERS

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### VAST

VAST (Vehicle Access System Technology) is a unique partnership between STRATTEC and two privately owned companies, WITTE Automotive of Velbert Germany and ADAC Automotive of Grand Rapids, Michigan. With our partners, we have made investments in China and India. We are pleased with the progress made by our organizations in leveraging our collective strengths, technologies, locations and global footprint.

In April 2015, VAST made an investment in India, now called Minda-VAST Access Systems (MVAS), owning 50% of this joint venture. We are very pleased to have Spark Minda, a publicly traded company in India with over one-half billion in sales, as a strong partner to participate in the anticipated growth in that market. While gaining a share of sales in India over the long term is of benefit, the greater benefit comes from gaining a stronger competitive position to win global programs.

The price of VAST LLC's share of MVAS was based in part on an estimated level of sales revenue generation that MVAS would be able to reach. MVAS did not reach the level anticipated for 2016, and VAST now believes the estimates for subsequent years may not be reached. The accounting rules require an impairment study to value the investment based on a formula related to India alone, without consideration for the positive leverage it will have on the rest of our global business. As a result, STRATTEC recognized a \$2 million impairment charge for our share of the write down of the book value of this investment, which reduced our Earnings per Share by \$.35 and our Stockholders Equity value, but was not an additional cash expense. We remain very bullish on the long term positive impact MVAS will have on our global strategy and global success.

Lastly, to strengthen our Asian operations, VAST recently added a Vice-President to its organization, who is located in China. We believe his efforts to coordinate VAST China operations with the rest of the world will be beneficial in many ways.

### SUMMARY

As a company, we are driven and rewarded by a return on asset metric known as Economic Value Added (EVA). It forces us to act like owners and spend our money accordingly. I am deeply appreciative of the efforts of nearly 4,000 STRATTEC Associates in acting like owners and taking steps to create a bright future for all of us. For our long term shareholders, despite the drop in share price this year, we have returned approximately a 15% annual compounded rate of return over the last five years. We appreciate your support and long term commitment to the company.

Sincerely,



Frank J. Krejci  
President & Chief Executive Officer



## FINANCIAL HIGHLIGHTS

(IN MILLIONS)

	2016	2015	2014
Net Sales	\$401.4	\$411.5	\$348.4
Gross Profit	64.8	72.7	65.8
Income from Operations	20.9	31.1	26.5
Net Income Attributable to STRATTEC	9.1	20.7	16.4
Total Assets	242.2	230.8	207.9
Total Debt	20.0	10.0	2.5
STRATTEC Shareholders' Equity	139.3	140.3	125.5

### ECONOMIC VALUE ADDED (EVA®)

We believe that EVA® represents an accurate measure of STRATTEC's overall performance and shareholder value. 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. The EVA® performance for 2016 was a positive \$2.1 million which represents a \$4.4 million reduction from 2015. (For further explanation of our EVA® Plan, see our 2016 definitive Proxy Statement.)

Net Operating Profit After Cash-Basis Taxes		\$14.9
Average Monthly Net Capital Employed	\$127.7	
Cost of Capital	10%	
Capital Charge		12.8
Economic Value Added		<u>\$ 2.1</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 Profit After Cash-Basis Taxes:

2016 Net Income Attributable to STRATTEC as Reported	\$ 9.1
Deferred Tax Provision	3.0
Other	2.8
Net Operating Profit After Cash-Basis Taxes	<u>\$14.9</u>

#### Average Monthly Net Capital Employed:

Total STRATTEC Shareholders' Equity as Reported at July 3, 2016	\$139.3
Long-Term Liabilities	23.4
Long-Term Assets – Other than Property, Plant and Equipment	(22.6)
Other	(7.0)
Net Capital Employed at July 3, 2016	<u>\$133.1</u>
Impact of 12 Month Average	(5.4)
Average Monthly Net Capital Employed	<u>\$127.7</u>

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

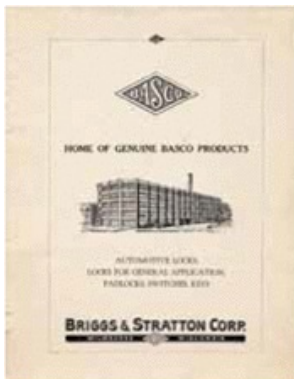
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## COMPANY DESCRIPTION

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### BASIC BUSINESS

STRATTEC SECURITY CORPORATION designs, develops, manufactures and markets automotive access control products including mechanical locks and keys, electronically enhanced locks and keys, steering column and instrument panel ignition lock housings, latches, power sliding side door systems, power lift gate systems, power deck lid systems, door handles and related products for North American automotive customers. We also supply global automotive manufacturers through a unique strategic joint venture relationship with WITTE Automotive of Velbert, Germany and ADAC Automotive of Grand Rapids, Michigan called VAST LLC (“VAST”). Under this relationship STRATTEC, WITTE and ADAC market each company’s products to global customers under the “VAST” brand name. 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 been an independent public company for over twenty-one years.

Our history in the automotive security business spans over 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.

#### *Lock Cylinder*



### PRODUCTS

Our traditional products are lock sets (locks and keys) for cars and light trucks. Typically, two keys are provided with each vehicle lockset. Most of the vehicles we currently supply are using keys with sophisticated radio frequency identification technology for additional theft prevention. Keys with remote entry devices integrated into a single unit and bladeless electronic keys have been added to our product line and are gaining in popularity.

#### *Key Fob*





***Steering Column Locking Mechanism***

Ignition lock housings represent a growing access control product for us. 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 housings are either die cast from zinc or injection molded plastic and may include electronic components for theft deterrent systems.

We are also developing additional access control products, including trunk latches, lift gate latches, tailgate latches, hood latches, side door latches and related hardware. With our acquisition of Delphi Corporation's Power Products Group in fiscal 2009, we are now supplying power access devices for sliding side doors, lift gates 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.

## COMPANY DESCRIPTION

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### *Trunk Latch*

To maintain a strong focus on each of these access control products, we have Product Business Managers who oversee the product's entire life cycle, including product concept, application, manufacturing, warranty analysis, service/aftermarket, and financial/commercial issues. The Product Business Managers work closely with our sales organization, our engineering group, and our manufacturing operations to assure their products are receiving the right amount of quality attention so that their value to STRATTEC and the market place is enhanced.

### *Key Fob*



### *Power Sliding Door*

## MARKETS

We are a direct supplier to OEM automotive and light truck manufacturers as well as other transportation-related manufacturers. Our largest customers are Fiat Chrysler Automobiles, General Motors Company and Ford Motor Company. Our access control product mix varies by customer, but generally our overall sales tend to be highest in lock and key, followed by power access (produced by STRATTEC Power Access), ignition lock housings, the door handle and trim components produced by ADAC-STRATTEC de Mexico and latch mechanisms.

Direct sales to various OEMs represented approximately 74% of our total sales for fiscal 2016. The remainder of our revenue is received primarily through sales to the OEM service channels, the aftermarket and Tier 1 automotive supplier customers, and sales of certain products to non-automotive commercial 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 Program Managers, Application Engineers and other product engineering personnel. Sales to other OEM customers are accomplished through a combination of our sales personnel located in Detroit and personnel in our Milwaukee headquarters office.



The majority of our OEM products are sold in North America. While some exporting is done to Tier 1 and automotive assembly plants in Europe, Asia and South America, we are in the process of expanding our presence in these markets and elsewhere through the Vehicle Access Systems Technology LLC (VAST) brand we jointly own with WITTE Automotive and ADAC Automotive. VAST is described in more detail on pages 8 and 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

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## COMPANY DESCRIPTION

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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 enables automotive repair specialists to satisfy consumer needs for repair or replacement parts. Our aftermarket activities are serviced through a warehousing operation in El Paso, Texas.

### CUSTOMER SALES 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, one or two Engineering Program Managers and Customer Application Engineers. In addition to customer teams for General Motors, Ford and Fiat Chrysler, we currently have teams for New Domestic Vehicle Manufacturers (primarily the Japanese and Korean automotive manufactures), Driver Control/Ignition Lock Housing customers, Tier 1 customers, and Service and Aftermarket customers. Sales and engineering for ADAC-STRATTEC LLC are supported by our partner in this joint venture, ADAC Automotive.

Each Sales Director is responsible for the overall relationship between STRATTEC and a specific customer group. Program Managers are responsible for coordinating cross functional activities while managing new product programs for their customers.

#### *Trunk Latch*



#### *Push Button Start*



*STRATTEC manufactures this Maserati electronic key fob.*

### PRODUCT ENGINEERING FOCUS

To best serve our customers' product needs, STRATTEC's engineering resources are organized into groups which focus on specific access control applications. We currently have six engineering groups: Locks and Keys, Aftermarket, Latches, Power Access Devices, Driver Control/Ignition Lock Housings and Electrical. Each group has a Product Business Manager, 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 Customer teams, Engineering Program Managers, 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.



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





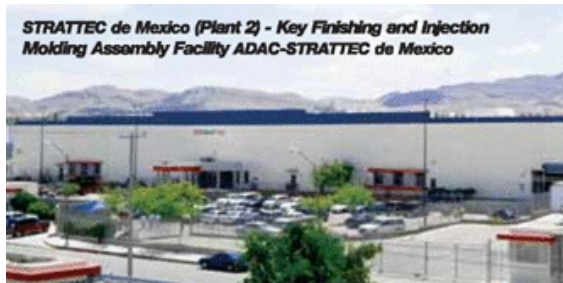


## COMPANY DESCRIPTION



## OPERATIONS

A significant number of the components that go into our products are manufactured at our headquarters in Milwaukee, Wisconsin. This facility produces zinc die cast components, stampings and milled key blades. We have three owned production facilities currently in operation in Juarez, Mexico operating as STRATTEC de Mexico. Plant No. 1 houses assembly operations for locksets, ignition lock housings, and our new STRATTEC Advanced Logic biometric security products. Plant No. 2 was built during fiscal 2009 to replace a leased facility. It houses our key finishing and plastic injection molding operations, as well as dedicated space for the assembly operations of ADAC-STRATTEC de Mexico. Plant No. 3 was purchased in Fiscal 2015 and houses both latch and power access assembly operations for STRATTEC Power Access de Mexico. Plant No. 4 is currently under construction in Leon, Mexico and will house our custom paint system for door handles and assembly for ADAC STRATTEC de Mexico. This facility is planned to be operational at the end of fiscal year 2017.



## 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 that will keep us in the forefront of the markets we serve. We primarily focus on electronic and mechanical access control products and modularization of related access/security control components. Once our Advanced Development Group establishes a proof-of-concept product utilizing new technology, with any further product development being shifted to our engineering groups for commercialization and product applications.

## VEHICLE ACCESS SYSTEMS TECHNOLOGY LLC (VAST)

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 set of legal agreements 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, WITTE-STRATTEC LLC, to invest in operations with local partners in strategic markets outside of Europe and North America.



COMPANY DESCRIPTION



In February of 2006, we announced the expansion of this alliance and related joint venture with the addition of a third partner, 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.

With the expansion of the alliance, we can offer 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 (VAST LLC). We now refer to the combination of the alliance structure and JV simply as “VAST”. 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 VAST logo used on the partners’ printed and electronic presentation materials. VAST made investments with a local partner in Brazil in September, 2001, and local partners in China in March, 2002. However, during fiscal 2010, VAST LLC purchased the remaining 40 percent interest of its local partners in the China venture. VAST China is now wholly owned by VAST LLC and had annual net sales of approximately \$115 million during fiscal 2016. This was an important step which gives STRATTEC a one-third interest in VAST China’s activities in the important growing Chinese/Asian market. In March 2014, VAST LLC purchased the remaining 49 percent interest of its local partner in Brazil, which had annual net sales of approximately \$1 million during fiscal 2016.



## COMPANY DESCRIPTION

On April 30, 2015 VAST LLC executed a purchase agreement to become a 50:50 Joint Venture partner with Minda Management Services Limited, an affiliate of both Minda Corporation Limited and Spark Minda, Ashok Minda Group of New Delhi, India (collectively, “Minda”). VAST acquired a fifty percent equity interest in the former Minda-Valeo Security Systems joint venture entity, based in Pune, India, for approximately \$12 million. This joint venture entity was renamed, Minda-VAST Access Systems (“Minda-VAST”). Minda-VAST has operations in Pune and Delhi and had annual sales of approximately \$36 million during fiscal year 2016. Minda is a leading manufacturer of security & access products and handles, for both OEMs and the aftermarket in India.

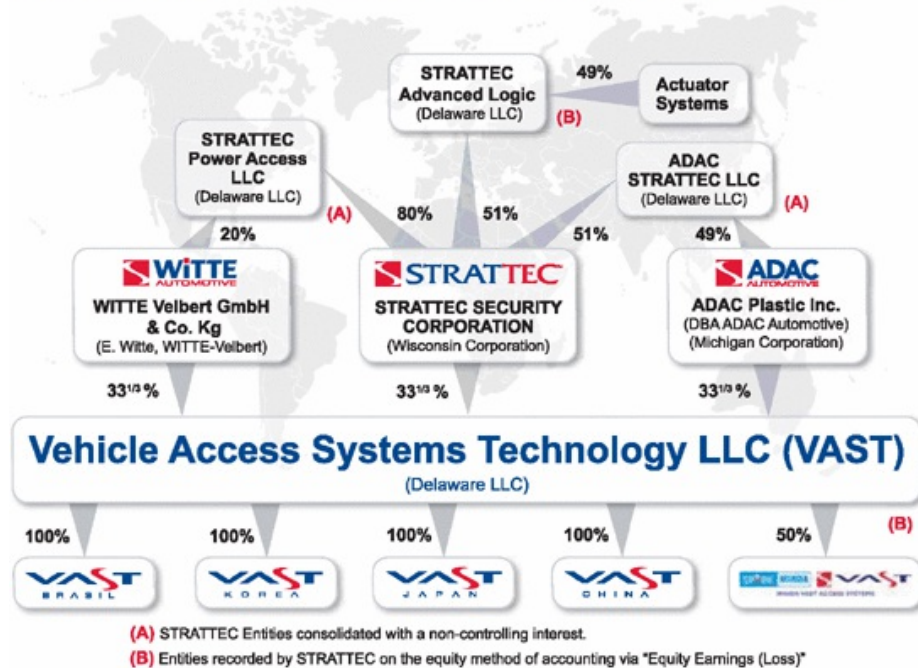
VAST is the embodiment of STRATTEC’s, WITTE’s and ADAC’s globalization strategy. We are developing VAST as a global brand with which we are jointly pursuing business with identified global customers. Those identified customers are General Motors, Ford, Fiat/Chrysler, Volkswagen, Honda, Toyota, Renault/Nissan and Hyundai/Kia.

To manage our customer relationships and coordinate global ventures and activities, we have established a VAST Management Group led by a President. The Management Group includes three Vice Presidents, one each from WITTE, STRATTEC and ADAC. With the focus provided by this Management Group, VAST is able to manage global programs with a single point of contact for customers, with the added advantage of providing regional support from the partners’ operating entities. Combined with VAST LLC’s ventures in China and Brazil, and sales/engineering offices in Japan and Korea, this structure establishes our global footprint.



## COMPANY DESCRIPTION

### STRATTEC LEGAL OWNERSHIP STRUCTURE INCLUDING VAST



#### ADAC-STRATTEC de MEXICO

During fiscal 2007, we formed a new entity 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 injection expertise and STRATTEC's assembly capability. ASdM currently operates out of defined space in STRATTEC de Mexico Plant No. 2 located in Juarez, Mexico. Products from this joint venture include non-painted door handle components and exterior trim components for OEM customers producing in North America. STRATTEC owns 51% of this joint venture and its financial results are consolidated into STRATTEC's financial statements. In our fiscal years ending 2016 and 2015, ASdM was profitable and represented \$61.4 and \$60.9 million, respectively, of our consolidated net sales.



STRATTEC has introduced the BOLT line of products, 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. You can buy this product direct at [www.boltlock.com](http://www.boltlock.com).

#### 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.



## COMPANY DESCRIPTION

WITTE is a 20 percent 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, lift gates and trunk lids. STRATTEC POWER ACCESS de Mexico currently operates out of defined space in STRATTEC de Mexico Plant No. 3 located in Juarez, Mexico. Financial results for SPA are consolidated in STRATTEC's financial statements. For fiscal years ending 2016 and 2015, SPA was profitable and represented \$83.7 and \$68.1 million, respectively, of our consolidated net sales.

### STRATTEC ADVANCED LOGIC LLC

During the fourth quarter of fiscal year 2013, we formed a new joint venture with Actuator Systems LLC called NextLock LLC subsequently renamed STRATTEC Advanced Logic. The initial capitalization of the joint venture was \$1.5 million. The purpose of this joint venture is to assemble and sell the next generation of biometric security products based upon the residential and commercial designs of Actuator Systems. This joint venture had minimal sales activity in both fiscal 2016 and 2015. During fiscal year 2015, STRATTEC Advanced Logic signed a marketing agreement with Westinghouse Security Products to sell under the Westinghouse brand name (see also [www.westinghousesecurity.com](http://www.westinghousesecurity.com)). STRATTEC owns 51% of this joint venture and its financial results are accounted for on the equity method of accounting.



### STRATTEC Advanced Logic Biometric Security Products

#### 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. September volumes increase rapidly as each new model 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 sales and operating results typically being our weakest, with the remaining quarters being more consistent.

#### ECONOMIC VALUE COMMITMENT

The underlying philosophy of our business and the means by which we measure our performance is Economic Value Added (EVA®). 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®. In line with this philosophy, EVA® bonus plans are in effect for all of our U.S. associates, outside directors and many of our Mexico-based salaried associates as an incentive to help positively drive the economic value of our business.

STRATTEC's significant market presence is the result of over 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

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### 2017 VEHICLES

We are proud to be associated with many of the quality vehicles produced in North America and elsewhere. The following model year 2017 cars and light trucks are equipped with STRATTEC products.

#### PASSENGER CARS

Acura NSX	Cadillac ELR	Ford Focus
Acura TLX	Cadillac XTS *	Ford Fusion
Aston Martin DB9 *	Chevrolet Bolt	Ford Ka *
Aston Martin DB 11*	Chevrolet Camaro	Ford Mustang
Aston Martin Rapide *	Chevrolet Corvette	Ford Taurus
Aston Martin Vanquish *	Chevrolet Cruze *	Holden Commodore *
Aston Martin Vantage *	Chevrolet Impala	Honda Civic
Buick Alpheon *	Chevrolet Malibu	Lancia Flavia
Buick Anthem *	Chevrolet Orlando *	Lancia Thema
Buick Excelle *	Chevrolet Sonic *	Lincoln MKS
Buick Gentra *	Chevrolet Volt	Lincoln MKZ
Buick GL8 *	Chrysler 200	Maserati Ghibli *
Buick LaCrosse *	Chrysler 300	Maserati Quattroporte *
Buick Verano	Dodge Challenger	Opel Insignia *
Buick Regal *	Dodge Charger	Opel Meriva *
Cadillac ATS *	Dodge Dart	Opel Zafira *
Cadillac CT6*	Dodge Viper SRT	Tesla Model S
Cadillac CTS	Ford Fiesta	Tesla Model X

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

Acura MDX	Dodge Durango	Honda CRV
Acura RDX	Dodge Grand Caravan	Honda Odyssey
Buick Enclave	Dodge Journey	Jeep Cherokee
Buick Encore*	Fiat Freemont	Jeep Compass
Buick Envision	Ford Edge	Jeep Grand Cherokee
Cadillac Escalade	Ford C-Max	Jeep Patriot
Cadillac Escalade ESV	Ford Escape	Jeep Wrangler/Wrangler Unlimited
Cadillac SRX	Ford Expedition	Kia Sedona *
Cadillac XT5	Ford Explorer	Lancia Grand Voyager
Chevrolet Captiva	Ford Flex	Lincoln MKC
Chevrolet Colorado *	Ford F-Series Pickup	Lincoln MKT
Chevrolet Equinox	Ford F-Series Super Duty Pickup	Lincoln MKX
Chevrolet Express Van	Ford Transit	Lincoln Navigator
Chevrolet Silverado Pickup	GMC Acadia	Mobility Ventures – MV-1
Chevrolet Suburban	GMC Terrain	Nissan Titan
Chevrolet Tahoe	GMC Canyon *	Opel Antara*
Chevrolet Trail Blazer *	GMC Savana	Ram 1500/2500/3500 Pickup
Chevrolet Trax *	GMC Sierra Pickup	
Chevrolet Traverse	GMC Yukon and Yukon XL	
Chrysler Pacifica		

\* Vehicles produced outside of North America, or both in and outside North America.

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

### **EXECUTIVE OVERVIEW**

Historically, a significant portion of our total net sales are to domestic automotive OEMs (General Motors, Ford and Fiat Chrysler). During the past two decades these customers lost North American market share to the New Domestic automotive manufacturers (primarily the Japanese and Korean automotive manufacturers). In addition to our dependence on our customers' maintaining their market share, our financial performance depends in large part on conditions in the overall automotive industry, which in turn, are dependent upon the U.S. and global economies. During fiscal years 2016, 2015 and 2014, the above domestic automotive OEMs together represented 63 percent, 65 percent and 70 percent, respectively, of our total net sales.

During fiscal year 2016, we experienced stronger sales demand for our components from our major North American customers noted above as it relates to light trucks and both sport utility and car based utility vehicles in comparison to passenger cars, which was likely influenced by lower gas prices. If gas prices continue to remain low over the next year, we anticipate this consumer buying trend will continue.

Fiscal 2016 net sales were \$401 million compared to \$411 million in 2015 and \$348 million in 2014. Net income attributable to STRATTEC for fiscal 2016 was \$9.1 million compared to \$20.7 million in 2015 and \$16.4 million in 2014. The financial health of our three largest customers continues to improve. General Motors, Ford and Fiat Chrysler continued to report profitable results after implementing significant restructuring plans that modified their cost structures by closing manufacturing facilities, reducing benefits and wages and eliminating certain models and brands in 2009 and 2010. With the new United Auto Workers contracts signed in the United States during November 2015, our major customers will be migrating passenger car production from the United States into Mexico over the next 3-5 years to improve their overall profitability on these vehicles. STRATTEC in conjunction with our joint venture partner ADAC Automotive are currently building a new production facility in Leon, Mexico to capture these new opportunities as it relates to painted door handles and assemblies in the Mexican market.

As we look out into the future, the July 2016 projections from our third-party forecasting service indicate that North American light vehicle production will show steady to flat improvement for the next five years. By model year, based on these projections we are expecting a 2016 build of 17.8 million vehicles, 18.5 million vehicles for 2017, 18.4 million vehicles for 2018, 18.3 million vehicles for 2019 and 18.8 million vehicles for 2020. As part of this third party projection, General Motors Company and the Ford Motor Company are expected to experience flat vehicle production volumes in their production levels during this time period. Fiat Chrysler, however, is expected to slightly decrease production as they eliminate or reduce passenger car production on certain models during this time horizon. Of course, all of these forecasts are subject to variability based on what happens in the overall North American and global economies, especially as it relates to the current levels of employment, availability of consumer credit, home equity values, fluctuating fuel prices, changes in customer preferences regarding product quality issues, including related to recall and product warranty coverage issues, and other key factors that we believe could determine whether consumers can or will purchase new vehicles.

### **Focus and Strategy Going Forward**

STRATTEC's long-term strategy is focused on maximizing long-term shareholder value by driving profitable growth. Our management believes productivity improvements and cost reductions are critical to our competitiveness, while enhancing the value we deliver to our customers. In order to accomplish this, we have been pursuing, and we intend to continue to pursue, the following objectives as summarized below:

- Streamline and standardize processes to increase productivity and improve quality of our products
- Maintain a disciplined and flexible cost structure to leverage scale and optimize asset utilization and procurement
- Maintain our strong financial position by deploying capital spending targeted for growth and productivity improvement
- Leverage the "VAST Brand" with customer relationships to generate organic growth from global programs
- Offer our customers innovative products and cost savings solutions to meet their changing demands
- Explore and execute targeted mergers and acquisitions with a disciplined due diligence approach and critical financial analysis to drive shareholder value

## MANAGEMENT'S DISCUSSION AND ANALYSIS

We use several key performance indicators to gauge progress toward achieving these objectives. These indicators include net sales growth, operating margin improvement, return on capital employed and cash flow from operations.

### RESULTS OF OPERATIONS

#### 2016 Compared to 2015

	Years Ended	
	July 3, 2016	June 28, 2015
Net sales (millions of dollars)	\$ 401.4	\$ 411.5

Net Sales to each of our customers or customer groups in the current year and prior year were as follows (millions of dollars):

	Years Ended	
	July 3, 2016	June 28, 2015
Fiat Chrysler Automobiles	\$ 115.9	\$ 116.9
General Motors Company	79.9	105.8
Ford Motor Company	57.3	45.5
Tier 1 Customers	67.3	71.3
Commercial and Other OEM Customers	49.3	41.7
Hyundai / Kia	31.7	30.3
Total	\$ 401.4	\$ 411.5

Net sales were \$401.4 million in 2016 compared to \$411.5 million in 2015. Our 2016 fiscal year was 53 weeks while our 2015 fiscal year was the typical 52 weeks. The impact of the additional week of customer shipments during the current year increased sales by approximately \$7.5 million. The overall reduction in sales in the current year as compared to the prior year was due to increased service parts sales to General Motors during the prior year, as well as current year customer vehicle production volume reductions on models for which we supply components, temporary shut-downs at customer production facilities, and agreed upon customer price reductions. The decreased sales to Fiat Chrysler Automobiles in the current year were due to reduced product content on certain vehicle models for which we supply components. Additionally, during the current year, Fiat Chrysler Automobiles temporarily shutdown production at its Sterling Heights, Michigan and Toluca, Mexico assembly plants which are primarily responsible for the production of the Chrysler 200 and Dodge Journey due to reduced sales demand for these vehicles. This shutdown reduced our sales by \$8.9 million during the current year. These impacts were mostly offset by an increase in Chrysler Pacifica minivan production volumes for which we supply components. During the prior year, Fiat Chrysler implemented a temporary shutdown at its Windsor, Canada assembly plant to re-tool for production of the new Chrysler Pacifica minivan, which shutdown decreased our sales to Fiat Chrysler by \$18 million. The negative effect of that shutdown was partially offset by increased service sales during the prior year in comparison to the current year. The decrease in sales to General Motors Company in the current year was attributed to incremental service parts sales of \$34 million shipped in the prior year for parts used to support a recall campaign. Those incremental sales did not continue during the current year. In addition, the current year included \$2.0 million of agreed upon price reductions, which began January 1, 2016 while the prior year included a \$3.3 million sales concession that we granted to General Motors during the prior year. Increased sales to Ford Motor Company in the current year were attributed to higher vehicle production volumes and content on models for which we supply components, in particular for components we supply for F-150 pick-up trucks. Sales to Tier 1 Customers during the current year decreased in comparison to the prior year due to lower production volume on passenger cars for which we supply driver control and door handle components. Sales to commercial and other OEM Customers during the current year increased in comparison to the prior year. These customers represent purchasers of vehicle access control products, such as latches, fobs, and driver controls, that we have developed in recent years to complement our historic core business of locks and keys. The increase in sales to Hyundai / Kia in the current year was principally due to higher levels of sales on the Kia Sedona minivan for which we supply components.

	Years Ended	
	July 3, 2016	June 28, 2015
Cost of Goods Sold (millions of dollars)	\$ 336.6	\$ 338.8

Direct material costs are the most significant component of our cost of goods sold and comprised \$224.9 million or 66.8 percent of cost of goods sold in the current year compared to \$217.1 million or 64.1 percent of cost of goods sold in the prior year. The increase in material costs year over year of \$7.8 million or 3.6 percent was impacted by our product sales mix in the current year as compared to the prior year. The current year included increased sales of power access products as compared to the prior year. Power access products typically have a higher purchased content percentage as compared to our other access control products. In addition, increased scrap costs in the current year associated with new product launches contributed to the year over year increase in material costs.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

The remaining components of cost of goods sold consist of labor and overhead costs which decreased \$10.0 million or 8.2 percent in the current year as compared to the prior year as the variable portion of these costs decreased due to the reduced sales volumes in 2016. In addition, the current year included a year-over-year decrease in customer warranty provisions of \$8.4 million as the prior year included provisions for expected warranty payments to be settled in future periods, a reduction of approximately \$8.7 million in the U.S. dollar value of our Mexican operations due to a favorable Mexican peso to U.S. dollar exchange rate and a reduction of approximately \$2.4 million in expense provisions for the accrual of bonuses under our incentive bonus plans between years. Additionally, during the prior year, a lump sum bonus totaling \$311,000 was paid to our Milwaukee represented hourly workers resulting from the ratification of a new 4-year labor contract. The average U.S. dollar/Mexican peso exchange rate increased to approximately 17.22 pesos to the dollar in the current year period from approximately 14.34 pesos to the dollar in the prior year period. These favorable impacts were partially offset by higher depreciation expense in 2016, increased 2016 manufacturing start-up costs associated with new product launches, and higher costs during 2016 associated with diversifying our products portfolio.

	Years Ended	
	July 3, 2016	June 28, 2015
Gross Profit (millions of dollars)	\$ 64.8	\$ 72.7
Gross Profit as a percentage of net sales	16.1%	17.7%

The reduction in gross profit in the current year as compared to the prior year was the result of the reduction in sales partially offset by the reduction in cost of goods sold as discussed above. The reduction in gross profit as a percentage of net sales in the current year as compared to the prior year was the result of reduced sales of service parts related to the General Motors customer recall campaign noted above, which typically have higher gross profit margins as compared to gross profit margins on parts sold for new vehicle production, agreed upon customer price reductions that became effective at the start of the 2016 calendar year, reduced customer production volumes resulting in less favorable absorption of our fixed manufacturing costs, higher depreciation expense, increased 2016 manufacturing start-up costs associated with new product launches and higher costs associated with diversifying our products portfolio. These unfavorable impacts to the gross profit margin as a percentage of net sales were partially offset by a decrease in expense provisions for the accrual of bonuses under our incentive bonus plans, a reduction in the U.S. dollar value of the cost of our Mexican operations due to a favorable Mexican peso to U.S. dollar exchange rate between these years, and a lump sum bonus paid to our Milwaukee represented hourly workers during the prior year period resulting from the ratification of a new 4-year labor contract, all as discussed above.

Engineering, Selling and Administrative Expenses in the current year and prior year were as follows:

	Years Ended	
	July 3, 2016	June 28, 2015
Expenses (millions of dollars)	\$ 43.9	\$ 41.5
Expenses as a percentage of net sales	10.9%	10.1%

Engineering, selling and administrative expenses increased approximately \$2.4 million between periods. Higher selling and engineering costs associated with current product programs, an additional week of expense as a result of the 53 week fiscal year and higher engineering costs for new programs for which we are utilizing third party vendors for a portion of the development work were partially offset by a reduction of \$1.9 million in expense provisions for the accrual of bonuses under our incentive bonus plans in the current year as compared to the prior year.

Income from operations in the current year was \$20.9 million compared to \$31.1 million in the prior year period. This decrease was the result of reduced sales and reduced gross profit margins during 2016 as well as an increase in engineering, selling and administrative expenses, all as discussed above.

The equity (loss) earnings of joint ventures was comprised of the following in the current year and prior year (thousands of dollars):

	Years Ended	
	July 3, 2016	June 28, 2015
Vehicle Access Systems Technology LLC	\$ (639)	\$ 1,251
STRATTEC Advanced Logic, LLC	(1,596)	(2,039)
	\$ (2,235)	\$ (788)

The current year equity loss of joint ventures for Vehicle Access Systems Technology LLC included a \$6 million impairment charge related to its Minda-VAST Access Systems joint venture in India. STRATTEC's portion of this impairment charge totaled \$2 million. STRATTEC is not the primary beneficiary and does not control STRATTEC Advanced Logic, LLC ("SAL LLC"). Accordingly, our investment in SAL LLC is accounted for using the equity method. Even though we maintain a 51 percent ownership interest in SAL LLC, effective with our fiscal 2015 fourth quarter, 100 percent of the funding for SAL LLC was being made through loans from STRATTEC to SAL LLC. Therefore,

## MANAGEMENT'S DISCUSSION AND ANALYSIS

STRATTEC began recognizing 100 percent of the losses of SAL LLC up to our committed financial support, which losses included write-offs of fixed assets and inventory totaling \$381,000 in the prior year. In addition, the following losses were included in our current year and prior year Equity (Loss) Earnings of Joint Ventures for SAL LLC (thousands of dollars):

	Years Ended	
	July 3, 2016	June 28, 2015
Loss on Guarantee of SAL LLC Vendor Contract	\$ —	\$ 123
Loss on Loan to SAL LLC	225	100
Loss on Guarantee of SAL LLC Credit Facility	247	488
	<u>\$ 472</u>	<u>\$ 711</u>

Effective November 1, 2014, a license agreement was signed with Westinghouse allowing SAL LLC to do business as Westinghouse Security. Payments required under this license agreement were guaranteed by STRATTEC. As of July 3, 2016 and June 28, 2015, STRATTEC had recorded a liability equal to the estimated fair value of the guarantee of these payments of \$250,000, which amount was equal to the future payments required to be made under the license agreement as of these dates. STRATTEC's proportionate share of the guarantee of these payments based on our ownership percentage in SAL LLC totaled \$127,000, and accordingly, our investment in SAL LLC was increased by this amount as of July 3, 2016 and June 28, 2015. Our joint venture partner did not guarantee their proportionate share of the payments required under the license agreement. As a result, in the prior year, STRATTEC recorded a loss of \$123,000 which was equal to our partner's proportionate share, based upon their ownership interest in the joint venture, of the fair value of the STRATTEC guarantee.

During the fourth quarter of 2015, a loan was made from STRATTEC to SAL LLC in support of operating expenses and working capital needs. As of June 28, 2015, the outstanding loan amount totaled \$100,000. A valuation reserve of \$100,000 was recorded related to this loan as of June 28, 2015. During 2016, additional loans totaling \$225,000 were made from STRATTEC to SAL LLC in support of operating expenses and working capital needs. An additional valuation reserve of \$225,000 was recorded related to the additional loans during 2016. As of July 3, 2016, the outstanding loan amount totaled \$325,000, which was fully offset by a valuation reserve of \$325,000.

SAL LLC had a \$1.5 million revolving credit facility with BMO Harris Bank N.A. with a maturity date of February 16, 2016 (the "SAL Credit Facility"), which was fully guaranteed by STRATTEC. Outstanding borrowings under the SAL Credit Facility as of February 16, 2016 and June 28, 2015 totaled \$1.5 million and \$995,000, respectively. SAL LLC did not have cash available to pay the outstanding debt balance as of the maturity date. Therefore, STRATTEC made a payment of \$1.5 million on its guarantee on February 16, 2016. Prior to making the guarantee payment, STRATTEC had a recorded liability related to the guarantee of \$1.5 million and \$995,000 at February 16, 2016 and June 28, 2015, respectively, which amounts were equal to the estimated fair value of the guarantee as of these dates. As of June 28, 2015, the guarantee liability was included in Other Current Liabilities in the accompanying Consolidated Balance Sheets. STRATTEC's proportionate share of the guarantee based on our ownership percentage in SAL LLC totaled \$765,000 and \$507,000, respectively, as of February 16, 2016 and June 28, 2015, and accordingly, our investment in SAL LLC included these amounts as of these dates. Our joint venture partner did not guarantee their proportionate share of the SAL Credit Facility. As a result, we recorded a loss equal to our partner's proportionate share of the fair value of the STRATTEC guarantee based upon our partner's ownership interest in the joint venture of \$488,000 during fiscal 2015 and \$247,000 during 2016.

Included in other income, net in the current year and prior year were the following items (thousands of dollars):

	Years Ended	
	July 3, 2016	June 28, 2015
Foreign currency transaction gain	\$ 2,559	\$ 3,075
Unrealized Loss on Peso Forward Contracts	(889)	—
Realized Loss on Peso Forward Contracts	(1,196)	—
Rabbi Trust (loss) gain	(41)	96
Other	235	310
	<u>\$ 668</u>	<u>\$ 3,481</u>

Foreign currency transaction gains resulted from activity associated with foreign denominated assets held by our Mexican subsidiaries. We entered into the Mexican Peso currency forward contracts to minimize earnings volatility resulting from changes in exchange rates affecting the U.S. dollar cost of our Mexican operations. Unrealized losses recognized as a result of mark-to-market adjustments as of July 3, 2016 may or may not be realized, depending upon the actual Mexican peso to U.S. dollar exchange rates experienced during the balance of the contract period. Our Rabbi Trust assets fund our amended and restated supplemental executive retirement plan. The investments held in the Trust are considered trading securities.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our effective income tax rate for 2016 was 26.4 percent compared to 27.6 percent in 2015. Our income tax provision for 2015 was affected by a lower statutory tax rate for income subject to tax in Mexico as compared to the statutory tax rate for income subject to tax in the U.S as well as a net reduction in our liability for unrecognized tax benefits of approximately \$852,000. Our income tax provision for each of 2016 and 2015 was affected by the non-controlling interest portion of our pre-tax income. The decrease in the effective tax rate between periods was the result of a year-over-year increase in the non-controlling interest percentage of our pre-tax income.

### 2015 Compared to 2014

	Years Ended	
	June 28, 2015	June 29, 2014
Net sales (millions of dollars)	\$ 411.5	\$ 348.4

Net Sales to each of our customers or customer groups in 2015 and 2014 were as follows (millions of dollars):

	Years Ended	
	June 28, 2015	June 29, 2014
Fiat Chrysler Automobiles	\$ 116.9	\$ 117.5
General Motors Company	105.8	79.5
Ford Motor Company	45.5	46.6
Tier 1 Customers	71.3	61.6
Commercial and Other OEM Customers	41.7	36.0
Hyundai / Kia	30.3	7.2
Total	\$ 411.5	\$ 348.4

The increase in sales to General Motors Company in 2015 was attributed to incremental service parts sales during the six months ended December 28, 2014 of \$34.0 million related to a recall campaign. Incremental service parts sales during our fiscal 2014 fourth quarter totaled \$11 million. The incremental sales adjusted to more normal levels during the second half of our fiscal 2015 and remained at normal levels thereafter. Sales to General Motors were also impacted by higher vehicle production volumes and greater product content on vehicle models for which we supply components that were introduced for the 2015 model year and a \$3.3 million sales concession we granted to General Motors which negatively impacted 2015 revenues. Decreased sales to Fiat Chrysler Automobiles in 2015 were the result of Fiat Chrysler's temporary shutdown of its Windsor, Canada assembly plant, which began in February 2015 and ended in May 2015, to re-tool the facility for the production of the new Chrysler minivan. This temporary plant shutdown decreased our net sales to Fiat Chrysler during 2015 by \$18 million, which impact was mostly offset by increased sales related to higher customer vehicle production volumes and increased content on models for which we supply components and year-over-year increased service sales to Fiat Chrysler. Decreased sales to Ford Motor Company in 2015 were attributed to lower vehicle production volumes on models for which we supply components and in particular for components we supply on the F-150 pick-up trucks, which were partially offset by higher latch product sales to Ford in 2015 and increased content on models for which we supply components. Sales to Tier 1 Customers during 2015 increased in comparison to the prior year. These customers primarily represent purchasers of vehicle access control products, such as latches, fobs and driver controls, that we have developed in recent years to complement our historic core business of locks and keys. The increase in sales to Hyundai / Kia in 2015 was due to the ramp-up of the new Kia Sedona minivan for which we supply components.

	Years Ended	
	June 28, 2015	June 29, 2014
Cost of Goods Sold (millions of dollars)	\$ 338.8	\$ 282.6

Direct material costs are the most significant component of our cost of goods sold and comprised \$217.1 million or 64.1 percent of cost of goods sold in 2015 compared to \$184.0 million or 65.1 percent of cost of goods sold in 2014. The increase in material costs between these fiscal years of \$33.1 million or 18.0 percent was due to increased sales volumes in 2015 as compared to 2014 as discussed above. The direct material costs were also impacted by higher purchased raw material costs for zinc during 2015 as compared to 2014. We have negotiated raw material price adjustment clauses with certain, but not all, of our customers to offset some of the market price fluctuations in the cost of zinc. During 2015, we used approximately 13.5 million pounds of zinc. Increased zinc costs during 2015, as adjusted for the impact of raw material price adjustments with certain customers, totaled approximately \$525,000.

The remaining components of cost of goods sold consist of labor and overhead costs which increased \$23.1 million or 23.4 percent in 2015 over 2014 as the variable portion of these costs increased due to the increased sales volumes during 2015. In addition, 2015 included a year-over-year increase in customer warranty provisions of \$7.8 million for expected warranty payments to be settled in future periods, write-offs related to SAL LLC, our biometric joint venture, of \$300,000 and an increase of \$1.8 million in current year royalty costs related to sales of aftermarket product. These unfavorable impacts were partially offset by benefits of favorable absorption of the fixed portion of our labor and overhead costs resulting from increased sales volumes between periods, a reduction of approximately \$4.2 million in the U.S. dollar costs of

## MANAGEMENT'S DISCUSSION AND ANALYSIS

our Mexican operations due to a favorable Mexican peso to U.S. dollar exchange rate, and a reduction of approximately \$1.5 million in expense provisions for the accrual of bonuses under our incentive bonus plans between periods. The average U.S. dollar/Mexican peso exchange rate increased to approximately 14.34 pesos to the dollar in 2015 from approximately 13.07 pesos to the dollar in 2014.

	Years Ended	
	June 28, 2015	June 29, 2014
Gross Profit (millions of dollars)	\$ 72.7	\$ 65.8
Gross Profit as a percentage of net sales	17.7%	18.9%

The improvement in gross profit in 2015 as compared to 2014 was the result of the increase in sales, partially offset by the increase in cost of goods sold as discussed above. The reduction in gross profit as a percentage of net sales in 2015 as compared to 2014 was the result of increased labor and overhead costs resulting from higher customer warranty provisions, write-offs related to SAL LLC and increased royalty costs as compared to 2014, partially offset by increased sales of service parts related to the General Motors' recall campaign, which typically have higher gross profit margins as compared to gross profit margins on parts sold for new vehicle production, increased customer production volumes resulting in more favorable absorption of our fixed manufacturing costs, a favorable Mexican peso to U.S. dollar exchange rate and lower expense provisions for the accrual of bonuses under our incentive bonus plans in 2015 as compared to 2014, all as discussed above.

Engineering, Selling and Administrative Expenses in 2015 and 2014 were as follows:

	Years Ended	
	June 28, 2015	June 29, 2014
Expenses (millions of dollars)	\$ 41.5	\$ 39.3
Expenses as a percentage of net sales	10.1%	11.3%

Engineering, selling and administrative expenses increased approximately \$2.2 million between periods while decreasing slightly as a percentage of our net sales to 10.1 percent in 2015 from 11.3 percent in 2014. Higher costs in support of our new Auburn Hills, Michigan sales and engineering facility and higher engineering and selling costs associated with current product programs as well as new product programs under development were partially offset by a reduction of \$882,000 in expense provisions for the accrual of bonuses under our incentive bonus plans in 2015 as compared to 2014.

Income from operations in 2015 was \$31.1 million compared to \$26.5 million in 2014. This increase was the result of increased sales, partially offset by reduced gross profit margins during 2015, and an increase in engineering, selling and administrative expenses as discussed above.

The equity (loss) earnings of joint ventures was comprised of the following in 2015 and 2014 (thousands of dollars):

	Years Ended	
	June 28, 2015	June 29, 2014
Vehicle Access Systems Technology LLC	\$ 1,251	\$ 1,324
STRATTEC Advanced Logic, LLC	(2,039)	(367)
	<u>\$ (788)</u>	<u>\$ 957</u>

STRATTEC is not the primary beneficiary and does not control SAL LLC. Accordingly, our investment in SAL LLC is accounted for using the equity method. Notwithstanding the existence of the SAL Credit Facility through February 16, 2016 described herein, as a result of STRATTEC's guarantee of such credit facility and as a result of borrowing limitations imposed by the bank under such credit facility, even though we maintain a 51 percent ownership interest in SAL LLC, effective with our fiscal 2015 fourth quarter, 100 percent of the funding for SAL, LLC was being made through loans from STRATTEC to SAL LLC. Therefore, STRATTEC began recognizing 100 percent of the losses of SAL LLC up to our committed financial support, which losses included write-offs of fixed assets and inventory totaling \$381,000 during 2015. In addition, the following losses were included in our 2015 Equity (Loss) Earnings of Joint Ventures for SAL LLC (thousands of dollars):

Loss on Guarantee of SAL LLC Vendor Contract	\$123
Loss on Loan to SAL LLC	\$100
Loss on Guarantee of SAL LLC Credit Facility	\$488

Effective November 1, 2014, a license agreement was signed with Westinghouse allowing SAL LLC to do business as Westinghouse Security. Payments required under this license agreement were guaranteed by STRATTEC. As of June 28, 2015, STRATTEC had recorded a liability equal to the estimated fair value of the guarantee of these payments of \$250,000, which amount was equal to the future payments required to be made under the license agreement as of June 28, 2015. STRATTEC's proportionate share of the guarantee of these payments based on our ownership percentage in SAL LLC totaled \$127,000, and accordingly, we increased our investment in SAL LLC as of June 28, 2015 by this amount. Our joint venture partner did not guarantee their proportionate share of the payments required under the license agreement. As a result, STRATTEC recorded a loss of \$123,000 which was equal to our partner's proportionate share, based upon their ownership interest in the joint venture, of the fair value of the STRATTEC guarantee.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

During the fourth quarter of 2015, a loan was made from STRATTEC to SAL LLC in support of operating expenses and working capital needs. As of June 28, 2015, the outstanding loan amount totaled \$100,000. A valuation reserve of \$100,000 was recorded related to this loan as of June 28, 2015.

SAL LLC had a \$1.5 million revolving credit facility with BMO Harris Bank N.A., which was fully guaranteed by STRATTEC. As of June 28, 2015, STRATTEC had recorded a liability equal to the estimated fair value of the guarantee of \$995,000, which amount was equal to the outstanding borrowings on the SAL Credit Facility as of June 28, 2015. STRATTEC's proportionate share of the guarantee based on our ownership percentage in SAL LLC totaled \$507,000, and accordingly, we increased our investment in SAL LLC as of June 28, 2015 by this amount. Our joint venture partner did not guarantee their proportionate share of the SAL Credit Facility. As a result, STRATTEC recorded a loss of \$488,000 which was equal to our partner's proportionate share, based upon their ownership interest in the joint venture, of the fair value of the STRATTEC guarantee.

Included in other income, net in 2015 and 2014 were the following items (thousands of dollars):

	Years Ended	
	June 28, 2015	June 29, 2014
Foreign currency transaction gain (loss)	\$ 3,075	\$ (36)
Rabbi Trust gain	96	211
Other	310	97
	<u>\$ 3,481</u>	<u>\$ 272</u>

Foreign currency transaction gains and losses resulted from activity associated with foreign denominated assets held by our Mexican subsidiaries. Our Rabbi Trust assets fund our amended and restated supplemental executive retirement plan. The investments held in the Trust are considered trading securities.

Our effective income tax rate for 2015 was 27.6 percent compared to 31.2 percent in 2014. Our income tax provision for each of 2015 and 2014 was affected by the non-controlling interest portion of our pre-tax income. Our income tax provision for 2015 was also affected by a lower statutory tax rate for income subject to tax in Mexico as compared to the statutory tax rate for income subject to tax in the U.S. Moreover, our income tax provision included a net reduction in our liability for unrecognized tax benefits of approximately \$852,000 in 2015 compared to a reduction of approximately \$221,000 in 2014 due to tax years that closed and changes in current and prior year tax positions. The decrease in the effective tax rate between periods was the result of the 2015 reduction in the liability for unrecognized tax benefits and a reduction in the statutory tax rate for income subject to tax in Mexico in 2015 versus 2014.

### LIQUIDITY AND CAPITAL RESOURCES

#### Outstanding Receivable Balances from Major Customers

Our primary source of cash flow is from our major customers, which include Fiat Chrysler Automobiles LLC, General Motors Company and Ford Motor Company. As of the date of filing this Annual Report 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 July 3, 2016 was as follows (millions of dollars):

Fiat Chrysler Automobiles	\$18.1
General Motors Company	\$13.1
Ford Motor Company	\$ 6.9

#### Cash Balances in Mexico

We earn a portion of our operating income in Mexico, which is deemed to be permanently reinvested. As of July 3, 2016, \$10.6 million of our \$15.5 million cash and cash equivalents balance was deemed to be permanently reinvested in Mexico. Cash balances in Mexico will be used for future capital expenditures and future plant expansion in Mexico. We currently do not intend nor foresee a need to repatriate these funds. We expect existing domestic cash and cash equivalents, cash flows from operations, and borrowings under our credit facility to continue to be sufficient to fund our operating activities and cash commitments for investing and financing activities, such as regular quarterly dividends and capital expenditures, for at least the next 12 months and thereafter for the foreseeable future. Should we require more capital in the U.S. than is generated by our operations domestically, for example to fund significant discretionary activities, such as acquisitions of businesses and share repurchases, we could elect to repatriate future earnings from foreign jurisdictions. This alternative could result in higher effective tax rates and dilution of our earnings.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Cash Flow Analysis

	Years Ended		
	July 3, 2016	June 28, 2015	June 29, 2014
<b>Cash Flows from (millions of dollars):</b>			
Operating Activities	\$ 8.2	\$ 31.5	\$ 11.5
Investing Activities	\$ (25.3)	\$ (30.8)	\$ (13.0)
Financing Activities	\$ 7.2	\$ 5.8	\$ 1.0

The decrease in cash provided by operating activities between 2015 and 2016 reflected a net increase in working capital requirements between the two years of \$23.4 million, with the increase in our working capital requirements being made up of the following working capital changes (millions of dollars):

	Increase (Decrease) in Working Capital Requirements		
	2016	2015	Change
Accounts Receivable	\$ 5.1	\$ (9.2)	\$ 14.3
Inventories	\$ 3.9	\$ 4.3	\$ (0.4)
Customer Tooling	\$ 3.5	\$ (1.8)	\$ 5.3
Other Assets	\$ 6.0	\$ 3.3	\$ 2.7
Accounts Payable and Other Liabilities	\$ 3.0	\$ 1.5	\$ 1.5

The year over year change in the accounts receivable balances reflected an increase in accounts receivable balances during 2016 compared to a reduction in accounts receivable balances during 2015. Receivable balances were increased at the start of the 2015 fiscal year as a result of \$11 million of additional service parts sales in conjunction with General Motor's recall campaign during the fourth quarter of 2014. The receivable balances related to the additional service parts sales were collected during 2015 reducing the accounts receivable balances during fiscal 2015. Additionally, higher sales during the fourth quarter of 2016 as compared to the fourth quarter of 2015 caused receivable balances to increase during fiscal 2016. The year over year change in customer tooling balances, which consisted of costs incurred for the development of tooling that will be directly reimbursed by the customer whose parts are produced from the tool, was the result of the timing of tooling development spending required to meet customer production requirements and related customer reimbursements. The year over year change in other assets was the result of a larger increase in the income tax recoverable balance in 2016 as compared to 2015, which was based on the required income tax provision and the timing and amounts of Federal and state tax payments made. The year over year change in the accounts payable and other liability balances was impacted by changes in accounts payable balances, accrued salaries and benefits balances and warranty reserve balances. The year over year change in accounts payable balances decreased working capital requirements \$12.8 million between years. The changes in the accounts payable balances during each period 2016 and 2015 resulted from the timing of purchases and payments with our vendors based on normal payment terms. Additionally, increased accounts payable balances at June 2014 related to the General Motors' recall campaign which were paid during 2015 increased the 2015 working capital requirements. The year over year change in accrued payroll and benefits balances increased working capital requirements \$2.9 million between years as the accrual of bonuses under our incentive bonus program decreased between years. The provision for bonuses under our incentive bonus plans decreased \$4.2 million between years while actual cash payments made decreased \$2.1 million between years. The year over year change in warranty reserve balances increased working capital requirements \$11.4 million between years. Warranty provisions decreased \$8.4 million between years while warranty payments increased \$2.6 million between years.

Other significant cash payments impacting net cash provided by operating activities during both the current year and prior year periods included cash contributions made to our qualified pension plan and cash payments made for Federal, state and foreign income taxes. Cash contributions made to our qualified pension plan totaled \$3.0 million during both 2016 and 2015. Cash payments made for Federal, state and foreign income taxes totaled \$4.7 million during 2016 compared to \$14.8 million during 2015.

Net cash provided by operating activities was \$31.5 million during 2015, compared to \$11.5 million during 2014. The increase in cash provided by operating activities between these years reflected a net reduction in working capital requirements between the two years of \$19.8 million, with the reduction being made up of the following working capital changes (millions of dollars):

	Increase (Decrease) in Working Capital Requirements		
	2015	2014	Change
Accounts Receivable	\$ (9.2)	\$ 21.3	\$ (30.5)
Inventories	\$ 4.3	\$ 6.2	\$ (1.9)
Customer Tooling	\$ (1.8)	\$ 3.0	\$ (4.8)
Other Assets	\$ 3.3	\$ 3.5	\$ (0.2)
Accounts Payable and Other Liabilities	\$ 1.5	\$ (16.2)	\$ 17.7



The year over year change in the accounts receivable balances reflected a reduction in accounts receivable balances during 2015 compared to an increase in accounts receivable balances during 2014. The 2014 account receivable balances increased as a result of \$11 million of additional service parts sales in conjunction with General Motors' recall campaign in 2014 and an overall increase in customer vehicle production volumes on models for which we supply components causing a reduction in 2015 balances and an increase in 2014 balances. The year over year change in the inventory balances was due to higher inventory balances required in June 2014 related to this customer's recall campaign. The year over year change in customer tooling balances, which consisted of costs incurred for the development of tooling that will be directly reimbursed by the customer whose parts are produced from the tool, was the result of the timing of tooling development spending required to meet customer production requirements and related customer reimbursements. The year over year change in the accounts payable and other liability balances was the result of a reduction in accounts payable balances in 2015 and an increase in accounts payable balances in 2014, which occurred as a result of the timing of purchases and payments with our vendors based on normal payment terms as well as increased accounts payable balances at June 2014 related to the General Motors' recall campaign.

Other significant cash payments impacting net cash provided by operating activities during both 2015 and 2014 included cash payments under our incentive bonus plans, cash contributions made to our qualified pension plan and cash payments made for Federal, state and foreign income taxes. Cash payments made under our incentive bonus plans totaled \$7.3 million during 2015 compared to \$4.8 million during 2014. Cash contributions made to our qualified pension plan totaled \$3.0 million during 2015 compared to \$4.0 million during 2014. Cash payments made for Federal, state and foreign income taxes totaled \$14.8 million during 2015 compared to \$5.4 million during 2014.

Net cash used by investing activities of \$25.3 million during 2016, \$30.8 million during 2015 and \$13.0 million during 2014 included capital expenditures of \$23.5 million, \$26.1 million and \$12.8 million, respectively. Capital expenditures during each year were made in support of requirements for new product programs and the upgrade and replacement of existing equipment. The 2015 capital expenditures included \$2.1 million and \$4.5 million for the purchase of additional facilities in Juarez, Mexico and Auburn Hills, Michigan, respectively. The Michigan building is being used as a sales and engineering office and replaced two current leased facilities in Michigan. The Juarez, Mexico building is being used as an additional facility to support current operations and was acquired in anticipation of both new and potential business awards in Mexico. The 2016 capital expenditures included \$7.0 million for the purchase of land, equipment and the construction of a new facility in Leon, Mexico, which is expected to be used primarily to paint and assemble door handle products by ADAC-STRATTEC LLC. See further discussion related to this new facility under Future Capital Expenditures below. Net cash used by investing activities during 2016 and 2015 also included an investment in our VAST LLC joint venture of \$220,000 and \$4.4 million, respectively. The 2016 investment was made for the purpose of funding general operating expenses for Sistema de Acesso Veicular Ltda (formerly known as VAST do Brasil). The 2015 investment was made in support of the acquisition of a fifty percent equity interest in a joint venture entity, Minda VAST Access Systems, based in Pune, India, and in support of general operating expenses for the Brazilian entity. Additionally, during 2016, a \$1.5 million investment in SAL LLC was made as the result of the payment on a guarantee of their debt facility. See further discussion under Credit Facilities and Guarantees below. During 2014, no capital contributions were made to SAL LLC or to VAST LLC. Loans were made by each partner, STRATTEC, WITTE and ADAC to our joint venture, VAST LLC, totaling \$215,000 for each partner in 2015 and \$285,000 for each partner in 2014. The loans were made in support of VAST LLC's purchase of the non-controlling interest in the Brazilian entity and in support of funding general operating expenses of the Brazilian entity. During 2016, \$100,000 of this outstanding loan balance was repaid. Loans were made from STRATTEC to SAL LLC totaling \$225,000 during 2016 and \$100,000 during 2015 in support of operating expenses and working capital needs.

Net cash provided by financing activities of \$7.2 million during 2016 included \$26.5 million of borrowings under credit facilities, \$473,000 of proceeds from stock purchases and option plan exercises and \$170,000 in excess tax benefits from option plan exercises, partially offset by \$16.5 million for repayments of borrowings under credit facilities, \$1.9 million for regular quarterly dividend payments to shareholders and \$1.6 million for dividend payments to non-controlling interests in our subsidiaries. Net cash provided by financing activities of \$5.8 million during 2015 included \$9.0 million of borrowings under credit facilities, \$553,000 of proceeds from stock purchases and option plan exercises and \$367,000 in excess tax benefits from option plan exercises, partially offset by \$1.5 million for repayments of borrowings under credit facilities, \$1.7 million for regular quarterly dividend payments to shareholders and \$882,000 for dividend payments to non-controlling interests in our subsidiaries. Net cash provided by financing activities of \$961,000 during 2014 included \$1.3 million of borrowings under credit facilities, \$2.7 million of proceeds from stock purchases and option plan exercises and \$495,000 in excess tax benefits from option plan exercises, mostly offset by \$1 million for repayments of borrowings under credit facilities, \$1.5 million for regular quarterly dividend payments to shareholders and \$984,000 for dividend payments to non-controlling interests in our subsidiaries.

#### Qualified Defined Benefit Pension Plan

Our qualified defined benefit pension plan balance, included in other long-term assets in our accompanying Consolidated Balance Sheets, totaled \$72,000 at July 3, 2016 and \$7.7 million at June 28, 2015. The change in the other long-term assets balance related to this plan during 2016 was the result of the net impact of pension contributions, the actuarially calculated pension expense,

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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reclassification adjustments from accumulated other comprehensive loss and the impact of the change in the year-end funded status of the plan. The 2016 pre-tax changes in plan assets and benefit obligations related to this plan recognized in other comprehensive income decreased our other long-term asset balance by approximately \$9.4 million at July 3, 2016 compared to June 28, 2015. The resulting tax impact increased our deferred income tax asset balance by \$3.5 million at July 3, 2016 in comparison to the balance as of June 28, 2015.

### VAST LLC Cash Requirements

We currently anticipate that both VAST China and Minda-VAST Access Systems have adequate debt facilities in place over the next fiscal year to cover the future operating and capital requirements of each business. During 2016, capital contributions totaling \$660,000 were made to VAST LLC for purposes of funding operations in Brazil. STRATTEC's portion of the capital contributions totaled \$220,000. During 2015, capital contributions totaling \$13.2 million were made to VAST LLC in support of the acquisition of a fifty percent equity interest in a joint venture entity, Minda VAST Access Systems, based in Pune, India, and in support of general operating expenses for Sistema de Acesso Veicular Ltda (formerly known as VAST do Brasil). STRATTEC's portion of the capital contributions totaled \$4.4 million. Loans were made by each partner, STRATTEC, WITTE and ADAC, to VAST, LLC totaling \$215,000 for each partner in 2015 and \$285,000 for each partner in 2014. The loans were made in support of VAST LLC's purchase of the non-controlling interest in the Brazilian entity and in support of funding operating costs of the Brazilian entity. Additionally, we anticipate the Brazilian entity will require a capital contribution of approximately \$600,000 collectively by all VAST partners to fund operations during the remainder of calendar 2016. STRATTEC's portion of the capital contributions is anticipated to be \$200,000.

### ADAC-STRATTEC LLC Cash Requirements

As discussed under Future Capital Expenditures included herein, ADAC-STRATTEC de Mexico (ASdM), a wholly owned subsidiary of ADAC-STRATTEC LLC, which is a joint venture between STRATTEC SECURITY CORPORATION and ADAC Automotive, is in the process of constructing a new manufacturing facility in Leon, Mexico. Total capital expenditures required for the land, facility, paint system and assembly equipment is expected to total approximately \$22 million. During 2016, capital expenditures for the land, facility and equipment totaled \$7.0 million. We anticipate financing the required capital expenditures through a combination of partner capital contributions, bank loans and current operating cash flow. As a result, effective April 27, 2016, the ADAC-STRATTEC Credit Facility was amended to increase the available borrowings under the credit facility from \$10 million to \$20 million. Under the terms of the amended credit agreement, a capital contribution to ADAC-STRATTEC LLC of \$6 million collectively from STRATTEC and ADAC is required to be completed by September 30, 2016. STRATTEC's portion of the required capital contribution will be \$3.06 million.

### STRATTEC Advanced Logic, LLC Cash Requirements

Beginning with the fourth quarter of fiscal year 2015, STRATTEC provided 100 percent of the financial support to fund the start-up operating losses of SAL LLC due to our partner's inability to contribute capital to this joint venture. We anticipate STRATTEC will continue to fund 100 percent of the start-up costs through fiscal year 2017.

### Future Capital Expenditures

We anticipate capital expenditures will be approximately \$30 million in fiscal 2017 in support of requirements for new product programs, the upgrade and replacement of existing equipment and the construction of a new facility in Leon, Mexico. On March 17, 2016, ASdM, a wholly owned subsidiary of ADAC-STRATTEC LLC, which is a joint venture between STRATTEC SECURITY CORPORATION and ADAC Automotive, purchased land in Leon, Mexico. ASdM is in the process of constructing a new manufacturing facility on this land. This facility is expected to be used primarily to paint and assemble door handle products and is expected to be completed and operational at the end of fiscal year 2017. Currently, the ADAC-STRATTEC LLC joint venture has net sales of approximately \$60 million. With newly awarded customer business, we anticipate net sales will increase to approximately \$120 million within the next two years. Total capital expenditures required for the land, facility, paint system and assembly equipment is expected to total approximately \$22 million. During 2016, capital expenditures for the land, facility and equipment totaled \$7.0 million. We anticipate financing the required capital expenditures through a combination of partner capital contributions, bank loans and current operating cash flow.

### Stock Repurchase Program

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 July 3, 2016. A total of 3,655,322 shares have been repurchased over the life of the program through July 3, 2016, at a cost of approximately \$136.4 million. No shares were repurchased during fiscal 2016 or 2015. 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. At this time, we anticipate minimal or no stock repurchase activity in fiscal year 2017.

### Credit Facilities and Guarantees

STRATTEC has a \$30 million secured revolving credit facility (the "STRATTEC Credit Facility") with BMO Harris Bank N.A. ADAC-STRATTEC LLC has a \$20 million secured revolving credit facility (the "ADAC-STRATTEC Credit Facility") with BMO Harris Bank N.A, which is guaranteed by



STRATTEC. The credit facilities both expire August 1, 2019. Borrowings under either credit facility are secured by our U.S. cash balances, accounts receivable, inventory and fixed assets located in the U.S. Interest on borrowings under the ADAC-STRATTEC Credit Facility for periods prior to January 22, 2014 was at varying rates based, at our option, on the London Interbank Offering Rate ("LIBOR") plus 1.75 percent or the bank's prime rate. Interest on borrowings under the STRATTEC credit facility and effective on or after January 22, 2014 under the ADAC-STRATTEC Credit Facility is at varying rates based, at our option, on LIBOR plus 1.0 percent or the bank's prime rate. Both credit facilities contain a restrictive financial covenant that requires the applicable borrower to maintain a minimum net worth level. The ADAC-STRATTEC Credit Facility includes an additional restrictive financial covenant that requires the maintenance of a minimum fixed charge coverage ratio as well as the requirements for a capital contribution to ADAC-STRATTEC LLC of \$6 million collectively from STRATTEC and ADAC to be completed by September 30, 2016. STRATTEC's portion of the required capital contribution will be \$3.06 million. Outstanding borrowings under the STRATTEC Credit Facility totaled \$11.5 million at July 3, 2016 and \$7.0 million at June 28, 2015. The average outstanding borrowings and weighted average interest rate on the STRATTEC Credit Facility loans were approximately \$7.6 million and 1.5 percent, respectively, during 2016. The average outstanding borrowings and weighted average interest rate on the STRATTEC Credit Facility loans were approximately \$2.3 million and 1.2 percent, respectively, during 2015. Outstanding borrowings under the ADAC-STRATTEC Credit Facility totaled \$8.5 million at July 3, 2016 and \$3.0 million at June 28, 2015. The average outstanding borrowings and weighted average interest rate on the ADAC-STRATTEC Credit Facility loans were approximately \$4.4 million and 1.3 percent, respectively, during 2016. The average outstanding borrowings and weighted average interest rate on the ADAC-STRATTEC Credit Facility loans were approximately \$3.7 million and 1.2 percent, respectively, during 2015.

SAL LLC had a \$1.5 million revolving credit facility with BMO Harris Bank N.A., which matured February 16, 2016 and was fully guaranteed by STRATTEC. Interest on borrowings under the SAL Credit Facility was at varying rates based, at SAL LLC's option, on LIBOR plus 1.0 percent or the bank's prime rate. Outstanding borrowings under the SAL Credit Facility as of February 16, 2016 and June 28, 2015 totaled \$1.5 million and \$995,000, respectively. SAL LLC did not have cash available to pay the outstanding debt balance as of the maturity date. Therefore, STRATTEC made a payment of \$1.5 million on its guarantee on February 16, 2016.

Effective November 1, 2014, a license agreement was signed with Westinghouse allowing SAL LLC to do business as Westinghouse Security. Payments required under the agreement were guaranteed by STRATTEC. As of July 3, 2016, STRATTEC has recorded a liability equal to the estimated fair value of the guarantee of \$250,000, which amount is equal to the future payments required to be made under the agreement as of July 3, 2016.

#### Inflation and Other Changes in Prices

Over the past several years, we have been impacted by rising health care costs, which have increased our cost of associate medical coverage. A portion of these increases have been offset by plan design changes and associate 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 adjustment clauses with certain, but not all, of our customers to offset some of the market price fluctuations in the cost of zinc. We own and operate manufacturing operations in Mexico. As a result, a portion of our manufacturing costs are incurred in Mexican pesos, which causes our earnings and cash flows to fluctuate due to changes in the U.S. dollar/Mexican peso exchange rate. During 2016, we executed contracts with Bank of Montreal that provide for bi-weekly and monthly Mexican peso currency forward contracts for a portion of our estimated peso denominated operating costs. The current peso currency forward contracts include settlement dates that began on October 16, 2015 and end on June 15, 2018. No forward contracts were in place during fiscal 2015 or 2014. Our objective in entering into these currency forward contracts is to minimize our earnings volatility resulting from changes in exchange rates affecting the U.S. dollar cost of our Mexican operations. The Mexican peso forward contracts are not used for speculative purposes and are not designated as hedges. As a result, all currency forward contracts are recognized in our accompanying consolidated financial statements at fair value and changes in the fair value are reported in current earnings as part of Other Income, net.

The following table quantifies the outstanding Mexican peso forward contracts as of July 3, 2016 (thousands of dollars, except average forward contractual exchange rates):

	Effective Dates	Notional Amount	Average Forward Contractual Exchange Rate	Fair Value
Buy MXP/Sell USD	July 15, 2016 - June 15, 2017	\$24,000	17.95	\$(996)
Buy MXP/Sell USD	July 15, 2017 - June 15, 2018	\$ 6,000	19.80	\$ 107

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The fair market value of all outstanding Mexican peso forward contracts in the accompanying Consolidated Balance Sheets was as follows (thousands of dollars):

	July 3, 2016	June 28, 2015
<b>Not Designed as hedging Instruments:</b>		
Other Long-term Assets:		
Mexican Peso Forward Contracts	\$ 107	\$ —
Other Current Liabilities:		
Mexican Peso Forward Contracts	\$ 996	\$ —

The pre-tax effects of the Mexican peso forward contracts are included in Other Income, net on the accompanying Consolidated Statements of Operations and Comprehensive Income and consisted of the following (thousands of dollars):

	Years Ended		
	July 3, 2016	June 28, 2015	June 29, 2014
<b>Not Designated as Hedging Instruments:</b>			
Realized Loss	\$ 1,196	\$ —	\$ —
Unrealized Loss	\$ 889	\$ —	\$ —

## CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Contractual obligations are as follows as of July 3, 2016 (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	\$ 1,839	\$ 729	\$ 936	\$ 174	\$ —
Other Purchase Obligations	45,937	23,912	18,989	3,036	—
Guarantees	250	—	250	—	—
Pension and Postretirement Obligations <sup>(a)</sup>	5,639	5,639	—	—	—
<b>Total</b>	<b>\$53,665</b>	<b>\$30,280</b>	<b>\$20,175</b>	<b>\$3,210</b>	<b>\$ —</b>

<sup>(a)</sup> As disclosed in our Notes to Financial Statements, estimated cash funding related to our pension and postretirement benefit plans is expected to total \$5.6 million in 2017. Because the timing of funding related to these plans beyond 2017 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 2017 have not been included in the table above.

Refer to the discussion of Commitments and Contingencies included in Notes to Financial Statements included within this 2016 Annual Report for further information related to purchase obligations.

Liabilities recognized for uncertain tax benefits of \$471,000 are not presented in the table above due to uncertainty as to amounts and timing regarding future payments.

STRATTEC has a \$30 million secured revolving credit facility with BMO Harris Bank N. A. ADAC-STRATTEC LLC has a \$20 million secured revolving credit facility with BMO Harris Bank N.A., which is guaranteed by STRATTEC. Borrowings under the STRATTEC credit facility totaled \$11.5 million at July 3, 2016. Borrowings under the ADAC-STRATTEC credit facility totaled \$8.5 million at July 3, 2016.

## JOINT VENTURES AND MAJORITY OWNED SUBSIDIARIES

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 automotive 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 Agreements include 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 equity interest, exists to seek opportunities to manufacture and sell each company’s products in areas of the world outside of North America and Europe.

Sistema de Acesso Veicular Ltda (formerly known as VAST do Brasil) services customers in South America. Effective March 21, 2014, VAST LLC purchased the remaining non-controlling interest in the Brazilian entity. VAST Fuzhou, VAST Great Shanghai and VAST Shanghai Co. (collectively known as VAST China), provide a 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Effective April 30, 2015, VAST LLC executed an agreement to become a 50:50 Joint Venture partner with Minda Management Services Limited an affiliate of both Minda Corporation Limited and Spark Minda, Ashok Minda Group of New Delhi, India (collectively "Minda"). VAST acquired a fifty percent equity interest in the former Minda-Valeo Security Systems joint venture entity, based in Pune, India, for approximately \$12 million. This joint venture entity was renamed Minda-VAST Access Systems ("Minda-VAST"). The portion of the purchase price paid by each VAST LLC partner, STRATTEC, WITTE and ADAC, totaled \$4 million. Minda-VAST has operations in Pune and Delhi and had annual sales of \$36 million in our fiscal year 2016. Minda and its affiliates cater to the needs of all major car, motorcycle, commercial vehicle, tractor and off-road vehicle manufacturers in India. They are a leading manufacturer in the Indian marketplace of security & access products, handles, automotive safety, restraint systems, driver information and telematics systems for both OEMs and the aftermarket.

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 loss of joint ventures to STRATTEC of approximately \$639,000 during 2016 and equity earnings of joint ventures of approximately \$1.3 million during both 2015 and 2014. The 2016 equity loss of joint venture for Vehicle Access Systems Technology LLC included a \$6 million impairment charge related to its Minda-VAST Access Systems joint venture in India. STRATTEC's portion of this impairment charge totaled \$2 million. During 2016, capital contributions totaling \$660,000 were made to VAST LLC for purposes of funding operations in Brazil. STRATTEC's portion of the capital contributions totaled \$220,000. During 2015, cash capital contributions totaling \$13.2 million were made to VAST LLC in support of the acquisition of the 50 percent joint venture interest in Minda-VAST and in support of general operating expenses for the Brazilian entity. STRATTEC's portion of the cash capital contributions totaled \$4.4 million. No cash capital contributions were made to VAST LLC during 2014. Loans were made by each partner, STRATTEC, WITTE and ADAC, to VAST LLC totaling \$215,000 for each partner in 2015 and \$285,000 for each partner in 2014. The loans were made in support of VAST LLC's purchase of the non-controlling interest in the Brazilian entity and in support of funding operating costs of the Brazilian entity. During 2016, loan repayments of \$100,000 were made by VAST LLC to each partner.

ADAC-STRATTEC LLC, a Delaware limited liability company, was formed in fiscal year 2007 to support injection molding and door handle assembly operations in Mexico. ADAC-STRATTEC LLC was 51 percent owned by STRATTEC and 49 percent owned by ADAC for all periods presented in this report. An additional Mexican entity, ADAC-STRATTEC de Mexico, is wholly owned by ADAC-STRATTEC LLC. ADAC-STRATTEC LLC's financial results are consolidated with the financial results of STRATTEC and resulted in increased net income to STRATTEC of approximately \$2.9 million in 2016, \$2.6 million in 2015 and \$1.4 million in 2014.

STRATTEC POWER ACCESS LLC ("SPA") was formed in fiscal year 2009 to supply the North American portion of the power sliding door, lift gate and deck lid system access control products which were acquired from Delphi Corporation. SPA was 80 percent owned by STRATTEC and 20 percent owned by WITTE for all periods presented in this report. An additional Mexican entity, STRATTEC POWER ACCESS de Mexico, is wholly owned by SPA. The financial results of SPA are consolidated with the financial results of STRATTEC and resulted in increased net income to STRATTEC of approximately \$2.0 million in 2016, reduced net income to STRATTEC of approximately \$269,000 in 2015, and increased income to STRATTEC of approximately \$1.5 million in 2014.

STRATTEC Advanced Logic, LLC, was formed in fiscal 2013 to introduce a new generation of biometric security products based upon the designs of Actuator Systems LLC, our partner and the owner of the remaining ownership interest in SAL LLC. SAL LLC was 51 percent owned by STRATTEC for all periods presented in this report. The initial capitalization of SAL LLC totaled \$1.5 million. STRATTEC's portion of the initial capitalization totaled \$765,000. Our investment in SAL LLC, for which we exercise significant influence but do not control and are not the primary beneficiary, is accounted for using the equity method. The activities related to the STRATTEC Advanced Logic, LLC joint venture resulted in an equity loss of joint ventures to STRATTEC of approximately \$1.6 million in 2016, \$2.0 million in 2015 and \$367,000 in 2014. Effective with our fiscal 2015 fourth quarter, 100 percent of the funding for SAL LLC was being made through loans from STRATTEC to SAL LLC and through STRATTEC's guarantee of the SAL Credit Facility which is discussed herein. Therefore, effective with our fiscal 2015 fourth quarter, even though STRATTEC maintains a 51 percent ownership interest in SAL LLC, STRATTEC began recognizing 100 percent of the losses of SAL LLC up to our committed financial support through Equity (Loss) Earnings of Joint Ventures in the accompanying Consolidated Statements of Income and Comprehensive Income. In addition, the equity loss of joint ventures for SAL LLC included the following for the periods presented (thousands of dollars):

	Years Ended	
	July 3, 2016	June 28, 2015
Loss on Guarantee of SAL LLC Vendor Contract	\$ —	\$ 123
Loss on Loan to SAL LLC	225	100
Loss on Guarantee of SAL LLC Credit Facility	247	488
	<u>\$ 472</u>	<u>\$ 711</u>

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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See further discussion under Equity (Loss) Earnings of Joint Ventures included in Notes to Financial Statements herein.

### OTHER MATTERS

The Affordable Care Act ("ACA"), which was enacted in 2010 and is being phased in over several years, significantly affects the provision of both health care services and benefits in the United States. The ACA may impact our cost of providing our U.S. employees and retirees with health insurance and/or benefits, and may also impact various other aspects of our business. The ACA did not have a material impact on our fiscal 2016, 2015 or 2014 financial results. However, we are continuing to assess the impact of the ACA on our health care benefit costs.

### 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 accompanying 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 the accompanying Notes to Financial Statements for the impact of the pension and postretirement plans on our 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 3.79 percent to be appropriate as of July 3, 2016, which is a decrease of 0.74 percentage points from the rate of 4.53 percent used at June 30, 2015. The impact of this change increased our year-end 2016 projected pension benefit obligations by approximately \$9.1 million, the year-end 2016 accumulated pension benefit obligations by approximately \$9.1 million and the year-end 2016 accumulated postretirement obligation by approximately \$48,000. This change is also expected to increase our 2017 pension expense by \$870,000 and decrease our postretirement expense by \$2,000. Our pension expense increases as the discount rate decreases. Lowering our 2016 discount rate assumption by 50 basis points would have increased our 2016 pension expense by approximately \$580,000.

A significant element in determining our pension expense 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 7.5 percent for 2014, 6.5 percent for 2015 and 5.45 percent for 2016. This assumption remained at 5.45 percent for 2017. The changes to this assumption reduced the expected return on plan assets by approximately \$950,000 to 2014, \$1,050,000 to 2015 and resulted in no change to 2016. Refer to the accompanying Notes to Financial Statements for additional information on how this rate was determined. Pension expense increases as the expected rate of return on plan assets decreases. Lowering the 2016 expected rate of return assumption for our plan assets by 50 basis points would have increased our 2016 pension expense by approximately \$540,000.

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, including discount rate assumptions, pay rate assumptions, mortality assumptions, turnover assumptions and other demographic assumptions. As of June 30, 2016, we had \$37 million of net unrecognized pension actuarial losses, which included deferred asset losses of \$2 million and unrecognized postretirement actuarial losses of \$4 million. These amounts represent potential future pension and postretirement expenses that would be amortized over average future service periods. The average remaining service period is about 8 years for the pension and postretirement plans.

As of June 30, 2015, we converted to the RP-2014 Blue Collared Mortality Table with Improvement Scale MP-2014 for calculating the year-end 2015 pension and postretirement obligations. The impact of this change increased our year-end 2015 projected pension benefit obligations by approximately \$4.2 million and did not have a material effect on the year-end 2015 accumulated postretirement obligation. This change also increased our 2016 pension expense by \$715,000 and did not have a material effect on our 2016 postretirement expense.

During fiscal years 2016, 2015 and 2014, we contributed \$3 million, \$3 million and \$4 million, respectively, to our qualified pension plan. As discussed in the accompanying Notes to Financial Statements, on April 2, 2014, our Board of Directors approved a resolution to terminate the qualified pension plan. We intend to make future contributions for the qualified pension plan to ensure that there are sufficient assets to provide all Qualified Pension Plan benefits as of the anticipated distribution date. The amount of future contributions has not yet been determined. We have evaluated the potential impact of the Pension Protection Act (the "PPA"), which was passed into law on August 17, 2006, including funding stabilization relief passed subsequent to the PPA (collectively, the "Acts"), on our future pension plan funding requirements based on current market conditions. The Acts have not had and are not anticipated to have in future periods a material effect on our level of future funding requirements or on our liquidity and capital resources.

As discussed in the accompanying Notes to Financial Statements, our Board of Directors adopted amendments to the SERP Plan on October 8, 2013 that were effective as of December 31, 2013 to simplify the SERP Plan benefit calculation. The impact of this change had an immaterial effect on our year-end 2014 projected benefit obligation and decreased our 2015 pension expense by \$155,000.

A significant element in determining the postretirement health expense is the health care cost trend rates. We develop these rates based on historical 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 postretirement benefit amounts reported. As of July 3, 2016, we updated the health care cost trend assumption. The impact of this update increased our 2016 postretirement health expense by approximately \$1,000. Refer to the accompanying 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 to determine our pension and postretirement health obligations and expenses are appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the amounts of these obligations and our related future expense for these obligations.

**Liability for Uncertain Tax Positions** – We are subject to income taxation in many jurisdictions around the world. Significant management judgment is required in the accounting for income tax contingencies because the outcomes are often difficult to determine. We are required to measure and recognize uncertain tax positions that we have taken or expect to take in our income tax returns. The benefit of an uncertain tax position can only be recognized in the financial statements if management concludes that it is more likely than not that the position will be sustained with the tax authorities. For a position that is likely to be sustained, the benefit recognized in the financial statements is measured at the largest amount that is greater than 50 percent likely of being realized. A reserve is established for the difference between a position taken in an income tax return and the amount recognized in the financial statements. Refer to the discussion of Income Taxes included in the Notes to Financial Statements included within this 2016 Annual Report.

**Other Reserves** - We have reserves such as an environmental reserve, a warranty reserve, an incurred but not reported claim reserve for self-insured health plans, an allowance for doubtful accounts related to trade accounts receivable, an excess and obsolete inventory reserve 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 included within this 2016 Annual Report.

**Warranty Reserve** – We have a warranty liability recorded related to our exposure to warranty claims in the event our products fail to perform as expected, and we may be required to participate in the repair costs incurred by our customers for such products. The recorded warranty liability balance involves judgment and estimates. Our liability estimate is based on an analysis of historical warranty data as well as current trends and information, including our customers' recent extension or expansion of their warranty programs. Actual warranty costs might differ from estimates due to the level of actual claims varying from our claims experience and estimates and final negotiations and settlements reached with our customers. Therefore, future actual claims experience could result in changes in our estimates of the required liability. Refer to the discussion of Warranty Reserve under Organization and Summary of Significant Accounting Policies included in the Notes to Financial Statements included within this 2016 Annual Report.

**Incurred But Not Reported Claim Reserve for Self-Insured Health Plans** – We have self-insured medical and dental plans covering all eligible U.S. associates. 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 our third-party administrator. 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 Plans under Organization and Summary of Significant Accounting Policies included in the Notes to Financial Statements included within this 2016 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

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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review of past due items, general economic conditions and the economic climate of the automotive industry as a whole. The estimate of the required reserve involves uncertainty as to future collectability of receivable balances. Refer to the discussion of Receivables under Organization and Summary of Significant Accounting Policies included in the Notes to Financial Statements included within this 2016 Annual Report.

**Excess and Obsolete Inventory Reserve** – We record a reserve for excess and obsolete inventory based on historical and estimated future demand and market conditions. The reserve level is determined by comparing inventory levels of individual materials and parts to historical usage and estimated future sales by analyzing the age of the inventory in order to identify specific material and parts that are unlikely to be sold. Technical obsolescence and other known factors are also considered in evaluating the reserve level. Actual future write-offs of inventory may differ from estimates and calculations used to determine reserve levels due to changes in customer demand, changes in technology and other factors. Refer to the discussion of Inventories under Organization and Summary of Significant Accounting Policies included in the Notes to Financial Statements included within this 2016 Annual Report.

**Repair and Maintenance Supply Parts Reserve** – We maintain an inventory of repair and maintenance 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 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 included within this 2016 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** – Stock-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 stock-based awards at the grant date requires judgment, including estimating future volatility of our stock, the amount of stock-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.

### NEW ACCOUNTING STANDARDS

In May 2014, the FASB issued an update to the accounting guidance for the recognition of revenue arising from contracts with customers. The update supersedes most current revenue recognition guidance and outlines a single comprehensive model for revenue recognition based on the principle that an entity should recognize revenue in an amount that reflects the expected consideration to be received in the exchange of goods and services. The guidance update also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. The guidance update is effective for annual reporting periods beginning after December 15, 2017 and becomes effective for us at the beginning of our 2019 fiscal year. We are currently assessing the impact that this guidance will have on our consolidated financial statements.

In August 2014, the FASB issued an update to the accounting guidance on determining when and how to disclose going-concern uncertainties in the financial statements. The new guidance requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern. This accounting update is effective for annual and interim periods beginning on or after December 15, 2016, with early adoption permitted. We do not expect that the adoption of this pronouncement will have a material impact on our consolidated financial statements.



In February 2015, the FASB issued an update to the accounting guidance that amends current consolidation guidance by modifying the evaluation of whether limited partnerships and similar legal entities are variable interest entities or voting interest entities, eliminating the presumption that a general partner should consolidate a limited partnership, and affects the consolidation analysis of reporting entities that are involved with variable interest entities. The update is effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. The adoption of this pronouncement did not have a material impact on our consolidated financial statements.

In April 2015 and August 2015, the FASB issued updates to the accounting guidance for debt issuance costs. The updated guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability and allows an entity to defer and present debt issuance costs associated with a line of credit arrangement as an asset, regardless of whether there are any outstanding borrowings on the line of credit arrangement. The guidance updates are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. We do not expect that the adoption of this updated guidance will have a material impact on our consolidated financial statements.

In July 2015, the FASB issued an accounting standard to simplify the measurement of inventory by changing the subsequent measurement guidance from the lower of cost or market to the lower of cost and net realizable value for inventory. The standard update is effective for fiscal years beginning after December 15, 2016 and interim periods within those years, and early adoption is permitted. The standard is to be applied prospectively. We do not expect that the adoption of this pronouncement will have a material impact on our consolidated financial statements.

In November 2015, the FASB issued an update to an accounting standard to simplify the presentation of deferred income taxes by requiring that deferred tax assets and liabilities be classified as non-current in a classified statement of financial position, which would be a change from our historical presentation whereby certain of our deferred tax assets and liabilities were classified as current and the remainder were classified as non-current. The standard update is effective for fiscal years beginning after December 15, 2016 and interim periods within those years, and early adoption is permitted. The standard is to be applied either prospectively to all deferred tax assets and liabilities or retrospectively to all periods presented. We have elected to adopt this guidance effective July 3, 2016, and have applied the guidance retrospectively. We restated our consolidated balance sheet as of June 28, 2015 to reflect the reclassification of \$9.6 million of deferred tax balances from current assets and \$4.6 million of deferred income tax balances from non-current liabilities to a non-current asset balance.

In February 2016, the FASB issued an update to the accounting guidance for leases. The update increases the transparency and comparability among organizations by requiring lessees to recognize lease assets and lease liabilities on the balance sheet and to disclose key information about leasing arrangements. The guidance is effective for fiscal years beginning after December 15, 2018 and interim periods within those years. We are currently assessing the impact that this guidance will have on our consolidated financial statements.

In March 2016, the FASB issued an update to the accounting guidance for share-based payments. The update simplifies several aspects of the accounting for employee share-based payment transactions including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification of such items in the statement of cash flows. The guidance is effective for fiscal years beginning after December 15, 2016 and interim periods within those years. We are currently assessing the impact that this guidance will have on our consolidated financial statements.

## **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 and Fiat Chrysler Automobiles represented approximately 63 percent of our annual net sales (based on fiscal 2016 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, a reduction in vehicle content, the 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.

Our major customers also have significant under-funded legacy liabilities related to pension and postretirement health care obligations. The loss in our major customers' North American automotive market share to the New Domestic automotive manufacturers (primarily the Japanese and Korean 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 restructuring actions.

**Production Slowdowns by Customers** – Our major customers and many of their suppliers were significantly impacted by the recession of 2008/2009. Many of our major customers instituted production cuts during our fiscal 2009 and 2010. While production subsequently increased after the cuts made in 2009, additional economic slowdowns could bring about new production cuts which could have a material adverse effect on our existing and future revenues and net income.

**Financial Distress of Automotive Supply Base** – During calendar years 2009 and 2010, deteriorating automotive industry conditions adversely affected STRATTEC and our supply base. Lower production levels at our major customers, volatility in certain raw material and energy costs and the global credit market crisis resulted in severe financial distress among many companies within the automotive supply base. During the above time frame, several automotive suppliers filed for bankruptcy protection or ceased operations. The potential continuation or renewal of financial distress within the supply base and suppliers' inability to obtain credit from lending institutions could lead to commercial disputes and possible supply chain interruptions. In addition, the potential for future adverse industry conditions may require us to provide financial assistance or other measures to ensure uninterrupted production. The continuation or renewal of these industry conditions could have a material adverse effect on our existing and future revenues and net income.

**Shortage of Raw Materials or Components Supply** – In the event of catastrophic acts of nature such as fires, tsunamis, hurricanes and earthquakes or a rapid increase in production demands, either we or our customers or other suppliers may experience supply shortages of raw materials or components. This could be caused by a number of factors, including a lack of production line capacity or manpower or working capital constraints. In order to manage and reduce the costs of purchased goods and services, we and others within our industry have been rationalizing and consolidating our supply base. As a result, there is greater dependence on fewer sources of supply for certain components and materials used in our products, which could increase the possibility of a supply shortage of any particular component. If any of our customers experience a material supply shortage, either directly or as a result of supply shortages at another supplier, that customer may halt or limit the purchase of our products. Similarly, if we or one of our own suppliers experience a supply shortage, we may become unable to produce the affected products if we cannot procure the components from another source. Such production interruptions could impede a ramp-up in vehicle production and could have a material adverse effect on our business, results of operations and financial condition.

We consider the production capacities and financial condition of suppliers in our selection process, and expect that they will meet our delivery requirements. However, there can be no assurance that strong demand, capacity limitations, shortages of raw materials, labor disputes or other problems will not result in any shortages or delays in the supply of components to us.

**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, on the availability of consumer credit 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 during that period.

**Foreign Operations** – We own and operate manufacturing operations in Mexico. As discussed above under "Joint Ventures and Majority Owned Subsidiaries", we also have joint venture and majority owned investments in Mexico, Brazil, China and India. As these operations continue to 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. The success of these joint venture operations may be impacted by our partners' ability to influence business decisions and therefore the operating results of the joint ventures could be adversely impacted. These influences, as well as conflicts or disagreements with our joint venture partners, could negatively impact the operations and financial results of our joint venture investments, which could have an adverse impact on our financial results. In addition, failure of our partners to be able to continue to fund their portion of the joint venture operations could have a material adverse effect on the financial condition and financial results of our joint venture investments, which could have a material adverse effect on our financial results. The joint venture investments in China generated losses in 2012 and 2013 due to relocation costs associated with moves to a new facility and start-up costs associated with a new product line. These relocation costs and start-up costs have been financed internally and externally by VAST China. The impact of any future planned capital expenditures or future expansion by VAST LLC in China, Brazil and India, may result in the need for additional future capital contributions to fund the operations of these joint venture investments.

**Currency Exchange Rate Fluctuations** – Our sales are denominated in U.S. dollars. We have manufacturing operations in Mexico, and as a result, a portion of our manufacturing costs are incurred in Mexican pesos. Therefore, fluctuations in the U.S. dollar/Mexican peso exchange rate may have a material effect on our profitability, cash flows, financial position, and may significantly affect the comparability of our results between financial periods. Any depreciation in the value of the U.S. dollar in relation to the value of the Mexican peso will adversely affect the cost of our Mexican operations when translated into U.S. dollars. Similarly, any appreciation in the value of the U.S. dollar in relation to the value of the Mexican peso will decrease the cost of our Mexican operations when translated into U.S. dollars.



**Sources of and Fluctuations in Market Prices of Raw Materials** – Our primary raw materials are high-grade zinc, brass, nickel, silver, 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 and thereafter, we began quoting quarterly material price adjustments for changes in our zinc 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 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 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 called by 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 September 17, 2018. We may encounter further labor disruption and we 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. Labor contracts between General Motors Company, Ford Motor Company and Fiat Chrysler Automobiles and their unionized associates under the United Auto Workers union expire in October and November 2019. In addition, their respective labor agreements with the Canadian auto workers union expire in September 2016. Labor disruptions encountered by our customers during the contract period could have an adverse effect on our business and our financial results.

**Compliance Related to Regulations Related to Conflict Minerals** – We are required to disclose the use of tin, tantalum, tungsten and gold (collectively, "conflict minerals") mined from the Democratic Republic of the Congo and adjoining countries (the "covered countries") if a conflict mineral(s) is necessary to the functionality of a product manufactured, or contracted to be manufactured, by us. We may determine, as part of our compliance efforts, that certain products or components we obtain from our suppliers could contain conflict minerals. If we are unable to conclude that all our products are free from conflict minerals originating from covered countries, this could have a negative impact on our business, reputation and/or results of operations. We may also encounter challenges to satisfy customers who require that our products be certified as conflict free, which could place us at a competitive disadvantage if we are unable to substantiate such a claim. Compliance with these rules could also affect the sourcing and availability of some of the minerals used in the manufacture of products or components we obtain from our suppliers, including our ability to obtain products or components in sufficient quantities and/or at competitive prices to sell to our customers.

**Environmental, Safety and Other 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, among others, 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 from a former above-ground solvent storage tank, located on the east side of the facility. The contamination occurred in 1985 and 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 related 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 previously 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 investments, acquisitions or alliances or in 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 which may have a material adverse effect on our financial results.

**STRATTEC Advanced Logic, LLC Joint Venture** – As discussed under Joint Ventures and Majority Owned Subsidiaries herein, we maintain a 51 percent ownership interest in a joint venture, STRATTEC Advanced Logic, LLC, which was formed to introduce a new generation of biometric security products based upon the designs of Actuator Systems LLC, our partner and the owner of the remaining ownership interest in SAL LLC. The success of this joint venture operation may be impacted by the failure of our partner to be able to continue to fund their portion of the joint venture operations, which could have an adverse impact on our financial results. Furthermore, conflicts or disagreements with our joint venture partner, could negatively impact the operations and financial results of our joint venture investment, which could have an adverse impact on our financial results. The biometric security business is highly competitive. Some of the companies in the biometric security business are significantly larger than STRATTEC Advanced Logic, LLC and have greater financial and technology capabilities. Our products may not be able to compete successfully both on price and technology features within our markets.

**Warranty Claims** – We are exposed to warranty claims in the event that our products fail to perform as expected, and we may be required to participate in the repair costs incurred by our customers for such products. Our largest customers have recently extended and/or expanded their warranty protection for their vehicles. Other automotive OEMs have similarly extended and/or expanded their warranty programs. We are engaged in ongoing discussions with our customers regarding warranty information and potential claims. The results of these discussions could result in additional warranty charges/claims in future periods. Depending on the nature of and the volume of vehicles involved in the potential warranty claims, these charges could be material to our financial statements. The extended and/or expanded warranty trend may also result in higher cost recovery claims by OEMs from suppliers whose products incur a higher rate of warranty claims above an OEM derived nominal level. Prior to fiscal 2010, we had experienced relatively low warranty charges from our customers due to our commercial arrangements and improvements in the quality, reliability and durability of our products. Due to our largest customers' extension and/or expansion of their warranty protection programs and demands for higher warranty cost sharing arrangements from their suppliers in their terms and conditions of purchase, including STRATTEC, we increased our provision to cover warranty exposures since fiscal year 2010. In 2015, our increased warranty provision was the result of various known or expected customer warranty issues outstanding and estimated future warranty costs to be incurred as of June 2015 for which amounts were reasonably estimable. As additional information becomes available, actual results may differ from recorded estimates. If our customers demand higher warranty-related cost recoveries, or if our products fail to perform as expected, it could result in the loss of current and future business and could have a material adverse impact on our results of operations and financial condition.

**Cyber Vulnerability** – Cyber attacks or security breaches could compromise confidential, business critical information, cause a disruption in our operations or harm our reputation. While we have a cyber security monitoring program, a significant cyber attack could result in loss of critical business information and/or could negatively impact our operations, any of which could have a negative impact on our financial results.

**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**
*(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)*

	Years Ended		
	July 3, 2016	June 28, 2015	June 29, 2014
<b>NET SALES</b>	\$401,419	\$ 411,475	\$ 348,419
Cost of goods sold	<u>336,594</u>	<u>338,815</u>	<u>282,621</u>
<b>GROSS PROFIT</b>	64,825	72,660	65,798
Engineering, selling, and administrative expenses	<u>43,917</u>	<u>41,534</u>	<u>39,274</u>
<b>INCOME FROM OPERATIONS</b>	20,908	31,126	26,524
Interest income	25	185	106
Equity (loss) earnings of joint ventures	(2,235)	(788)	957
Interest expense	(176)	(71)	(45)
Other income, net	<u>668</u>	<u>3,481</u>	<u>272</u>
<b>INCOME BEFORE PROVISION FOR INCOME TAXES AND NON-CONTROLLING INTEREST</b>	19,190	33,933	27,814
Provision for income taxes	<u>5,068</u>	<u>9,382</u>	<u>8,674</u>
<b>NET INCOME</b>	14,122	24,551	19,140
Net income attributable to non-controlling interest	<u>4,973</u>	<u>3,897</u>	<u>2,716</u>
<b>NET INCOME ATTRIBUTABLE TO STRATTEC SECURITY CORPORATION</b>	<u>\$ 9,149</u>	<u>\$ 20,654</u>	<u>\$ 16,424</u>
<b>COMPREHENSIVE INCOME:</b>			
<b>NET INCOME</b>	\$ 14,122	\$ 24,551	\$ 19,140
Currency translation adjustments	(5,248)	(5,133)	(140)
Pension and postretirement plan funded status adjustment, net of tax	<u>(5,880)</u>	<u>(1,851)</u>	<u>2,157</u>
<b>TOTAL OTHER COMPREHENSIVE (LOSS) INCOME</b>	<u>(11,128)</u>	<u>(6,984)</u>	<u>2,017</u>
<b>COMPREHENSIVE INCOME</b>	2,994	17,567	21,157
Comprehensive income attributable to non-controlling interest	<u>4,659</u>	<u>3,574</u>	<u>2,719</u>
<b>COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO STRATTEC SECURITY CORPORATION</b>	<u>\$ (1,665)</u>	<u>\$ 13,993</u>	<u>\$ 18,438</u>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO STRATTEC SECURITY CORPORATION:</b>			
<b>BASIC</b>	<u>\$ 2.55</u>	<u>\$ 5.80</u>	<u>\$ 4.70</u>
<b>DILUTED</b>	<u>\$ 2.51</u>	<u>\$ 5.66</u>	<u>\$ 4.59</u>
<b>AVERAGE SHARES OUTSTANDING:</b>			
<b>BASIC</b>	3,559	3,515	3,428
<b>DILUTED</b>	3,621	3,604	3,513

The accompanying Notes to Financial Statements are an integral part of these Consolidated Statements of Income and Comprehensive Income.

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

	July 3, 2016	June 28, 2015
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 15,477	\$ 25,695
Receivables, less allowance for doubtful accounts of \$500 at July 3, 2016 and June 28, 2015	63,726	58,807
Inventories, net	38,683	34,786
Customer tooling in progress, net	6,971	3,473
Income Taxes Recoverable	3,826	1,006
Other current assets	5,768	4,839
Total current assets	134,451	128,606
<b>INVESTMENT IN JOINT VENTURES</b>	14,168	15,326
<b>DEFERRED INCOME TAXES</b>	5,387	4,960
<b>OTHER LONG-TERM ASSETS</b>	3,021	10,816
<b>PROPERTY, PLANT AND EQUIPMENT, NET</b>	85,149	71,126
	<u>\$ 242,176</u>	<u>\$ 230,834</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 32,416	\$ 27,838
Accrued liabilities:		
Payroll and benefits	11,210	16,107
Environmental	1,365	1,383
Warranty	9,228	11,835
Other	9,996	7,572
Total current liabilities	64,215	64,735
<b>COMMITMENTS AND CONTINGENCIES</b> – see note beginning on page 51		
<b>BORROWINGS UNDER CREDIT FACILITY</b>	20,000	10,000
<b>ACCRUED PENSION OBLIGATIONS</b>	1,466	1,331
<b>ACCRUED POSTRETIREMENT OBLIGATIONS</b>	1,262	1,657
<b>OTHER LONG-TERM LIABILITIES</b>	721	710
<b>SHAREHOLDERS' EQUITY:</b>		
Common stock, authorized 12,000,000 shares, \$.01 par value, issued 7,188,363 shares at July 3, 2016 and 7,151,134 shares at June 28, 2015	72	71
Capital in excess of par value	92,076	89,560
Retained earnings	220,728	213,442
Accumulated other comprehensive loss	(37,673)	(26,859)
Less: Treasury stock at cost (3,622,506 shares at July 3, 2016 and 3,624,454 shares at June 28, 2015)	(135,871)	(135,902)
Total STRATTEC SECURITY CORPORATION shareholders' equity	139,332	140,312
Non-controlling interest	15,180	12,089
Total shareholders' equity	154,512	152,401
	<u>\$ 242,176</u>	<u>\$ 230,834</u>

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)

	Total	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Non-Controlling Interest
<b>BALANCE June 30, 2013</b>	<u>\$111,880</u>	<u>\$ 70</u>	<u>\$ 82,684</u>	<u>\$179,614</u>	<u>\$ (22,212)</u>	<u>\$(135,938)</u>	<u>\$ 7,662</u>
Net income	19,140	—	—	16,424	—	—	2,716
Currency translation adjustments	(140)	—	—	—	(143)	—	3
Pension and postretirement funded status adjustment, net of tax of \$1,268	2,157	—	—	—	2,157	—	—
Cash dividends declared (\$0.44 per share)	(1,540)	—	—	(1,540)	—	—	—
Cash dividends paid to non-controlling interests of subsidiaries	(984)	—	—	—	—	—	(984)
Stock-based compensation and shortfall tax benefit	1,648	—	1,648	—	—	—	—
Stock Option Exercises	2,683	1	2,682	—	—	—	—
Employee stock purchases	59	—	40	—	—	19	—
<b>BALANCE June 29, 2014</b>	<u>\$134,903</u>	<u>\$ 71</u>	<u>\$ 87,054</u>	<u>\$194,498</u>	<u>\$ (20,198)</u>	<u>\$(135,919)</u>	<u>\$ 9,397</u>
Net income	24,551	—	—	20,654	—	—	3,897
Currency translation adjustments	(5,133)	—	—	—	(4,810)	—	(323)
Pension and postretirement funded status adjustment, net of tax of \$1,087	(1,851)	—	—	—	(1,851)	—	—
Cash dividends declared (\$0.48 per share)	(1,710)	—	—	(1,710)	—	—	—
Cash dividends paid to non-controlling interests of subsidiaries	(882)	—	—	—	—	—	(882)
Stock-based compensation and shortfall tax benefit	1,970	—	1,970	—	—	—	—
Stock Option Exercises	474	—	474	—	—	—	—
Employee stock purchases	79	—	62	—	—	17	—
<b>BALANCE June 28, 2015</b>	<u>\$152,401</u>	<u>\$ 71</u>	<u>\$ 89,560</u>	<u>\$213,442</u>	<u>\$ (26,859)</u>	<u>\$(135,902)</u>	<u>\$ 12,089</u>
Net income	14,122	—	—	9,149	—	—	4,973
Currency translation adjustments	(5,248)	—	—	—	(4,934)	—	(314)
Pension and postretirement funded status adjustment, net of tax of \$3,454	(5,880)	—	—	—	(5,880)	—	—
Cash dividends declared (\$0.52 per share)	(1,863)	—	—	(1,863)	—	—	—
Cash dividends paid to non-controlling interests of subsidiaries	(1,568)	—	—	—	—	—	(1,568)
Stock-based compensation and shortfall tax benefit	2,075	—	2,075	—	—	—	—
Stock Option Exercises	364	1	363	—	—	—	—
Employee stock purchases	109	—	78	—	—	31	—
<b>BALANCE July 3, 2016</b>	<u>\$154,512</u>	<u>\$ 72</u>	<u>\$ 92,076</u>	<u>\$220,728</u>	<u>\$ (37,673)</u>	<u>\$(135,871)</u>	<u>\$ 15,180</u>

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		
	July 3, 2016	June 28, 2015	June 29, 2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net Income	\$ 14,122	\$ 24,551	\$ 19,140
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity loss (earnings) of joint ventures	2,235	788	(957)
Depreciation and amortization	10,121	8,815	8,267
Foreign currency transaction (gain) loss	(2,559)	(3,075)	36
Unrealized loss on peso forward contracts	889	—	—
(Gain) loss on disposition of property, plant and equipment	(17)	154	170
Deferred income taxes	3,027	(3,330)	1,447
Stock based compensation expense	1,625	1,323	1,128
Change in operating assets and liabilities:			
Receivables	(5,129)	9,155	(21,291)
Inventories	(3,897)	(4,284)	(6,190)
Other assets	(9,481)	(1,482)	(6,535)
Accounts payable and accrued liabilities	(3,003)	(1,463)	16,188
Other, net	285	307	116
Net cash provided by operating activities	<u>8,218</u>	<u>31,459</u>	<u>11,519</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment in joint ventures	(1,720)	(4,384)	—
Loan to Joint Venture	(225)	(315)	(285)
Repayments from loan to Joint Venture	100	—	—
Additions to property, plant and equipment	(23,496)	(26,097)	(12,812)
Proceeds received on sale of property, plant and equipment	76	1	71
Net cash used in investing activities	<u>(25,265)</u>	<u>(30,795)</u>	<u>(13,026)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Borrowings under credit facility	26,500	9,000	1,250
Repayments under credit facility	(16,500)	(1,500)	(1,000)
Exercise of stock options and employee stock purchases	473	553	2,742
Excess tax benefits from stock-based compensation	170	367	495
Dividends paid to non-controlling interests of subsidiaries	(1,568)	(882)	(984)
Dividends paid	(1,865)	(1,711)	(1,542)
Net cash provided by financing activities	<u>7,210</u>	<u>5,827</u>	<u>961</u>
<b>FOREIGN CURRENCY IMPACT ON CASH</b>	<u>(381)</u>	<u>(552)</u>	<u>(5)</u>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>(10,218)</u>	<u>5,939</u>	<u>(551)</u>
<b>CASH AND CASH EQUIVALENTS</b>			
Beginning of year	25,695	19,756	20,307
End of year	<u>\$ 15,477</u>	<u>\$ 25,695</u>	<u>\$ 19,756</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>			
<b>CASH PAID DURING THE PERIOD FOR:</b>			
Income taxes	\$ 4,699	\$ 14,754	\$ 5,441
Interest	\$ 157	\$ 47	\$ 42
<b>NON-CASH INVESTING ACTIVITIES:</b>			
Change in capital expenditures in accounts payable	\$ 2,625	\$ 136	\$ —
Guarantee of joint venture revolving credit facility	\$ 505	\$ 995	\$ —
Guarantee of joint venture contract	\$ —	\$ 250	\$ —

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

**ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

STRATTEC SECURITY CORPORATION designs, develops, manufactures and markets automotive access control products including mechanical locks and keys, electronically enhanced locks and keys, steering column and instrument panel ignition lock housings, latches, power sliding side door systems, power lift gate systems, power deck lid systems, door handles and related products for primarily North American automotive customers. We also supply global automotive manufacturers through a unique strategic relationship with WITTE Automotive of Velbert, Germany and ADAC Automotive of Grand Rapids, Michigan. Under this relationship, STRATTEC, WITTE and ADAC market the products of each company to global customers under the "VAST" brand name (as more fully described herein). STRATTEC products are shipped to customer locations in the United States, Canada, Mexico, Europe, South America, Korea, China and India, and we provide full service and aftermarket support for our products. We also maintain a 51 percent interest in a joint venture, STRATTEC Advanced Logic, LLC ("SAL LLC"), which exists to introduce a new generation of biometric security products based on the designs of Actuator Systems, our partner and the owner of the remaining ownership interest.

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 Vehicle Access Systems Technology LLC ("VAST LLC") and SAL LLC for which we exercise significant influence but do not control and are not the primary beneficiary are accounted for using the equity method. VAST LLC consists primarily of three wholly owned subsidiaries in China, one wholly owned subsidiary in Brazil and one joint venture entity in India. SAL LLC is located in El Paso, Texas. We have 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).

**Principles of Consolidation and Presentation:** The accompanying consolidated financial statements include the accounts of STRATTEC SECURITY CORPORATION, its wholly owned Mexican subsidiary, 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 significant inter-company transactions and balances have been eliminated.

**New Accounting Standards:** In May 2014, the FASB issued an update to the accounting guidance for the recognition of revenue arising from contracts with customers. The update supersedes most current revenue recognition guidance and outlines a single comprehensive model for revenue recognition based on the principle that an entity should recognize revenue in an amount that reflects the expected consideration to be received in the exchange of goods and services. The guidance update also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. The guidance update is effective for annual reporting periods beginning after December 15, 2017 and becomes effective for us at the beginning of our 2019 fiscal year. We are currently assessing the impact that this guidance will have on our consolidated financial statements.

In August 2014, the FASB issued an update to the accounting guidance on determining when and how to disclose going-concern uncertainties in the financial statements. The new guidance requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern. This accounting update is effective for annual and interim periods beginning on or after December 15, 2016, with early adoption permitted. We do not expect that the adoption of this pronouncement will have a material impact on our consolidated financial statements.

In February 2015, the FASB issued an update to the accounting guidance that amends current consolidation guidance by modifying the evaluation of whether limited partnerships and similar legal entities are variable interest entities or voting interest entities, eliminating the presumption that a general partner should consolidate a limited partnership, and affects the consolidation analysis of reporting entities that are involved with variable interest entities. The update is effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. The adoption of this pronouncement did not have a material impact on our consolidated financial statements.

In April 2015 and August 2015, the FASB issued updates to the accounting guidance for debt issuance costs. The updated guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability and allows an entity to defer and present debt issuance costs associated with a line of credit arrangement as an asset, regardless of whether there are any outstanding borrowings on the line of credit arrangement. The guidance updates are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. We do not expect that the adoption of this updated guidance will have a material impact on our consolidated financial statements.



## NOTES TO FINANCIAL STATEMENTS

In July 2015, the FASB issued an accounting standard to simplify the measurement of inventory by changing the subsequent measurement guidance from the lower of cost or market to the lower of cost and net realizable value for inventory. The standard update is effective for fiscal years beginning after December 15, 2016 and interim periods within those years, and early adoption is permitted. The standard is to be applied prospectively. We do not expect that the adoption of this pronouncement will have a material impact on our consolidated financial statements.

In November 2015, the FASB issued an update to an accounting standard to simplify the presentation of deferred income taxes by requiring that deferred tax assets and liabilities be classified as non-current in a classified statement of financial position, which would be a change from our historical presentation whereby certain of our deferred tax assets and liabilities were classified as current and the remainder were classified as non-current. The standard update is effective for fiscal years beginning after December 15, 2016 and interim periods within those years, and early adoption is permitted. The standard is to be applied either prospectively to all deferred tax assets and liabilities or retrospectively to all periods presented. We have elected to adopt this guidance effective July 3, 2016, and have applied the guidance retrospectively. We restated our consolidated balance sheet as of June 28, 2015 to reflect the reclassification of \$9.6 million of deferred tax balances from current assets and \$4.6 million of deferred income tax balances from non-current liabilities to a non-current asset balance.

In February 2016, the FASB issued an update to the accounting guidance for leases. The update increases the transparency and comparability among organizations by requiring lessees to recognize lease assets and lease liabilities on the balance sheet and to disclose key information about leasing arrangements. The guidance is effective for fiscal years beginning after December 15, 2018 and interim periods within those years. We are currently assessing the impact that this guidance will have on our consolidated financial statements.

In March 2016, the FASB issued an update to the accounting guidance for share-based payments. The update simplifies several aspects of the accounting for employee share-based payment transactions including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification of such items in the statement of cash flows. The guidance is effective for fiscal years beginning after December 15, 2016 and interim periods within those years. We are currently assessing the impact that this guidance will have on our consolidated financial statements.

**Fiscal Year:** Our fiscal year ends on the Sunday nearest June 30. The years ended July 3, 2016, June 28, 2015 and June 29, 2014 are comprised of 53, 52 and 52 weeks, respectively.

**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 short-term commercial paper. As of July 3, 2016, \$10.6 million of our cash and cash equivalents balance held by our foreign subsidiaries in Mexico was deemed to be permanently reinvested.

**Derivative Instruments:** We own and operate manufacturing operations in Mexico. As a result, a portion of our manufacturing costs are incurred in Mexican pesos, which causes our earnings and cash flows to fluctuate due to changes in the U.S. dollar/Mexican peso exchange rate. During 2016, we executed contracts with Bank of Montreal that provide for bi-weekly and monthly Mexican peso currency forward contracts for a portion of our estimated peso denominated operating costs. The current peso currency forward contracts include settlement dates that began on October 16, 2015 and end on June 15, 2018. No forward contracts were in place during fiscal 2015 or 2014. Our objective in entering into these currency forward contracts is to minimize our earnings volatility resulting from changes in exchange rates affecting the U.S. dollar cost of our Mexican operations. The Mexican peso forward contracts are not used for speculative purposes and are not designated as hedges. As a result, all currency forward contracts are recognized in our accompanying consolidated financial statements at fair value and changes in the fair value are reported in current earnings as part of Other Income, net.

The following table quantifies the outstanding Mexican peso forward contracts as of July 3, 2016 (thousands of dollars, except average forward contractual exchange rates):

	Effective Dates	Notional Amount	Average Forward Contractual Exchange Rate	Fair Value
Buy MXP/Sell USD	July 15, 2016 - June 15, 2017	\$24,000	17.95	\$(996)
Buy MXP/Sell USD	July 15, 2017 - June 15, 2018	\$ 6,000	19.80	\$ 107

The fair market value of all outstanding Mexican peso forward contracts in the accompanying Consolidated Balance Sheets was as follows (thousands of dollars):

	July 3, 2016	June 28, 2015
Not Designed as hedging Instruments:		
Other Long-term Assets:		
Mexican Peso Forward Contracts	\$ 107	\$ —
Other Current Liabilities:		
Mexican Peso Forward Contracts	\$ 996	\$ —



## NOTES TO FINANCIAL STATEMENTS

The pre-tax effects of the Mexican peso forward contracts on the accompanying Consolidated Statements of Income and Comprehensive Income consisted of the following (thousands of dollars):

	Other income, net		
	Years Ended		
	July 3, 2016	June 28, 2015	June 29, 2014
Not Designated as Hedging Instruments:			
Realized Loss	\$ 1,196	\$ —	\$ —
Unrealized Loss	\$ 889	\$ —	\$ —

**Fair Value of Financial Instruments:** The fair value of our cash and cash equivalents, accounts receivable, accounts payable and borrowings under our credit facilities approximated their book value as of July 3, 2016 and June 28, 2015. Fair Value is defined 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 must maximize the use of observable inputs and minimize the use of unobservable inputs. There is an established 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 as of July 3, 2016 and June 28, 2015 (thousands of dollars):

	July 3, 2016				June 28, 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets:</b>								
Rabbi Trust Assets:								
Stock Index Funds:								
Small Cap	\$ 356	\$ —	\$ —	\$ 356	\$ 372	\$ —	\$ —	\$ 372
Mid Cap	357	—	—	357	365	—	—	365
Large Cap	498	—	—	498	490	—	—	490
International	389	—	—	389	438	—	—	438
Fixed Income Funds	700	—	—	700	679	—	—	679
Cash and Cash Equivalents	—	3	—	3	—	—	—	—
Mexican Peso Forward Contracts	—	107	—	107	—	—	—	—
Total assets at fair value	\$2,300	\$ 110	\$ —	\$2,410	\$2,344	\$ —	\$ —	\$2,344
<b>Liabilities:</b>								
Mexico Peso Forward Contracts	\$ —	\$ 996	\$ —	\$ 996	\$ —	\$ —	\$ —	\$ —

The Rabbi Trust assets fund our supplemental executive retirement plan and are included in Other Long-Term Assets in the accompanying Consolidated Balance Sheets. Refer to discussion of Mexican peso forward contracts under Derivative Instruments above. The fair value of the Mexican peso forward contracts considers the remaining term, current exchange rate and interest rate differentials between the two currencies. There were no transfers between Level 1 and Level 2 assets during 2016 or 2015.

**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 sales. 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. Changes in the allowance for doubtful accounts were as follows (thousands of dollars):

	Balance, Beginning of Year	Provision for Doubtful Accounts	Net Write-Offs	Balance, End of Year
Year ended July 3, 2016	\$ 500	\$ —	\$ —	\$ 500
Year ended June 28, 2015	\$ 500	\$ —	\$ —	\$ 500
Year ended June 29, 2014	\$ 500	\$ —	\$ —	\$ 500

## NOTES TO FINANCIAL STATEMENTS

**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. Inventories consisted of the following (thousands of dollars):

	July 3, 2016	June 28, 2015
Finished products	\$ 10,137	\$ 11,358
Work in process	8,291	7,746
Purchased materials	23,055	17,982
	41,483	37,086
Excess and obsolete reserve	(2,800)	(2,300)
Inventories, net	<u>\$ 38,683</u>	<u>\$ 34,786</u>

We record a reserve for excess and obsolete inventory based on historical and estimated future demand and market conditions. The reserve level is determined by comparing inventory levels of individual materials and parts to historical usage and estimated future sales by analyzing the age of the inventory in order to identify specific materials and parts that are unlikely to be sold. Technical obsolescence and other known factors are also considered in evaluating the reserve level. The activity related to the excess and obsolete inventory reserve was as follows (thousands of dollars):

	Balance, Beginning of Year	Provision Charged to Expense	Amounts Written Off	Balance, End of Year
Year ended July 3, 2016	\$ 2,300	\$ 844	\$ 344	\$2,800
Year ended June 28, 2015	\$ 2,150	\$ 655	\$ 505	\$2,300
Year ended June 29, 2014	\$ 1,500	\$ 1,122	\$ 472	\$2,150

**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. To the extent that estimated costs exceed expected reimbursement from the customer we will recognize a loss.

**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 \$3.2 million at July 3, 2016 and \$2.9 million at June 28, 2015. The repair and maintenance supply parts inventory balance is included in Other Current Assets in the accompanying Consolidated Balance Sheets. The activity related to the repair and maintenance supply parts reserve was as follows (thousands of dollars):

	Balance, Beginning of Year	Provision Charged to Expense	Amounts Written Off	Balance, End of Year
Year ended July 3, 2016	\$ 620	\$ 366	\$ 286	\$ 700
Year ended June 28, 2015	\$ 585	\$ 348	\$ 313	\$ 620
Year ended June 29, 2014	\$ 500	\$ 102	\$ 17	\$ 585

**Intangibles:** Intangible assets that have defined useful lives were acquired in the purchase of the power sliding door, lift gate and deck lid system access control products from Delphi Corporation in 2009 and consist of patents, engineering drawings and software. The intangible assets balance is included in Other Long-term Assets in the accompanying Consolidated Balance Sheets. The carrying value and accumulated amortization were as follows (thousands of dollars):

	July 3, 2016	June 28, 2015
Patents, engineering drawings and software	\$ 890	\$ 890
Less: accumulated amortization	(750)	(651)
	<u>\$ 140</u>	<u>\$ 239</u>

The remaining useful life of the intangible assets in the table above is approximately 1.4 years. Intangible amortization expense was \$99,000 for each of the years ended July 3, 2016, June 28, 2015 and June 29, 2014. Intangible amortization expense is expected to be \$99,000 in fiscal year 2017, \$41,000 in fiscal 2018 and zero thereafter.

**Property, Plant and Equipment:** Property, plant and equipment are stated at cost. Property, 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	15 to 35 years
Machinery and equipment	3 to 10 years

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

	July 3, 2016	June 28, 2015
Land and improvements	\$ 4,686	\$ 4,246
Buildings and improvements	29,361	25,954
Machinery and equipment	182,812	164,367
	216,859	194,567
Less: accumulated depreciation	(131,710)	(123,441)
	<u>\$ 85,149</u>	<u>\$ 71,126</u>

Depreciation expense was as follows for the periods indicated (thousands of dollars):

	Depreciation Expense
2016	\$ 10,022
2015	\$ 8,716
2014	\$ 8,168

The gross and net book value of property, plant and equipment located outside of the United States, primarily in Mexico, were as follows (thousands of dollars):

	July 3, 2016	June 28, 2015
Gross book value	\$ 97,537	\$ 87,876
Net book value	\$ 43,954	\$ 38,138

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 an asset is considered to be impaired, the impairment recognized is measured by the excess of the carrying amount of the asset over the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less estimated costs to sell. There were no impairments recorded in the years ended July 3, 2016, June 28, 2015 or June 29, 2014.

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.

## NOTES TO FINANCIAL STATEMENTS

**Supplier Concentrations:** The following inventory purchases were made from major suppliers during each fiscal year noted:

Fiscal Year	Percentage of Inventory Purchases	Number of Suppliers
2016	36%	6
2015	27%	5
2014	38%	7

We have long-term contracts or arrangements with most of our suppliers to guarantee the availability of raw materials and component parts.

**Labor Concentrations:** We had approximately 3,877 full-time associates of which approximately 275 or 7.1 percent were represented by a labor union at July 3, 2016. The associates represented by a labor union account for all production associates at our Milwaukee facility. The current contract with the unionized associates is effective through September 17, 2018.

**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. Price concessions agreed to with customers are recorded as a reduction of sales at the later of when revenue related to the specific sales is recognized or the date at which the price concessions are offered and committed to.

**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 \$430,000 in 2016, \$280,000 in 2015 and \$700,000 in 2014.

**Other Income, Net:** Net other income included in the accompanying Consolidated Statements of Income and Comprehensive Income primarily included foreign currency transaction gains and losses, realized and unrealized gains and losses on our Mexican Peso option contracts, and Rabbi Trust gains. Foreign currency transaction gains and losses were the result of foreign currency transactions entered into by our Mexican subsidiaries and fluctuations in foreign currency cash balances. We entered into the Mexican Peso currency option contracts during fiscal 2016 to minimize earnings volatility resulting from changes in exchange rates affecting the U.S. dollar cost of our Mexican operations. The Rabbi Trust assets fund our amended and restated supplemental executive retirement plan. The investments held in the Trust are considered trading securities. The impact of these items for the periods presented was as follows (thousands of dollars):

	Years Ended		
	July 3, 2016	June 28, 2015	June 29, 2014
Foreign currency transaction gain (loss)	\$ 2,559	\$ 3,075	\$ (36)
Rabbi Trust (loss) gain	(41)	96	211
Unrealized loss on Mexican peso option contracts	(889)	—	—
Realized loss on Mexican peso option contracts	(1,196)	—	—
Other	235	310	97
	<u>\$ 668</u>	<u>\$ 3,481</u>	<u>\$ 272</u>

**Self Insurance 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 2013 through 2016. Effective January 1, 2011, under Health Care Reform, there is no lifetime maximum for overall benefits.

The expected ultimate cost for claims incurred under the self-insured medical and dental plans as of the applicable balance sheet date is not discounted and is recognized as an expense on our Consolidated Statements of Income and Comprehensive Income. 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 an analysis of historical data, current health care trends and information available from the third-party administrator. The expected ultimate cost for claims incurred under the self-insured medical and dental plans that has not been paid as of the applicable balance sheet date is included in Accrued Liabilities: Payroll and Benefits in our accompanying Consolidated Balance Sheets.

Changes in the balance sheet amounts for self-insured plans were as follows (thousands of dollars):

	Balance, Beginning of Year	Provision Charged to Expense	Payments	Balance, End of Year
Year ended July 3, 2016	\$ 420	\$ 5,032	\$ 5,032	\$ 420
Year ended June 28, 2015	\$ 420	\$ 4,756	\$ 4,756	\$ 420
Year ended June 29, 2014	\$ 420	\$ 4,600	\$ 4,600	\$ 420

**Warranty Reserve:** We have a warranty liability recorded related to our known and potential exposure to warranty claims in the event our products fail to perform as expected, and in the event we may be required to participate in the repair costs incurred by our customers for such products. The recorded warranty liability balance involves judgment and estimates. Our liability estimate is based on an analysis of historical warranty data as well as current trends and information, including our customers' recent extension and/or expansion of their warranty programs. In recent fiscal periods, our largest customers have extended their warranty protection for their vehicles and have since demanded higher warranty cost sharing arrangements from their suppliers in their terms and conditions to purchase, including from STRATTEC. During 2016, the warranty liability was reduced as a result of settlement payments of previously accrued customer warranty issues. The 2015 warranty provision included various known or expected customer warranty issues and estimated future warranty costs to be incurred as of June 2015 for which amounts were reasonably estimable. As additional information becomes available, actual results may differ from recorded estimates, which may require us to adjust the amount of our warranty provision.

Changes in the warranty reserve were as follows (thousands of dollars):

	Balance, Beginning of Year	Provision Charged to Expense	Payments	Balance, End of Year
Year ended July 3, 2016	\$11,835	\$ 583	\$3,190	\$ 9,228
Year ended June 28, 2015	\$ 3,462	\$ 8,975	\$ 602	\$11,835
Year ended June 29, 2014	\$ 2,500	\$ 1,153	\$ 191	\$ 3,462

**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 accumulated other comprehensive loss. Foreign currency transaction gains and losses are included in other income, net in the accompanying Consolidated Statements of Income and Comprehensive Income.

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

	July 3, 2016	June 28, 2015	June 29, 2014
Unrecognized pension and postretirement benefit liabilities, net of tax	\$ 24,518	\$ 18,638	\$ 16,787
Foreign currency translation	13,155	8,221	3,411
	<u>\$ 37,673</u>	<u>\$ 26,859</u>	<u>\$ 20,198</u>

Deferred taxes have not been provided for the foreign currency translation adjustments.

The following tables summarize the changes in accumulated other comprehensive loss ("AOCL") for the years ended July 3, 2016 and June 28, 2015 (thousands of dollars):

	Year Ended July 3, 2016		
	Foreign Currency — Translation Adjustments	Retirement and — Postretirement Plans	Total
Balance June 28, 2015	\$ 8,221	\$ 18,638	\$26,859
Other comprehensive loss before reclassifications	5,248	11,640	16,888
Income tax	—	(4,307)	(4,307)
Net other comprehensive loss before reclassifications	5,248	7,333	12,581
Reclassifications:			
Prior service credits (A)	—	753	753
Actuarial gains (A)	—	(3,059)	(3,059)
Total reclassifications before tax	—	(2,306)	(2,306)
Income Tax	—	853	853
Net reclassifications	—	(1,453)	(1,453)
Other comprehensive loss	5,248	5,880	11,128
Other comprehensive loss attributable to Non-Controlling interest	314	—	314
Balance July 3, 2016	<u>\$ 13,155</u>	<u>\$ 24,518</u>	<u>\$37,673</u>

NOTES TO FINANCIAL STATEMENTS

	Year Ended June 28, 2015		
	Foreign Currency — Translation Adjustments	Retirement and — Postretirement Plans	Total
Balance June 29, 2014	\$ 3,411	\$ 16,787	\$20,198
Other comprehensive loss before reclassifications	5,133	5,654	10,787
Income tax	—	(2,092)	(2,092)
Net other comprehensive loss before reclassifications	5,133	3,562	8,695
Reclassifications:			
Prior service credits (A)	—	753	753
Actuarial gains (A)	—	(3,468)	(3,468)
Total reclassifications before tax	—	(2,715)	(2,715)
Income Tax	—	1,004	1,004
Net reclassifications	—	(1,711)	(1,711)
Other comprehensive loss	5,133	1,851	6,984
Other comprehensive loss attributable to Non-Controlling interest	323	—	323
Balance June 28, 2015	\$ 8,221	\$ 18,638	\$26,859

(A) Amounts reclassified are included in the computation of net periodic benefit cost, which is included in Cost of Goods Sold and Engineering, Selling and Administrative expenses in the accompanying Consolidated Statements of Income and Comprehensive Income. See the Note Retirement Plans and Postretirement Costs in these notes to financial statements.

**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 1,850,000 shares of common stock available for the grant of awards under the plan. Remaining shares available to be granted under the plan as of July 3, 2016 were 230,289. 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, outside directors and specified associates 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 our Board of Directors. The options expire 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 our 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 prior to August 2014 have voting and dividend rights, regardless of whether the shares are vested or unvested. Restricted shares granted during August 2014 and thereafter have voting rights, regardless of whether the shares are vested or unvested, but only have the right to receive cash dividends after such shares become vested. Prior to August 2015, the restricted stock grants issued vest 3 years after the date of grant. As of August 2015, restricted stock grants issued vest 3 to 5 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 contractual terms 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.

Unrecognized compensation cost as of July 3, 2016 related to stock options and restricted stock granted under the plan was as follows (thousands of dollars):

	Compensation Cost	Weighted Average Period over which Cost is to be Recognized (in years)
Stock options granted	\$ 143	0.5
Restricted Stock granted	\$ 1,810	1.1

## NOTES TO FINANCIAL STATEMENTS

Unrecognized compensation cost will be adjusted for any future changes in estimated and actual forfeitures. Cash received from stock option exercises and the related income tax benefit were as follows (thousands of dollars):

Fiscal Year	Cash Received from Stock Option Exercises	Income Tax Benefit
2016	\$ 364	\$ 196
2015	\$ 474	\$ 458
2014	\$ 2,683	\$ 729

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

	Years Ended		
	July 3, 2016	June 28, 2015	June 29, 2014
Intrinsic value of options exercised	\$ 529	\$ 1,375	\$ 2,134
Fair value of stock options vested	\$ 331	\$ 382	\$ 444

The grant date fair values and assumptions used to determine compensation expense recorded in the accompanying financial statements were as follows:

Options Granted During	2015	2014
<b>Weighted average grant date fair value:</b>		
Options issued at grant date market value	n/a	n/a
Options issued above grant date market value	\$34.93	\$17.58
<b>Assumptions:</b>		
Risk free interest rates	1.90%	2.06%
Expected volatility	57.83%	58.75%
Expected dividend yield	0.62%	1.11%
Expected term (in years)	6.0	6.0

No options were granted during the fiscal year ended July 3, 2016.

The range of options outstanding as of July 3, 2016 was as follows:

	Number of Options Outstanding/Exercisable	Weighted Average Exercise Price Outstanding/Exercisable	Weighted Average Remaining Contractual Life Outstanding (In Years)
\$10.92-\$18.49	44,414/44,414	\$15.14/\$15.14	3.1
\$26.53-\$38.71	91,574/59,384	\$30.50/\$26.06	6.2
\$79.73	9,010/-	\$79.73/\$-	8.1
		\$28.86/\$21.39	

**Income Taxes:** Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases and operating loss carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences and operating loss carry-forwards are expected to be recovered, settled or utilized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. We recognize the benefit of an income tax position only if it is more likely than not (greater than 50 percent) that the tax position will be sustained upon tax examination, based solely on the technical merits of the tax position. Otherwise, no benefit is recognized. The tax benefits recognized are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. Additionally, we accrue interest and related penalties, if applicable, on all tax exposures for which reserves have been established consistent with jurisdictional tax laws. Interest and penalties on uncertain tax positions are classified in the Provision for Income Taxes in the accompanying Consolidated Statements of Income and Comprehensive Income.

**INVESTMENT IN JOINT VENTURES AND MAJORITY OWNED SUBSIDIARIES**

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 automotive 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 Agreements include 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 equity interest, exists to seek opportunities to manufacture and sell each company’s products in areas of the world outside of North America and Europe.

Sistema de Acesso Veicular Ltda (formerly VAST do Brasil) services customers in South America. Effective March 21, 2014, VAST LLC purchased the remaining non-controlling interest in the Brazilian entity. VAST Fuzhou, VAST Great Shanghai and VAST Shanghai Co. (collectively known as VAST China), provide a 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.

Effective April 30, 2015, VAST LLC executed an agreement to become a 50:50 Joint Venture partner with Minda Management Services Limited an affiliate of both Minda Corporation Limited and Spark Minda, Ashok Minda Group of New Delhi, India (collectively “Minda”). VAST acquired a fifty percent equity interest in the former Minda-Valeo Security Systems joint venture entity, based in Pune, India, for approximately \$12 million. This joint venture entity was renamed Minda-VAST Access Systems (“Minda-VAST”). The portion of the purchase price paid by each VAST LLC partner, STRATTEC, WITTE and ADAC, totaled \$4 million. Minda-VAST has operations in Pune and Delhi and had annual sales of \$36 million in our fiscal year 2016. Minda and its affiliates cater to the needs of all major car, motorcycle, commercial vehicle, tractor and off-road vehicle manufacturers in India. They are a leading manufacturer in the Indian marketplace of security & access products, handles, automotive safety, restraint systems, driver information and telematics systems for both OEMs and the aftermarket.

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 loss of joint ventures to STRATTEC of approximately \$639,000 during 2016 and equity earnings of joint ventures to STRATTEC of approximately \$1.3 million during both 2015 and 2014. The current year equity loss of joint ventures for VAST LLC included a \$6 million impairment charge related to its Minda-VAST Access Systems joint venture in India. STRATTEC’s portion of this impairment charge for 2016 totaled \$2 million. During 2016, capital contributions totaling \$660,000 were made to VAST LLC for purposes of funding operations in Brazil. STRATTEC’s portion of the capital contributions totaled \$220,000. During 2015, cash capital contributions totaling \$13.2 million were made to VAST LLC in support of the acquisition of the 50 percent joint venture interest in Minda-VAST and in support of general operating expenses for the Brazilian entity. STRATTEC’s portion of the cash capital contributions totaled \$4.4 million. No cash capital contributions were made to VAST LLC during 2014. Loans were made by each partner, STRATTEC, WITTE and ADAC, to VAST LLC totaling \$215,000 for each partner in 2015 and \$285,000 for each partner in 2014. The loans were made in support of VAST LLC’s purchase of the non-controlling interest in the Brazilian entity and in support of funding operating costs of the Brazilian entity. During 2016, VAST LLC made loan repayments of \$100,000 to each partner.

ADAC-STRATTEC LLC, a Delaware limited liability company, was formed in fiscal year 2007 to support injection molding and door handle assembly operations in Mexico. ADAC-STRATTEC LLC was 51 percent owned by STRATTEC and 49 percent owned by ADAC for all periods presented in this report. An additional Mexican entity, ADAC-STRATTEC de Mexico, is wholly owned by ADAC-STRATTEC LLC. ADAC-STRATTEC LLC’s financial results are consolidated with the financial results of STRATTEC and resulted in increased net income to STRATTEC of approximately \$2.9 million in 2016, \$2.6 million in 2015 and \$1.4 million in 2014.

STRATTEC POWER ACCESS LLC (“SPA”) was formed in fiscal year 2009 to supply the North American portion of the power sliding door, lift gate and deck lid system access control products which were acquired from Delphi Corporation. SPA was 80 percent owned by STRATTEC and 20 percent owned by WITTE for all periods presented in this report. An additional Mexican entity, STRATTEC POWER ACCESS de Mexico, is wholly owned by SPA. The financial results of SPA are consolidated with the financial results of STRATTEC and resulted in increased net income to STRATTEC of approximately \$2.0 million in 2016, reduced net income to STRATTEC of approximately \$269,000 in 2015, and increased net income to STRATTEC of approximately \$1.5 million in 2014.



SAL LLC was formed in fiscal 2013 to introduce a new generation of biometric security products based upon the designs of Actuator Systems LLC, our partner and the owner of the remaining ownership interest in SAL LLC. SPA was 51 percent owned by STRATTEC for all periods presented in this report. The initial capitalization of SAL LLC totaled \$1.5 million. STRATTEC's portion of the initial capitalization totaled \$765,000. Our investment in SAL LLC, for which we exercise significant influence but do not control and are not the primary beneficiary, is accounted for using the equity method. The activities related to the SAL LLC joint venture resulted in an equity loss of joint ventures to STRATTEC of approximately \$1.6 million in 2016, \$2.0 million in 2015 and \$367,000 in 2014. Effective with our fiscal 2015 fourth quarter, 100 percent of the funding for SAL LLC was being made through loans from STRATTEC to SAL LLC and through STRATTEC's guarantee of the SAL Credit Facility which is discussed herein. Therefore, effective with our fiscal 2015 fourth quarter, even though STRATTEC maintains a 51 percent ownership interest in SAL LLC, STRATTEC began recognizing 100 percent of the losses of SAL LLC up to our committed financial support through Equity (Loss) Earnings of Joint Ventures in the accompanying Consolidated Statements of Income and Comprehensive Income. In addition, the equity loss of joint ventures for SAL LLC included the following for the periods presented (thousands of dollars):

	Years Ended	
	July 3, 2016	June 28, 2015
Loss on Guarantee of SAL LLC Vendor Contract	\$ —	\$ 123
Loss on Loan to SAL LLC	\$ 225	\$ 100
Loss on Guarantee of SAL LLC Credit Facility	\$ 247	\$ 488

STRATTEC's joint venture investments are included in the accompanying Consolidated Balance Sheets as follows (thousands of dollars):

	July 3, 2016	June 28, 2015
<b>Investment in Joint Ventures:</b>		
Investment in VAST LLC	\$ 14,168	\$ 15,326
<b>Other Current Liabilities:</b>		
Investment in SAL LLC	\$ 1,265	\$ 402

#### EQUITY (LOSS) EARNINGS OF JOINT VENTURES

As discussed above under the note Investment in Joint Ventures and Majority Owned Subsidiaries, we hold a one-third ownership interest in VAST LLC, for which we exercise significant influence but do not control and are not the primary beneficiary. Our investment in VAST LLC is accounted for using the equity method. The following are summarized statements of operations and summarized balance sheet data for VAST LLC (thousands of dollars):

	Years Ended		
	July 3, 2016	June 28, 2015	June 29, 2014
Net sales	\$ 114,338	\$ 124,929	\$ 111,844
Cost of goods sold	94,060	105,132	94,701
Gross profit	20,278	19,797	17,143
Engineering, selling and administrative expense	15,866	16,155	14,169
Impairment Charge	6,000	—	—
(Loss) income from operations	(1,588)	3,642	2,974
Other (expense) income, net	(115)	123	1,809
(Loss) income before provision for income taxes	(1,703)	3,765	4,783
Provision for income taxes	168	41	810
Net (loss) income	\$ (1,871)	\$ 3,724	\$ 3,973
STRATTEC's share of VAST LLC net (loss) income	\$ (624)	\$ 1,241	\$ 1,324
Intercompany profit eliminations	(15)	10	—
STRATTEC's equity (loss) earnings of VAST LLC	\$ (639)	\$ 1,251	\$ 1,324

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**NOTES TO FINANCIAL STATEMENTS**


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	July 3, 2016	June 28, 2015
Cash and cash equivalents	\$ 6,584	\$ 5,792
Receivables, net	24,557	23,511
Inventories, net	13,500	13,792
Other current assets	13,007	12,479
Total current assets	57,648	55,574
Property, plant and equipment, net	26,557	26,070
Other long-term assets	11,086	15,413
Total assets	\$ 95,291	\$ 97,057
Current liabilities	\$ 50,462	\$ 43,605
Long-term liabilities	2,019	7,212
Total liabilities	\$ 52,481	\$ 50,817
Net assets	\$ 42,810	\$ 46,240
STRATTEC's share of VAST LLC net assets	\$ 14,270	\$ 15,413

The current year equity loss of joint ventures for VAST LLC included a \$6 million impairment charge related to its Minda-VAST Access Systems joint venture in India. STRATTEC's portion of this impairment charge in 2016 totaled \$2 million.

As discussed above under the note Investment in Joint Ventures and Majority Owned Subsidiaries, we hold a 51 percent ownership interest in a joint venture company, SAL LLC, which exists to introduce a new generation of biometric security products based upon the designs of Actuator Systems LLC, our partner. SAL LLC is considered a variable interest entity based on the STRATTEC guarantee. STRATTEC is not the primary beneficiary and does not control the entity. Accordingly, our investment in SAL LLC is accounted for using the equity method. SAL LLC had a \$1.5 million revolving credit facility with BMO Harris Bank N.A. with a maturity date of February 16, 2016, which was fully guaranteed by STRATTEC. Outstanding borrowings under the SAL Credit Facility as of February 16, 2016 and June 28, 2015 totaled \$1.5 million and \$995,000, respectively. SAL LLC did not have cash available to pay the outstanding debt balance as of the maturity date. Therefore, STRATTEC made a payment of \$1.5 million on its guarantee on February 16, 2016. Prior to making the guarantee payment, STRATTEC had recorded a liability related to the guarantee of \$1.5 million and \$995,000 at February 16, 2016 and June 28, 2015, respectively, which amounts were equal to the estimated fair value of the guarantee as of these dates. As of June 28, 2015, the guarantee liability was included in Other Current Liabilities in the accompanying Consolidated Balance Sheets. STRATTEC's proportionate share of the guarantee based on our ownership percentage in SAL LLC totaled \$765,000 and \$507,000, respectively, as of February 16, 2016 and June 28, 2015, and accordingly, our investment in SAL LLC included these amounts as of these dates. Our joint venture partner did not guarantee their proportionate share of the SAL Credit Facility. As a result, we recorded a loss equal to our partner's proportionate share of the fair value of the STRATTEC guarantee based upon our partner's ownership interest in the joint venture of \$488,000 during fiscal 2015 and \$247,000 during 2016. This loss is included in Equity (Loss) Earnings of Joint Ventures for 2016 and 2015, as applicable, in the accompanying Consolidated Statements of Income and Comprehensive Income.

Effective November 1, 2014, a license agreement was signed with Westinghouse allowing SAL LLC to do business as Westinghouse Security. Payments required under this license agreement were guaranteed by STRATTEC. As of July 3, 2016 and June 28, 2015, STRATTEC had recorded a liability equal to the estimated fair value of the guarantee of these payments of \$250,000, which amount is equal to the future payments required to be made under the license agreement as of these dates. The liability is included in Other Long-term Liabilities in the accompanying Consolidated Balance Sheets. STRATTEC's proportionate share of the guarantee of these payments based on our ownership percentage in SAL LLC totals \$127,000, and accordingly, our investment in SAL LLC was increased by this amount as of July 3, 2016 and June 28, 2015. Our joint venture partner did not guarantee their proportionate share of the payments required under the license agreement. As a result, STRATTEC recorded a loss of \$123,000 which is equal to our partner's proportionate share, based upon their ownership interest in the joint venture, of the fair value of the STRATTEC guarantee. This loss is included in Equity (Loss) Earnings of Joint Ventures for 2015 in the accompanying Consolidated Statements of Income and Comprehensive Income.

During 2015, a loan was made from STRATTEC to SAL LLC in support of operating expenses and working capital needs. As of June 28, 2015, the outstanding loan amount totaled \$100,000. A valuation reserve of \$100,000 was recorded related to this loan as of June 28, 2015. During 2016, additional loans totaling \$225,000 were made from STRATTEC to SAL LLC in support of operating expenses and working capital needs. A valuation reserve of \$225,000 was recorded related to the additional loans during 2016. The corresponding losses related to the valuation reserves are included in Equity (Loss) Earnings of Joint Ventures in the accompanying Consolidated Statements of Income and Comprehensive Income. As of July 3, 2016, the outstanding loan amount totaled \$325,000, which was fully offset by a valuation reserve of \$325,000.

## NOTES TO FINANCIAL STATEMENTS

Even though we maintain a 51 percent ownership interest in SAL LLC, effective with our fiscal 2015 fourth quarter, 100 percent of the funding for SAL LLC was being made by loans from STRATTEC to SAL LLC. Therefore, STRATTEC began recognizing 100 percent of the losses of SAL LLC up to our committed financial support through Equity (Loss) Earnings of Joint Ventures in the accompanying Consolidated Statements of Income and Comprehensive Income effective with our fiscal 2015 fourth quarter.

The following are summarized statements of operations and summarized balance sheet data for SAL LLC (thousands of dollars):

	Years Ended		
	July 3, 2016	June 28, 2015	June 29, 2014
Net sales	\$ 603	\$ 49	\$ —
Cost of goods sold	382	450	—
Gross profit (loss)	221	(401)	—
Engineering, selling and administrative expense	1,311	1,492	720
Loss from operations	(1,090)	(1,893)	(720)
Other expense, net	(34)	(4)	—
Net loss	<u>(1,124)</u>	<u>\$ (1,897)</u>	<u>(720)</u>
STRATTEC's share of SAL LLC loss	\$ (1,124)	\$ (1,328)	\$ (367)
Loss on Guarantee of SAL LLC Vendor Contract	—	(123)	—
Loss on Loan to SAL LLC	(225)	(100)	—
Loss on Guarantee of SAL LLC Credit facility	(247)	(488)	—
STRATTEC's equity loss of SAL LLC	<u>\$ (1,596)</u>	<u>\$ (2,039)</u>	<u>\$ (367)</u>
	July 3, 2016	June 28, 2015	
Cash and cash equivalents	\$ 21	\$ 71	
Receivables, net	60	14	
Inventories, net	283	246	
Property, plant and equipment, net	—	—	
Total assets	<u>\$ 364</u>	<u>\$ 331</u>	
Current liabilities	<u>\$ 1,256</u>	<u>\$ 1,600</u>	
Net liabilities	<u>\$ (892)</u>	<u>\$ (1,269)</u>	
STRATTEC's share of SAL LLC net liabilities	<u>\$ (455)</u>	<u>\$ (647)</u>	

We have sales of component parts to VAST LLC and SAL LLC, purchases of component parts from VAST LLC, expenses charged to VAST LLC for engineering and accounting services and expenses charged from VAST LLC to STRATTEC for general headquarter expenses. The following tables summarize the related party transactions with VAST LLC and SAL LLC for the periods indicated (thousands of dollars):

	Years Ended		
	July 3, 2016	June 28, 2015	June 29, 2014
Sales to VAST LLC	\$ 304	\$ 2,298	\$ 231
Sales to SAL LLC	\$ 363	\$ 157	\$ —
Purchases from VAST LLC	\$ 149	\$ 164	\$ 233
Expenses charged to VAST LLC	\$ 1,034	\$ 832	\$ 743
Expenses charged from VAST LLC	\$ 1,526	\$ 1,825	\$ 1,261
	July 3, 2016	June 28, 2015	
Accounts receivable from VAST LLC	\$ 55	\$ 118	
Accounts receivable from SAL LLC	\$ 450	\$ 278	
Current loan receivable from SAL LLC <sup>(A)</sup>	\$ 325	\$ 100	
Long-term loan receivable from VAST LLC	\$ 400	\$ 500	
Accounts payable to VAST LLC	\$ 213	\$ 267	

(A) Based on the current financial position of SAL LLC, a valuation reserve has been established as of July 3, 2016 and June 28, 2015 for the full amount of the loan receivable balance.

### CREDIT FACILITIES AND GUARANTEES

STRATTEC has a \$30 million secured revolving credit facility (the "STRATTEC Credit Facility") with BMO Harris Bank N.A. ADAC-STRATTEC LLC has a \$20 million secured revolving credit facility (the "ADAC-STRATTEC Credit Facility") with BMO Harris Bank N.A., which is guaranteed by STRATTEC. The credit facilities both expire on August 1, 2019. Borrowings under either credit facility are secured by our U.S. cash balances, accounts receivable, inventory and fixed assets located in the U.S. Interest on borrowings under the STRATTEC Credit Facility is at varying rates based, at our option, on the LIBOR plus 1.0 percent or the bank's prime rate. Interest on borrowings under the ADAC-STRATTEC Credit Facility for periods prior to January 22, 2014 was at varying rates based, at our option, on LIBOR plus 1.75 percent or the bank's prime rate. As a result of an amendment to the ADAC-STRATTEC Credit Facility, effective January 22, 2014 and

## NOTES TO FINANCIAL STATEMENTS

thereafter, interest on borrowings under this facility is based, at our option, on LIBOR plus 1.0 percent or the bank's prime rate. Both credit facilities contain a restrictive financial covenant that requires the applicable borrower to maintain a minimum net worth level. The ADAC-STRATTEC Credit Facility includes an additional restrictive financial covenant that requires the maintenance of a minimum fixed charge coverage ratio as well as the requirements for a capital contribution to ADAC-STRATTEC LLC of \$6 million collectively from STRATTEC and ADAC to be completed by September 30, 2016. STRATTEC's portion of the required capital contribution will be \$3.06 million. As of July 3, 2016, we were in compliance with all financial covenants.

Outstanding borrowings under the credit facilities referenced in the above paragraph as of the end of 2016 and 2015 were as follows (thousands of dollars):

	July 3, 2016	June 28, 2015
STRATTEC Credit Facility	\$ 11,500	\$ 7,000
ADAC-STRATTEC Credit Facility	\$ 8,500	\$ 3,000

Average outstanding borrowings and the weighted average interest rate under each such credit facility during 2016 and 2015 were as follows (thousands of dollars):

	Average Outstanding Borrowings		Weighted Average Interest Rate	
	Years Ended		Years Ended	
	July 3, 2016	June 28, 2015	July 3, 2016	June 28, 2015
STRATTEC Credit Facility	\$ 7,608	\$ 2,288	1.5%	1.2%
ADAC-STRATTEC Credit Facility	\$ 4,443	\$ 3,666	1.3%	1.2%

We believe that the credit facilities referenced above are adequate, along with existing cash balances and cash flow from operations, to meet our anticipated capital expenditure, working capital, dividend and operating expenditure requirements.

SAL LLC had a \$1.5 million revolving credit facility with BMO Harris Bank N.A. with a maturity date of February 16, 2016, which was fully guaranteed by STRATTEC. Interest on borrowings under the STRATTEC Advanced Logic Credit Facility (the "SAL Credit Facility") is at varying rates based, at SAL LLC's option, on LIBOR plus 1.0 percent or the bank's prime rate. Outstanding borrowings under the SAL Credit Facility as of February 16, 2016 and June 28, 2015 totaled \$1.5 million and \$995,000, respectively. SAL LLC did not have cash available to pay the outstanding debt balance as of the maturity date. Therefore, STRATTEC made a payment of \$1.5 million on its guarantee on February 16, 2016. Prior to making the guarantee payment, STRATTEC had a recorded liability related to the guarantee of \$1.5 million and \$995,000 at February 16, 2016 and June 28, 2015, respectively, which amounts were equal to the estimated fair value of the guarantee as of these dates. Effective November 1, 2014, a license agreement was signed with Westinghouse allowing SAL LLC to do business as Westinghouse Security. STRATTEC guaranteed payments under the Westinghouse agreement. As of July 3, 2016 and June 28, 2015, STRATTEC had recorded a liability related to the guarantee of \$250,000, which amount is equal to the amount of the future payments required under the Westinghouse agreement as of July 3, 2016 and June 28, 2015, and which amount is also equal to the estimated fair value of the guarantee as of these dates. See further discussion under Equity (Loss) Earnings of Joint Ventures included herein.

## COMMITMENTS AND CONTINGENCIES

We are from time to time subject to various legal actions and claims incidental to our business, including those arising out of alleged defects, alleged breaches of contracts, product warranties, intellectual property matters and employment related matters. It is our opinion that the outcome of such matters will not have a material adverse impact on the consolidated financial position, results of operations or cash flows of STRATTEC. With respect to warranty matters, although we cannot ensure that the future costs of warranty claims by customers will not be material, we believe our established reserves are adequate to cover potential warranty settlements.

We have a reserve for estimated costs to remediate an environmental contamination 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 initially established in 1995. Due to changing technology and related costs associated with active remediation of the site, in fiscal 2010 the reserve was adjusted based on updated third party estimates to adequately cover the cost for active remediation of the contamination. Additionally, in fiscal 2016, STRATTEC obtained updated third party estimates for adequately covering the cost of active remediation of this contamination. Based upon the updated estimates, no further adjustment to the reserve was required. From 1995 through July 3, 2016, costs of approximately \$509,000 have been incurred related to the installation of monitoring wells on the property and ongoing monitoring costs. We 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 or 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 at an amount to reflect the estimated cost of active remediation. The reserve is not measured on a discounted basis. We believe, based on findings-to-date and known environmental regulations, that the environmental reserve of \$1.4 million at July 3, 2016, is adequate.

## NOTES TO FINANCIAL STATEMENTS

At July 3, 2016, we had purchase commitments for the construction of a new ADAC-STRATTEC de Mexico manufacturing facility in Leon, Mexico, which is expected to be used primarily to paint and assemble door handle products, paint equipment to be installed and used at this new facility, zinc, other purchased parts and natural gas. We also had minimum rental commitments under non-cancelable operating leases with a term in excess of one year. The purchase and minimum rental commitments are payable as follows (thousands of dollars):

Fiscal Year	Purchase Commitments	Minimum Rental Commitments
2017	\$ 23,912	\$ 729
2018	\$ 11,162	\$ 520
2019	\$ 7,827	\$ 416
2020	\$ 3,036	\$ 174
2021	\$ —	\$ —

Rental expense under all non-cancelable operating leases was as follows (thousands of dollars):

Fiscal Year	Rental Expense
2016	\$ 691
2015	\$ 993
2014	\$ 849

### INCOME TAXES

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

	Years Ended		
	July 3, 2016	June 28, 2015	June 29, 2014
<b>Currently payable:</b>			
Federal	\$ 18	\$ 9,891	\$ 4,811
State	130	657	252
Foreign	1,893	2,164	2,164
	2,041	12,712	7,227
Deferred tax provision (benefit)	3,027	(3,330)	1,447
	<u>\$ 5,068</u>	<u>\$ 9,382</u>	<u>\$ 8,674</u>

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

	Years Ended		
	July 3, 2016	June 28, 2015	June 29, 2014
U.S. statutory rate	34.0%	34.7%	34.5%
State taxes, net of Federal tax benefit	1.3	0.7	1.0
Foreign subsidiaries	0.6	(1.3)	(0.9)
Non-controlling interest	(9.3)	(4.1)	(3.5)
Other	(0.2)	(2.4)	0.1
	<u>26.4%</u>	<u>27.6%</u>	<u>31.2%</u>

The components of deferred tax assets were as follows (thousands of dollars):

	July 3, 2016	June 28, 2015
<b>Deferred income taxes:</b>		
Unrecognized pension and postretirement benefit plan liabilities	\$ 14,579	\$ 11,125
Accrued warranty	1,376	3,250
Payroll-related accruals	2,108	2,314
Customer sales concession reserve	—	1,465
Stock-based compensation	1,258	928
Inventory reserve	873	722
Environmental reserve	505	512
Repair and maintenance supply parts reserve	259	229
Allowance for doubtful accounts	185	185
NOL/credit carry-forwards	145	105
Postretirement obligations	(227)	(63)
Accumulated depreciation	(6,135)	(5,253)
Accrued pension obligations	(13,197)	(12,594)
Joint Ventures	1,706	481
Other	1,952	1,554
	<u>\$ 5,387</u>	<u>\$ 4,960</u>

## NOTES TO FINANCIAL STATEMENTS

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.

State operating loss and credit carry-forwards at July 3, 2016 resulted in future benefits of approximately \$145,000 and expire in 2024. We believe that it is more likely than not that the results of future operations will generate sufficient taxable income and foreign source income to realize the deferred tax assets.

Foreign income before the provision for income taxes was \$6.0 million in 2016, \$5.9 million in 2015 and \$6.6 million in 2014. 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 July 3, 2016 were approximately \$33.2 million.

The total liability for unrecognized tax benefits was \$471,000 as of July 3, 2016 and \$460,000 as of June 28, 2015 and was included in Other Long-term Liabilities in the accompanying Consolidated Balance Sheets. This liability includes approximately \$441,000 of unrecognized tax benefits at July 3, 2016 and \$437,000 at June 28, 2015 and approximately \$30,000 of accrued interest at July 3, 2016 and \$23,000 at June 28, 2015. This 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 \$20,000 at July 3, 2016 and \$32,000 at June 28, 2015. 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 for the years ended July 3, 2016 and June 28, 2015 (thousands of dollars):

	Years Ended	
	July 3, 2016	June 28, 2015
Unrecognized tax benefits, beginning of year	\$ 437	\$ 1,289
Gross increases - tax positions in prior years	—	3
Gross decreases - tax positions in prior years	(3)	—
Gross increases - current period tax positions	71	146
Tax Years Closed	(64)	(1,001)
Unrecognized tax benefits, end of year	<u>\$ 441</u>	<u>\$ 437</u>

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. Tax years open to examination by tax authorities under the statute of limitations include fiscal 2013 through 2016 for Federal, fiscal 2010 through 2016 for most states and calendar 2011 through 2015 for foreign jurisdictions.

### RETIREMENT PLANS AND POSTRETIREMENT COSTS

We have a qualified, noncontributory defined benefit pension plan ("Qualified Pension Plan") covering substantially all U.S. associates. Benefits under the Qualified Pension Plan are based on years of service and final average compensation. Our policy is to fund for the Qualified Pension Plan 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. Effective December 31, 2009, an amendment to the Qualified Pension Plan discontinued the benefit accruals for salary increases and credited service rendered after that date. On April 2, 2014, our Board of Directors approved a resolution to terminate the Qualified Pension Plan. The termination of the Qualified Pension Plan is subject to the Internal Revenue Service's ("IRS") determination that the Qualified Pension Plan is qualified on termination. We believe it will take 18 to 24 months to finalize the complete termination of the Qualified Pension Plan after obtaining IRS approval. We have not yet received IRS approval that the qualified plan is qualified on termination. Additionally, we have amended the Qualified Pension Plan to provide that participants are 100 percent vested in their accrued benefits as of the effective date of the plan termination, to adopt a new standard for disability benefits that will apply when the plan's assets are distributed due to the termination, to add a lump sum distribution option for employees and terminated vested participants who are not in payment status when Qualified Pension Plan assets are distributed due to the termination and to make certain other conforming amendments to the Qualified Pension Plan to comply with applicable laws that may be required by the IRS or may be deemed necessary or advisable to improve the administration of the

Qualified Pension Plan or facilitate its termination and liquidation. We also intend to make contributions to the Trust Fund for the Qualified Pension Plan to ensure that there are sufficient assets to provide all Qualified Pension Plan benefits as of the anticipated distribution date. The financial impact of the plan termination will be recognized as a settlement of the Qualified Pension Plan liabilities. The settlement date and related financial impact have not yet been determined.

We have historically had in place a noncontributory supplemental executive retirement plan ("SERP"), which prior to January 1, 2014 was a nonqualified defined benefit plan that essentially mirrored the Qualified Pension Plan, but provided benefits in excess of certain limits placed on our Qualified Pension Plan by the Internal Revenue Code. As noted above, we froze our Qualified Pension Plan effective as of December 31, 2009 and the SERP provided benefits to participants as if the Qualified Pension Plan had not been frozen. Because the Qualified Pension Plan was frozen and because new employees were not eligible to participate in the Qualified Pension Plan, our Board of Directors adopted amendments to the SERP on October 8, 2013 that were effective as of December 31, 2013 to simplify the SERP calculation. The SERP is funded through a Rabbi Trust with BMO Harris Bank N.A. Under the amended SERP, participants received an accrued lump-sum benefit as of December 31, 2013 which was credited to each participant's account. Subsequent to December 31, 2013, each eligible participant receives a supplemental retirement benefit equal to the foregoing lump sum benefit, plus an annual benefit accrual equal to 8% of the participant's base salary and cash bonus, plus annual credited interest on the participant's account balance. All current participants are fully vested in their account balances with any new individuals participating in the SERP effective on or after January 1, 2014 being subject to a five year vesting period. The SERP, which is considered a defined benefit plan under applicable rules and regulations, will continue to be funded through use of a Rabbi Trust to hold investment assets to be used in part to fund any future required lump sum benefit payments to participants. The foregoing amendments to the SERP did not have a material effect on our financial statements. The Rabbi Trust assets had a value of \$2.3 million at both July 3, 2016 and June 28, 2015, and are included in Other Long-Term Assets in the accompanying Consolidated Balance Sheets. The projected benefit obligation under the amended SERP was \$1.8 million at July 3, 2016 and \$1.6 million at June 28, 2015, respectively. The SERP liabilities are included in the pension tables below. However, the Rabbi Trust assets are excluded from the tables 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 1, 2001. The expected cost of retiree health care benefits is recognized during the years the associates who are covered under the plan render service. Effective January 1, 2010, an amendment to the postretirement health care plan limited the benefit for future eligible retirees to \$4,000 per plan year and the benefit is further subject to a maximum five year coverage period based on the associate's retirement date and age. The postretirement health care plan is unfunded.

Amounts included in accumulated other comprehensive loss, net of tax, at July 3, 2016, which have not yet been recognized in net periodic benefit cost were as follows (thousands of dollars):

	Pension and SERP	Postretirement
Prior service cost (credit)	\$ 14	\$ (1,246)
Net actuarial loss	23,125	2,625
	<u>\$ 23,139</u>	<u>\$ 1,379</u>

Prior service cost (credit) and unrecognized net actuarial losses included in accumulated other comprehensive loss at July 3, 2016 which are expected to be recognized in net periodic benefit cost in fiscal 2017, net of tax, for the pension, SERP and postretirement plans are as follows (thousands of dollars):

	Pension and SERP	Postretirement
Prior service cost (credit)	\$ 7	\$ (481)
Net actuarial loss	2,033	339
	<u>\$ 2,040</u>	<u>\$ (142)</u>



NOTES TO FINANCIAL STATEMENTS

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.

	Pension and SERP Benefits			Postretirement Benefits		
	Years Ended			Years Ended		
	July 3, 2016	June 28, 2015	June 29, 2014	July 3, 2016	June 28, 2015	June 29, 2014
<b>COMPONENTS OF NET PERIODIC BENEFIT COST:</b>						
Service cost	\$ 50	\$ 64	\$ 217	\$ 12	\$ 14	\$ 15
Interest cost	4,387	4,173	4,407	87	114	157
Expected return on plan assets	(5,509)	(6,174)	(6,442)	—	—	—
Amortization of prior service cost (credit)	11	11	12	(764)	(764)	(764)
Amortization of unrecognized net loss	2,443	2,775	2,665	616	693	847
Net periodic benefit cost (credit)	<u>\$ 1,382</u>	<u>\$ 849</u>	<u>\$ 859</u>	<u>\$ (49)</u>	<u>\$ 57</u>	<u>\$ 255</u>

	Pension and SERP Benefits		Postretirement Benefits		
	2016	2015	2016	2015	
<b>WEIGHTED-AVERAGE ASSUMPTIONS:</b>					
Benefit Obligations:					
Discount rate		3.79%	4.53%	3.79%	4.53%
Rate of compensation increases - SERP		3.0%	3.0%	n/a	n/a
Net Periodic Benefit Cost:					
Discount rate		4.53%	4.39%	4.53%	4.39%
Expected return on plan assets		5.45%	6.5%	n/a	n/a
Rate of compensation increases - SERP		3.0%	3.0%	n/a	n/a

**CHANGE IN PROJECTED BENEFIT OBLIGATION:**

Benefit obligation at beginning of year	\$ 99,329	\$ 97,445	\$ 2,179	\$ 2,929
Service cost	50	64	12	14
Interest cost	4,387	4,173	87	114
Actuarial loss (gain)	6,783	2,118	(281)	(189)
Benefits paid	(4,397)	(4,471)	(395)	(689)
Benefit obligation at end of year	<u>\$106,152</u>	<u>\$ 99,329</u>	<u>\$ 1,602</u>	<u>\$ 2,179</u>

**CHANGE IN PLAN ASSETS:**

Fair value of plan assets at beginning of year	\$105,472	\$104,340	\$ —	\$ —
Actual return on plan assets	371	2,450	—	—
Employer contribution	3,014	3,153	395	689
Benefits paid	(4,397)	(4,471)	(395)	(689)
Fair value of plan assets at end of year	<u>\$104,460</u>	<u>\$105,472</u>	<u>\$ —</u>	<u>\$ —</u>
Funded status-(accrued) prepaid benefit obligations	<u>\$ (1,692)</u>	<u>\$ 6,143</u>	<u>\$ (1,602)</u>	<u>\$ (2,179)</u>

**AMOUNTS RECOGNIZED IN CONSOLIDATED BALANCE SHEETS:**

Other long-term assets	\$ 72	\$ 7,733	\$ —	\$ —
Accrued payroll and benefits (current liabilities)	(299)	(259)	(340)	(522)
Accrued benefit obligations (long-term liabilities)	(1,465)	(1,331)	(1,262)	(1,657)
Net amount recognized	<u>\$ (1,692)</u>	<u>\$ 6,143</u>	<u>\$ (1,602)</u>	<u>\$ (2,179)</u>

**CHANGES IN PLAN ASSETS AND BENEFIT OBLIGATIONS**

**RECOGNIZED IN OTHER COMPREHENSIVE INCOME:**

Net periodic benefit cost (credit)	\$ 1,382	\$ 849	\$ (49)	\$ 57
Net actuarial loss (gain)	11,921	5,843	(281)	(189)
Amortization of prior service (cost) credits	(11)	(11)	764	764
Amortization of unrecognized net loss	(2,443)	(2,775)	(616)	(693)
Total recognized in other comprehensive loss (income), before tax	<u>9,467</u>	<u>3,057</u>	<u>(133)</u>	<u>(118)</u>
Total recognized in net periodic benefit cost and other comprehensive loss (income), before tax	<u>\$ 10,849</u>	<u>\$ 3,906</u>	<u>\$ (182)</u>	<u>\$ (61)</u>



## NOTES TO FINANCIAL STATEMENTS

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	
	July 3, 2016	June 28, 2015	July 3, 2016	June 28, 2015
Accumulated benefit obligation	\$104,388	\$ 97,739	\$ 1,435	\$ 1,245
Projected benefit obligation	\$104,388	\$ 97,739	\$ 1,764	\$ 1,590

For measurement purposes as it pertains to the estimated obligation associated with retirees prior to January 1, 2012, a 7 percent annual rate increase in the per capita cost of covered health care benefits was assumed for fiscal 2017; the rate was assumed to decrease gradually to 5 percent by the year 2022 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 2016	\$ 1	\$ (1)
Effect on postretirement benefit obligation as of July 3, 2016	\$ 13	\$ (12)

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 primarily 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, but had a small allocation to hedge funds in 2015. 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 were as follows for 2016 and 2015:

	Target Allocation	July 3, 2016	June 28, 2015
Equity investments	35%	38%	35%
Fixed-income investments	30	27	26
Cash	35	35	39
Total	100%	100%	100%

The following is a summary, by asset category, of the fair value of pension plan assets at the June 30, 2016 and June 30, 2015 measurement dates (thousands of dollars):

Asset Category	June 30, 2016				June 30, 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ —	\$36,706	\$ —	\$ 36,706	\$ —	\$41,241	\$ —	\$ 41,241
Equity Securities/Funds:								
Small Cap	1,714	—	—	1,714	—	—	—	—
Mid Cap	12,341	—	—	12,341	10,766	—	—	10,766
Large Cap	18,678	—	—	18,678	17,965	—	—	17,965
International	7,132	—	—	7,132	8,483	—	—	8,483
Fixed Income Bond Funds/Bonds	4,837	23,052	—	27,889	5,041	21,925	—	26,966
Hedge Funds	—	—	—	—	—	—	51	51
Total	\$44,702	\$59,758	\$ —	\$104,460	\$42,255	\$63,166	\$ 51	\$105,472

The following table summarizes the changes in Level 3 investments for the pension plan assets during the measurement year ended June 30, 2016 (thousands of dollars):

	Fair Value June 28, 2015	Net Purchases and Sales	Realized and Unrealized Gain, net	Fair Value July 3, 2016
Hedge Funds	\$ 51	\$ (51)	\$ —	\$ —

There were no transfers in or out of Level 3 investments during the year ended June 30, 2016.

The expected long-term rate of return on U.S. pension plan assets used to calculate net periodic benefit cost was 5.45 percent for 2017 and 2016. The target asset allocation is 35 percent public equity and 65 percent fixed income/cash. The 5.45 percent is approximated by applying returns of 10 percent on public equity and 3 percent on fixed income to the target allocation. The actual historical returns are also relevant. Annualized returns for periods ended June 30, 2016 were 4.29 percent for 5 years, 4.2 percent for 10 years, 4.33 percent for 15 years, 5.33 percent for 20 years, 6.07 percent for 25 years and 6.61 percent for 30 years.

We expect to contribute approximately \$5 million to our qualified pension plan, \$299,000 to our SERP and \$340,000 to our postretirement health care plan in fiscal 2017. The following benefit payments, which reflect expected future service, as

appropriate, are expected to be paid during the fiscal years noted below (thousands of dollars):

	Pension and SERP Benefits	Postretirement Benefits
2017	\$ 5,181	\$ 340
2018	\$ 5,185	\$ 299
2019	\$ 5,462	\$ 240
2020	\$ 5,802	\$ 176
2021	\$ 6,363	\$ 151
2022-2026	\$ 30,667	\$ 398

## NOTES TO FINANCIAL STATEMENTS

All U.S. associates may participate in our 401(k) Plan. We contribute 100 percent up to the first 5 percent of eligible compensation that a participant contributes to the plan. Our contributions to the 401(k) Plan were as follows (thousands of dollars):

	Years Ended		
	July 3, 2016	June 28, 2015	June 29, 2014
Company Contributions	\$ 1,783	\$ 1,729	\$ 1,605

### SHAREHOLDERS' EQUITY

We have 12,000,000 shares of authorized common stock, par value \$.01 per share, with 3,565,857 and 3,526,700 shares outstanding at July 3, 2016 and June 28, 2015, 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 of our common stock as of July 3, 2016. As of July 3, 2016, 3,655,322 shares have been repurchased under this program at a cost of approximately \$136.4 million. No shares were repurchased under this program during 2016 or 2015.

### 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 potential dilutive common shares outstanding during the period using the treasury stock method. Potential dilutive common shares include outstanding stock options and unvested restricted stock awards. A reconciliation of the components of the basic and diluted per share computations follows (in thousands, except per share amounts):

	Years Ended		
	July 3, 2016	June 28, 2015	June 29, 2014
Net Income Attributable to STRATTEC	\$ 9,149	\$ 20,654	\$ 16,424
Less: Income Attributable to Participating Securities	58	258	296
Net Income Attributable to Common Shareholders	\$ 9,091	\$ 20,396	\$ 16,128
Weighted Average Shares of Common Stock			
Outstanding	3,559	3,515	3,428
Incremental Shares – Stock based Compensation	62	89	85
Diluted Weighted Average Shares of Common Stock Outstanding	3,621	3,604	3,513
Basic Earnings Per Share	\$ 2.55	\$ 5.80	\$ 4.70
Diluted Earnings Per Share	\$ 2.51	\$ 5.66	\$ 4.59

We consider unvested restricted stock that provides the holder with a non-forfeitable right to receive dividends to be a participating security.

Options to purchase shares of common stock that were excluded from the calculation of diluted earnings per share because their inclusion would have been antidilutive were as follows:

Years Ended	Number of Options Excluded
July 3, 2016	9,010
June 28, 2015	10,000
June 29, 2014	—

### STOCK OPTION AND PURCHASE PLANS

A summary of stock option activity under our stock incentive plan was as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Balance at June 30, 2013	271,455	\$ 27.19		
Granted	40,000	\$ 38.71		
Exercised	(92,256)	\$ 29.08		
Expired	(22,500)	\$ 58.33		
Terminated	(11,457)	\$ 30.61		
Balance at June 29, 2014	185,242	\$ 24.73		
Granted	10,000	\$ 79.73		
Exercised	(22,746)	\$ 20.83		
Terminated	(8,589)	\$ 37.43		
Balance at June 28, 2015	163,907	\$ 27.97		
Exercised	(16,909)	\$ 21.55		
Terminated	(2,000)	\$ 17.59		
Balance at July 3, 2016	144,998	\$ 28.86	5.4	\$ 2,290

Exercisable as of:					
July 3, 2016	103,798	\$ 21.39	4.6	\$	2,174
June 28, 2015	91,103	\$ 19.86	4.1	\$	4,592
June 29, 2014	76,699	\$ 16.91	4.3	\$	3,769

## NOTES TO FINANCIAL STATEMENTS

Options granted at a price greater than the market value on the date of grant included in the table above were as follows:

	2015	2014
Shares	10,000	40,000
Exercise Price	\$ 79.73	\$ 38.71

A summary of restricted stock activity under our stock incentive plan was as follows:

	Shares	Weighted Average Grant Date Fair Value
Nonvested Balance at June 30, 2013	61,250	\$ 22.42
Granted	24,950	\$ 37.29
Vested	(19,350)	\$ 20.40
Forfeited	(3,250)	\$ 27.88
Nonvested Balance at June 29, 2014	63,600	\$ 28.64
Granted	25,000	\$ 70.90
Vested	(18,100)	\$ 23.02
Forfeited	(4,150)	\$ 45.71
Nonvested Balance at June 28, 2015	66,350	\$ 45.03
Granted	28,750	\$ 69.02
Vested	(20,300)	\$ 23.69
Forfeited	(3,050)	\$ 59.92
Nonvested Balance at July 3, 2016	71,750	\$ 60.05

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 or if such date is not a trading day on the most recent previous trading day, participant account balances are used to purchase shares of our common 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 1,948 at an average price of \$55.77 during 2016, 1,038 at an average price of \$76.06 during 2015 and 1,181 at an average price of \$49.53 during 2014. A total of 67,184 shares remain available for purchase under the plan as of July 3, 2016.

### EXPORT SALES

Total export sales, sales from the United States to locations outside of the United States, are summarized as follows (thousands of dollars and percent of total net sales):

	Years Ended					
	July 3, 2016		June 28, 2015		June 29, 2014	
	Net Sales	%	Net Sales	%	Net Sales	%
Export Sales	\$152,728	38%	\$141,584	34%	\$119,099	34%

Countries for which customer sales account for ten percent or more of total net sales are summarized as follows (thousands of dollars and percent of total net sales):

	Years Ended					
	July 3, 2016		June 28, 2015		June 29, 2014	
	Net Sales	%	Net Sales	%	Net Sales	%
Export Sales into Canada	\$74,310	19%	\$60,987	15%	\$76,736	22%

### PRODUCT SALES

Sales by product group were as follows (thousands of dollars and percent of total net sales):

	Years Ended					
	July 3, 2016		June 28, 2015		June 29, 2014	
	Net Sales	%	Net Sales	%	Net Sales	%
Keys & Locksets	\$113,765	28%	\$114,287	28%	\$115,379	33%
Power Access	83,747	21	68,078	16	60,141	17
Door Handles & Exterior Trim	61,376	15	60,864	15	48,034	14
Driver Controls	55,955	14	57,894	14	53,729	16
Aftermarket & OE Service	48,200	12	78,717	19	49,586	14
Latches	28,023	7	24,320	6	14,664	4
Other	10,353	3	7,315	2	6,886	2
	<u>\$401,419</u>	<u>100%</u>	<u>\$411,475</u>	<u>100%</u>	<u>\$348,419</u>	<u>100%</u>

### SALES AND RECEIVABLE CONCENTRATION

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

Years Ended

	July 3, 2016		June 28, 2015		June 29, 2014	
	Net Sales	%	Net Sales	%	Net Sales	%
Fiat Chrysler Automobiles	\$115,858	29%	\$116,914	28%	\$117,502	34%
General Motors Company	79,893	20%	105,809	26%	79,526	23%
Ford Motor Company	57,317	14%	45,415	11%	46,619	13%
	<u>\$253,068</u>	63%	<u>\$268,138</u>	65%	<u>\$243,647</u>	70%

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

	July 3, 2016		June 28, 2015	
	Receivables	%	Receivables	%
Fiat Chrysler Automobiles	\$ 18,103	28%	\$ 17,060	29%
General Motors Company	13,090	21%	8,751	15%
Ford Motor Company	6,863	11%	7,340	12%
	<u>\$ 38,056</u>	60%	<u>\$ 33,151</u>	56%

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## REPORTS

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### 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.

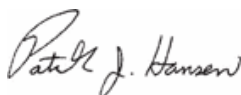
We, as management of STRATTEC SECURITY CORPORATION, are responsible for establishing and maintaining effective internal control over financial reporting that is designed to produce reliable financial statements in conformity with United States generally accepted accounting principles. The system of internal 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. Deloitte & Touche 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 July 3, 2016, in relation to criteria for effective internal control over financial reporting as described in *Internal Control—Integrated Framework (2013)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the assessment, management concluded that, as of July 3, 2016, its system of internal control over financial reporting was effective and met the criteria of the *Internal Control—Integrated Framework*. Deloitte & Touche LLP, independent registered public accounting firm, has issued an attestation report on the Corporation's internal control over financial reporting, which is included herein.



Frank J. Krejci  
President and  
Chief Executive Officer



Patrick J. Hansen  
Senior Vice President and  
Chief Financial Officer

## REPORTS

### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of STRATTEC SECURITY CORPORATION:

We have audited the internal control over financial reporting of STRATTEC SECURITY CORPORATION and subsidiaries (the "Company") as of July 3, 2016, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. 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 by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel 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 the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the 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 July 3, 2016, based on the criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended July 3, 2016 of the Company and our report dated September 8, 2016 expressed an unqualified opinion on those consolidated financial statements.

*Deloitte & Touche LLP*

Deloitte & Touche LLP  
Milwaukee, Wisconsin  
September 8, 2016



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## REPORTS

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### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of STRATTEC SECURITY CORPORATION:

We have audited the accompanying consolidated balance sheets of STRATTEC SECURITY CORPORATION and subsidiaries (the “Company”) as of July 3, 2016 and June 28, 2015, and the related consolidated statements of income and comprehensive income (loss), shareholders’ equity, and cash flows for each of the three years in the period ended July 3, 2016. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated 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 consolidated 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, such consolidated financial statements present fairly, in all material respects, the financial position of STRATTEC SECURITY CORPORATION and subsidiaries as of July 3, 2016 and June 28, 2015, and the results of their operations and their cash flows for the three years in the period ended July 3, 2016, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of July 3, 2016, based on the criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated September 8, 2016 expressed an unqualified opinion on the Company’s internal control over financial reporting.

*Deloitte & Touche LLP*

Deloitte & Touche LLP  
Milwaukee, Wisconsin  
September 8, 2016

## 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 Mexican subsidiary and its majority owned subsidiaries. Fiscal years 2012 through 2015 have been retrospectively adjusted for the adoption of an update to an accounting standard issued by the FASB which simplifies the presentation of deferred taxes in a classified statement of financial position by requiring that deferred tax assets and liabilities be classified as non-current. 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				
	2016	2015	2014	2013	2012
<b>INCOME STATEMENT DATA</b>					
Net sales	\$401,419	\$411,475	\$348,419	\$298,179	\$279,234
Gross profit	64,825	72,660	65,798	53,866	50,263
Engineering, selling, and administrative expenses	43,917	41,534	39,274	34,934	33,920
Loss on settlement of pension obligation	—	—	—	2,144	—
Income from operations	20,908	31,126	26,524	16,788	16,343
Interest income	25	185	106	21	69
Equity (loss) earnings of joint ventures	(2,235)	(788)	957	(225)	(1,071)
Interest expense	(176)	(71)	(45)	(34)	(81)
Other income, net	668	3,481	272	329	582
Income before taxes and non-controlling interest	19,190	33,933	27,814	16,879	15,842
Provision for income taxes	5,068	9,382	8,674	5,366	3,589
Net income	14,122	24,551	19,140	11,513	12,253
Net income attributable to non-controlling interest	4,973	3,897	2,716	2,138	3,460
Net income attributable to STRATTEC SECURITY CORPORATION	\$ 9,149	\$ 20,654	\$ 16,424	\$ 9,375	\$ 8,793
<b>Earnings per share attributable to STRATTEC SECURITY CORPORATION:</b>					
Basic	\$ 2.55	\$ 5.80	\$ 4.70	\$ 2.77	\$ 2.66
Diluted	\$ 2.51	\$ 5.66	\$ 4.59	\$ 2.72	\$ 2.64
Cash dividends declared per share	\$ 0.52	\$ 0.48	\$ 0.44	\$ 0.40	\$ 0.40
<b>BALANCE SHEET DATA</b>					
Net working capital	\$ 70,236	\$ 63,871	\$ 64,705	\$ 51,507	\$ 39,099
Total assets	\$242,176	\$230,834	\$207,909	\$168,491	\$166,038
Long-term liabilities	\$ 23,449	\$ 13,698	\$ 7,743	\$ 5,886	\$ 21,667
Total STRATTEC SECURITY CORPORATION Shareholders' equity	\$139,332	\$140,312	\$125,506	\$104,218	\$ 80,552

## FINANCIAL SUMMARY

### QUARTERLY FINANCIAL DATA (UNAUDITED)

The following data are in thousands of dollars except per share amounts.

	Quarter	Net Sales	Gross Profit	Net Income Attributable to STRATTEC	Earnings Per Share		Cash Dividends Declared Per Share	Market Price Per Share	
					Basic	Diluted		High	Low
2016	First	\$ 96,513	\$ 16,499	\$ 3,273	\$0.92	\$0.90	\$ 0.13	\$ 78.79	\$60.19
	Second	102,511	18,610	3,403	0.95	0.93	0.13	\$ 71.61	\$55.17
	Third	94,048	14,521	1,889	0.53	0.52	0.13	\$ 60.00	\$44.62
	Fourth <sup>(1)</sup>	108,347	15,195	584	0.16	0.16	0.13	\$ 60.38	\$39.38
	<b>TOTAL</b>	<b>\$401,419</b>	<b>\$ 64,825</b>	<b>\$ 9,149</b>	<b>\$2.55</b>	<b>\$2.51</b>	<b>\$ 0.52</b>		
2015	First	\$122,242	\$ 28,057	\$ 9,300	\$2.63	\$2.55	\$ 0.12	\$ 89.87	\$60.45
	Second	101,990	18,452	5,778	1.62	1.58	0.12	\$110.96	\$72.13
	Third	88,817	15,751	4,376	1.23	1.20	0.12	\$ 86.98	\$60.29
	Fourth <sup>(2)</sup>	98,426	10,400	1,200	0.34	0.33	0.12	\$ 89.89	\$60.11
	<b>TOTAL</b>	<b>\$411,475</b>	<b>\$ 72,660</b>	<b>\$ 20,654</b>	<b>\$5.80</b>	<b>\$5.66</b>	<b>\$ 0.48</b>		

<sup>(1)</sup> Our 2016 fiscal fourth quarter was impacted by approximately \$2.0 million of equity loss of joint ventures resulting from a \$6 million impairment charge recognized by VAST LLC related to its Minda-VAST Access Systems joint venture in India. STRATTEC's portion of this impairment charge totaled \$2 million.

<sup>(2)</sup> Our 2015 fiscal fourth quarter was impacted by approximately \$8.5 million of customer warranty provisions for expected warranty payments to be settled in future periods. Also impacting our 2015 fiscal fourth quarter was an equity loss from our investment in our SAL LLC joint venture of \$1.1 million. Notwithstanding the existence of the SAL Credit Facility described herein, as a result of STRATTEC's guarantee of such credit facility and as a result of borrowing limitations imposed by the bank under such credit facility, even though we maintain a 51 percent ownership interest in SAL LLC, effective with our fiscal 2015 fourth quarter, 100 percent of the funding for SAL LLC was being made through loans from STRATTEC to SAL LLC in addition to the credit facility guarantee. Therefore, STRATTEC began recognizing 100 percent of the losses of SAL LLC up to our committed financial support in our Consolidated Statements of Income and Comprehensive Income beginning with our 2015 fiscal fourth quarter. In addition, the following losses are included in our 2015 fiscal fourth quarter equity loss of joint ventures for SAL LLC (thousands of dollars):

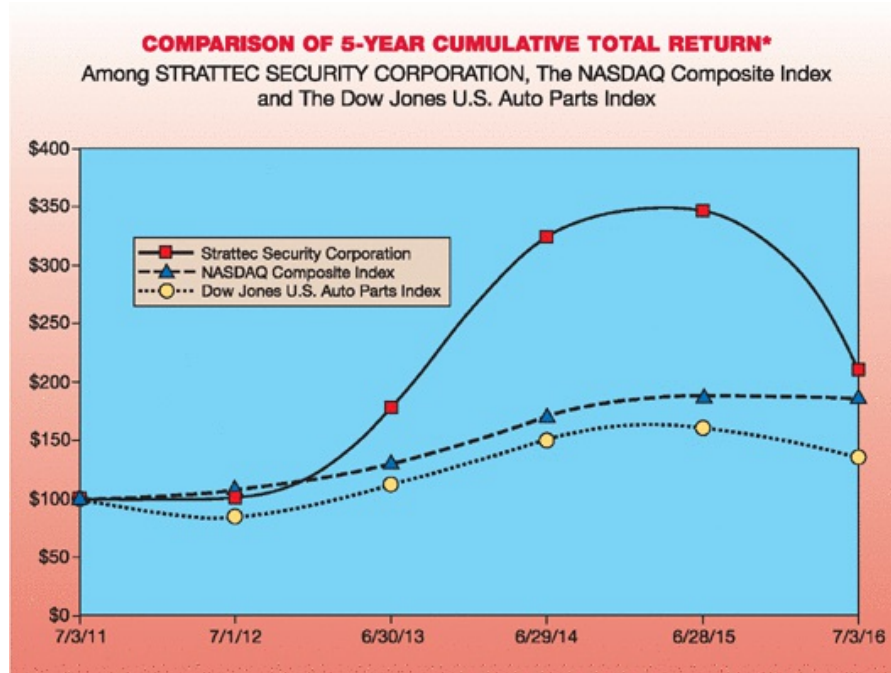
Loss on Guarantee of SAL LLC Vendor Contract	\$123
Loss on Loan to SAL LLC	\$100
Loss on Guarantee of SAL LLC Credit Facility	\$121

Registered shareholders of record at July 3, 2016, were 1,285.



**PERFORMANCE GRAPH**

The chart below shows a comparison of the cumulative return since July 3, 2011 had \$100 been invested at the close of business on July 3, 2011 in STRATTEC Common Stock, the NASDAQ Composite Index (all issuers), and the Dow Jones U.S. Auto Parts Index.



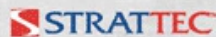
	7/3/11	7/1/12	6/30/13	6/29/14	6/28/15	7/3/16
STRATTEC Security Corporation**	100.00	101.36	183.13	326.57	349.44	212.50
NASDAQ Composite Index	100.00	108.58	128.19	169.08	192.10	187.57
Dow Jones U.S. Auto Parts Index	100.00	77.15	110.67	150.43	162.17	141.30

\* \$100 invested on 7/3/11 in stock or in index, including reinvestment of dividends. Indexes calculated on a month-end basis.  
 \*\* The Friday fiscal year end closing price of STRATTEC Common Stock on July 1, 2011 was \$21.13, the closing price on June 29, 2012 was \$21.04, the closing price on June 28, 2013 was \$37.36, the closing price on June 27, 2014 was \$66.06, the closing price on June 26, 2015 was \$70.26 and the closing price on July 1, 2016 was \$42.33.

## DIRECTORS / OFFICERS SHAREHOLDERS' INFORMATION

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*STRATTEC Board of Directors: (Left to Right)  
Frank J. Krejci, Thomas W. Florsheim, Jr., Michael J.  
Koss, David R. Zimmer, Harold M. Stratton II*



### BOARD OF DIRECTORS

**Harold M. Stratton II, 68**  
Chairman of the Board

**Frank J. Krejci, 66**  
President and Chief Executive Officer

**Thomas W. Florsheim, Jr., 58**  
Chairman and Chief Executive Officer of  
Weyco Group, Inc.  
Director of Weyco Group, Inc.

**Michael J. Koss, 62**  
Chairman, President and  
Chief Executive Officer of Koss Corporation  
Director of Koss Corporation

**David R. Zimmer, 70**  
Retired Managing Partner of  
Stonebridge Business Partners

### CORPORATE OFFICERS

**Frank J. Krejci, 66**  
**Patrick J. Hansen, 57**  
Senior Vice President-Chief Financial Officer,  
Treasurer and Secretary

**Rolando J. Guillot, 48**  
Vice President-Mexican Operations

**Brian J. Reetz, 58**  
Vice President-Security Products

**Richard P. Messina, 50**  
Vice President-Global Sales and  
Access Products

### SHAREHOLDERS' INFORMATION

#### Annual Meeting

The Annual Meeting of Shareholders will convene at 8:00 a.m. (CDT) on October 11, 2016, 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 West 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 website 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  
1110 Centre Pointe Curve  
Suite 101  
Mendota Heights, MN 55120-4100  
1-800-468-9716



*STRATTEC Corporate Officers: (Left to Right)  
Richard P. Messina, Patrick J. Hansen, Frank J. Krejci,  
Brian J. Reetz, Rolando J. Guillot*

2016 STRATTEC ANNUAL REPORT





# Strattec expanding in Mexico

Industry shift across border prompts move



Strattec Security  
move that is part of an autom  
shift of lower-profit production of  
small cars to Mexico, has broken  
ground on a new \$22 million factory  
in Leon, Mexico. Higher profit sport  
utility vehicles and pickup trucks will  
continue to be produced in the  
United States.

Strattec has had a presence in  
northern Mexico along the U.S. border  
for decades and will be expanding in  
the same industry in central  
Mexico where O... in central

**STRATTEC**

STRATTEC SECURITY CORPORATION

HEADQUARTERS: 3333 WEST GOOD HOPE ROAD, MILWAUKEE, WI 53209

PHONE 414.247.3333

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

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement Nos. 333-103219, 333-31002, 333-45221, 333-4300, 333-140715 and 333-199906 on Form S-8 of our reports dated September 8, 2016, relating to the consolidated financial statements of STRATTEC SECURITY CORPORATION, and the effectiveness of STRATTEC SECURITY CORPORATION's internal control over financial reporting, appearing in this Annual Report on Form 10-K of STRATTEC SECURITY CORPORATION for the year ended July 3, 2016.

/s/ Deloitte & Touche LLP

Milwaukee, Wisconsin  
September 8, 2016

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

I, Frank J. Krejci, 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: September 8, 2016

/s/ Frank J. Krejci

Frank J. Krejci

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: September 8, 2016

/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 July 3, 2016 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: September 8, 2016

/s/ Frank J. Krejci  
Frank J. Krejci,  
Chief Executive Officer

Dated: September 8, 2016

/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.

