

**DRIVING FORWARD INTO
THE 21st CENTURY**

STRATTEC has been a part of the auto industry since 1915, when we produced our first ignition lock. Through all the succeeding decades, our product enhancements and innovations have kept pace with the development of the American automobile. Now it's a whole new century for the industry; the pace of development is accelerating. And STRATTEC is moving forward with new technologies, new partnerships, and exciting new global markets that promise a bright road ahead.

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STRATTEC SECURITY CORPORATION

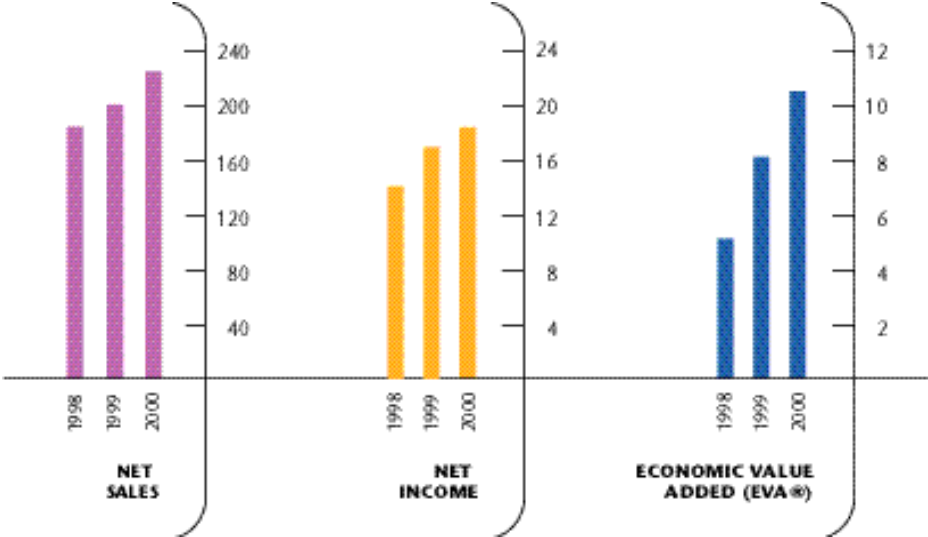
STRATTEC SECURITY CORPORATION designs, develops, manufactures and markets mechanical locks, electro-mechanical locks and related access control products for major automotive manufacturers. Our products are shipped to customer locations in the United States, Canada, Mexico, Europe and South America, and we provide full service and aftermarket support. We also supply products for the heavy truck, recreational vehicle, marine and industrial markets, as well as precision die castings for the transportation, security and recreational products industries.



(In Millions)

| | 2000 | 1999 | 1998 |
|------------------------|---------|---------|---------|
| Net Sales | \$224.8 | \$202.6 | \$186.8 |
| Gross Profit | 49.5 | 46.8 | 39.9 |
| Income from Operations | 29.2 | 26.6 | 21.0 |
| Net Income | 18.5 | 17.0 | 13.5 |
| Total Assets | 109.0 | 128.2 | 108.0 |
| Total Debt | - | - | - |
| Shareholders' Equity | 60.4 | 82.3 | 70.4 |

(In Millions)



ECONOMIC VALUE ADDED (EVA®)

All U.S. associates and many of our Mexico-based salaried associates participate in incentive plans that are based upon our ability to add economic value to the enterprise. During 2000, \$10.6 million of positive economic value was generated, an increase of \$2.5 million compared to 1999. We continue to believe that EVA® represents STRATTEC's ultimate measure of success and shareholder value.

| | |
|---|----------------|
| Net Operating Profit After Cash-Based Taxes | \$18.0 |
| Average Net Capital Employed | \$61.9 |
| Capital Cost | <u>12%</u> |
| | <u>7.4</u> |
| Economic Value Added | <u>\$ 10.6</u> |

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



Fellow Shareholders:

February 27, 2000 marked the 5th anniversary of our becoming an independent entity. It has been an interesting and exciting 5 1/2 years. In addition to the significant changes that have occurred within our company since that event, the industry in which we operate has undergone tremendous changes. Rapidly changing technology and economic forces have conspired to change the face of the automotive industry and the way it does business. This, too, has had its effect on our company, as well it should. To date, we have thrived in this dynamic climate of challenge and change, and we are in a strong position to continue to evolve successfully as we enter the 21st Century.

The numbers reflected in our Financial Highlights and Financial Statements show another record year in sales, profits and EVA for our shareholders. In fact, fiscal 2000 set a number of daily, weekly and monthly records for us in both quantity shipped and sales numbers. While some of the credit for these new records can be attributed to higher value mechanical and electro-mechanical content in our lock products, there is no doubt that we benefited from a very robust U.S. economy, and an extremely strong vehicle build.

Net sales were \$224.8 million, an increase of 11 percent over fiscal 1999. In addition to product content, mix and volume, our sales numbers benefited from an extra shipping week in fiscal 2000 compared to fiscal 1999. Net income rose to \$18.5 million compared to fiscal 1999's \$17 million. An inhibitor to income rising at a comparable rate to the sales figures was the very same activity that set records for both our customers and us. At times during the year, that activity level strained our available capacity, thus reducing the potential gains of scale. Nonetheless, our solid earnings, combined with our stock buy back program, allowed us to deliver diluted earnings per share of \$3.65 compared to \$2.94 for the prior year, an increase of 28 percent. And, we created \$10.6 million of economic value in excess of our cost of capital. This represents a \$2.5 million improvement over our previous fiscal year's positive EVA!

During the fiscal year, we internally financed a number of activities intended to put us in a good position for the coming years. This includes significant rearrangement and enhancement of our production facilities and other initiatives within our operations to drive greater efficiency, flexibility and quality. In addition, we aggressively pursued our stock buy back program, purchasing 1,292,710 shares of company stock during the fiscal year at a cost of \$44.2 million. Even with these expenditures, our balance sheet remains conservatively strong, with a good cash position to continue pursuing our strategic initiatives.

In November, 1999 Mr. Donald Klick joined us as Vice President of Business Operations and an officer of the company with responsibility for our customer-focused teams. This completes the management realignment we began last fiscal year.

Last October, we announced an alliance with WitTE-Velbert GmbH, a German manufacturer of vehicle access-control products, including locks and keys. This alliance provides us an opportunity to simultaneously pursue our two main strategic opportunities – globalization and technology advancement in vehicle access control. These are both subjects we have covered before in our previous reports to shareholders.

Our alliance with WitTE (pronounced VIT-uh) is structured with two main elements. The first is a cross-licensing arrangement which allows us to manufacture, market and sell WitTE products in North America, and allows WitTE to do the same thing with STRATTEC products in Europe. The second element is a joint venture company ("JV"), owned 50-50 by STRATTEC and WitTE. This JV, called WitTE-STRATTEC LLC, has two purposes. The first is to be the entity through which both WitTE and



STRATTEC make investments in markets outside Europe and North America, thereby sharing in the risk and reward of such investments. Second, STRATTEC and WITTE will combine their product development resources to maximize the efficiency and speed of our new product development. Any intellectual property which results from this combined development will become the property of the JV, and available for both companies to use.

For STRATTEC, the Alliance has several significant benefits. First, we can immediately expand the portfolio of access control products we offer our North American customers. In addition to our traditional lock products, these include WITTE's technology in hood latches, door latches, rear compartment latches, door handles, and seat-back latches. Second, it provides us immediate access to European customers, both affiliates of our existing customers, and new customers whom we have not been able to adequately service in the past. Third, it puts us in a position to be seriously considered by our customers as a potential supplier for their "global" programs.

Additionally, WITTE's expertise in latches nicely dovetails with our own internal efforts to expand our product line into electro-mechanical devices that are uniquely suited to electronic access control systems. Our Advance Development Group has created a latch mechanism that works at electronic speeds, thus making it possible for truly seamless and transparent operation to the user. We believe this latch gives us a distinct competitive advantage which WITTE's expertise and experience will help us to pursue.

We are pleased to report that the response to the Alliance by both STRATTEC and WITTE customers has been very positive and encouraging.

Even as we prepare for a future which includes more diverse access control products with electrical/electronic content, we continue to see significant usage of our locks and key products well into the next decade. This usage includes more highly-styled, unique and electronically enhanced keys. As automotive manufacturers strive for greater brand identity and customer satisfaction, they are recognizing that keys provide a primary interface between vehicle and driver, and therefore are an important part of the overall perception of that vehicle. We believe this is an opportunity we are well positioned to capture.

With the successful execution of our strategies before us, we look forward to additional exciting progress in our business. We are transitioning into another millennium, and another iteration of STRATTEC. We thank you for your past support, and look forward to your continued support and participation in our future.

Sincerely,

A handwritten signature in black ink, appearing to read "Harold M. Stratton II".

Harold M. Stratton II
Chairman and Chief Executive Officer

A handwritten signature in black ink, appearing to read "John G. Cahill".

John G. Cahill
President and Chief Operating Officer

August, 2000



BASIC BUSINESS

STRATTEC SECURITY CORPORATION designs, develops, manufactures and markets mechanical locks, electro-mechanical locks, latches and related access control products for major North American automotive manufacturers. We also supply these products for the heavy truck, recreational vehicle, marine and industrial markets. Through our alliance partner, WITTE-Velbert GmbH in Germany, both companies' access control products are manufactured and marketed globally. We also provide full service and aftermarket support.



HISTORY

STRATTEC formerly was a division of Briggs & Stratton Corporation. On February 27, 1995, STRATTEC was spun off from Briggs & Stratton through a tax-free distribution to the then-existing Briggs shareholders. STRATTEC received substantially all of the assets and liabilities related to the lock and key business owned by Briggs & Stratton.

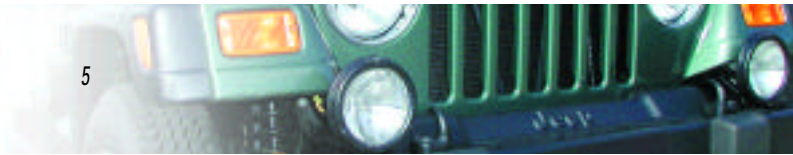
Starting as a division of Briggs & Stratton, and continuing today as a totally separate and independent company, we have a history in the automotive lock manufacturing business spanning over 85 years. We have also been in the zinc die-casting business for more than 75 years. STRATTEC has been the world's largest producer of automotive locks and keys since the late 1920s, and we currently maintain a dominant share of the North American markets for these products.



PRODUCTS

Our principal products are locks and keys for cars and trucks. A typical automobile contains a set of five locks: a steering column/ignition lock, a glove box lock, two front door locks and a deck lid (trunk) lock. Pickup trucks typically use three to four locks, while sport utility vehicles and vans use five to seven locks. Some vehicles have additional locks for under-floor compartments or folding rear seat latches. T-top locks, spare tire locks, burglar alarm locks and door locks with illuminated faces also are offered as options. Usually two keys are provided with each





vehicle lockset. Additional products include zinc die cast steering column lock housings, and an electronic Vehicle Access Control System (VACS).

VACS is a passive security system for commercial delivery vehicles, and is an example of our ability to effectively integrate mechanical and electronic components such as Radio Frequency Identification (RFID) and Hall Effect sensors.

Through our alliance with WITTE-Velbert in Germany, we are expanding our automotive access control product offerings to include hood latches, trunk or liftgate latches, door latches, door handles, and modules that contain some or all of these components.

MARKETS

We are a direct supplier to OEM auto and light truck manufacturers, over-the-road heavy truck manufacturers, and recreational vehicle manufacturers, as well as other transportation-related manufacturers. For the 2000 model year, we enjoyed a 65% market share in the North American automotive industry, supplying locks and keys for approximately 86% of General Motors' production, 66% of Ford's, 98% of DaimlerChrysler's and 89% of Mitsubishi's production. We also are an OEM components supplier to a wide array of smaller industrial manufacturers.

Direct sales to various OEMs represent approximately 84% of our total sales. The remainder of the company's revenue is received primarily through sales to the OEM service channels, and the locksmith aftermarket.

Sales to our major automotive customers are coordinated through our direct sales personnel located in our Detroit-area office. Sales also are partially facilitated through daily interaction between our application engineers located in Detroit and customer engineering departments. Sales to other OEM customers are accomplished through a combination of our own sales personnel and manufacturer representative agencies.

STRATTEC's products are supported by an extensive staff of experienced lock engineers. This staff, which includes product design, quality and manufacturing engineers, is capable of providing complete design, development and testing services of new products for our customers. This staff also is available for customer problem solving, warranty analysis and other activities that arise during a product's life cycle. Our customers receive after-sales support in the form of special field service kits, service manuals, and specific in-plant production repair programs.





The majority of our OEM products are sold in North America. However, our dominance in the North American market translates into a world market share of around 20%, making STRATTEC the largest producer of automotive locks and keys in the world. While a modest amount of exporting is done to automotive assembly plants in Europe and South America, we are in the process of expanding our presence in these markets and elsewhere through our alliance with WITTE-Velbert GmbH.

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 75 authorized wholesale distributors, as well as other marketers and users of component parts, including export customers. These aftermarket activities are serviced through a warehousing operation integral to our Milwaukee headquarters and manufacturing facility.

CUSTOMER FOCUS

Since the majority of the company's sales are to the "Big Three" North American automotive manufacturers, STRATTEC is organized to assure that our activities are focused on these major customers and their associated entities. We have customer-focused teams for General Motors and Delphi Automotive Systems, for Ford, and for DaimlerChrysler/Mitsubishi.

A fourth team deals with programs associated with our alliance partner, WITTE-Velbert, while a fifth team handles our industrial and service customers, including such heavy truck manufacturers as Peterbilt, Kenworth, Mack, Freightliner, Navistar, and Volvo.

Each of the five teams possesses all of the necessary disciplines required

to meet their customers' needs. Leading each team's efforts are Product Business

Managers who handle the overall coordination of various product programs. The Product Business Managers work closely with their team's quality engineers, cost engineers, purchasing agents, internal and external customer service representatives, service manager, and engineering manager. The engineering manager in turn helps coordinate the efforts of design engineers, product and process engineers, component engineers, and electrical engineers.

STRATTEC uses a formalized product development process to identify and meet customer needs in the shortest possible time. By creating and 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 requirements. STRATTEC is also QS-9000/ISO 9001 certified. This means we embrace the philosophy that quality should exist not only in the finished product, but in every step of our process as well.





OPERATIONS

The majority of the components that go into our lock products are manufactured at our main facility and headquarters in Milwaukee, Wisconsin. This facility also makes zinc die cast components for other manufacturers. Lock assembly is performed at the Milwaukee location and at our primary assembly facility, located in Juarez, Mexico.

ADVANCED DEVELOPMENT

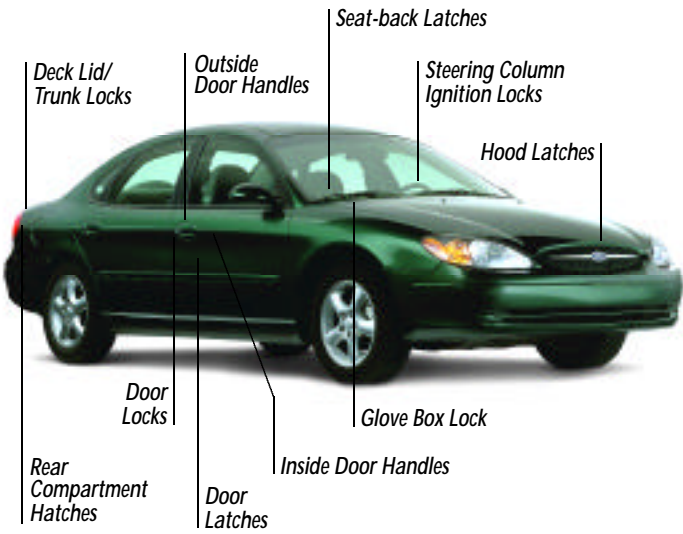
Research and development activities are centered around a dedicated research engineering staff we call our Advanced Development Group. This Group has the responsibility for developing future products and processes that will keep us in the forefront of the markets we serve. Among other things, we are pursuing mechanical as well as electronic products to increase security, modularization of relate components, and new manufacturing processes to reduce costs for ourselves and our customers.



Milwaukee Headquarters and Manufacturing Facility



STRATTEC de Mexico Assembly Facility



ALLIANCE

Our alliance with WITTE-Velbert GmbH consists of two main initiatives. The first is a set of cross-licensing agreements which allows STRATTEC to manufacture, market and sell WITTE products in North America, and allows WITTE to manufacture, market and sell STRATTEC products in Europe. In this way, both STRATTEC and WITTE have established international reach for their respective products and services, while sharing the potential profits of those products sold outside of their respective home markets.



The second initiative is the creation of a 50-50 joint venture company, WITTE-STRATTEC LLC, which is the corporate entity through which we and WITTE will pursue emerging markets outside of Europe and North America. Additionally, through WITTE-STRATTEC LLC, the two companies will coordinate the activities of their respective research and development resources and jointly own the intellectual property rights for any products that result from the coordinated activities.

This alliance is operating under a Memorandum of Understanding signed by the two companies in October of 1999. Legal agreements defining the alliance relationships are expected to be signed in the fall of 2000.

CYCLICAL 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 while summer vacation shutdowns and model year changeover occur at the automotive assembly plants. September volumes increase rapidly as the 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. March usually brings a major sales and production increase, which then continues through most of June. This results in our first fiscal quarter (ending in September) sales and operating results typically being our weakest, with the remaining quarters being more consistent.

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 our associates and our outside directors as an incentive to help positively drive the business.

STRATTEC's significant market share is the result of an eight-decade-long 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.





2001 VEHICLES

We're proud of the quality vehicles that use STRATTEC components. They include over-the-road trucks like Peterbilt, Kenworth, Mack, Freightliner, Navistar and Volvo. Recreational vehicles like Winnebago, Coachmen, Jayco and Fleetwood. And the following model year 2001 cars and light trucks:

CARS

| | | |
|-----------------------|---------------------------|---------------------|
| Buick Century | Chrysler LHS | Mercury Sable |
| Buick Regal | Chrysler/Plymouth Prowler | Mitsubishi Eclipse |
| Cadillac Eldorado | Chrysler Sebring | Mitsubishi Galant |
| Chevrolet Camaro | Dodge Intrepid | Oldsmobile Alero |
| Chevrolet Cavalier | Dodge Neon | Oldsmobile Intrigue |
| Chevrolet Corvette | Dodge Stratus | Pontiac Firebird |
| Chevrolet Impala | Dodge Viper | Pontiac Grand Am |
| Chevrolet Lumina | Ford Taurus | Pontiac Grand Prix |
| Chevrolet Malibu | GM Impact EV1 | Pontiac Sunfire |
| Chevrolet Monte Carlo | Jaguar S-Type | Saturn LS |
| Chrysler Concorde | Lincoln Continental | |
| Chrysler 300M | Lincoln LS | |

LIGHT TRUCKS, VANS AND SPORT UTILITY VEHICLES

| | | |
|-----------------------------|--------------------------|-----------------------|
| Cadillac Escalade | Dodge Ram Pickup | GMC Sonoma Pickup |
| Chevrolet Astro | Dodge Ram Van/Wagon | GMC Yukon |
| Chevrolet Blazer | Ford Excursion | GMC Yukon XL |
| Chevrolet Silverado Pickup | Ford Expedition | Isuzu Hombre Pickup |
| Chevrolet Express | Ford Explorer | Jeep Cherokee |
| Chevrolet S-10 Pickup | Ford Explorer Sport | Jeep Grand Cherokee |
| Chevrolet Suburban | Ford Explorer Sport Trac | Jeep Wrangler |
| Chevrolet Tahoe | Ford F-Series Pickup | Lincoln Navigator |
| Chevrolet Venture | Ford Ranger Pickup | Mazda B-Series Pickup |
| Chrysler Town & Country | GMC Envoy | Mercury Mountaineer |
| Chrysler Voyager | GMC Denali | Mercury Villager |
| Dodge Caravan/Grand Caravan | GMC Jimmy | Nissan Quest |
| Dodge Dakota Pickup | GMC Safari | Oldsmobile Bravada |
| Dodge Durango | GMC Savana | Oldsmobile Silhouette |
| Dodge Ramcharger | GMC Sierra Pickup | Pontiac Montana |



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

RESULTS OF OPERATIONS
2000 COMPARED TO 1999

Net sales were \$224.8 million in 2000, an increase of 11 percent compared to net sales of \$202.6 million in 1999. The current year included one additional shipping week which contributed to the overall sales growth. Sales to General Motors Corporation and Delphi Automotive Corporation increased 10 percent to \$100.5 million as a result of increased unit production by these customers. In addition, labor disruptions at General Motors Corporation during July 1998 reduced sales to this customer by an estimated \$3 million during the prior year September quarter. Sales to DaimlerChrysler Corporation increased 14 percent to \$35.1 million. The increase was primarily due to increased vehicle production schedules and higher value mechanical and electrical content in the locksets the Company supplies. Sales to Mitsubishi Motor Manufacturing of America increased to \$9.4 million in 2000 compared to \$2.2 in 1999. This increase is due an increase in the Company's share of this customer's production requirements with the launch of the 2000 Eclipse. Sales to the Ford Motor Company were comparable to the prior year.

Gross profit as a percentage of net sales was 22.0 percent in 2000 compared to 23.1 percent in 1999. The lower gross margin is the result of several factors including higher production start-up costs relating to the launch of the new model year 2000 vehicles, investment in process changes, facilities rearrangement and training associated with Lean Manufacturing initiatives, product mix, and increased U.S. dollar costs at the Company's Mexico assembly facility. The major portion of the facilities rearrangement will be completed over the next 3 months. Benefits are beginning to be realized in the form of cost reduction, inventory reduction and the enhanced ability to meet continually increasing customer requirements for productivity and quality. The increased U.S. dollar costs at the Company's Mexico assembly facility are the result of the appreciation of the Mexican peso and higher wage inflation in comparison to the prior year. The inflation

rate in Mexico for the 12 months ended June 2000 was approximately 10 percent while the U.S. dollar/Mexican peso exchange rate fell to approximately 9.5 in 2000, from approximately 9.8 in 1999. The Company believes the exchange rate will become more favorable in the last half of calendar 2000. In addition, the average cost of zinc per pound, which the Company uses at a rate of approximately 1 million pounds per month, increased to approximately \$.55 in 2000, from approximately \$.52 in 1999.

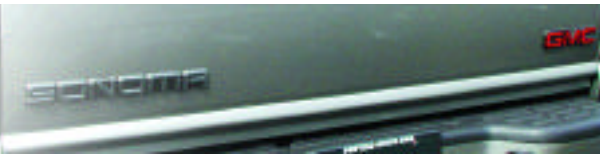
Engineering, selling and administrative expenses were \$20.3 million, or 9.0 percent of net sales in 2000, compared to \$20.2 million, or 10.0 percent of net sales in 1999. Current year expense levels reflect the favorable impact of moving the Company's service aftermarket warehouse and distribution to the Milwaukee facility in April 1999. Also, included in current year expenses are development activities associated with new products and the Company's globalization activities with its alliance partner, WITTE-Velbert GmbH & Co. KG.

Income from operations was \$29.2 million in 2000, compared to \$26.6 million in 1999, reflecting the increased sales volume as previously discussed above.

The effective income tax rate in 2000 was 39 percent compared to 38.1 percent in 1999. The increase is due to an increase in the state effective tax rate. The overall effective rate differs from the federal statutory tax rate primarily due to the effects of state income taxes.

RESULTS OF OPERATIONS
1999 COMPARED TO 1998

Net sales were \$202.6 million in 1999, an increase of 8 percent compared to net sales of \$186.8 million in 1998. Sales to DaimlerChrysler Corporation increased \$5.0 million or 19 percent. Sales to the Ford Motor Company increased \$6.1 million or 13 percent. Sales to these customers increased primarily due to increased unit production by these customers and a more favorable product mix. Sales to General Motors Corporation were relatively consistent with the prior year levels. Labor disruptions at General Motors Corporation reduced sales to this customer by an estimated \$3 million during both fiscal 1999 (first quarter) and 1998 (fourth quarter). General Motors Corporation completed its spinoff of Delphi Automotive Systems in May 1999. Sales to Delphi Automotive Systems totaled \$2.8 million in the month of June 1999 and were previously reported as sales to General Motors



Corporation. The Company also began production volume shipments totaling approximately \$2.2 million to Mitsubishi Motor Manufacturing of America early in the current fiscal year in support of the launch of the 1999 Gallant. This is the Company's initial program with Mitsubishi.

Gross profit as a percentage of net sales was 23.1 percent in 1999 compared to 21.4 percent in 1998. Several factors contributed to the improvement in the gross profit margins, including increased production volumes resulting in more favorable absorption of fixed overhead costs and a favorable mix of higher margin products. The prior year included a charge of \$750,000 related to cash payments to the Company's represented employees upon ratification of a new collective bargaining agreement. Additional improvement in the gross profit margin resulted from the cost of zinc, which the Company uses at a rate of approximately 1 million pounds per month, being substantially lower in the current year as compared to the prior year. The average price per pound was approximately \$.52 in fiscal 1999 compared to approximately \$.68 in fiscal 1998. Also contributing to the improved gross profit margin was the devaluation of the Mexican peso during the first quarter of the current fiscal year, which resulted in lower U.S. dollar costs for the Mexican assembly operation. The rate of inflation in Mexico during the 12 months ended September 1998 was approximately 14 percent. However, the average U.S. dollar/Mexican peso exchange rate increased to approximately 9.50 in the first quarter of the current fiscal year from approximately 7.85 in the first quarter of the prior year.

Engineering, selling and administrative expenses were \$20.2 million, or 10.0 percent of net sales in 1999, compared to \$18.9 million, or 10.1 percent of net sales in 1998. The increase was primarily related to the addition of associates to support current and future programs and the related recruiting and relocation costs.

Income from operations was \$26.6 million in 1999, compared to \$21.0 million in 1998, reflecting the increased sales volume and improved gross margin as previously discussed above.

The effective income tax rate in fiscal 1999 was 38.1 percent compared to 37 percent in fiscal 1998. The increase is due to an increase in the federal statutory tax rate resulting from higher net income levels as well

as an increase in the state effective tax rate. The overall effective rate differs from the federal statutory tax rate primarily due to the effects of state income taxes.

LIQUIDITY AND CAPITAL RESOURCES

The Company generated cash from operating activities of \$34.9 million in 2000 compared to \$27.5 million in 1999. The increased generation of cash is due to several factors including increased sales levels as previously discussed and increases in inventories and accounts payable in support of increased production activities. In addition, the Company's investment in accounts receivable decreased by approximately \$7.3 million at July 2, 2000, as compared to June 27, 1999, primarily due to the timing of periodic payments received from OEM customers and a decrease in outstanding billings for customer tooling.

Capital expenditures in 2000 were \$9.4 million, compared to \$8.8 million in 1999. Expenditures were primarily in support of requirements for new product programs and the upgrade and replacement of existing equipment. The Company anticipates that capital expenditures will be approximately \$10 million in fiscal 2001, primarily in support of requirements for new product programs and the upgrade and replacement of existing equipment.

The Board of Directors of the Company has authorized a stock repurchase program to buy back up to 2,389,395 outstanding shares. A total of 1,675,710 shares have been repurchased as of July 2, 2000, at a cost of approximately \$53.4 million. Additional repurchases may occur from time to time. Funding for the repurchases was provided primarily from cash flow from operations and to a lesser extent from borrowings under existing credit facilities.

The Company has a \$25.0 million unsecured, revolving credit facility (the "Credit Facility"). There were no outstanding borrowings under the Credit Facility at July 2, 2000. Interest on borrowings under the Credit Facility are at varying rates based, at the Company's option, on the London Interbank Offering Rate, the Federal Funds Rate, or the bank's prime rate. The Credit Facility contains various restrictive covenants including covenants that require the Company to maintain minimum levels for certain financial ratios such as tangible net worth, ratio of indebtedness to tangible net worth and fixed charge coverage. The

Company believes that the Credit Facility will be adequate, along with cash flow from operations, to meet its anticipated capital expenditure, working capital and operating expenditure requirements.

The Company has not been significantly impacted by inflationary pressures over the last several years, except for zinc and Mexican assembly operations as noted elsewhere in this Management’s Discussion and Analysis.

MEXICAN OPERATIONS

The Company has assembly operations in Juarez, Mexico. Since December 28, 1998, and prior to December 30, 1996, the functional currency of the Mexican operation has been the Mexican peso. The effects of currency fluctuations result in adjustments to the U.S. dollar value of the Company’s net assets and to the equity accounts in accordance with Statement of Financial Accounting Standard (SFAS) No. 52, “Foreign Currency Translation.” During the period December 30, 1996, to December 27, 1998, the functional currency of the Mexican operation was the U.S. dollar, as Mexico was then considered to be a highly inflationary economy in accordance with SFAS No. 52. The effect of currency fluctuations in the remeasurement process was included in the determination of income. The effect of the December 28, 1998, functional currency change was not material to the financial results of the Company.

OTHER

On October 19, 1999, the Company announced that it had signed a Memorandum of Understanding with E. WITTE Verwaltungsgesellschaft GMBH, and its operating unit, WITTE-Velbert GmbH & Co. KG (“WITTE”), which details the intent to form a strategic alliance and joint venture. WITTE, of Velbert, Germany, is a privately held, QS 9000 and VDA 6.1 certified automotive supplier with sales of over DM300 million in its last fiscal year. WITTE designs, manufactures and markets components

including locks and keys, hood latches, rear compartment latches, seat back latches, door handles and specialty fasteners. WITTE’s primary market for these products has been Europe. The proposed WITTE-STRATTEC alliance provides for the manufacture, distribution and sale of WITTE products by the Company in North America, and the manufacture, distribution and sale of the Company’s products by WITTE in Europe. Additionally, a joint venture company in which each company holds a 50 percent interest has been established to seek opportunities to manufacture and sell both companies’ products in other areas of the world. These activities do not have a material impact on the July 2, 2000, financial statements.

PROSPECTIVE INFORMATION

A number of the matters and subject areas discussed in this Annual Report that are not historical or current facts deal with potential future circumstances and developments. These include expected future financial results, liquidity needs, financing ability, planned capital expenditures, management’s or the Company’s expectations and beliefs, and similar matters discussed in the Company’s Management’s Discussion and Analysis. The discussions of such matters and subject areas are qualified by the inherent risk and uncertainties surrounding future expectations generally, and also may materially differ from the Company’s actual future experience.

The Company’s business, operations and financial performance are subject to certain risks and uncertainties, which could result in material differences in actual results from the Company’s current expectations. These risks and uncertainties include, but are not limited to, general economic conditions, demand for the Company’s products, competitive and technological developments, foreign currency fluctuations and costs of operations.



| | Years Ended | | |
|---|--------------|---------------|---------------|
| | July 2, 2000 | June 27, 1999 | June 28, 1998 |
| NET SALES | \$224,817 | \$202,625 | \$186,805 |
| Cost of goods sold | 175,322 | 155,821 | 146,865 |
| GROSS PROFIT | 49,495 | 46,804 | 39,940 |
| Engineering, selling, and administrative expenses | 20,254 | 20,191 | 18,925 |
| INCOME FROM OPERATIONS | 29,241 | 26,613 | 21,015 |
| Interest income | 1,056 | 1,132 | 351 |
| Interest expense | - | - | (19) |
| Other income (expense), net | 52 | (239) | 73 |
| INCOME BEFORE PROVISION FOR INCOME TAXES | 30,349 | 27,506 | 21,420 |
| Provision for income taxes | 11,836 | 10,491 | 7,931 |
| NET INCOME | \$18,513 | \$17,015 | \$13,489 |
| EARNINGS PER SHARE: | | | |
| BASIC | \$3.75 | \$3.02 | \$2.36 |
| DILUTED | \$3.65 | \$2.94 | \$2.30 |

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



| | July 2, 2000 | June 27, 1999 |
|--|------------------|------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$13,915 | \$ 28,611 |
| Receivables, less allowance for doubtful accounts of \$250 at July 2, 2000, and June 27, 1999 | 28,731 | 36,063 |
| Inventories | 14,342 | 13,804 |
| Customer tooling in progress | 4,248 | 3,758 |
| Future income tax benefits | 2,092 | 2,525 |
| Other current assets | 3,273 | 2,522 |
| Total current assets | 66,601 | 87,283 |
| PROPERTY, PLANT, AND EQUIPMENT, NET | 42,381 | 40,911 |
| | <u>\$108,982</u> | <u>\$128,194</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 19,694 | \$ 17,386 |
| Accrued liabilities: | | |
| Payroll and benefits | 10,394 | 9,961 |
| Environmental | 2,770 | 2,820 |
| Income taxes | 47 | 201 |
| Other | 1,196 | 2,054 |
| Total current liabilities | 34,101 | 32,422 |
| DEFERRED INCOME TAXES | 299 | 512 |
| BORROWINGS UNDER REVOLVING CREDIT FACILITY | - | - |
| ACCRUED PENSION OBLIGATIONS | 9,839 | 8,669 |
| ACCRUED POSTRETIREMENT OBLIGATIONS | 4,293 | 4,246 |
| SHAREHOLDERS' EQUITY | | |
| Common stock, authorized 12,000,000 shares | | |
| \$.01 par value, issued 6,120,788 shares at July 2, 2000, and 5,945,298 shares at June 27, 1999 | 61 | 59 |
| Capital in excess of par value | 47,924 | 43,999 |
| Retained earnings | 67,964 | 49,451 |
| Accumulated other comprehensive loss | (2,239) | (2,081) |
| Less: Treasury stock, at cost (1,668,179 shares at July 2, 2000 and 378,788 shares at June 27, 1999) | (53,260) | (9,083) |
| Total shareholders' equity | 60,450 | 82,345 |
| | <u>\$108,982</u> | <u>\$128,194</u> |

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

| | Common Stock | Capital in Excess of Par Value | Retained Earnings | Accumulated Other Comprehensive Loss | Treasury Stock | Comprehensive Income |
|---|-----------------|--------------------------------------|----------------------|---|-------------------|-------------------------|
| BALANCE, JUNE 29, 1997 | \$58 | \$41,094 | \$18,947 | \$(1,863) | \$(2,143) | |
| Net income | - | - | 13,489 | - | - | \$13,489 |
| Translation adjustments | - | - | - | - | - | - |
| Comprehensive income | | | | | | <u>\$13,489</u> |
| Purchase of common stock | - | - | - | - | (591) | |
| Exercise of stock options, including tax benefit of \$399 | <u>1</u> | <u>1,395</u> | <u>-</u> | <u>-</u> | <u>11</u> | |
| BALANCE, JUNE 28, 1998 | 59 | 42,489 | 32,436 | (1,863) | (2,723) | |
| Net income | - | - | 17,015 | - | - | \$17,015 |
| Translation adjustments | - | - | - | (218) | - | (218) |
| Comprehensive income | | | | | | <u>\$16,797</u> |
| Purchase of common stock | - | - | - | - | (6,416) | |
| Exercise of stock options, including tax benefit of \$415 | <u>-</u> | <u>1,510</u> | <u>-</u> | <u>-</u> | <u>56</u> | |
| BALANCE, JUNE 27, 1999 | <u>59</u> | <u>43,999</u> | <u>49,451</u> | <u>(2,081)</u> | <u>(9,083)</u> | |
| Net income | - | - | 18,513 | - | - | \$18,513 |
| Translation adjustments | - | - | - | (158) | - | (158) |
| Comprehensive income | | | | | | <u>\$18,355</u> |
| Purchase of common stock | - | - | - | - | (44,230) | |
| Exercise of stock options, including tax benefit of \$1,109 | <u>2</u> | <u>3,925</u> | <u>-</u> | <u>-</u> | <u>53</u> | |
| BALANCE, JULY 2, 2000 | <u>\$61</u> | <u>\$47,924</u> | <u>\$67,964</u> | <u>\$(2,239)</u> | <u>\$(53,260)</u> | |

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

| | Years Ended | | |
|---|-----------------|-----------------|-----------------|
| | July 2, 2000 | June 27, 1999 | June 28, 1998 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net income | \$18,513 | \$17,015 | \$13,489 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation | 7,576 | 7,107 | 6,776 |
| Loss on disposition of property, plant and equipment | 254 | 463 | 168 |
| Deferred taxes | 392 | (7) | 561 |
| Change in operating assets and liabilities: | | | |
| (Increase) decrease in receivables | 7,294 | (10,788) | 4,330 |
| (Increase) decrease in inventories | (538) | 1,158 | (83) |
| (Increase) decrease in other assets | (1,284) | 4,510 | (1,727) |
| Increase in accounts payable and accrued liabilities | 2,957 | 8,156 | 2,859 |
| Other, net | (260) | (92) | (422) |
| Net cash provided by operating activities | <u>34,904</u> | <u>27,522</u> | <u>25,951</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Additions to property, plant and equipment | (9,357) | (8,831) | (7,450) |
| Proceeds received on sale of property, plant and equipment | <u>7</u> | <u>15</u> | <u>70</u> |
| Net cash used in investing activities | <u>(9,350)</u> | <u>(8,816)</u> | <u>(7,380)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Net payments of borrowings under revolving credit facility | - | - | (5,037) |
| Purchase of common stock | (44,230) | (6,416) | (591) |
| Exercise of stock options | 3,980 | 1,567 | 1,407 |
| Net cash used in financing activities | <u>(40,250)</u> | <u>(4,849)</u> | <u>(4,221)</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (14,696) | 13,857 | 14,350 |
| CASH AND CASH EQUIVALENTS | | | |
| Beginning of year | <u>28,611</u> | <u>14,754</u> | <u>404</u> |
| End of year | <u>\$13,915</u> | <u>\$28,611</u> | <u>\$14,754</u> |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | | |
| Income taxes paid | \$10,880 | \$9,882 | \$7,482 |
| Interest paid | - | - | 19 |

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



ORGANIZATION AND SUMMARY OF
SIGNIFICANT ACCOUNTING POLICIES

STRATTEC SECURITY CORPORATION (the “Company”) designs, develops, manufactures and markets mechanical locks, electro-mechanical locks and related security products for automotive manufacturers.

The significant accounting policies followed by the Company in the preparation of these financial statements, as summarized in the following paragraphs, are in conformity with generally accepted accounting principles.

Principles of Consolidation and Presentation: The accompanying financial statements reflect the consolidated results of the Company, its wholly owned Mexican subsidiary, and its foreign sales corporation.

Certain amounts previously reported have been reclassified to conform to the July 2, 2000, presentation. These reclassifications have no effect on previously reported net income or retained earnings.

Fiscal Year: The Company's fiscal year ends on the Sunday nearest June 30. The years ended July 2, 2000, June 27, 1999, and June 28, 1998 are comprised of 53, 52 and 52 weeks, respectively.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Fair Value of Financial Instruments: The fair value of financial instruments does not materially differ from their carrying values.

Cash and Cash Equivalents: Cash and cash equivalents include all short-term investments with an original maturity of three months or less.

Inventories: Inventories are stated at cost, which does not exceed market. The last-in, first-out (LIFO) method was used for determining the cost of the inventories at the end of each period.

Inventories consist of the following (thousands of dollars):

| | July 2, 2000 | June 27, 1999 |
|-------------------|-----------------|------------------|
| Finished products | \$ 3,630 | \$4,439 |
| Work in process | 12,374 | 11,145 |
| Raw materials | 1,054 | 774 |
| LIFO adjustment | (2,716) | (2,554) |
| | <u>\$14,342</u> | <u>\$13,804</u> |

Customer Tooling in Progress: The Company accumulates its costs for development of certain tooling used in component production and assembly. The costs, which are primarily from third-party tool vendors, are accumulated on the Company's balance sheet. These amounts then are billed to the customer upon formal acceptance by the customer of products produced with the individual tool.

Property, Plant, and Equipment: Property, plant and equipment are stated at cost, and depreciation is computed using the straight-line method over the following estimated useful lives:

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

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

| | July 2, 2000 | June 27, 1999 |
|-----------------------------------|-----------------|------------------|
| Land | \$1,317 | \$1,236 |
| Buildings and improvements | 11,205 | 10,836 |
| Machinery and equipment | 77,390 | 69,447 |
| | <u>89,912</u> | <u>81,519</u> |
| Less: accumulated depreciation | <u>(47,531)</u> | <u>(40,608)</u> |
| | <u>\$42,381</u> | <u>\$40,911</u> |

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.

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.

Foreign Currency Translation: Since December 28, 1998, and prior to December 30, 1996, the functional currency of the Mexican operation has been the Mexican peso. The effects of currency fluctuations result in adjustments to the U.S. dollar value of the Company's net assets and to the equity accounts in accordance with Statement of Financial Accounting Standard

(SFAS) No. 52, "Foreign Currency Translation." During the period December 30 1996, to December 27, 1998, the functional currency of the Mexican operation was the U.S. dollar, as Mexico was then considered to be a highly inflationary economy in accordance with SFAS No. 52. The effect of currency fluctuations in the remeasurement process was included in the determination of net income during the period. The effect of the December 28, 1998, functional currency change was not material to the financial results of the Company.

Accumulated Other Comprehensive Loss: The only component of accumulated other comprehensive loss is cumulative translation adjustments. Deferred taxes have not been provided for the translation adjustments in accordance with SFAS No. 109, "Accounting for Income Taxes."

Revenue Recognition: Revenue is recognized upon the shipment of products, net of estimated costs of returns and allowances.

Derivative Instruments: SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," was issued in 1998. The statement establishes accounting and reporting standards requiring that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 is effective for financial statements for fiscal years beginning after June 15, 2000. Since the Company currently does not hold any such derivative instruments, this Statement has no impact on the financial results of the Company.

REVOLVING CREDIT FACILITY

The Company has a \$25 million unsecured, revolving credit facility (the "Credit Facility"), which expires October 31, 2001. Interest on borrowings under the Credit Facility are at varying rates based, at the Company's option, on the London Interbank Offering Rate, the Federal Funds Rate, or the bank's prime rate. There were no outstanding borrowings at July 2, 2000, or June 27, 1999. There were no borrowings under the credit facility during the years ended July 2, 2000, and June 27, 1999.

The Credit Facility contains various restrictive covenants that require the Company to maintain minimum levels for certain financial ratios, including tangible net worth, ratio of indebtedness to tangible net worth and fixed charge coverage.

ENVIRONMENTAL MATTER

In 1995, the Company recorded a provision of \$3.0 million for estimated costs to remediate a site at the Company's Milwaukee facility that was contaminated by a solvent spill

which occurred in 1985. The Company continues to monitor and evaluate the site and minimal activity has taken place since the provision was recorded in 1995. The ultimate resolution of this matter is still unknown. However, management believes, based upon findings-to-date and known environmental regulations, that the environmental reserve at July 2, 2000, is adequate to cover any future developments.

INCOME TAXES

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

| | <u>2000</u> | <u>1999</u> | <u>1998</u> |
|--------------------|-----------------|-----------------|----------------|
| Currently payable: | | | |
| Federal | \$8,809 | \$8,106 | \$5,576 |
| State | 2,044 | 1,976 | 1,323 |
| Foreign | <u>591</u> | <u>416</u> | <u>471</u> |
| | 11,444 | 10,498 | 7,370 |
| Deferred taxes | <u>392</u> | <u>(7)</u> | <u>561</u> |
| | <u>\$11,836</u> | <u>\$10,491</u> | <u>\$7,931</u> |

A reconciliation of the U.S. statutory tax rates to the effective tax rates follows:

| | <u>2000</u> | <u>1999</u> | <u>1998</u> |
|---------------------------|--------------|--------------|--------------|
| U.S. statutory rate | 35.0% | 35.0% | 34.8% |
| State taxes, net of | | | |
| federal tax benefit | 4.5 | 4.7 | 4.4 |
| Foreign rate differential | <u>(.1)</u> | <u>.3</u> | <u>.4</u> |
| Other | <u>(.4)</u> | <u>(1.9)</u> | <u>(2.6)</u> |
| | <u>39.0%</u> | <u>38.1%</u> | <u>37.0%</u> |

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

| | <u>July 2, 2000</u> | <u>June 27, 1999</u> |
|-----------------------------|-------------------------|--------------------------|
| Future income tax benefits: | | |
| Customer tooling | \$ 156 | \$ 195 |
| Payroll-related accruals | 507 | 499 |
| Environmental reserve | 1,080 | 1,100 |
| Other | <u>349</u> | <u>731</u> |
| | <u>\$2,092</u> | <u>\$2,525</u> |
| Deferred income taxes: | | |
| Accrued pension obligations | \$3,837 | \$3,381 |
| Accumulated depreciation | <u>(5,810)</u> | <u>(5,549)</u> |
| Postretirement obligations | <u>1,674</u> | <u>1,656</u> |
| | <u>(\$ 299)</u> | <u>(\$ 512)</u> |

Foreign income before the provision for income taxes was not significant for each of the years indicated.



RETIREMENT PLANS
AND POSTRETIREMENT COSTS

The Company has a noncontributory defined benefit pension plan covering substantially all U.S. associates. Benefits are based on years of service and final average compensation. The Company's policy is to fund at least the minimum actuarially computed annual contribution required under the Employee Retirement Income Security Act of 1974 (ERISA). Plan assets consist primarily of listed equity and fixed income securities. The Company recognizes the expected cost of retiree health care benefits during the years that the associates render service. The postretirement health care plan is unfunded.

The following tables summarize the pension and postretirement plans' income and expense, funded status, and actuarial assumptions for the years indicated (thousands of dollars):

| | Pension Benefits | | Postretirement Benefits | |
|--|------------------|------------------|-------------------------|------------------|
| | 2000 | 1999 | 2000 | 1999 |
| CHANGE IN BENEFIT OBLIGATION: | | | | |
| Benefit obligation at beginning of year | | | | |
| Service cost | \$29,187 | \$26,189 | \$4,500 | \$3,882 |
| Interest cost | 1,535 | 1,380 | 220 | 206 |
| Settlement of postretirement life benefit | 2,097 | 1,948 | 293 | 289 |
| Actuarial (gain) loss | - | - | (419) | - |
| Benefits paid | (830) | 226 | (711) | 238 |
| Benefit obligation at end of year | (669) | (556) | (154) | (115) |
| | <u>\$31,320</u> | <u>\$29,187</u> | <u>\$3,729</u> | <u>\$4,500</u> |
| CHANGE IN PLAN ASSETS: | | | | |
| Fair value of plan assets at beginning of year | \$29,177 | \$26,364 | - | - |
| Actual return on plan assets | 6,104 | 2,551 | - | - |
| Employer contributions | - | 818 | 154 | 115 |
| Benefits paid | (669) | (556) | (154) | (115) |
| Fair value of plan assets at end of year | <u>34,612</u> | <u>29,177</u> | <u>-</u> | <u>-</u> |
| Funded status | 3,292 | (10) | (3,729) | (4,500) |
| Unrecognized net gain | (12,478) | (7,869) | (813) | (13) |
| Unrecognized prior service cost | (5) | 7 | 249 | 260 |
| Unrecognized net transition asset | (648) | (797) | - | 7 |
| Accrued benefit cost | <u>\$(9,839)</u> | <u>\$(8,669)</u> | <u>\$(4,293)</u> | <u>\$(4,246)</u> |

| | Pension Benefits | | Postretirement Benefits | |
|--------------------------------|------------------|---------------|-------------------------|---------------|
| | July 2, 2000 | June 27, 1999 | July 2, 2000 | June 27, 1999 |
| WEIGHTED-AVERAGE ASSUMPTIONS | | | | |
| Discount rate | 7.75% | 7.25% | 7.75% | 7.25% |
| Expected return on plan assets | 8.5% | 8.5% | n/a | n/a |
| Rate of compensation increases | 4.0% | 4.0% | n/a | n/a |

For measurement purposes, a 6 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 2000; the rate was assumed to remain at that level thereafter.

| | Pension Benefits | | Postretirement Benefits | |
|--|------------------|----------------|-------------------------|--------------|
| | 2000 | 1999 | 2000 | 1999 |
| COMPONENTS OF NET PERIODIC BENEFIT COST: | | | | |
| Service cost | \$1,535 | \$1,380 | \$220 | \$206 |
| Interest cost | 2,097 | 1,948 | 293 | 289 |
| Expected return on plan assets | (2,193) | (1,905) | - | - |
| Amortization of prior service cost | 12 | 12 | 16 | 16 |
| Amortization of unrecognized net gain | (132) | (86) | - | - |
| Amortization of net transition asset | (150) | (150) | - | 1 |
| Net periodic benefit cost | <u>\$1,169</u> | <u>\$1,199</u> | <u>\$529</u> | <u>\$512</u> |

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 | \$76 | (\$63) |
| Effect on Postretirement benefit obligation | \$513 | (\$436) |

All U.S. associates of the Company may participate in a 401(K) Plan. The Company contributes a fixed percentage of up to the first 6 percent of eligible compensation that a participant contributes to the plan. The Company's contributions totaled approximately \$679,000 in 2000, \$635,000 in 1999 and \$548,000 in 1998.

SHAREHOLDERS' EQUITY

The Company has 12,000,000 shares of authorized common stock, par value \$.01 per share, with 4,452,609 and 5,566,510 shares issued and outstanding at July 2, 2000, and June 27, 1999, respectively. Holders of Company common stock are entitled to one vote for each share on all matters voted on by shareholders.

On February 27, 1995, one common stock purchase right (a "right") was distributed for each share of the Company's common stock outstanding. The rights are not currently exercisable, but would entitle shareholders to buy one-half of one share of the Company's common stock at an exercise price of \$30 per share if certain events occurred relating to the acquisition or attempted acquisition of 20 percent or more of the outstanding shares. The rights expire in the year 2005, unless redeemed or exchanged by the Company earlier.

The Board of Directors of the Company authorized a stock repurchase program to buy back up to 2,389,395 outstanding shares. As of July 2, 2000, 1,675,710 shares have been repurchased at a cost of \$53,381,000.

EARNINGS PER SHARE (EPS)

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

| | 2000 | | |
|---------------|------------|--------------|------------------|
| | Net Income | Shares | Per-Share Amount |
| Basic EPS | \$18,513 | 4,936 | <u>\$3.75</u> |
| Stock Options | | <u>143</u> | |
| Diluted EPS | \$18,513 | <u>5,079</u> | <u>\$3.65</u> |
| | 1999 | | |
| | Net Income | Shares | Per-Share Amount |
| Basic EPS | \$17,015 | 5,639 | <u>\$3.02</u> |
| Stock Options | | <u>152</u> | |
| Diluted EPS | \$17,015 | <u>5,791</u> | <u>\$2.94</u> |
| | 1998 | | |
| | Net Income | Shares | Per-Share Amount |
| Basic EPS | \$13,489 | 5,708 | <u>\$2.36</u> |
| Stock Options | | <u>155</u> | |
| Diluted EPS | \$13,489 | <u>5,863</u> | <u>\$2.30</u> |

Options to purchase the following shares of common stock were outstanding as of each date indicated but were not included in the computation of diluted EPS because the options' exercise prices were greater than the average market price of the common shares:

| | Shares | Exercise Price |
|---------------|--------------|----------------|
| July 2, 2000 | 80,000 | \$45.79 |
| | 78,623 | \$37.88 |
| | <u>5,000</u> | <u>\$35.97</u> |
| June 27, 1999 | 80,000 | \$37.88 |
| | 5,000 | \$32.13 |
| | 80,000 | \$31.98 |
| | <u>5,000</u> | <u>\$30.81</u> |
| June 28, 1998 | 80,000 | \$31.98 |
| | <u>5,000</u> | <u>\$31.63</u> |

STOCK OPTION AND PURCHASE PLANS

The Company maintains an omnibus stock incentive plan, which provides for the granting of stock options. The Board of Directors has designated 1,200,000 shares of the Company's common stock available for grant under the plan at a price not less than the fair market value on the date the option is granted. Options become exercisable as determined at the date of grant by a committee of the Board of Directors and expire 5 to 10 years after the date of grant unless an earlier expiration date is set at the time of grant.

| | Shares | Weighted Average Exercise Price |
|--|----------------|---------------------------------|
| Balance as of June 29, 1997 | 598,889 | \$14.45 |
| Granted | 95,000 | \$31.06 |
| Exercised | <u>78,000</u> | <u>\$12.67</u> |
| Balance at June 28, 1998 | 615,889 | \$17.23 |
| Granted | 110,000 | \$35.44 |
| Exercised | 68,148 | \$15.40 |
| Terminated | <u>20,303</u> | <u>\$25.76</u> |
| Balance at June 27, 1999 | 637,438 | \$20.30 |
| Granted | 105,000 | \$43.01 |
| Exercised | 175,490 | \$15.72 |
| Terminated | <u>1,377</u> | <u>\$37.88</u> |
| Balance at July 2, 2000 | <u>565,571</u> | \$25.89 |
| Exercisable as of July 2, 2000 | 277,661 | \$14.08 |
| Available for grant as of July 2, 2000 | 299,041 | |



During 1997, the Company adopted SFAS No. 123, "Accounting for Stock-Based Compensation." As permitted by the statement, the Company will continue to account for its stock-based compensation plans in accordance with APB Opinion No. 25 and related Interpretations. Accordingly, no compensation cost related to these plans was charged against earnings in 2000, 1999 and 1998. Had compensation cost for these plans been determined consistent with SFAS No. 123, the pro forma impact on earnings per share would have been as follows (thousands of dollars):

| | July 2, 2000 | June 27, 1999 | June 28, 1998 |
|----------------------------|-----------------|------------------|------------------|
| Net income | | | |
| As reported | \$18,513 | \$17,015 | \$13,489 |
| Pro forma | \$17,961 | \$16,464 | \$13,057 |
| Basic earnings per share | | | |
| As reported | \$3.75 | \$3.02 | \$2.36 |
| Pro forma | \$3.64 | \$2.92 | \$2.29 |
| Diluted earnings per share | | | |
| As reported | \$3.65 | \$2.94 | \$2.30 |
| Pro forma | \$3.54 | \$2.85 | \$2.24 |

The fair value of each option grant was estimated as of the date of grant using the Black-Scholes pricing model. The resulting pro-forma compensation cost was amortized over the vesting period.

The grant date fair values and assumptions used to determine such impact are as follows:

| | | | |
|--|---------|---------|---------|
| Options Granted During | 2000 | 1999 | 1998 |
| Weighted average grant date fair value | \$43.01 | \$35.44 | \$31.06 |
| Assumptions: | | | |
| Risk free interest rates | 6.18% | 5.33% | 6.07% |
| Expected volatility | 25.39% | 29.09% | 30.10% |
| Expected term (in years) | 5.67 | 5.75 | 5.75 |

The range of options outstanding as of July 2, 2000, is as follows:

| Price Range per Share | Number of Options Outstanding/ Exercisable | Weighted Average Exercise Price Outstanding/ Exercisable | Weighted Average Remaining Contractual Life (in years) |
|-----------------------|---|---|--|
| \$11.75-\$17.05 | 217,750/217,750 | \$12.38/\$12.38 | 4.9 |
| \$19.28-\$31.98 | 159,198/59,911 | \$26.97/\$20.23 | 3.1 |
| Over \$31.98 | 188,623/ - | \$40.58/ - | 4.5 |
| | <u>565,571/277,661</u> | <u>\$25.89/\$14.08</u> | <u>4.3</u> |

The Company has an Employee Stock Purchase plan to provide substantially all U.S. full-time associates an opportunity to purchase shares of its common stock through payroll deductions. A participant may contribute a maximum of \$5,200 per calendar year to the plan. On the last day of each month, participant account balances are used to purchase shares of stock at the average of the highest and lowest reported sales prices of a share of the Company's common stock on the NASDAQ National Market. A total of 100,000 shares may be issued under the plan. Shares issued from treasury stock under the plan totaled 3,317 at an average price of \$34.07 during fiscal 2000, 3,521 at an average price of \$28.79 during fiscal 1999, and 693 at an average price of \$29.93 during fiscal 1998. A total of 92,469 shares are available for purchase under the plan as of July 2, 2000.

EXPORT SALES

Export sales are summarized below (thousands of dollars):

| | Export Sales | Percent of Net Sales |
|------|--------------|----------------------|
| 2000 | \$31,745 | 14% |
| 1999 | \$27,233 | 13% |
| 1998 | \$22,330 | 12% |

These sales were primarily to vehicle manufacturing plants in Canada and Mexico.

SALES TO LARGEST CUSTOMERS

Sales to the Company's largest customers were as follows (thousands of dollars and percent of total net sales):

| | 2000 | | 1999 | | 1998 | |
|-----------------------------|------------------|------------|------------------|------------|------------------|------------|
| | Sales | % | Sales | % | Sales | % |
| General Motors Corporation | \$68,985 | 31% | \$88,938 | 44% | \$86,721 | 46% |
| Ford Motor Company | 54,498 | 24% | 52,241 | 26% | 46,136 | 25% |
| DaimlerChrysler Corporation | 35,055 | 16% | 30,757 | 15% | 25,966 | 14% |
| Delphi Automotive Systems | 31,487 | 14% | 2,788 | 1% | - | - |
| | <u>\$190,025</u> | <u>85%</u> | <u>\$174,724</u> | <u>86%</u> | <u>\$158,823</u> | <u>85%</u> |



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, as of July 2, 2000, and June 27, 1999, and the related consolidated statements of income, changes in equity and cash flows for each of the three years in the period ended July 2, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of STRATTEC SECURITY CORPORATION and subsidiaries as of July 2, 2000, and June 27, 1999, and the results of their operations and their cash flows for each of the three years in the period ended July 2, 2000, in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

ARTHUR ANDERSEN LLP
Milwaukee, Wisconsin
August 2, 2000

REPORT OF MANAGEMENT

The management of STRATTEC SECURITY CORPORATION is responsible for the fair presentation and integrity of the financial statements and other information contained in this Annual Report. We rely on a system of internal financial controls to meet the responsibility of providing financial statements. The system provides reasonable assurances that assets are safeguarded, that transactions are executed in accordance with management's authorization and that the financial statements are prepared in accordance with generally accepted accounting principles, including amounts based upon management's best estimates and judgments.

The financial statements for each of the years covered in this Annual Report have been audited by independent auditors, who have provided an independent assessment as to the fairness of the financial statements.

The Audit Committee of the Board of Directors meets with management and the independent auditors to review the results of their work and to satisfy itself that their responsibilities are being properly discharged. The independent auditors have full and free access to the Audit Committee and have discussions with the committee regarding appropriate matters, with and without management present.

Harold M. Stratton II

Harold M. Stratton II
Chairman and
Chief Executive Officer

John G. Cahill

John G. Cahill
President and
Chief Operating Officer

Patrick J. Hansen

Patrick J. Hansen
Vice President and
Chief Financial Officer



FIVE-YEAR FINANCIAL SUMMARY

The financial data for each period presented below reflects the consolidated results of the Company and its wholly owned subsidiaries. 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 | | | | |
|---|-----------------|-----------------|-----------------|----------------|----------------|
| | 2000 | 1999 | 1998 | 1997 | 1996 |
| INCOME STATEMENT DATA | | | | | |
| Net sales | \$224,817 | \$202,625 | \$186,805 | \$159,054 | \$139,745 |
| Gross profit | 49,495 | 46,804 | 39,940 | 33,319 | 29,231 |
| Engineering, selling, and administrative expenses | <u>20,254</u> | <u>20,191</u> | <u>18,925</u> | <u>17,684</u> | <u>16,632</u> |
| Income from operations | 29,241 | 26,613 | 21,015 | 15,635 | 12,599 |
| Interest income | 1,056 | 1,132 | 351 | 4 | 22 |
| Interest expense | - | - | (19) | (214) | (363) |
| Other income (expense), net | <u>52</u> | <u>(239)</u> | <u>73</u> | <u>125</u> | <u>286</u> |
| Income before taxes | 30,349 | 27,506 | 21,420 | 15,550 | 12,544 |
| Provision for income taxes | <u>11,836</u> | <u>10,491</u> | <u>7,931</u> | <u>5,730</u> | <u>4,830</u> |
| Net income | <u>\$18,513</u> | <u>\$17,015</u> | <u>\$13,489</u> | <u>\$9,820</u> | <u>\$7,714</u> |
| Earnings per share: | | | | | |
| Basic | \$3.75 | \$3.02 | \$2.36 | \$1.72 | \$1.33 |
| Diluted | \$3.65 | \$2.94 | \$2.30 | \$1.70 | \$1.32 |
| BALANCE SHEET DATA | | | | | |
| Net working capital | \$32,500 | \$54,861 | \$42,953 | \$32,399 | \$21,181 |
| Total assets | 108,982 | 128,194 | 107,998 | 95,669 | 82,818 |
| Long-term liabilities | 14,132 | 12,915 | 12,138 | 16,000 | 10,937 |
| Equity | 60,450 | 82,345 | 70,398 | 56,093 | 48,298 |

QUARTERLY FINANCIAL DATA (UNAUDITED)

| | Quarter | Net Sales | Gross Profit | Net Income | Earnings Per Share | | Market Price Per Share | |
|------|---------|------------------|-----------------|-----------------|--------------------|---------------|--------------------------------|--------------------------------|
| | | | | | Basic | Diluted | High | Low |
| 2000 | First | \$49,667 | \$10,688 | \$3,708 | \$.67 | \$.65 | 36 ³ / ₄ | 31 ¹ / ₂ |
| | Second | 56,726 | 12,749 | 4,944 | .98 | .95 | 36 ⁷ / ₈ | 32 ⁵ / ₈ |
| | Third | 54,539 | 11,988 | 4,390 | .94 | .91 | 35 ³ / ₄ | 31 |
| | Fourth | 63,885 | 14,070 | 5,471 | 1.20 | 1.17 | 35 ⁷ / ₈ | 32 ¹ / ₂ |
| | TOTAL | <u>\$224,817</u> | <u>\$49,495</u> | <u>\$18,513</u> | <u>\$3.75</u> | <u>\$3.65</u> | | |
| 1999 | First | \$40,362 | \$8,835 | \$2,813 | \$.49 | \$.48 | 32 ¹ / ₄ | 25 ³ / ₄ |
| | Second | 54,529 | 12,373 | 4,662 | .83 | .81 | 31 ³ / ₄ | 20 |
| | Third | 51,220 | 12,071 | 4,471 | .79 | .77 | 33 ⁷ / ₈ | 27 ³ / ₄ |
| | Fourth | 56,514 | 13,525 | 5,069 | .91 | .88 | 37 ³ / ₈ | 26 |
| | TOTAL | <u>\$202,625</u> | <u>\$46,804</u> | <u>\$17,015</u> | <u>\$3.02</u> | <u>\$2.94</u> | | |

Registered shareholders of record at July 2, 2000, were 3,541.

BOARD OF DIRECTORS

HAROLD M. STRATTON II, 52
Chairman and Chief Executive Officer.

ROBERT FEITLER, 69
Former President and Chief Operating Officer of Weyco Group, Inc. Chairman of the Executive Committee and Director of Weyco Group, Inc. Trustee of ABN.AMRO Funds

MICHAEL J. KOSS, 46
President and Chief Executive Officer of Koss Corporation. Director of Koss Corporation.

FRANK J. KREJCI, 50
President and Chief Executive Officer of Wisconsin Furniture, LLC.

JOHN G. CAHILL, 43
President, and Chief Operating Officer



STRATTEC Board of Directors: (left to right) Frank J. Krejci, Michael J. Koss, Harold M. Stratton II, John G. Cahill, Robert Feitler

EXECUTIVE OFFICERS

HAROLD M. STRATTON II, 52

JOHN G. CAHILL, 43

PATRICK J. HANSEN, 41
Vice President- Chief Financial Officer, Treasurer and Secretary.

MICHAEL R. ELLIOTT, 44
Vice President- Global Market Development.

GERALD L. PEEBLES, 57
Vice President- General Manager STRATTEC de Mexico.

DONALD J. HARROD, 56
Vice President- Engineering

DONALD P. KLICK, 48
Vice President- Business Operations

SHAREHOLDERS INFORMATION

ANNUAL MEETING

The Annual Meeting of Shareholders will convene at 2 p.m. (CST) on October 24, 2000, at the Manchester East Hotel, 7065 North Port Washington Road, Milwaukee.

COMMON STOCK

STRATTEC SECURITY CORPORATION common stock is traded on the NASDAQ National 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.

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

Firstar Trust Company
P.O. Box 2077
Milwaukee, WI 53201
414-905-5000

