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 2, 2017.**

☐ **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** | **39-1804239** |
| **(State of Incorporation)** | **(I.R.S. Employer Identification No.)** |

**3333 West Good Hope Road, Milwaukee, WI 53209**
**(Address of principal executive offices)**

**(414) 247-3333**

**(Registrant's telephone number, including area code)**

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

| Title of each class | Name of exchange on which registered |
|---|---|
| **Common Stock, $.01 par value** | **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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth 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 | ☐ |
| Emerging Growth Company | ☐ | | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 30, 2016 (the last business day immediately preceding the Registrant's most recently completed fiscal second quarter), was approximately $142,424,000 (based upon the last reported sale price of the Common Stock at December 30, 2016 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 4, 2017, there were outstanding 3,672,704 shares of the Registrant's $.01 par value Common Stock (which includes any unvested restricted shares previously awarded).

Documents Incorporated by Reference

| Document | Part of the Form 10-K into which incorporated |
|---|---|
| Portions of the Annual Report to Shareholders for the fiscal year ended July 2, 2017 | I, II, IV |
| Portions of the Proxy Statement dated on or about September 7, 2017, for the Annual Meeting of Shareholders to be held on October 10, 2017. | 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 2017 Annual Report to Shareholders and the Company's Proxy Statement, dated September 7, 2017, 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 2017 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 2017 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 2017 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 31 of the Company's 2017 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 employees 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 60 percent of the Company's net sales in 2017, 63 percent of the Company's net sales in 2016 and 65 percent of the Company's net sales in 2015. 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 2017 Annual Report to Shareholders and "Notes to Financial Statements-Sales and Receivable Concentration" included on page 58 of the Company's 2017 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 in recent years 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 2017 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 2017, 2016, and 2015, the Company spent approximately $4.6 million, $430,000, and $280,000, 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 2017 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” beginning on page 51 of the Company’s 2017 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 2, 2017, the Company had approximately 3,892 full-time employees, of which approximately 275 or 7.1 percent were represented by a labor union, which accounts for all production employees at the Company’s Milwaukee facility. The current contract with the unionized employees 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 2017 Annual Report to Shareholders, which is incorporated herein by reference.

**Available Information**

The Company maintains its corporate website at 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 made 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 2017 Annual Report to Shareholders is incorporated herein by reference. The risks described in the section “Risk Factors” in the Company’s 2017 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:

| Location | Type | Sq. Ft. | Owned or Leased |
|---|---|---|---|
| Milwaukee, Wisconsin | Headquarters and General Offices; Component Manufacturing and Service Parts Distribution | 352,000 | Owned |
| Juarez, Chihuahua Mexico | Subsidiary Offices and Assembly | 97,000 | Owned |
| Juarez, Chihuahua Mexico | Subsidiary Offices 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 135,000 square foot facility is expected to be used primarily to paint and assemble door handle products and is expected to be completed and operational during the first quarter of our fiscal 2018.

**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 2, 2017, 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 2, 2017, 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 2, 2017.

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 2017 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 2017 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 2017 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 2, 2017, we (including our majority owned subsidiary, ADAC-STRATTEC LLC) had $30 million of outstanding borrowings under our credit facilities. The interest expense related to borrowings under these credit facilities during the year ended July 2, 2017 was $417,000. 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 and 2017, 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. 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 2, 2017 (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, 2017 - June 15, 2018 | $ 12,000 | 20.37 | $ 1,121 |

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

| | July 2, 2017 | July 3, 2016 |
|---|---|---|
| Not Designated as Hedging Instruments: | | |
| Other Current Assets: | | |
| Mexican Peso Forward Contracts | $ 1,121 | $ — |
| 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):

| | Other Income, net | | |
|---|---|---|---|
| | Years Ended | | |
| | July 2, 2017 | July 3, 2016 | June 28, 2015 |
| Not Designated as Hedging Instruments: | | | |
| Realized loss | $ 1,650 | $ 1,196 | $ — |
| Unrealized loss | $ — | $ 889 | $ — |
| Unrealized gain | $ 2,010 | $ — | $ — |

See "Risk Factors – Currency Exchange Rate Fluctuations" included on page 31 of the Company's 2017 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 31 of the Company's 2017 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 7, 2017, 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 7, 2017, which appear on pages 34 through 61 of the Company's 2017 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 2017 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 2, 2017 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 2017 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 2017 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 7, 2017, under "Proposal 1: Election of Directors," "Corporate Governance Matters-Code of Business Ethics," "Audit Committee Matters-Audit Committee Financial Expert," "Executive Officers," "Section 16(a) Beneficial Ownership Reporting Compliance", and "Corporate Governance Matters-Director Nominations" is incorporated herein by reference.

The Audit Committee of the Company's Board of Directors is an "audit committee" for purposes of Section 3(a)(58)(A) of the Securities Exchange Act of 1934. The members of the Audit Committee consist of 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 7, 2017, 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 7, 2017, 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 7, 2017, under "Security Ownership" is incorporated herein by reference.

**Equity Compensation Plan Information**
The following table summarizes share information, as of July 2, 2017, for the Company's Amended and Restated Stock Incentive Plan.

| Plan Category | Number of common shares to be issued upon exercise of outstanding options, warrants, and rights | Weighted-average exercise price of outstanding options, warrants, and rights | Number of common shares available for future issuance under equity compensation plans |
|---|---|---|---|
| Equity compensation plans approved by shareholders | 138,508 | $29.23 | 204,939 |
| Equity compensation plans not approved by shareholders | - | - | - |
| Total | 138.508 | $29.23 | 204,939 |

**Item 13. Certain Relationships and Related Transactions, and Director Independence**
The information included in the Company's Proxy Statement, dated on or about September 7, 2017, 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 7, 2017, 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 2017 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 2, 2017 and July 3, 2016

Consolidated Statements of Operations and Comprehensive Income - years ended July 2, 2017, July 3, 2016 and June 28, 2015

Consolidated Statements of Shareholders' Equity – years ended July 2, 2017, July 3, 2016 and June 28, 2015

Consolidated Statements of Cash Flows - years ended July 2, 2017, July 3, 2016 and June 28, 2015

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 7, 2017

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.

| Signature | Title | Date |
|---|---|---|
| /s/ Frank J. Krejci<br>Frank J. Krejci | President, Chief Executive Officer, and Director (Principal Executive Officer) | September 7, 2017 |
| /s/ Harold M. Stratton II<br>Harold M. Stratton II | Chairman and Director | August 23, 2017 |
| /s/ Michael J. Koss<br>Michael J. Koss | Director | August 23, 2017 |
| /s/ Thomas W. Florsheim, Jr.<br>Thomas W. Florsheim, Jr. | Director | August 23, 2017 |
| /s/ David R. Zimmer<br>David R. Zimmer | Director | August 23, 2017 |
| /s/ Patrick J. Hansen<br>Patrick J. Hansen | Senior Vice President, Chief Financial Officer, Secretary and Treasurer (Principal Financial and Accounting Officer) | September 7, 2017 |

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

| Exhibit | | |
|---|---|---|
| 3.1 | Amended and Restated Articles of Incorporation of the Company | |
| 3.2 (1) | Amended By-laws of the Company | * |
| 4.1 (3) | Credit Agreement, dated as of August 1, 2011, between STRATTEC SECURITY CORPORATION and BMO Harris Bank N.A., as lender | * |
| 4.2 (17) | Amendment No. 1 to Amended and Restated Security Agreement, dated as of June 26, 2017, between STRATTEC SECURITY CORPORATION and BMO Harris Bank N.A., as lender | * |
| 4.3 | Amended and Restated Security Agreement, dated as of June 28, 2012, made by STRATTEC SECURITY CORPORATION in favor of BMO Harris Bank N.A., as lender | |
| 4.4 (8) | Amendment No. 1 to Credit Agreement, dated as of December 27, 2013, between STRATTEC SECURITY CORPORATION and BMO Harris Bank N.A., as lender | * |
| 4.5 (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 | * |
| 4.6 (15) | Amendment No. 3 to Credit Agreement, dated as of June 24, 2016, between STRATTEC SECURITY CORPORATION and BMO Harris Bank N.A., as lender | * |
| 4.7 (17) | Amendment No. 4 to Credit Agreement, dated as of June 26, 2017, between STRATTEC SECURITY CORPORATION and BMO Harris Bank N.A., as lender | * |
| 4.8 (9) | Credit Agreement, dated as of June 28, 2012, between ADAC-STRATTEC LLC and BMO Harris Bank N.A., as lender | * |
| 4.9 (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 | * |
| 4.10 (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 | * |
| 4.11 (14) | Amendment No. 3 to Credit Agreement, dated as of April 27, 2016, between ADAC- STRATTEC LLC and BMO Harris Bank N.A., as lender | * |
| 4.12 (17) | Amendment No. 4 to Credit Agreement, dated as of June 26, 2017, between ADAC- STRATTEC LLC and BMO Harris Bank N.A., as lender | * |
| 10.1 (10)** | Amended and Restated STRATTEC SECURITY CORPORATION Stock Incentive Plan | * |
| 10.2 (12)** | Form of Restricted Stock Grant Agreement with employees | * |
| 10.3 (13)** | Amended STRATTEC SECURITY CORPORATION Economic Value Added Bonus Plan for Executive Officers and Senior Managers | * |
| 10.4 (5) ** | Amended STRATTEC SECURITY CORPORATION Economic Value Added Bonus Plan for Non-employee Members of the Board of Directors | * |
| 10.5 (11) ** | Amended and Restated STRATTEC SECURITY CORPORATION Supplemental Executive Retirement Plan | * |
| 10.6 (4)** | Employment Agreement between the Company and Frank J. Krejci made as of May 5, 2010 | * |
| 10.7 (4)** | Employment Agreement between the Company and Patrick J. Hansen made as of May 5, 2010 | * |
| 10.8 (4)** | Employment Agreement between the Company and Rolando J. Guillot made as of May 5, 2010 | * |
| 10.9 (4)** | Employment Agreement between the Company and Brian J. Reetz made as of May 5, 2010 | * |
| 10.10 (4)** | Employment Agreement between the Company and Richard P. Messina made as of May 5, 2010 | * |
| 10.11 ** | Employment Agreement between the Company and Al Hamdan made as of May 4, 2017 | |
| 10.12 (16) ** | Change of Control Employment Agreement between the Company and Frank J. Krejci made as of July 1, 2016 | * |
| 10.13 (16) ** | Change of Control Employment Agreement between the Company and Patrick J. Hansen made as of July 1, 2016 | * |
| 10.14 (16) ** | Change of Control Employment Agreement between the Company and Rolando J. Guillot made as of July 1, 2016 | * |
| 10.15 (16) ** | Change of Control Employment Agreement between the Company and Brian J. Reetz made as of July 1, 2016 | * |
| 10.16 (16) ** | Change of Control Employment Agreement between the Company and Richard P. Messina made as of July 1, 2016 | * |
| 10.17 ** | Change of Control Employment Agreement between the Company and Al Hamdan made as of May 4, 2017 | |
| 10.18 (12)** | Form of Restricted Stock Grant Agreement with non-employee directors | * |
| 10.19 (7)** | Amended STRATTEC SECURITY CORPORATION Employee Stock Purchase Plan | * |

| | | |
|---|---|---|
| 10.20 (6)** | 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 2, 2017 | |
| 21 (2) | Subsidiaries of the Company | * |
| 23 | Consent of Independent Registered Public Accounting Firm dated September 7, 2017 | |
| 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 (18) | 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 the exhibit to the Form 8-K filed on October 7, 2005.
(2) Incorporated by reference from the exhibit to the June 28, 2009 Form 10-K filed on August 28, 2009.
(3) Incorporated by reference from the exhibit to the Form 8-K filed on August 4, 2011.
(4) Incorporated by reference from the exhibit to the March 28, 2010 Form 10-Q filed on May 6, 2010.
(5) Incorporated by reference from the exhibit to the July 3, 2011 Form 10-K filed on September 8, 2011.
(6) Incorporated by reference from the exhibit to the July 1, 2012 Form 10-K filed on September 6, 2012.
(7) Incorporated by reference from the exhibit to the Form 8-K filed on January 2, 2013.
(8) Incorporated by reference from the exhibit to the Form 8-K filed on December 27, 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 10-Q filed on November 6, 2014.
(11) Incorporated by reference from the exhibit to the Form 8-K filed on October 10, 2013.
(12) Incorporated by reference from the exhibit to the Form 10-K filed on September 5, 2014.
(13) Incorporated by reference from the exhibit to the Form 10-K filed on September 4, 2015.
(14) Incorporated by reference from the exhibit to the Form 8-K filed on April 29, 2016.
(15) Incorporated by reference from the exhibit to the Form 8-K filed on June 24, 2016.
(16) Incorporated by reference from the exhibit to the Form 10-K filed on September 8, 2016.
(17) Incorporated by reference from the exhibit to the Form 8-K filed on June 27, 2017.
(18) 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.

Exhibit 3.1

**[State of Wisconsin Filed February 23, 1995 -**
**Douglas LaFollette - Secretary of State]**

AMENDED AND RESTATED
ARTICLES OF INCORPORATION
OF
STRATTEC SECURITY CORPORATION

The undersigned hereby certify that they are and at all times herein mentioned have been the duly elected and acting President and Assistant Secretary, respectively, of STRATTEC SECURITY CORPORATION, a Wisconsin corporation (the "Corporation") and further certify that:

1.The name of the Corporation is STRATTEC SECURITY CORPORATION.

2.The Amended and Restated Articles of Incorporation of the Corporation are as follows:

ARTICLE I

Name

The name of the Corporation is STRATTEC SECURITY CORPORATION.

ARTICLE II

Purposes

The purposes for which the Corporation is organized are to engage in any lawful activity within the purposes for which a corporation may be organized under the Wisconsin Business Corporation Law ("WBCL").

ARTICLE III

Capital Stock

The aggregate number of shares which the Corporation shall have authority to issue is 12 million shares, consisting of one class only, designated as "Common Stock," of the par value of $.01 per share.

**[State of Wisconsin Received February 22, 1995 - Douglas LaFollette - Secretary of State]**

ARTICLE IV

Preemptive Rights

No holder of any stock of the Corporation shall have any preemptive right to purchase, subscribe for, or otherwise acquire any shares of stock of the Corporation of any class now or hereafter authorized, or any securities exchangeable for or convertible into such shares.

ARTICLE V

Board of Directors

(a)Until such time as the Corporation has more than one shareholder, the Corporation's Board of Directors shall consist of one director.

(b)Upon the date the Corporation has more than one shareholder and thereafter, the authorized number of directors of the corporation which shall constitute the entire Board of Directors shall be such as from time to time shall be determined by a majority of the then authorized number of directors, but in no case shall the authorized number of directors be less than 5 or more than 7.

The directors shall be divided with respect to the time for which they severally hold office into three classes, as nearly equal in number as possible, as determined by the Board of Directors, with the members of each class to hold office until their successors have been elected and qualified, or until their earlier resignation or removal.

At each annual meeting of shareholders, the successors of the members of the class of directors whose term expires at that meeting shall be elected to hold office for a term expiring at the annual meeting of shareholders held in the third year following the year of their election.

No decrease in the number of directors constituting the Board of Directors shall shorten the term of an incumbent director.

(c)Any director may be removed from office by the shareholders, but only for cause and only by the affirmative vote of a majority of the votes then entitled to be cast in an election of directors.

(d)Any vacancy occurring on the Board of Directors, including, but not limited to, a vacancy created by an increase in the number of directors or the removal of a director, shall be filled only by the affirmative vote of a majority of the directors then in office, even if such majority is less than a quorum of the Board of Directors, or by a sole remaining director.

If no director remains in office, any vacancy may be filled by the shareholders.

Any director elected to fill a vacancy shall serve until the next election of the class for which such director shall have been chosen.

ARTICLE VI

Shareholder Consent Actions

Action required or permitted by the WBCL to be taken at a shareholders meeting may be taken without a meeting by shareholders who would be entitled to vote at a meeting shares with voting power sufficient to cast not less than the minimum number of votes that would be necessary to authorize or take the action at a meeting at which all shares entitled to vote were present and voted.

The action must be evidenced by one or more written consents describing the action taken, signed by the shareholders consenting thereto and delivered to the Corporation for inclusion in its corporate records.

Such a consent has the effect of a meeting vote and may be described as such in any document. Such action shall be effective when consents representing the required number of shares are delivered to the Corporation, unless the consent specifies a different effective date.

ARTICLE VII

Registered Office and Agent

The address of the initial registered office of the Corporation is 1000 North Water Street, Suite 2100, Milwaukee, Milwaukee County, Wisconsin 53202 and the name of its initial registered agent at such address is Subsidiary Service, Inc.

ARTICLE VIII

Incorporator

The name and address of the incorporator is James M. Bedore, Esq., 1000 North Water Street, Suite 2100, Milwaukee, Wisconsin 53202.

3.These Amended and Restated Articles of Incorporation supersede and take the place of the theretofore existing Articles of Incorporation and any amendments thereto.

4.Adoption of these Amended and Restated Articles of Incorporation requires shareholder approval. These Amended and Restated Articles of Incorporation were adopted by written consent of the Corporation's sole shareholder in accordance with the requirements of Wisconsin Statutes sections 180.1003 and 180.1004 on February 20, 1995.

Executed this 20th day of February, 1995.

STRATTEC SECURITY CORPORATION

BY /s/ Harold M. Stratton II
Harold M. Stratton II, President

Attest:

/s/ James M. Bedore
James M. Bedore, Assistant Secretary

This instrument was drafted by Steven J. Cottingham.

Please return this document to:

Steven J. Cottingham, Esq.
Reinhart, Boerner, Van Deuren,
Norris & Rieselbach, s.c.
1000 North Water Street
Suite 2100
Milwaukee, WI 53202

130906

**[State of Wisconsin Filed February 23, 1995 -
Douglas LaFollette - Secretary of State]**

Exhibit 4.3

# AMENDED AND RESTATED SECURITY AGREEMENT

**made by**

**STRATTEC SECURITY CORPORATION**

**in favor of**

**BMO HARRIS BANK N.A.**

Dated as of June 28, 2012

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AMENDED AND RESTATED SECURITY AGREEMENT, dated as of June 28, 2012, made by STRATTEC SECURITY CORPORATION, a Wisconsin Corporation ("Grantor," and together with any other entity that may become a party hereto as provided herein, the "Grantors"), in favor of BMO HARRIS BANK N.A. (the "Lender"), who is the Lender under the Credit Agreement dated as of the date hereof (as amended, restated, amended and restated, supplemented or otherwise modified from time to time, the "Credit Agreement"), between STRATTEC Security Corporation (in such capacity, the "Borrower") and the Lender.

W I T N E S S E T H:

WHEREAS, pursuant to the Credit Agreement, the Lender has agreed to make extensions of credit to the Borrower upon the terms and subject to the conditions set forth therein;

WHEREAS, certain of the Qualified Counterparties may enter into Specified Derivative Contracts with one or more of the Grantors;

WHEREAS, in consideration of the premises and to induce the Lender to enter into the Credit Agreement and make the extensions of credit to the Borrower thereunder, the Grantors and the Lender entered into that certain Security Agreement, dated as of August 1, 2011 (the "Prior Security Agreement");

WHEREAS, the Lender and ADAC-STRATTEC, LLC ("ADAC"), a subsidiary of the Borrower, have agreed to enter into that certain Credit Agreement dated as of the date hereof between ADAC and the Lender (the "ADAC Credit Agreement");

WHEREAS, it is a condition precedent to the obligation of the Lender to make extensions of credit to ADAC under the ADAC Credit Agreement that the Borrower shall have (i) guaranteed the obligations of ADAC pursuant to a certain Corporate Guarantee Agreement dated as of the date hereof by the Borrower in favor of the Lender (as amended, restated, amended and restated, supplemented or otherwise modified from time to time, the "Guarantee Agreement") and (ii) granted a security interest in its assets as collateral for its obligations under the Guarantee Agreement; and

WHEREAS, the parties have agreed to amend and restate the Prior Security Agreement to, among other things, secure the obligations under the Guarantee Agreement.

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the parties hereto hereby amend and restate the Prior Security Agreement in its entirety as follows:

1. DEFINED TERMS

1.1 Definitions

(a) Unless otherwise defined herein, terms defined in the Credit Agreement and used herein shall have the meanings given to them in the Credit Agreement and the following terms are used herein as defined in the Wisconsin UCC: Accounts, Certificated

Security, Chattel Paper, Commercial Tort Claims, Deposit Accounts, Documents, Equipment, General Intangibles, Goods, Instruments, Inventory, Investment Property, Letter-of-Credit Rights and Supporting Obligations.

(b) The following terms shall have the following meanings:

“Agreement”: this Amended and Restated Security Agreement, as the same may be amended, restated, amended and restated, supplemented or otherwise modified from time to time.

“Collateral”: as defined in Section 2.

“Collateral Account”: any collateral account established by the Lender as provided in Section 5.1 or 5.3.

“Copyright Licenses”: any written agreement naming any Grantor as licensor or licensee, granting any right under any Copyright, including, without limitation, the grant of rights to manufacture, distribute, exploit and sell materials derived from any Copyright.

“Copyrights”: (i) all copyrights arising under the laws of the United States, any other country or any political subdivision thereof, whether registered or unregistered and whether published or unpublished, all registrations and recordings thereof, and all applications in connection therewith, including, without limitation, all registrations, recordings and applications in the United States Copyright Office, and (ii) the right to obtain all renewals thereof.

“Credit Agreement Obligations”: the collective reference to the unpaid principal of and interest on the Loans and all other obligations and liabilities of the Borrower (including, without limitation, interest accruing at the then applicable rate provided in the Credit Agreement after the maturity of the Loans and interest accruing at the then applicable rate provided in the Credit Agreement after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding, relating to the Borrower, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding) to the Lender, whether direct or indirect, absolute or contingent, due or to become due, or now existing or hereafter incurred, which may arise under, out of, or in connection with, the Credit Agreement, this Agreement, or the other Loan Documents, or any other document made, delivered or given in connection therewith, in each case whether on account of principal, interest, reimbursement obligations, fees, indemnities, costs, expenses or otherwise (including, without limitation, all reasonable fees and disbursements of counsel to the Lender that are required to be paid by the Borrower pursuant to the terms of any of the foregoing agreements).

“Derivative Contract Obligations”: the collective reference to all obligations and liabilities of any of the Grantors (including, without limitation, interest accruing at the then applicable rate provided in any Specified Derivative Contract after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding, relating to such Grantor, whether or not a claim for post-filing or post petition interest is allowed in such proceeding) to any Qualified Counterparty, whether direct or indirect, absolute or contingent, due or to become due, or now existing or hereafter incurred, which may arise under, out of, or in connection with, any Specified Derivative Contract or any other document made, delivered or given in connection therewith, in each case whether on account of principal, interest, reimbursement obligations, fees, indemnities, costs, expenses or otherwise (including, without limitation, all reasonable fees and disbursements of counsel to the relevant Qualified Counterparty that are required to be paid by the Grantor pursuant to the terms of any Specified Derivative Contract).

"Excluded Assets": the collective reference to (i) any contract, General Intangible, Copyright License, Patent License or Trademark License ("Intangible Assets"), in each case to the extent the grant by the relevant Grantor of a security interest pursuant to this Agreement in such Grantor's right, title and interest in such Intangible Asset (A) is prohibited by legally enforceable provisions of any contract, agreement, instrument or indenture governing such Intangible Asset, (B) would give any other party to such contract, agreement, instrument or indenture a legally enforceable right to terminate its obligations thereunder or (C) is permitted only with the consent of another party, if the requirement to obtain such consent is legally enforceable and such consent has not been obtained; provided, that in any event any Receivable or any money or other amounts due or to become due under any such contract, agreement, instrument or indenture shall not be Excluded Assets to the extent that any of the foregoing is (or if it contained a provision limiting the transferability or pledge thereof would be) subject to Section 409.406 or Section 409.408 of the Wisconsin UCC, and (ii) those assets as to which the Lender shall determine, in its reasonable discretion, that the cost of obtaining such Lien (including any mortgage, stamp, intangibles or other tax) are excessive in relation to the benefit to the Lender of the security afforded thereby.

"Guarantee Agreement Obligations": the collective reference to all obligations and liabilities of the Grantors (including, without limitation, interest accruing at the then applicable rate provided in the ADAC Credit Agreement after the maturity of the Loans referred to therein and interest accruing at the then applicable rate provided in the ADAC Credit Agreement after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding, relating to ADAC, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding) to the Lender, whether direct or indirect, absolute or contingent, due or to become due, or now existing or hereafter incurred in favor of the Lender, which may arise under, out of, or in connection with, the Guarantee Agreement, or any other document made, delivered or given in connection therewith, in each case whether on account of principal, interest, reimbursement obligations, fees, indemnities, costs, expenses or otherwise (including, without limitation, all reasonable fees and disbursements of counsel to the Lender that are required to be paid by the Grantor pursuant to the terms of the Guarantee Agreement).

"Intellectual Property": the collective reference to all rights, priorities and privileges relating to intellectual property, whether arising under United States, multinational or foreign laws or otherwise, including, without limitation, the Copyrights, the Copyright Licenses, the Patents, the Patent Licenses, the Trademarks and the Trademark Licenses, and all rights to sue at law or in equity for any infringement or other impairment thereof, including the right to receive all proceeds and damages therefrom.

"Issuers": the collective reference to each issuer of any Investment Property.

“Obligations”: the collective reference to (i) the Credit Agreement Obligations, (ii) the Guarantee Agreement Obligations, (iii) the Derivative Contract Obligations, (iv) all obligations and liabilities of the Grantors, whether direct or indirect, absolute or contingent, due or to become due, or now existing or hereafter incurred, which may arise out of, or in connection with, any deposit accounts maintained by Lender or its affiliates for account of any Grantor, or any transfer of funds which may arise out of, or in connection with, such deposit accounts, and (v) all other obligations and liabilities of any Grantor in favor of any Secured Party, whether direct or indirect, absolute or contingent, due or to become due, now existing or hereafter incurred, or determined or undetermined, whether any Grantor is liable individually or jointly with others, including, without limitation, on account of principal, interest or other debts, guarantee obligations, reimbursement obligations, fees, indemnities, costs, expenses or otherwise (including, without limitation, all reasonable fees and disbursements of counsel to the Lender or to any Secured Party that are required to be paid by such Grantor), obligations with respect to overdrafts in deposit accounts, letters of credit and bankers' acceptances, and whether or not any or all such debts, obligations and liabilities are or become barred by any statute of limitations or otherwise unenforceable, and including any of the foregoing that arise after the filing of a petition by or against Grantor under the United States Bankruptcy Code.

“Patent License”: all agreements, whether written or oral, providing for the grant by or to any Grantor of any right to manufacture, use or sell any invention covered in whole or in part by a Patent.

“Patents”: (i) all letters patent of the United States, any other country or any political subdivision thereof, all reissues and extensions thereof and all goodwill associated therewith, (ii) all applications for letters patent of the United States or any other country and all divisions, continuations and continuations-in-part thereof, and (iii) all rights to obtain any reissues or extensions of the foregoing.

“Proceeds”: all “proceeds” as such term is defined in Section 409.102(1)(ps) of the Wisconsin UCC on the date hereof and, in any event, including, without limitation, all dividends or other income from the Investment Property, collections thereon or distributions or payments with respect thereto.

“Qualified Counterparty”: with respect to any Specified Derivative Contract, any counterparty thereto that, at the time such Specified Derivative Contract was entered into, was either the Lender or an affiliate of the Lender.

“Receivable”: any right to payment for goods sold, leased, licensed, assigned or otherwise disposed of, or for services rendered, whether or not such right is evidenced by an Instrument or Chattel Paper and whether or not it has been earned by performance (including, without limitation, any Account).

“Secured Parties”: the collective reference to the Lender and any Qualified Counterparties.

“Securities Act”: the Securities Act of 1933, as amended.

"Specified Derivative Contract": any Derivative Contract entered into by (i) any Grantor and (ii) any Qualified Counterparty.

"Trademark License": any agreement, whether written or oral, providing for the grant by or to any Grantor of any right to use any Trademark.

"Trademarks": (i) all trademarks, trade names, corporate names, company names, business names, fictitious business names, trade styles, service marks, logos and other source or business identifiers, and all goodwill associated therewith, now existing or hereafter adopted or acquired, all registrations and recordings thereof, and all applications in connection therewith, whether in the United States Patent and Trademark Office or in any similar office or agency of the United States, any State thereof or any other country or any political subdivision thereof, or otherwise, and all common-law rights related thereto, and (ii) the right to obtain all renewals thereof.

"Vehicles": all cars, trucks, trailers, construction and earth moving equipment and other vehicles covered by a certificate of title law of any state and all tires and other appurtenances to any of the foregoing.

"Wisconsin UCC": the Uniform Commercial Code as from time to time in effect in the State of Wisconsin.

1.2 Other Definitional Provisions

(a) The words "hereof," "herein", "hereto" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and Section and Schedule references are to this Agreement unless otherwise specified.

(b) The meanings given to terms defined herein shall be equally applicable to both the singular and plural forms of such terms.

(c) Where the context requires, terms relating to the Collateral or any part thereof, when used in relation to a Grantor, shall refer to such Grantor's Collateral or the relevant part thereof.

2. GRANT OF SECURITY INTEREST

Each Grantor hereby assigns and transfers to the Lender, and hereby grants to the Lender, for the ratable benefit of the Secured Parties, a security interest in, all of the following property now owned or at any time hereafter acquired by such Grantor or in which such Grantor now has or at any time in the future may acquire any right, title or interest (collectively, the "Collateral"), as collateral security for the prompt and complete payment and performance when due (whether at the stated maturity, by acceleration or otherwise) of such Grantor's Obligations:

(a) all Accounts;

(b) all Chattel Paper;

(c) all Deposit Accounts;

(d) all Documents;

(e) all Equipment;

(f) all General Intangibles;

(g) all Instruments;

(h) all Intellectual Property;

(i) all Inventory;

(j) all Investment Property;

(k) all Vehicles;

(l) all Letter-of-Credit Rights;

(m) all Commercial Tort Claims to the extent they have been identified by notice to the Lender and a security interest has been granted pursuant to Section 4.10;

(n) all Goods and other property not otherwise described above;

(o) all books and records pertaining to the Collateral; and

(p) to the extent not otherwise included, all Proceeds and products of any and all of the foregoing, all Supporting Obligations in respect of any of the foregoing and all collateral security and guarantees given by any Person with respect to any of the foregoing; provided, that the Collateral shall not include any Excluded Assets.

3. REPRESENTATIONS AND WARRANTIES

To induce the Lender to enter into the Credit Agreement and make extensions of credit to the Borrower thereunder, each Grantor hereby represents and warrants to the Lender as of the date of this Agreement that:

3.1 Representations in Credit Agreement

The representations and warranties set forth in Article 5 of the Credit Agreement as they relate to the Borrower or to the Loan Documents to which the Borrower is a party, each of which is hereby incorporated herein by reference, are true and correct, and the Lender shall be entitled to rely on each of them as if they were fully set forth herein.

### 3.2 Title; No Other Liens

Except for the security interest granted to the Lender for the ratable benefit of the Secured Parties pursuant to this Agreement and the other Liens expressly permitted to exist on the Collateral by the Credit Agreement, such Grantor owns each item of the Collateral free and clear of any and all Liens or claims of others. No effective financing statement or other public notice with respect to all or any part of the Collateral is on file or of record in any public office, except such as have been filed in favor of the Lender, for the ratable benefit of the Secured Parties, pursuant to this Agreement or as are expressly permitted by the Credit Agreement.

### 3.3 Perfected First Priority Liens

The security interests granted pursuant to this Agreement (a) upon completion of the filings and other actions specified on Schedule 3.3(a) (which, in the case of all filings and other documents referred to on said Schedule, have been delivered to the Lender in completed and duly executed form) will constitute valid perfected security interests in all of the Collateral in favor of the Lender, for the ratable benefit of the Secured Parties, as collateral security for such Grantor's Obligations, enforceable in accordance with the terms hereof against all creditors of such Grantor and any Persons purporting to purchase any Collateral from such Grantor except as provided by applicable law and (b) are prior to all other Liens on the Collateral in existence on the date hereof except for (i) unrecorded Liens expressly permitted by the Credit Agreement which have priority over the Liens on the Collateral by operation of law and (ii) Liens described on Schedule 3.3(b).

### 3.4 Jurisdiction of Organization; Chief Executive Office

On the date hereof, such Grantor's jurisdiction of organization, identification number from the jurisdiction of organization (if any), and the location of such Grantor's chief executive office or principal place of business, as the case may be, are specified on Schedule 3.4. Such Grantor has furnished to the Lender a certified charter, certificate of incorporation or other organization document and long-form good standing certificate as of a date which is recent to the date hereof.

### 3.5 Inventory and Equipment

On the date hereof, the Inventory and the Equipment (other than mobile goods) are kept at the locations listed on Schedule 3.5.

### 3.6 Investment Property

Such Grantor is the record and beneficial owner of, and has good and marketable title to, the Investment Property pledged by it hereunder, free of any and all Liens or options in favor of, or claims of, any other Person, except the security interest created by this Agreement.

3.7 Receivables

(a) No amount payable to such Grantor under or in connection with any Receivable is evidenced by any Instrument or Chattel Paper which has not been delivered to the Lender to the extent required by Section 4.1.

(b) The amounts represented by such Grantor to the Secured Parties from time to time as owing to such Grantor in respect of the Receivables will at such times be materially accurate.

3.8 Intellectual Property

(a) On the date hereof, all material Intellectual Property of such Grantor is valid, subsisting, unexpired and enforceable, has not been abandoned and, to the knowledge of each Grantor, does not infringe the intellectual property rights of any other Person, except as could not reasonably be expected to cause a Material Adverse Change.

(b) On the date hereof, none of the Intellectual Property is the subject of any licensing or franchise agreement pursuant to which such Grantor is the licensor or franchisor.

4. COVENANTS

Each Grantor covenants and agrees with the Lender and the Secured Parties that, from and after the date of this Agreement until the Obligations shall have been paid in full and the Commitment shall have terminated:

4.1 Delivery of Instruments and Chattel Paper

If any amount payable under or in connection with any of the Collateral shall be or become evidenced by any Instrument, Certificated Security or Chattel Paper, such Instrument, Certificated Security or Chattel Paper shall be immediately delivered to the Lender, duly indorsed in a manner satisfactory to the Lender, to be held as Collateral pursuant to this Agreement.

4.2 Maintenance of Insurance

(a) Maintain insurance in such amounts and against such risks as is customary by companies engaged in the same or similar businesses and similarly situated.

(b) All such insurance shall (i) provide that no cancellation, material reduction in amount or material change in coverage thereof shall be effective until at least 30 days after receipt by the Lender of written notice thereof, and (ii) name the Lender as lender loss payee (on property and casualty insurance) and as additional insured (on liability insurance).

4.3 Payment of Obligations

Such Grantor will pay and discharge or otherwise satisfy at or before maturity or before they become delinquent, as the case may be, all claims of any kind (including, without limitation, claims for labor, materials and supplies) against or with respect to the Collateral which can reasonably be expected to result in a Lien on such Collateral, except that no such charge need be paid if the amount or validity thereof is currently being contested in good faith by appropriate proceedings, reserves in conformity with GAAP with respect thereto have been provided on the books of such Grantor and such proceedings could not reasonably be expected to result in the sale, forfeiture or loss of any material portion of the Collateral or any interest therein.

4.4 Maintenance of Perfected Security Interest; Further Documentation

(a) Such Grantor shall maintain the security interest created by this Agreement as a perfected security interest having at least the priority described in Section 3.3 and shall defend such security interest against the claims and demands of all Persons whomsoever (other than the holders of Permitted Liens), except that Grantors shall have no obligation to file any financing statement to perfect or to continue the perfection of the Lender's security interest.

(b) Such Grantor will furnish to the Lender from time to time statements and schedules reasonably requested by the Lender further identifying and describing the assets and property of such Grantor and such other reports in connection with the Collateral as the Lender may reasonably request, all in reasonable detail.

(c) At any time and from time to time, upon the written request of the Lender, and at the sole expense of such Grantor, such Grantor will promptly and duly execute and deliver, and have recorded, such further instruments and documents and take such further actions as the Lender may reasonably request for the purpose of obtaining or preserving the full benefits of this Agreement and of the rights and powers herein granted, including, without limitation, (i) the filing of any financing or continuation statements under the Uniform Commercial Code (or other similar laws) in effect in any jurisdiction with respect to the security interests created hereby and (ii) in the case of Investment Property, Deposit Accounts and Letter-of-Credit Rights, taking any actions necessary to enable the Lender to obtain "control" (within the meaning of the applicable Uniform Commercial Code) with respect thereto.

4.5 Changes in Name, etc

Such Grantor will not, except upon 30 days' prior written notice to the Lender and delivery to the Lender of all additional documents reasonably requested by the Lender to maintain the validity, perfection and priority of the security interests provided for herein:

(a) change its jurisdiction of organization or the location of its chief executive office or principal place of business from that referred to in Section 3.4; or

(b) change its name.

4.6 Notices

Such Grantor will advise the Lender promptly, in reasonable detail, of:

(a) any Lien (other than security interests created hereby or Liens expressly permitted under the Credit Agreement) on any of the Collateral which would adversely affect the ability of the Lender to exercise any of its remedies hereunder; and

(b) the occurrence of any other event which could reasonably be expected to have a material adverse effect on the aggregate value of the Collateral or on the security interests created hereby.

4.7 Investment Property

(a) In case any distribution of capital shall be made on or in respect of the Investment Property, or any property shall be distributed upon or with respect to the Investment Property pursuant to the recapitalization or reclassification of the capital of any Issuer or pursuant to the reorganization thereof, the property so distributed shall, unless otherwise subject to a perfected security interest in favor of the Lender, be delivered to the Lender to be held by it hereunder as additional collateral security for the Obligations. If any sums of money or property so paid or distributed in respect of the Investment Property shall be received by such Grantor, such Grantor shall, until such money or property is paid or delivered to the Lender, hold such money or property in trust for the Secured Parties, segregated from other funds of such Grantor, as additional collateral security for the Obligations.

(b) Without the prior written consent of the Lender, such Grantor will not (i) sell, assign, transfer, exchange, or otherwise dispose of, or grant any option with respect to, the Investment Property or Proceeds thereof (except pursuant to a transaction expressly permitted by the Credit Agreement), (ii) create, incur or permit to exist any Lien or option in favor of, or any claim of any Person with respect to, any of the Investment Property or Proceeds thereof, or any interest therein, except for the security interests created by this Agreement (and Liens expressly permitted under the Credit Agreement).

4.8 Receivables

Other than in the ordinary course of business, such Grantor will not (i) grant any extension of the time of payment of any Receivable, (ii) compromise or settle any Receivable for less than the full amount thereof, (iii) release, wholly or partially, any Person liable for the payment of any Receivable, (iv) allow any credit or discount whatsoever on any Receivable or (v) amend, supplement or modify any Receivable in any manner that could adversely affect the value thereof.

4.9 Intellectual Property

(a) Such Grantor (either itself or through licensees) will not (and not permit any licensee or sublicensee thereof to) do any act or knowingly omit to do any act whereby any material Trademark may become invalidated or impaired in any way.

(b) Such Grantor (either itself or through licensees) will not do any act, or omit to do any act, whereby any material Patent may become forfeited, abandoned or dedicated to the public other than by its expiration.

(c) Such Grantor (either itself or through licensees) (i) will employ each material Copyright and (ii) will not (and will not permit any licensee or sublicensee thereof to) do any act or knowingly omit to do any act whereby any material portion of the Copyrights may become invalidated or otherwise impaired.

(d) Whenever such Grantor, either by itself or through any agent, employee, licensee or designee, shall file an application for the registration of any Intellectual Property with the United States Patent and Trademark Office, the United States Copyright Office or any similar office or agency in any other country or any political subdivision thereof, such Grantor shall report such filing to the Lender within five Business Days after the last day of the fiscal quarter in which such filing occurs. Upon request of the Lender, such Grantor shall execute and deliver, and have recorded, any and all agreements, instruments, documents, and papers as the Lender may request to evidence the Lender's and the Secured Parties' security interest in any Copyright, Patent or Trademark and the goodwill and general intangibles of such Grantor relating thereto or represented thereby.

(e) Notwithstanding anything contained herein to the contrary, no Grantor shall be deemed to be in violation of Sections 4.09(a) through (d) above unless any noncompliance with any such Section could reasonably be expected to cause a Material Adverse Change.

4.10 Commercial Tort Claims

If any Grantor shall at any time commence a suit, action or proceeding with respect to any Commercial Tort Claim held by it with a value which such Grantor believes to be of $100,000 or more, such Grantor shall promptly notify the Lender thereof in a writing signed by such Grantor and describing the details thereof and shall grant to the Lender for the benefit of the Secured Parties in such writing a security interest therein and in the proceeds thereof, all upon the terms of this Agreement, with such writing to be in form and substance reasonably satisfactory to the Lender.

## 5. REMEDIAL PROVISIONS

5.1 Certain Matters Relating to Receivables

(a) After the occurrence and during the continuance of an Event of Default, the Lender hereby authorizes each Grantor to collect such Grantor's Receivables, subject to the Lender's direction and control, and the Lender may curtail or terminate said authority at any time after the occurrence and during the continuance of an Event of Default. If required by the Lender at any time after the occurrence and during the continuance of an Event of Default, any payments of Receivables, when collected by any Grantor, (i) shall be forthwith (and, in any event, within two (2) Business Days) deposited by such Grantor in the exact form received, duly indorsed by such Grantor to the Lender if required, in a Collateral Account maintained under the sole dominion and control of the Lender, subject to withdrawal by the Lender for the account of the

Secured Parties only as provided in Section 5.4, and (ii) until so turned over, shall be held by such Grantor in trust for the Lender and the Secured Parties, segregated from other funds of such Grantor. Each such deposit of Proceeds of Receivables shall be accompanied by a report identifying in reasonable detail the nature and source of the payments included in the deposit.

(b) At the Lender's request, after the occurrence and during the continuance of an Event of Default, each Grantor shall deliver to the Lender all original and other documents evidencing, and relating to, the agreements and transactions which gave rise to the Receivables, including, without limitation, all original orders, invoices and shipping receipts.

5.2 Communications with Obligors; Grantors Remain Liable

(a) The Lender in its own name or in the name of others may at any time after the occurrence and during the continuance of an Event of Default communicate with obligors under the Receivables.

(b) Upon the request of the Lender at any time after the occurrence and during the continuance of an Event of Default, each Grantor shall notify obligors on the Receivables that the Receivables have been assigned to the Lender for the ratable benefit of the Secured Parties and that payments in respect thereof shall be made directly to the Lender.

(c) Anything herein to the contrary notwithstanding, each Grantor shall remain liable under each agreement giving rise to any of the Receivables to observe and perform all the conditions and obligations to be observed and performed by it thereunder, all in accordance with the terms of any such agreement giving rise thereto. Neither the Lender nor any Secured Party shall have any obligation or liability under any agreement giving rise to any Receivable by reason of or arising out of this Agreement or the receipt by the Lender or any Secured Party of any payment relating thereto, nor shall the Lender or any Secured Party be obligated in any manner to perform any of the obligations of any Grantor under or pursuant to any agreement giving rise to any Receivable to make any payment, to make any inquiry as to the nature or the sufficiency of any payment received by it or as to the sufficiency of any performance by any party thereunder, to present or file any claim, to take any action to enforce any performance or to collect the payment of any amounts which may have been assigned to it or to which it may be entitled at any time or times.

5.3 Proceeds to be Turned Over To Lender

In addition to the rights of the Lender and the Secured Parties specified in Section 5.1 with respect to payments of Receivables, if an Event of Default shall occur and be continuing, all Proceeds received by any Grantor consisting of cash, checks and Instruments shall be held by such Grantor in trust for the Lender and the Secured Parties, segregated from other funds of such Grantor, and upon request by the Lender shall, forthwith upon receipt by such Grantor, be turned over to the Lender in the exact form received by such Grantor (duly indorsed by such Grantor to the Lender, if required). All Proceeds received by the Lender hereunder shall be held by the Lender in a Collateral Account maintained under its sole dominion and control which shall bear interest for the account of the relevant Grantor. All Proceeds while held by the Lender in a Collateral Account (or by such Grantor in trust for the

Lender and the Secured Parties) shall continue to be held as collateral security for all the Obligations and shall not constitute payment thereof until applied as provided in Section 5.4.

5.4 Application of Proceeds

At such intervals as may be agreed upon by the Borrower and the Lender, or, if an Event of Default shall have occurred and be continuing, at any time at the Lender's election, the Lender may apply all or any part of Proceeds constituting Collateral, whether or not held in any Collateral Account, in payment of the Obligations in the following order:

First, to pay incurred and unpaid fees and expenses of the Lender under the Loan Documents;

Second, to the Lender, for application by it towards payment of amounts then due and owing and remaining unpaid in respect of the Obligations, pro rata among the Secured Parties according to the amounts of the Obligations then due and owing and remaining unpaid to the Secured Parties;

Third, to the Lender, for application by it towards prepayment of the Obligations, pro rata among the Secured Parties according to the amounts of the Obligations then held by the Secured Parties; and

Fourth, any balance of such Proceeds remaining after the Obligations shall have been paid in full and the Commitment shall have terminated shall be paid over to whomsoever may be lawfully entitled to receive the same.

5.5 Code and Other Remedies

If an Event of Default shall occur and be continuing, the Lender, on behalf of the Secured Parties, may exercise, in addition to all other rights and remedies granted to them in this Agreement and in any other instrument or agreement securing, evidencing or relating to the Obligations, all rights and remedies of a secured party under the Wisconsin UCC or any other applicable law. Without limiting the generality of the foregoing, if an Event of Default shall occur and be continuing, the Lender, without demand of performance or other demand, presentment, protest, advertisement or notice of any kind (except any notice required by law referred to below) to or upon any Grantor or any other Person (all and each of which demands, defenses, advertisements and notices are hereby waived), may in such circumstances forthwith collect, receive, appropriate and realize upon the Collateral, or any part thereof, and/or may forthwith sell, lease, assign, give option or options to purchase, or otherwise dispose of and deliver the Collateral or any part thereof (or contract to do any of the foregoing), in one or more parcels at public or private sale or sales, at any exchange, broker's board or office of the Lender or any Secured Party or elsewhere upon such terms and conditions as it may deem advisable and at such prices as it may deem best, for cash or on credit or for future delivery without assumption of any credit risk. The Lender or any Secured Party shall have the right upon any such public sale or sales, and, to the extent permitted by law, upon any such private sale or sales, to purchase the whole or any part of the Collateral so sold. Each Grantor further agrees, at the Lender's request, to assemble the Collateral and make it available to the Lender at places which the Lender shall reasonably select, whether at such Grantor's premises or elsewhere. The Lender shall apply the net proceeds of any action taken by it pursuant to this Section 5.5 with respect to any Grantor's Collateral, after deducting all reasonable costs and expenses of every kind incurred in connection therewith or incidental to the care or safekeeping of any of the Collateral of such Grantor or in any way relating to the Collateral of such Grantor or the rights of the Lender and the Secured Parties hereunder with respect thereto, including, without limitation, reasonable attorneys' fees and disbursements, to the payment in whole or in part of the Obligations of such Grantor, in the order specified in Section 5.4, and only after such application and after the payment by the Lender of any other amount required by any provision of law, including, without limitation, Section 409.615(1)(c) of the Wisconsin UCC, need the Lender account for the surplus, if any, to any Grantor. To the extent permitted by applicable law, each Grantor waives all claims, damages and demands it may acquire against the Lender or any Secured Party arising out of the exercise by them of any rights hereunder without gross negligence, willful misconduct or breach of an enforceable contractual obligation. If any notice of a proposed sale or other disposition of Collateral shall be required by law, such notice shall be deemed reasonable and proper if given at least 10 days before such sale or other disposition.

5.6 Deficiency

Each Grantor shall remain liable for any deficiency if the proceeds of any sale or other disposition of the Collateral are insufficient to pay its Obligations and the fees and disbursements of any attorneys employed by the Lender or any Secured Party to collect such deficiency.

6. AUTHORITY OF THE LENDER

6.1 Lender's Appointment as Attorney-in-Fact, etc

(a) Each Grantor hereby irrevocably constitutes and appoints the Lender and any officer or agent thereof, with full power of substitution, as its true and lawful attorney-in-fact with full irrevocable power and authority in the place and stead of such Grantor and in the name of such Grantor or in its own name, for the purpose of carrying out the terms of this Agreement, to take any and all appropriate action and to execute any and all documents and instruments which may be necessary or desirable to accomplish the purposes of this Agreement, and, without limiting the generality of the foregoing, each Grantor hereby gives the Lender the power and right, on behalf of such Grantor, without notice to or assent by such Grantor, to do any or all of the following:

(i) in the name of such Grantor or its own name, or otherwise, take possession of and indorse and collect any checks, drafts, notes, acceptances or other instruments for the payment of moneys due under any Receivable or with respect to any other Collateral and file any claim or take any other action or proceeding in any court of law or equity or otherwise deemed appropriate by the Lender for the purpose of collecting any and all such moneys due under any Receivable or with respect to any other Collateral whenever payable;

(ii) in the case of any Intellectual Property, execute and deliver, and have recorded, any and all agreements, instruments, documents and papers as the Lender may request to evidence the Lender's and the Secured Parties' security interest in such Intellectual Property and the goodwill and general intangibles of such Grantor relating thereto or represented thereby;

(iii) pay or discharge taxes and Liens levied or placed on or threatened against the Collateral, effect any repairs or any insurance called for by the terms of this Agreement and pay all or any part of the premiums therefor and the costs thereof;

(iv) execute, in connection with any sale provided for in Section 5.5, any indorsements, assignments or other instruments of conveyance or transfer with respect to the Collateral;

(v) (1) direct any party liable for any payment under any of the Collateral to make payment of any and all moneys due or to become due thereunder directly to the Lender or as the Lender shall direct; (2) ask or demand for, collect, and receive payment of and receipt for, any and all moneys, claims and other amounts due or to become due at any time in respect of or arising out of any Collateral; (3) sign and indorse any invoices, freight or express bills, bills of lading, storage or warehouse receipts, drafts against debtors, assignments, verifications, notices and other documents in connection with any of the Collateral; (4) commence and prosecute any suits, actions or proceedings at law or in equity in any court of competent jurisdiction to collect the Collateral or any portion thereof and to enforce any other right in respect of any Collateral; (5) defend any suit, action or proceeding brought against such Grantor with respect to any Collateral; (6) settle, compromise or adjust any such suit, action or proceeding against any Grantor with respect to any Collateral and, in connection therewith, give such discharges or releases as the Lender may deem appropriate; (7) assign any Copyright, Patent or Trademark (along with the goodwill of the business to which any such Copyright, Patent or Trademark pertains), throughout the world for such term or terms, on such conditions, and in such manner, as the Lender shall in its sole discretion determine; and (8) generally, sell, transfer, pledge and make any agreement with respect to or otherwise deal with any of the Collateral as fully and completely as though the Lender were the absolute owner thereof for all purposes, and do, at the Lender's option and such Grantor's expense, at any time, or from time to time, all acts and things which the Lender reasonably deems necessary to protect, preserve or realize upon the Collateral and the Lender's and the Secured Parties' security interests therein and to effect the intent of this Agreement, all as fully and effectively as such Grantor might do; and

(vi) license or sublicense whether on an exclusive or non-exclusive basis, any Intellectual Property for such term and on such conditions and in such manner as the Lender shall in its sole judgment determine and, in connection therewith, such Grantor hereby grants to the Lender for the benefit of the Secured Parties a royalty-free, world-wide irrevocable license of its Intellectual Property.

Anything in this Section 6.1 (a) to the contrary notwithstanding, the Lender agrees that it will not exercise any rights under the power of attorney provided for in this Section 6.1(a) and such power of attorney shall not be effective unless an Event of Default shall have occurred and be continuing.

(b) If any Grantor fails to perform or comply with any of its agreements contained herein after the occurrence and during the continuance of an Event of Default, the

Lender, at its option, but without any obligation so to do, may perform or comply, or otherwise cause performance or compliance, with such agreement.

(c) The reasonable expenses of the Lender incurred in connection with actions undertaken as provided in this Section 6.1, together with interest thereon at a rate per annum equal to the rate per annum at which interest would then be payable on past due Loans that are Adjusted Base Rate Loans under the Credit Agreement, from the date of payment by the Lender to the date reimbursed by the relevant Grantor, shall be payable by such Grantor to the Lender on demand.

(d) Each Grantor hereby ratifies all that said attorneys shall lawfully do or cause to be done by virtue hereof. All powers, authorizations and agencies contained in this Agreement are coupled with an interest and are irrevocable until this Agreement is terminated and the security interests created hereby are released.

6.2 Duty of Lender

The Lender's sole duty with respect to the custody, safekeeping and physical preservation of the Collateral in its possession, under Section 409.207 of the Wisconsin UCC or otherwise, shall be to deal with it in the same manner as the Lender deals with similar property for its own account. Neither the Lender, any Secured Party nor any of their respective officers, directors, employees or agents shall be liable for failure to demand, collect or realize upon any of the Collateral or for any delay in doing so or shall be under any obligation to sell or otherwise dispose of any Collateral upon the request of any Grantor or any other Person or to take any other action whatsoever with regard to the Collateral or any part thereof. The powers conferred on the Lender and the Secured Parties hereunder are solely to protect the Lender's and the Secured Parties' interests in the Collateral and shall not impose any duty upon the Lender or any Secured Party to exercise any such powers. The Lender and the Secured Parties shall be accountable only for amounts that they actually receive as a result of the exercise of such powers, and neither they nor any of their officers, directors, employees or agents shall be responsible to any Grantor for any act or failure to act hereunder, except for their own gross negligence, willful misconduct or breach of an enforceable contractual obligation.

6.3 Execution of Financing Statements

Pursuant to any applicable law, each Grantor authorizes the Lender to file or record financing statements and other filing or recording documents or instruments with respect to the Collateral without the signature of such Grantor in such form and in such offices as the Lender reasonably determines appropriate to perfect the security interests of the Lender under this Agreement. Each Grantor authorizes the Lender to use the collateral description "all personal property", "all personal property, whether now owned or hereafter acquired" or "all assets" in any such financing statements.

6.4 Authority of Lender

Each Grantor acknowledges that the rights and responsibilities of the Lender under this Agreement with respect to any action taken by the Lender or the exercise or non-exercise by the Lender of any option, voting right, request, judgment or other right or remedy provided for herein or resulting or arising out of this Agreement shall, as between the Lender and the Secured Parties, be governed by the Credit Agreement and by such other agreements with respect thereto as may exist from time to time among them, but, as between the Lender and the Grantors, the Lender shall be conclusively presumed to be acting as agent for the Secured Parties with full and valid authority so to act or refrain from acting, and no Grantor shall be under any obligation, or entitlement, to make any inquiry respecting such authority. Notwithstanding any other provision herein or in any Loan Document, the only duty or responsibility of the Lender to any Qualified Counterparty under this Agreement is the duty to remit to such Qualified Counterparty any amounts to which it is entitled pursuant to Section 5.4.

7. MISCELLANEOUS

7.1 Amendments in Writing

None of the terms or provisions of this Agreement may be waived, amended, supplemented or otherwise modified except in accordance with Section 9.10 of the Credit Agreement. No consent of any Qualified Counterparty shall be required for any waiver, amendment, supplement or other modification to this Agreement.

7.2 Notices

All notices, requests and demands to or upon the Lender or any Grantor hereunder shall be effected in the manner provided for in Section 9.07 of the Credit Agreement.

7.3 No Waiver by Course of Conduct; Cumulative Remedies

Neither the Lender nor any Secured Party shall by any act (except by a written instrument pursuant to Section 7.1), delay, indulgence, omission or otherwise be deemed to have waived any right or remedy hereunder or to have acquiesced in any Default or Event of Default. No failure to exercise, nor any delay in exercising, on the part of the Lender or any Secured Party, any right, power or privilege hereunder shall operate as a waiver thereof. No single or partial exercise of any right, power or privilege hereunder shall preclude any other or further exercise thereof or the exercise of any other right, power or privilege. A waiver by the Lender or any Secured Party of any right or remedy hereunder on any one occasion shall not be construed as a bar to any right or remedy which the Lender or such Secured Party would otherwise have on any future occasion. The rights and remedies herein provided are cumulative, may be exercised singly or concurrently and are not exclusive of any other rights or remedies provided by law.

7.4 Enforcement Expenses; Indemnification

(a) Each Grantor agrees to pay, or reimburse each Secured Party and the Lender for, all its costs and expenses incurred in enforcing or preserving any rights under this Agreement and the other Loan Documents to which such Grantor is a party, including, without limitation, the reasonable fees and disbursements of counsel to the Lender.

(b) Each Grantor agrees to pay, and to save the Lender and the Secured Parties harmless from, any and all liabilities with respect to, or resulting from any delay in paying, any and all stamp, excise, sales or other taxes which may be payable or determined to be payable with respect to any of the Collateral or in connection with any of the transactions contemplated by this Agreement.

(c) Each Grantor agrees to pay, and to save the Lender and the Secured Parties harmless from, any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever with respect to the execution, delivery, enforcement, performance and administration of this Agreement to the extent the Borrower would be required to do so pursuant to Section 9.01 of the Credit Agreement.

(d) The agreements in this Section shall survive repayment of the Obligations and all other amounts payable under the Credit Agreement and the other Loan Documents.

7.5 Successors and Assigns

This Agreement shall be binding upon the successors and assigns of each Grantor and shall inure to the benefit of the Lender and the Secured Parties and their successors and assigns; provided that no Grantor may assign, transfer or delegate any of its rights or obligations under this Agreement without the prior written consent of the Lender.

7.6 Set-Off

Each Grantor hereby irrevocably authorizes the Lender and each Secured Party at any time and from time to time while an Event of Default shall have occurred and be continuing, without notice to such Grantor or any other Grantor, any such notice being expressly waived by each Grantor, to set-off and appropriate and apply any and all deposits (general or special, time or demand, provisional or final), in any currency, and any other credits, indebtedness or claims, in any currency, in each case whether direct or indirect, absolute or contingent, matured or unmatured, at any time held or owing by the Lender or such Secured Party to or for the credit or the account of such Grantor, or any part thereof in such amounts as the Lender or such Secured Party may elect, against and on account of the Obligations of such Grantor to the Lender or such Secured Party hereunder and claims of every nature and description of the Lender or such Secured Party against such Grantor, in any currency, whether arising hereunder, under the Credit Agreement or any other Loan Document, as the Lender or such Secured Party may elect, whether or not the Lender or any Secured Party has made any demand for payment and although such obligations, liabilities and claims may be contingent or unmatured. The Lender and each Secured Party shall notify such Grantor and the Borrower Representative promptly of any such set-off and the application made by the Lender or such Secured Party of the proceeds thereof, provided that the failure to give such notice shall not affect the validity of such set-off and application. The rights of the Lender and each Secured Party under this Section are in addition to other rights and remedies (including, without limitation, other rights of set-off) which the Lender or such Secured Party may have.

7.7 Counterparts

This Agreement may be executed by one or more of the parties to this Agreement on any number of separate counterparts (including by portable document format (pdf) or by facsimile), and all of said counterparts taken together shall be deemed to constitute one and the same instrument.

7.8 Severability

Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

7.9 Section Headings

The Section headings used in this Agreement are for convenience of reference only and are not to affect the construction hereof or be taken into consideration in the interpretation hereof.

7.10 Integration

This Agreement and the other Loan Documents represent the agreement of the Grantors, the Lender and the Secured Parties with respect to the subject matter hereof and thereof, and there are no promises, undertakings, representations or warranties by the Lender or any Secured Party relative to subject matter hereof and thereof not expressly set forth or referred to herein or in the other Loan Documents.

7.11 GOVERNING LAW

THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAW OF THE STATE OF WISCONSIN.

7.12 Submission To Jurisdiction; Waivers

Each Grantor hereby irrevocably and unconditionally:

(a) submits for itself and its property in any legal action or proceeding relating to this Agreement and the other Loan Documents to which it is a party, or for recognition and enforcement of any judgment in respect thereof, to the non exclusive general jurisdiction of the Courts of the State of Wisconsin, the courts of the United States of America for the Eastern District of Wisconsin, and appellate courts from any thereof;

(b) consents that any such action or proceeding may be brought in such courts and waives any objection that it may now or hereafter have to the venue of any such action or proceeding in any such court or that such action or proceeding was brought in an inconvenient court and agrees not to plead or claim the same;

(c) agrees that nothing herein shall affect the right to effect service of process in any manner permitted by law or shall limit the right to sue in any other jurisdiction; and

(d) waives, to the maximum extent not prohibited by law, any right it may have to claim or recover in any legal action or proceeding referred to in this Section any exemplary, punitive or consequential damages.

7.13 Acknowledgements

Each Grantor hereby acknowledges that:

(a) it has been advised by counsel in the negotiation, execution and delivery of this Agreement and the other Loan Documents to which it is a party;

(b) neither the Lender nor any Secured Party has any fiduciary relationship with or duty to any Grantor arising out of or in connection with this Agreement or any of the other Loan Documents, and the relationship between the Grantors, on the one hand, and the Lender and Secured Parties, on the other hand, in connection herewith or therewith is solely that of debtor and creditor; and

(c) no joint venture is created hereby or by the other Loan Documents or otherwise exists by virtue of the transactions contemplated hereby among the Secured Parties or among the Grantors and the Secured Parties.

7.14 Releases

(a) At such time as the Loans and the other Obligations shall have been paid in full and the Commitments have been terminated, the Collateral shall be released from the Liens created hereby, and this Agreement and all obligations (other than those expressly stated to survive such termination) of the Lender and each Grantor hereunder shall terminate, all without delivery of any instrument or performance of any act by any party, and all rights to the Collateral shall revert to the Grantors. At the request and sole expense of any Grantor following any such termination, the Lender shall deliver to such Grantor any Collateral held by the Lender hereunder, and execute and deliver to such Grantor such documents as such Grantor shall reasonably request to evidence such termination.

(b) If any of the Collateral is to be sold, transferred or otherwise disposed of by any Grantor in a transaction permitted by the Credit Agreement, then the Lender, at the request and sole expense of such Grantor, shall execute and deliver to such Grantor all releases or other documents reasonably necessary or desirable for the release of the Liens created hereby on such Collateral.

(c) No consent of any Qualified Counterparty shall be required for any release of Collateral pursuant to this Section.

7.15 WAIVER OF JURY TRIAL

EACH GRANTOR AND, BY ACCEPTANCE OF THE BENEFITS HEREOF, THE LENDER AND EACH SECURED PARTY, HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT AND FOR ANY COUNTERCLAIM THEREIN.

7.16 Entire Agreement

This Agreement and the other documents referred to herein constitute the entire agreement between the parties relating to the subject matter hereof and supersede all previous contracts and agreements between the parties hereto, both oral and written.

[Remainder of Page Intentionally Left Blank – Signature Page Follows]

IN WITNESS WHEREOF, each of the undersigned has caused this Security Agreement to be duly executed and delivered as of the date first above written.

STRATTEC SECURITY CORPORATION

By: /s/ Harold M. Stratton II
Name: Harold M. Stratton II
Title: Chairman and Chief Executive Officer

And by: /s/ Patrick J. Hansen
Name: Patrick J. Hansen
Title: Senior Vice President and Chief Financial Officer

BMO HARRIS BANK N.A.

By: /s/ Michael M. Fordney
Name: Michael M. Fordney
Title: Senior Vice President

**FILINGS AND OTHER ACTIONS**
**REQUIRED TO PERFECT SECURITY INTERESTS**

**Uniform Commercial Code Filings**

1. Strattec Security Corporation

Wisconsin Department of Financial Institutions

**EXISTING PRIOR LIENS**

| | ***FILING JURISDICTION*** | ***SECURED PARTY*** | ***FILE NUMBER/ DATE*** | ***COLLATERAL*** |
|---|---|---|---|---|
| 1. | Wisconsin Department of Financial Institutions ("DFI") | GFC Leasing, a division of Gordon Flesch Co.,Inc. | 110013518422 | ImageRUNNER 3245i DHK17029/W7949, Image RUNNER 3245i DHK 18002/W8042,Image Runner 3230 DFR07740/W7950, ImageRUNNER 3230 DFR07741/W8044, ImageRUNNER 3230 GNG56887/W8165, IR Advance C5030 Base W/ Image Reader GNG56970/W8045, IR Advance C5045 Base W/Duplex Image GQP57120/W8166, including all accessories |
| 2. | DFI | GFC Leasing, a division of Gordon Flesch Co., Inc. | 110006674326<br><br>filed 6/1/2011 | IR Advance C5051 Base W/Duplex Image GQM53030 |
| 3. | DFI | GFC Leasing, a division of Gordon Flesch Co., Inc | 110005141617<br><br>filed 4/28/2011 | IR Advance C5051 Base W/Duplex Image GQM50899/W0351 |
| 4. | DFI | GFC Leasing, a division of Gordon Flesch Co., Inc | 110004090821 | IMAGERUNNER ADV C2030 EZS01016/V6529 |

| | *FILING JURISDICTION* | *SECURED PARTY* | *FILE NUMBER/ DATE* | *COLLATERAL* |
|---|---|---|---|---|
| 5. | DFI | MAKINO INC. | 110002864323<br><br>filed 3/10/2011 | ONE MAKINO EDAF3 CNC EDM MACHINE S.N.<br><br>E80024 WITH ALL ATTACHMENTS |
| 6. | DFI | MAKINO INC | 100014605218<br><br>filed 12/13/2010 | ONE MAKINO F5 VERTICAL MACHINING CENTER S.N. V150038 WITH ALL ATTACHMENTS |

Schedule 3.4

**JURISDICTION OF ORGANIZATION, IDENTIFICATION NUMBER AND LOCATION OF CHIEF EXECUTIVE OFFICE**

| Grantor | Jurisdiction of Organization | State Identification Number | Location of Chief Executive Office |
|---|---|---|---|
| Strattec Security Corporation | Wisconsin | S045963 | 3333 West Good Hope Road<br>Milwaukee, WI 53209 |

# LOCATIONS OF INVENTORY AND EQUIPMENT

**STRATTEC SECURITY CORPORATION**

**Corporate Headquarters and Milwaukee Plant Operations**

3333 W. Good Hope Road

Milwaukee, WI. 53209

**Phone #** (414) 247-3333 or 1-888-710-5770

**Fax #** 414-247-3329

***Detroit Sales Office (DSO)***

STRATTEC SECURITY CORP.

2155 Butterfield, Ste. 100

Troy, MI 48084-3401

**Phone #** (248) 649-9742

**Fax #** (248) 649-9581

***El Paso Warehouse***

STRATTEC SECURITY CORPORATION

12170 Rojas Dr Suite E

El Paso TX, 79936

**DUNS**: 82-622-3968

**Phone #** (915) 790-5400

**Fax #** (915) 872-9474

***<u>STRATTEC Mexican Operations – SMO Plant 1</u>***

***STRATTEC de MEXICO S.A de C.V. (SdM)***

C. Auxiliar No. 1 – No. 512

Parque Industrial Gema

Cd. Juarez,

Chihuahua, MEXICO 32640

**Phone #** (915) 778-6657

**Fax #** (915) 778-8363

***STRATTEC POWER ACCESS LLC (SPA)***

2155 Butterfield, Ste. 300

Troy, MI 48084-3401

**Phone #** (248) 649-9742

**Fax #** (248) 824-7541

***<u>STRATTEC Mexican Operations – SMO Plant 2</u>***

***STRATTEC de MEXICO S.A de C.V. (SdM)***

***ADAC-STRATTEC de MEXICO LLC (ASDM)***

***STRATTEC POWER ACCESS LLC (SPA)***

Calle Julio Hernandez #7939

Parque Industrial Los Aztecas

Ciudad Juárez, Chihuahua. México 32679

**Phone #** (915) 778-6657

**Fax #** (915) 778-8363

# EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT is made as of the 4th day of May, 2017, by and between STRATTEC SECURITY CORPORATION, a Wisconsin corporation (the "Company"), and Al-Waleed H. Hamdan (the "Employee").

## RECITAL

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

## AGREEMENTS

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

1. Employment. The Company hereby employs the Employee and the Employee hereby accepts employment with the Company on the terms and conditions set forth in this Agreement.

2. Term. The term of the Employee's new employment agreement hereunder shall commence effective on May 4, 2017 and (except as otherwise provided in this Agreement) shall continue through June 30, 2017 and (except as otherwise provided in this Agreement) shall thereafter be automatically renewed for successive annual terms ending each June 30 unless either the Company or Employee gives notice of nonrenewal not less than 30 days prior to the end of the then current term (the "Employment Period").

3. Duties. The Employee shall serve as the Vice President-Product Management of the Company and will, under the direction of the President and Chief Executive Officer, faithfully and to the best of Employee's ability, perform the duties of the Vice President-Product Management. Vice President-Product Management shall be one of the principal executive officers of the Company and shall, subject to the control of the President and Chief Executive Officer, supervise product business groups, ensuring that all products are designed or re-designed to meet quality, cost, sales and customer objectives. The Employee shall also perform such additional duties and responsibilities which may from time to time be reasonably assigned or delegated by the President and Chief Executive Officer of the Company. The Employee agrees to devote Employee's entire business time, effort, skill and attention to the proper discharge of such duties while employed by the Company. However, the Employee may engage in other business activities unrelated to, and not in conflict with, the business of the Company if the President and Chief Executive Officer consents in writing to such other business activity.

4. Compensation. The Employee shall receive a base salary of $230,000 per year, subject to ordinary tax withholding and all required deductions, payable in regular and semi-monthly installments (the "Base Salary"). Employee's Base Salary shall be reviewed annually by the Board of Directors of the Company to determine appropriate increases, if any, in such Base Salary.

5. Fringe Benefits.

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

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

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

6. Termination of Employment.

(a) Termination for Cause, Disability or Death. During the term of this Agreement, the Company shall be entitled to terminate the Employee's employment at any time upon the "Disability" of the Employee or for "Cause" upon notice to the Employee. The Employee's employment hereunder shall automatically terminate upon the death of the Employee. For purposes of this Agreement, "Disability" shall mean a physical or mental sickness or any injury which renders the Employee incapable of performing the essential functions of Employee's job (with or without reasonable accommodations) and which does or may be expected to continue for more than 4 months during any 12-month period. In the event Employee shall be able to perform the essential functions of Employee's job (with or without reasonable accommodations) following a period of Disability, and does so perform such duties, or such other duties as are prescribed by the President and CEO of the Company or such other person whom Employee reports to as provided in section 3 above, for a period of three continuous months, any subsequent period of Disability shall be regarded as a new period of Disability for purposes of this

Agreement. The Company and the Employee shall determine the existence of a Disability and the date upon which it occurred. In the event of a dispute regarding whether or when a Disability occurred, the matter shall be referred to a medical doctor selected by the Company and the Employee. In the event of their failure to agree upon such a medical doctor, the Company and the Employee shall each select a medical doctor who together shall select a third medical doctor who shall make the determination. Such determination shall be conclusive and binding upon the parties hereto.

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

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

In the event of termination for Cause, Employee shall be entitled only to: (1) any Base Salary earned but not yet paid; (2) reimbursement of any unpaid business expenses incurred in accordance with this Agreement by Employee prior to the effective date of the termination of Employee's employment; and (3) any other benefits accrued and vested through the date of such termination in accordance with the applicable plans and programs of the Company; provided, however, that, subject to any applicable law, the Company shall have the right to set off any damages it incurs as a result of the Employee's actions which constitute Cause from any amounts due to the Employee.

(b) Termination Without Cause. This Agreement may be terminated by the Company at any time, without Cause, by 30 days' prior written notice from the Company to the Employee. If the Employee's employment is terminated by the Company for any reason other than for Cause, Disability or death, or if this Agreement is terminated by the Company for what the Company believes is Cause or Disability, and it is ultimately determined that Cause did not exist or that Employee had not suffered a Disability, Employee shall be entitled only to: (i) any Base Salary earned but not yet paid; (ii) reimbursement of any unpaid business expenses incurred in accordance with this Agreement by Employee prior to the effective date of the termination of Employee's employment; (iii) any other benefits accrued and vested through the date of such termination in accordance with the applicable plans and programs of the Company; and (iv) as damages for such a termination: the receipt of Base Salary for the longer of (a) six (6) months or (b) one (1) month for every year of service by Employee as an officer of the Company, up to a maximum of twelve (12) months after the date of termination (the period of time specified in this subsection 6(b)(iv) is referred to herein as the "Severance Period"). During the Severance Period, the Company shall also continue paying its normal portion of Employee's medical, dental and health insurance premiums pursuant to the provisions of the Consolidated Omnibus Budget Reconciliation Act ("COBRA"), provided that Employee first timely elects to continue such coverage under COBRA, and subject to any federal COBRA premium subsidies (if any) for which Employee may be eligible. During the Severance Period, the Company will also continue Employee's life insurance and disability coverage, to the extent permitted under applicable policies, and will pay to the Employee the fringe benefits pursuant to section 5 which have accrued prior to the date of termination. By way of clarification, except to the extent such amounts have been accrued or earned as of the date of termination, Employee shall not be entitled to any bonus payout under any Company plan or program, including, without limitation, any Economic Value Added bonus plan of which Employee is a participant, in the event Employee's employment is terminated by the Company pursuant to this section 6(b). The Company's termination of the Employee's employment under this section 6(b) shall immediately relieve the Employee of all obligations under this Agreement (except as provided in sections 7 and 8) and, except as provided below, shall not be construed to require the application of any compensation which the Employee may earn in any such other employment to reduce the Company's obligation to provide severance benefits and liquidated damages under this section 6(b).

(c) Termination by Employee. The Employee may terminate his or her employment prior to the end of the Employment Period for any reason upon providing the Company 30 days' prior written notice. In such event, Employee shall be entitled to: (i) any Base Salary earned but not yet paid; (ii) reimbursement of any unpaid business expenses incurred in accordance with this Agreement by Executive prior to the effective date of the termination of Executive's employment; and (iii) any other benefits accrued and vested through the date of such termination in accordance with the applicable plans and programs of the Company, excluding any bonus earned but not paid.

(d) Effect of Termination. The termination of the Employee's employment pursuant to section 6 shall not affect the Employee's obligations as described in sections 7 and 8. The Employee shall execute and deliver to the Company a Separation Agreement and Release in a form and substance reasonably satisfactory to the Company as a condition of entitlement to any payments following termination of employment pursuant to this section 6. The rights and duties of the parties under sections 6 through 17 of this Agreement shall survive the termination of this Agreement.

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

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

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

(i) Canvass, solicit or accept from any person or entity who is a Customer (as defined below) of the Company any business in competition with the business of the Company or the successors or assigns of the Company, including the canvassing, soliciting or accepting of competitive business from any individual or entity which is or was a Customer of the Company. "Customer" shall mean any customer of the

Company or its affiliates with whom Employee has had contact in connection with the performance of his or her services under this Agreement and who has purchased the products or services offered by the Company or its affiliates during the twenty-four (24) month period preceding the effective date of the termination of Employee's employment.

(ii) Request or advise any of the Customers, suppliers, or other business contacts of the Company who currently have or have had business relationships with the Company within the two year period preceding the date on which Employee's employment with the Company terminates for any reason, to withdraw, curtail or cancel any of their business or relations with the Company.

(iii) Induce or attempt to induce any employee, sales representative, consultant or other personnel of the Company to terminate his or her relationship or breach his or her agreements with the Company; provided, however, that publication of general solicitations not targeted [a] to an individual employee, sales representative, consultant or other personnel of the Company, or [b] primarily to employees, sales representatives, consultants or other personnel of the Company (and any hiring pursuant to such general solicitations) shall not constitute inducement for purposes of, or otherwise violate, this subsection 7(b)(iii).

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

8. Confidential Information. 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 Employee. 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 Employee's employment with the Company, Employee will have access to, and be entrusted with, Confidential Information and that the Company would suffer great loss and

injury if the Employee would disclose this information or use it to compete with the Company. Therefore, the Employee agrees that during the term of Employee's employment, and until the first to occur of (i) such time as the Confidential Information becomes generally available to the public through no fault of Employee, (ii) such time as the Confidential Information no longer provides a benefit to the Company or (iii) the second anniversary of the termination of Employee's employment with the Company, Employee 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 Employee'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 Employee may have participated in the discovery and the development of that information. Employee also agrees and acknowledges that Employee will comply with all applicable laws regarding insider trading or the use of material nonpublic information in connection with the trading of securities. For purposes of this section 8, Company shall include any subsidiaries of the Company.

9. Common Law of Torts and Trade Secrets. The parties agree that nothing in this Agreement shall be construed to limit or negate the common law of torts or trade secrets where it provides the Company with broader protection than that provided herein. During Employee's employment by the Company, Employee shall do what is reasonably necessary to prevent misappropriation or unauthorized disclosure of the Company's trade secrets. After termination of Employee's employment, Employee shall not use or disclose the Company's trade secrets for as long as they remain trade secrets.

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

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

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

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

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

15. Governing Law. This Agreement shall be governed by and construed exclusively in accordance with the laws of the State of Wisconsin, regardless of choice of law requirements. The parties hereby consent to the jurisdiction of the state courts of the State of Wisconsin and of any federal court in the venue of Wisconsin for the purpose of any suit, action or proceeding arising out of or related to this Agreement, and expressly waive any and all objections they may have as to venue in any of such courts.

16. Dispute Resolution. The parties hereto shall attempt to resolve disputes arising out of or relating to this Agreement. Subject to a party's right to seek equitable remedies as provided by section 10 above, any dispute not resolved in writing within 21 days may be referred by either party to mediation involving a mediator (a third party neutral), trained and experienced in the mediation process and mutually agreed to by the parties. The mediator shall ascribe to and follow the commercial rules for the American Arbitration Association then in effect unless the parties mutually agree in writing to waive this provision for mediators in conduct and management of the mediation process. Expenses for the mediation shall be shared equally by the parties unless otherwise agreed during the mediation process. The parties may be accompanied in the mediation process by legal counsel, and/or other persons mutually agreed to by the parties and the mediator. All participants will openly and honestly participate in the mediation. The mediation may be terminated at any time, for any reason by the mediator or by either party. Any resolution reached by the parties during the mediation shall be recorded in writing and agreed to by the parties. Such resolution may be drafted and/or revised by the parties' legal counsel and shall be legally binding on the parties.

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

18. Certain Tax Matters.

(a) Excise Taxes. If any payments or benefits paid or provided or to be paid or provided to the Employee or for the Employee'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 (an "Employment Payment" and, collectively, the "Employment Payments") would be subject to the excise tax imposed by section 4999 of the Internal Revenue Code of 1986, as amended (the "Code" and such tax, the "Excise Tax"), then the Employee 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 Employee does not elect to have Employment Payments reduced to the Scaled Back Amount, the Employee shall be responsible for payment of any Excise Tax resulting from the Employment Payments and the Employee 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 Employee 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 Employee, 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 Employee 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 Employee'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 Employee 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 Employee'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 by payable during the six-month period after the Employee'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 Employee dies following a separation from service but before the Delayed Payment Date, such amounts shall be paid to the personal representative of the Employee's estate within thirty (30) days following the Employee's death.

*[Remainder of page intentionally left blank; signature page follows]*

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

| | |
|---|---|
| EMPLOYEE | STRATTEC SECURITY CORPORATION |
| /s/ Al-Weeleed H. Hamdan | BY /s/ Frank J. Krejci |
| Al-Waleed H. Hamdan | Frank J. Krejci |
| | President and Chief Executive Officer |

Exhibit 10.17

# EMPLOYMENT AGREEMENT

AGREEMENT by and between STRATTEC SECURITY CORPORATION, a Wisconsin corporation (the "Company"), and Al-Waleed H. Hamdan (the "Executive"), dated as of the 4th day of May, 2017.

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. <u>Certain Definitions</u>.

(a) The "Effective Date" shall mean the first date during the Change of Control Period (as defined in Section l(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.

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 by 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.

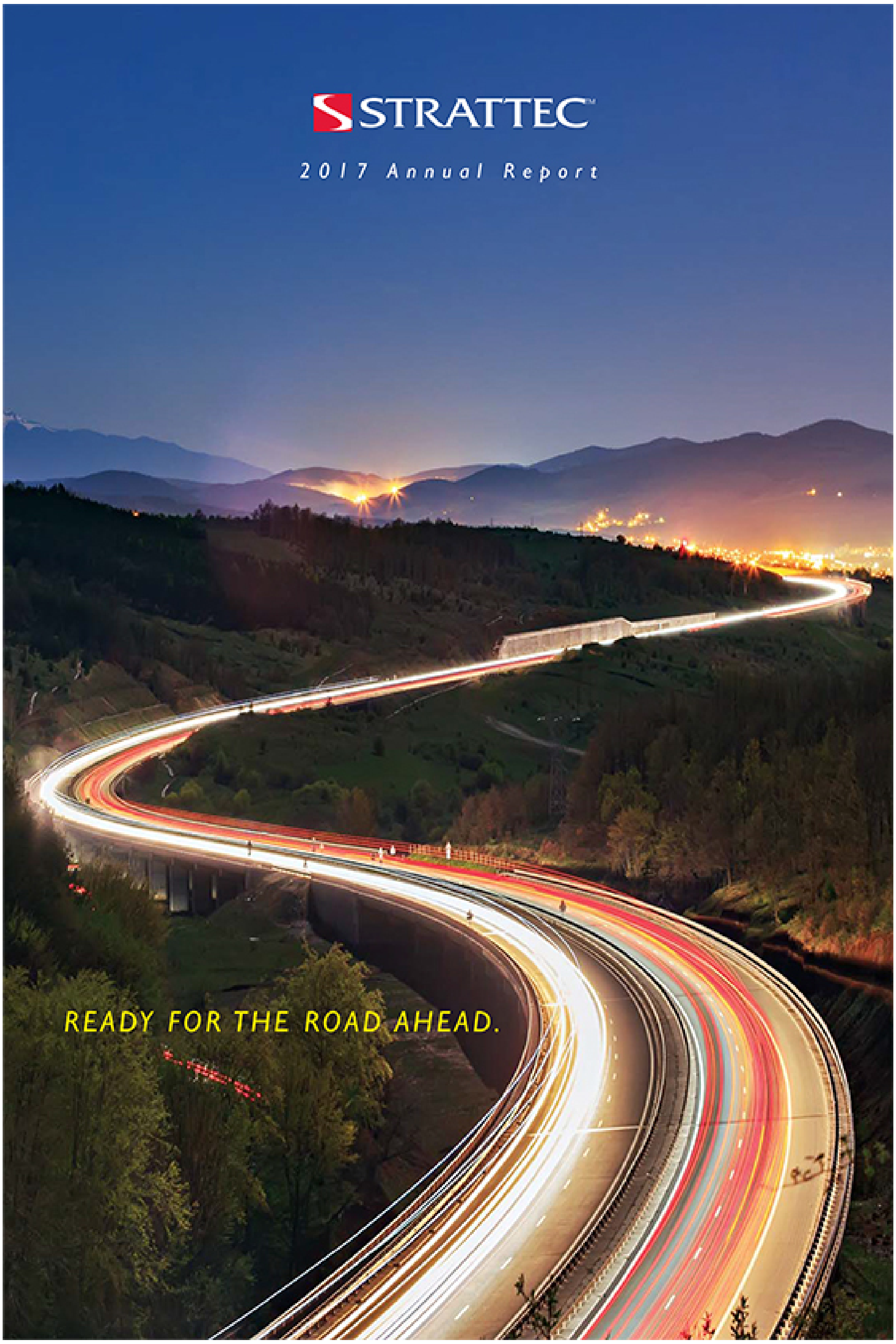
IN WITNESS WHEREOF, the Executive has hereunto set the Executive's hand and, pursuant to the authorization from its Board of Directors, the Company has caused these presents to be executed in its name on its behalf, all as of the day and year first above written.

/s/ Al-Waleed H. Hamdan
Al-Waleed H. Hamdan

STRATTEC SECURITY CORPORATION

BY/s/ Frank J. Krejci
Frank J. Krejci, President and Chief Executive Officer

Exhibit 13



# READY FOR THE ROAD AHEAD.


## EXPANDING OUR PRODUCT FAMILY WITH A NEW FACILITY IN LEON, MEXICO.

### 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 Witte Automotive and ADAC Automotive under the brand name of VAST, which is an acronym for Vehicle Access System Technology. 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. To better describe our partnership, we are now in the process of re-branding the name to VAST Automotive Group.

### 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. Our focus typically has a five year time horizon, which is consistent with the expected life of many vehicle platforms. While we may suffer less than desirable returns in the early years of the investment, we plan for an attractive return over the life of the project.

### 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.

# 2017 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 Velbert, 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, China and India, 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

Dear STRATTEC Shareholders,

As a company, we were not satisfied with Fiscal 2017's performance, both from an earnings and an EVA® perspective. While making progress in certain areas, it was not reflected in our scorecard. Because our financial operating results did not reach satisfactory hurdle rates this past year, we are committed to doing better next year and there are good reasons why this should happen.

Fiscal 2017's profits were reduced due to sizable investments in product engineering that we were making for upcoming production releases. Other impacts came from situations where we could have done better or initiatives which didn't materialize due to factors beyond our control. For example, our 2015 investment in India was based on aggressive growth plans by our customers. Now General Motors and Ford are either pulling out or cutting back in India.

Our efforts toward diversification of technology and markets have not been successful. We originally invested in STRATTEC Advanced Logic to bring new technology to the automotive market while at the same time leveraging our aftermarket distribution system into new non-automotive markets. Fingerprint recognition technology is still promising, but the path to profitability has proved to be much more costly than planned. The business suffered from higher expenses, delayed product launches and slower than expected market acceptance. Without the impact of STRATTEC Advanced Logic, our Earnings Per Share would have been improved by over 20%.

Capital expenditures were above normal because of the construction of our new joint venture facility in Leon, Mexico plus the need for new equipment throughout our operations to support additional capacity and new product programs. We are excited about the recent completion of the construction phase of the Leon plant. It is designed to manufacture painted door handles for both existing and future customers currently in, or moving to that region. The start-up costs of building a new factory impacted us throughout Fiscal 2017. We expect these costs to continue over the next two fiscal years, but at a declining rate as we ramp up production. There has been a significant migration of automotive assembly to the central part of Mexico. Ultimately, our investment there will result in a significant increase in sales for ADAC-STRATTEC de Mexico.

## ACTIONS

For Fiscal 2018, we are focused on efficiently launching new business already won, fine tuning processes, cutting marginally profitable business, reducing costs and making capital investments to insure quality and improve efficiency. We have already taken a number of actions which will have predictable and positive impacts on our profitability in 2018.

Effective July 1, we are no longer funding the losses of STRATTEC Advanced Logic. The burden of funding has been shifted to our joint venture partners who are actively trying to move the business forward.

A program is now in place to help us better understand the soft costs related to managing and producing some older products. As a result, an initiative is currently underway to phase out and/or institute substantial price increases for products which require inordinate amounts of support.

We have recently reduced salaried headcount to better align our organization with current strategies. While it is always difficult to separate loyal and talented Associates from the company, it is an action that needed to be taken.

By realigning priorities, we have freed up talented people to work on more critical projects. A new corporate team has been created to focus on cost reduction and process improvement. It is expected to ultimately generate significant benefits to our bottom line.

After winning record amounts of new business in Fiscal Year 2016, this year we were faced with very challenging timelines for design and production. I want to thank our Associates for their efforts to satisfy our customers' needs and expectations. However, as part of this effort, we were faced with unusually high costs of external engineering services to execute on the new business. Those high engineering costs will not have to be repeated this year as we shift from a design phase to a production phase. Instead of costing money, production will begin to benefit us with additional sales and margin.

Lastly, we restructured our organization to ensure that our design and manufacturing processes meet stricter quality standards. A comprehensive Quality Improvement Plan was developed and is currently being implemented. The benefits of those changes are now just beginning to be realized.

## VAST

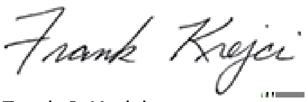
VAST (Vehicle Access System Technology) is a unique partnership between STRATTEC and two privately owned companies, WITTE Automotive of Velbert Germany and ADAC Automotive of Grand Rapids, Michigan. We are now in the process of re-branding ourselves as the VAST Automotive Group, which is a better description of our partnership and our global business. Our jointly owned business in China remains strong and is showing good results. We are also seeing the benefits from better coordination between VAST China and the other VAST locations throughout the world. We are pleased with the progress made by our organizations in leveraging our collective strengths, technologies and global footprint.

## SUMMARY

We have already taken actions to grow our business, focus our strategies and find ways to be more cost efficient and become more profitable. I appreciate the efforts of nearly 4000 STRATTEC Associates for working hard and taking steps to create a bright future for all of us. We are committed to make Fiscal 2018 a better year and to position ourselves for continued growth in profitability.

On behalf of your Board of Directors, your management team and myself, thank you, our fellow shareholders, for your continuing support during a year of less favorable results.

Sincerely,



Frank J. Krejci
President & Chief Executive Officer

## FINANCIAL HIGHLIGHTS

*(IN MILLIONS)*

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Net Sales | $417.3 | $401.4 | $411.5 |
| Gross Profit | 60.2 | 64.8 | 72.7 |
| Income from Operations | 13.7 | 20.9 | 31.1 |
| Net Income Attributable to STRATTEC | 7.2 | 9.1 | 20.7 |
| Total Assets | 273.7 | 242.2 | 230.8 |
| Total Debt | 30.0 | 20.0 | 10.0 |
| STRATTEC Shareholders' Equity | 151.1 | 139.3 | 140.3 |

### 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 2017 was a negative $2.4 million which represents a $4.5 million reduction from 2016. (For further explanation of our EVA® Plan, see our 2017 definitive Proxy Statement.)

| | | |
|---|---|---|
| Net Operating Profit After Cash-Basis Taxes | | $ 10.5 |
| Average Monthly Net Capital Employed | $129.1 | |
| Cost of Capital | 10% | |
| Capital Charge | | 12.9 |
| Economic Value Added | | $ (2.4) |

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:**

| | |
|---|---|
| 2017 Net Income Attributable to STRATTEC as Reported | $ 7.2 |
| Deferred Tax Provision | 1.9 |
| Other | 1.4 |
| Net Operating Profit After Cash-Basis Taxes | $ 10.5 |

**Average Monthly Net Capital Employed:**

| | |
|---|---|
| Total STRATTEC Shareholders' Equity as Reported at July 2, 2017 | $151.1 |
| Long-Term Liabilities | 33.1 |
| Long-Term Assets – Other than Property, Plant and Equipment | (33.1) |
| Other | (22.6) |
| Net Capital Employed At July 2, 2017 | $128.5 |
| Impact of 12 Month Average | 0.6 |
| Average Monthly Net Capital Employed | $129.1 |

## COMPANY DESCRIPTION

### 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 Automotove Group ("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, China and India, and we provide full service and aftermarket support.

*ADAC-STRATTEC de Mexico received a 2017 World Excellence Award from the Ford Motor Company*

### HISTORY

The product line that became STRATTEC was part of Briggs & Stratton Corporation's founding business in 1908. 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-two years.

Our history in the automotive security business spans almost 110 years. STRATTEC has been the world's largest producer of automotive locks and keys since the late 1920s, and we currently maintain a dominant share of the North American markets for these products.


### PRODUCTS

Our traditional products are 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.

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

*Harley-Davidson Motorcycle Key*


PANIC
Key Fob


Lock Cylinder


Steering Column
Locking Mechanism

a joint venture formed with ADAC Automotive during fiscal 2007, we also supply door handle components and related vehicle access hardware.

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.




## 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 2017. 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 LLC) joint venture 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 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 OEM 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 various 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

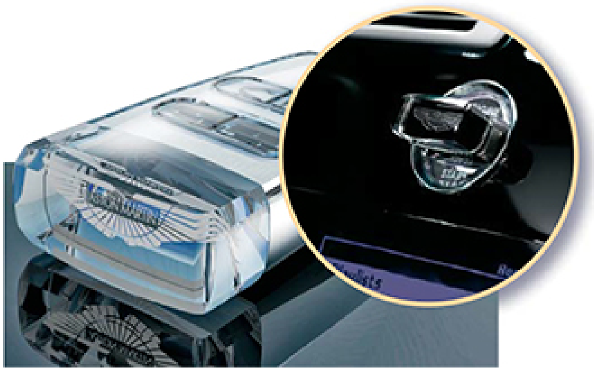
STRATTEC manufactures this Maserati electronic key fob.

## 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.

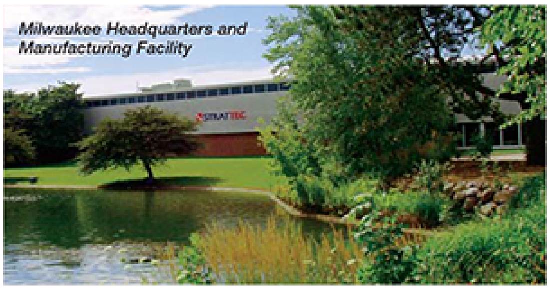
*Aston Martin vehicles use an electronic key fob and mating docking station developed by STRATTEC exclusively for Aston Martin.*



# 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 and ignition lock housings. 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 during the first quarter of fiscal year 2018.





## 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, any further product development is then 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.

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.

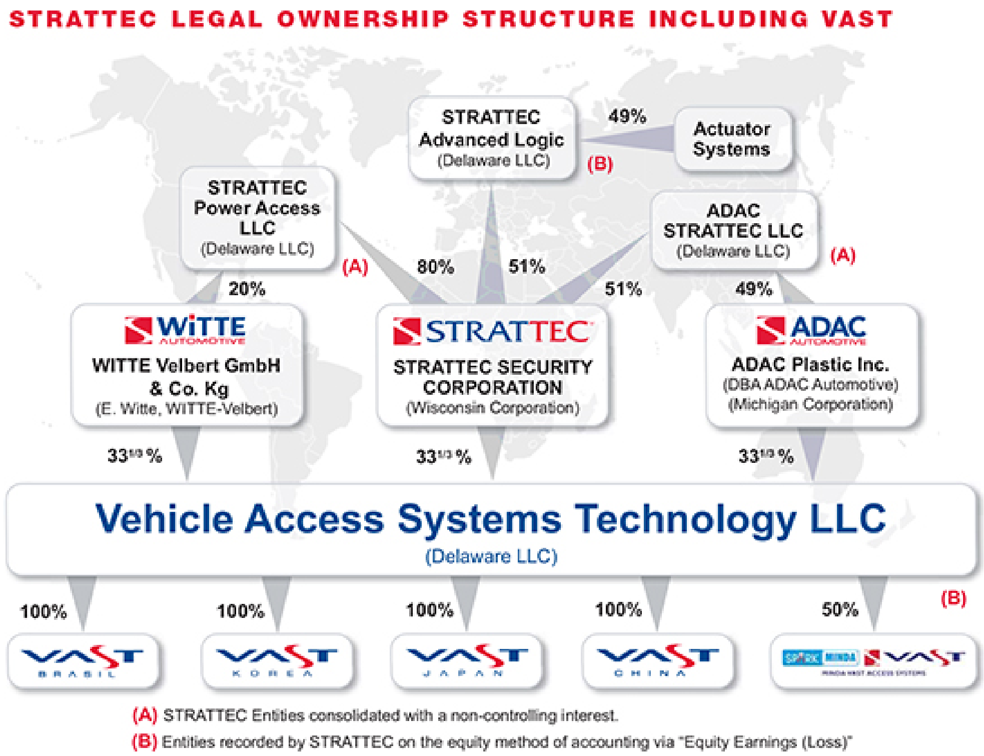
With the expansion of the alliance, we can offer a full range of access control related products available on a global basis to support customer programs. To identify this powerful combination of independent companies focused on working together, we renamed the joint venture Vehicle Access Systems Technology LLC (VAST LLC). We now refer to the combination of the alliance structure and joint venture as "VAST Automotive Group" (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. What is now 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 $128 million during fiscal 2017. 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 2017.

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 $34 million during fiscal year 2017. 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.

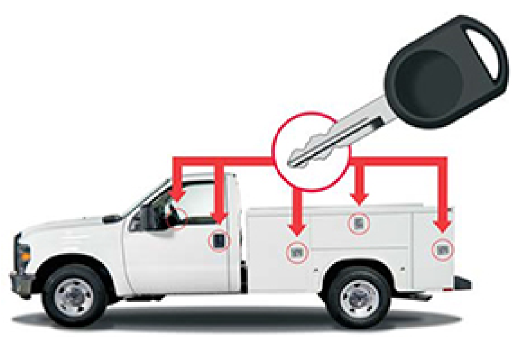
To manage our customer relationships and coordinate global ventures and activities, we have established a VAST Management Group led by a President. The Management Group includes three Vice Presidents, one each from WITTE, STRATTEC and ADAC. With the focus provided by this Management Group, VAST is able 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.




## 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 2017 and 2016, ASdM was profitable and represented $67.7 and $61.4 million, respectively, of our consolidated net sales. STRATTEC 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 during the first quarter of fiscal year 2018.


***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.***



## COMPANY DESCRIPTION

### STRATTEC POWER ACCESS LLC

During fiscal year 2009, we formed a new subsidiary with WITTE Automotive called STRATTEC POWER ACCESS LLC (SPA) to acquire the North American business of the Delphi Power Products Group. WITTE is a 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 2017 and 2016, SPA was profitable and represented $84.5 and $83.7 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 2017 and 2016. 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). STRATTEC owns 51% of this joint venture and its financial results are accounted for on the equity method of accounting. During fiscal 2018, we, along with our joint venture partner, intend to wind down and discontinue operating the business of STRATTEC Advanced Logic.

### 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

## 2018 VEHICLES

We are proud to be associated with many of the quality vehicles produced in North America and elsewhere. The following model year 2018 cars and light trucks are equipped with STRATTEC products.

### PASSENGER CARS

Acura NSX
Acura TLX
Aston Martin DB 11*
Aston Martin Rapide *
Aston Martin Vantage *
Buick Excelle *
Buick GL8 *
Buick LaCrosse *
Buick Verano
Buick Regal *
Cadillac ATS *
Cadillac CT6*
Cadillac CTS
Cadillac XTS *
Chevrolet Bolt
Chevrolet Camaro
Chevrolet Corvette
Chevrolet Cruze *
Chevrolet Impala
Chevrolet Malibu
Chevrolet Sonic *
Chevrolet Spin *
Chevrolet Volt
Chrysler 300
Dodge Challenger
Dodge Charger
Dodge Viper SRT
Ford Fiesta
Ford Focus
Ford Fusion
Ford GT
Ford Ka *
Ford Mustang
Ford Taurus
Honda Civic
Lincoln MKS
Lincoln MKZ
Maserati Ghibli *
Maserati Quattroporte *
Opel Astra *
Opel BEV
Opel Cascada *
Opel Insignia *
Opel Meriva *
Opel Zafira *
Tesla Model S
Tesla Model X
Tesla Model 3
Volkswagon Jetta

### LIGHT TRUCKS, VANS AND SPORT UTILITY VEHICLES

Acura MDX
Acura RDX
Buick Enclave
Buick Encore*
Buick Envision*
Cadillac Escalade
Cadillac Escalade ESV
Cadillac XT5
Chevrolet Bolt EV
Chevrolet Captiva *
Chevrolet Colorado *
Chevrolet Equinox
Chevrolet Express Van
Chevrolet Silverado Pickup
Chevrolet Suburban
Chevrolet Tahoe
Chevrolet Trail Blazer *
Chevrolet Trax *
Chevrolet Traverse
Chrysler Pacifica
Dodge Durango
Dodge Grand Caravan
Dodge Journey
Fiat Freemont
Ford C-Max *
Ford Ecosport
Ford Edge
Ford Escape
Ford Expedition
Ford Explorer
Ford Flex
Ford F-Series Pickup
Ford F-Series Super Duty Pickup
Ford Transit *
GMC Acadia
GMC Terrain
GMC Canyon *
GMC Savana
GMC Sierra Pickup
GMC Yukon and Yukon XL
Honda CRV
Honda Odyssey
Jeep Cherokee
Jeep Compass
Jeep Grand Cherokee
Jeep Wrangler/Wrangler Unlimited
Kia Sedona *
Lincoln MKC
Lincoln MKT
Lincoln MKX
Lincoln Navigator
Maserati Levante
Ram 1500/2500/3500 Pickup
Volkswagon Tiguan

* 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 2017, 2016 and 2015, the above domestic automotive OEMs together represented 60 percent, 63 percent and 65 percent, respectively, of our total net sales.

During fiscal years 2017 and 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 2017 net sales were $417 million compared to $401 million in 2016 and $411 million in 2015. Net income attributable to STRATTEC for fiscal 2017 was $7.2 million compared to $9.1 million in 2016 and $20.7 million in 2015. 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 and 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 2017 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 2017 build of 17.8 million vehicles, 17.7 million vehicles for 2018, 17.5 million vehicles for 2019, 18.2 million vehicles for 2020 and 18.7 million vehicles for 2021. 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 over the foreseeable future, the following objectives as summarized below:

- Streamline and standardize processes to increase productivity and improve the 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

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

### *2017 Compared to 2016*

| | Years Ended | |
|---|---|---|
| | July 2, 2017 | July 3, 2016 |
| Net Sales (millions of dollars) | $417.3 | $401.4 |

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 2, 2017 | July 3, 2016 |
| Fiat Chrysler Automobiles | $100.6 | $115.9 |
| General Motors Company | 88.6 | 79.9 |
| Ford Motor Company | 62.3 | 57.3 |
| Tier 1 Customers | 72.4 | 67.3 |
| Commercial and Other OEM Customers | 60.3 | 49.3 |
| Hyundai / Kia | 33.1 | 31.7 |
| Total | $417.3 | $401.4 |

Net sales were $417.3 million in 2017 compared to $401.4 million in 2016. Our 2017 fiscal year was the typical 52 weeks while our 2016 fiscal year was 53 weeks. The impact of the additional week of customer shipments during the prior year increased 2016 sales by approximately $7.5 million. Sales to Fiat Chrysler Automobiles in the current year decreased in comparison to the prior year due to lower customer vehicle production volume and lower content on components we supply, in particular on the Chrysler 200, which was discontinued in December 2016, and lower volume during 2017 on the new Chrysler Pacifica Minivan. Increased sales to General Motors Company in the current year over the prior year was attributed to higher customer production volumes and content on vehicles for which we supply components, partially offset by agreed upon price reductions that became effective as of the start of the 2016 calendar year. Increased sales to Ford Motor Company in the current year as compared to the prior year were attributed to increased product content on locksets and latches, in particular for the F-150 pick-up truck. Sales to Tier 1 Customers and Commercial and other OEM Customers during the current year increased in comparison to the prior year as a result of higher electronic content and volume. These customers primarily represent purchasers of vehicle access control products, such as latches, fobs, driver controls, and door handles and related components that have been developed in recent years to complement our historic core business of locks and keys. The increased sales to Hyundai / Kia in the current year over the prior year were due to higher levels of production on the Kia Sedona minivan for which we supply components.

| | Years Ended | |
|---|---|---|
| | July 2, 2017 | July 3, 2016 |
| Cost of Goods Sold (millions of dollars) | $357.2 | $336.6 |

Direct material costs are the most significant component of our cost of goods sold and comprised $236.1 million or 66.1 percent of cost of goods sold in the current year compared to $224.9 million or 66.8 percent of cost of goods sold in the prior year. This increase in our direct material costs of $20.6 million or 6.1 percent was due to increased sales volumes in the current year as compared to the prior year and increased scrap and sorting costs resulting from internal manufacturing process quality issues incurred in the current year as compared to the prior year as well as current year obsolescence costs related to inventory intended for STRATTEC Advanced Logic, LLC ("SAL LLC"), our biometric joint venture.

The remaining components of cost of goods sold consist of labor and overhead costs which increased $9.4 million or 8.4 percent to $121.1 million in the current year from $111.7 million in the prior year as the variable portion of these costs increased due to the increase in sales volumes between years. Additionally, the current year as compared to the prior year included higher payroll, benefit, outside service, and maintenance costs related to quality improvement initiatives undertaken during the current year, higher than expected production and expediting costs to meet certain customer schedules, higher royalty costs associated with sales of service parts to aftermarket customers, higher wage costs for our Mexico operations resulting from wage increases implemented to encourage work force retention in consideration of the peso devaluation, and start-up costs related to our new Leon, Mexico facility. These costs were partially offset by a reduction of approximately $5.8 million in the U.S. dollar value of our Mexican operations due to a favorable Mexican peso to U.S. dollar exchange rate between these years as well as a reduction in warranty expense provisions. The average U.S. dollar/Mexican peso exchange rate increased to approximately 19.29 pesos to the dollar in the current year from approximately 17.22 pesos to the dollar in the prior year. Warranty recoveries and expense provision reversals in the current year totaled $843,000 compared to expense provisions of $583,000 in the prior year.

| | Years Ended | |
|---|---|---|
| | July 2, 2017 | July 3, 2016 |
| Gross Profit (millions of dollars) | $60.2 | $64.8 |
| Gross Profit as a percentage of net sales | 14.4% | 16.1% |

The reduction in gross profit and gross profit as a percentage of net sales in the current year as compared to the prior year were the result of agreed upon customer price reductions that became effective at the start of the 2016 calendar year, a less favorable sales mix in the current year as compared to the prior year, which current year included a lower percentage of sales in the power access and OEM service product lines as compared to the prior year period reducing gross profit margins in the current year period, increased costs related to quality improvement initiatives undertaken during the current year, higher than expected production and expediting costs to meet certain customer schedules, higher royalty costs associated with sales of service parts to aftermarket customers, higher wage costs for our Mexican operations, and start-up costs incurred related to our new Leon, Mexico facility, all of which were partially offset by a favorable Mexican peso to U.S. dollar exchange rate affecting the cost of our Mexican operations and a reduction in warranty expense provisions during the current year as compared to the prior year, all as discussed above.

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

| | Years Ended | |
|---|---|---|
| | July 2, 2017 | July 3, 2016 |
| Expenses (millions of dollars) | $46.5 | $43.9 |
| Expenses as a percentage of net sales | 11.1% | 10.9% |

Engineering, selling and administrative expenses increased approximately $2.6 million between years while the prior year included an additional week of expense as a result of the 53 week fiscal year. The increase in these costs in the current year as compared to the prior year was due to higher new product program development costs for which we are utilizing third party vendors for a portion of the development work.

Income from operations in the current year was $13.7 million compared to $20.9 million in the prior year. This decrease was the result of reduced gross profit margins during 2017 as well as an increase in engineering, selling and administrative expenses in the current year as compared to the prior year, all as discussed above.

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

| | Years Ended | |
|---|---|---|
| | July 2, 2017 | July 3, 2016 |
| Vehicle Access Systems Technology LLC | $ 2,593 | $ (639) |
| STRATTEC Advanced Logic, LLC | (1,927) | (1,596) |
| | $ 666 | $(2,235) |

Our Vehicle Access Systems Technology LLC ("VAST LLC") joint ventures in China and India continue to report profitable operating results while our joint venture in Brazil continues to report losses due to the weak automotive build in that region. The 2016 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 totaled $2 million. 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. 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. During fiscal 2018, we, along with our joint venture partner, intend to wind down and discontinue operating the business of SAL LLC.

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

| | Years Ended | |
|---|---|---|
| | July 2, 2017 | July 3, 2016 |
| Foreign Currency Transaction Gain | $ 1,128 | $ 2,559 |
| Unrealized Gain (Loss) on Mexican Peso Forward Contracts | 2,010 | (889) |
| Realized Loss on Mexican Peso Forward Contracts | (1,650) | (1,196) |
| Rabbi Trust Gain (Loss) | 296 | (41) |
| Other | 523 | 235 |
| | $ 2,307 | $ 668 |

Foreign currency transaction gains and losses resulted from activity associated with foreign denominated assets held by our Mexican subsidiaries. We entered into the Mexican peso currency forward contracts during fiscal 2016 and 2017 to minimize earnings volatility resulting from changes in exchange rates affecting the U.S. dollar cost of our Mexican operations. Unrealized gains and losses recognized as a result of mark-to-market adjustments as of July 2, 2017 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. The 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 2017 was 26.1 percent compared to 26.4 percent in 2016. Our income tax provision for each of 2017 and 2016 was affected by the non-controlling interest portion of our pre-tax income. The non-controlling interest impacts the effective tax rate as our ADAC-STRATTEC LLC and STRATTEC POWER ACCESS LLC entities are taxed as partnerships for U.S. tax purposes.

***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 2016 and 2015 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 2016 increased sales by approximately $7.5 million. The overall reduction in sales in 2016 as compared to 2015 was due to increased service parts sales to General Motors during 2015, as well as 2016 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 2016 were due to reduced product content on certain vehicle models for which we supply components. Additionally, during 2016, 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 2016. These impacts were mostly offset by an increase in 2016 in Chrysler Pacifica minivan production volumes for which we supply components. During 2015, 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 2015 in comparison to 2016. The decrease in sales to General Motors Company in 2016 was attributed to incremental service parts sales of $34 million shipped in 2015 for parts used to support a recall campaign. Those incremental sales did not continue during 2016. In addition, 2016 included $2.0 million of agreed upon price reductions, which began January 1, 2016 while 2015 included a $3.3 million sales concession that we granted to

General Motors during 2015. Increased sales to Ford Motor Company in 2016 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 2016 decreased in comparison to 2015 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 2016 increased in comparison to 2015. These customers represent purchasers of vehicle access control products, such as latches, fobs, driver controls, and door handles and related components 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 2016 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 2016 compared to $217.1 million or 64.1 percent of cost of goods sold in 2015. The increase in material costs year over year of $7.8 million or 3.6 percent was impacted by our product sales mix in 2016 as compared to 2015. 2016 included increased sales of power access products as compared to 2015. Power access products typically have a higher purchased content percentage as compared to our other access control products. In addition, increased scrap costs in 2016 associated with new product launches contributed to the year over year increase in material costs.

The remaining components of cost of goods sold consist of labor and overhead costs which decreased $10.0 million or 8.2 percent in 2016 as compared to 2015 as the variable portion of these costs decreased due to the reduced sales volumes in 2016. In addition, 2016 included a year-over-year decrease in customer warranty provisions of $8.4 million as 2015 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 2015, 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 2016 from approximately 14.34 pesos to the dollar in 2015. 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 2016 as compared to 2015 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 2016 as compared to 2015 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 2015 resulting from the ratification of a new 4-year labor contract, all as discussed above.

Engineering, Selling and Administrative Expenses in 2016 and 2015 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 during 2016 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 2016 as compared to 2015.

Income from operations in 2016 was $20.9 million compared to $31.1 million in 2015. 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 2016 and 2015 (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 2016 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, 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 2015. In addition, the following losses were included in our 2016 and 2015 Equity (Loss) Earnings of Joint Ventures for SAL LLC (thousands of dollars):

| | Years Ended | |
|---|---|---|
| | July 3, 2016 | June 28, 2015 |
| Loss on Guarnantee of SAL LLC Vendor Contract | $ - | $ 123 |
| Loss on Loan to SAL LLC | 225 | 100 |
| Loss on Guarantee of SAL LLC Credit Facility | 247 | 488 |
| | $ 472 | $ 711 |

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 2015, 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. 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 2016 and 2015 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 |
| | $ 668 | $3,481 |

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 during fiscal 2016 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. The 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 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. The non-controlling interest impacts the effective tax rate as ADAC-STRATTEC LLC and STRATTEC POWER ACCESS LLC entities are taxed as partnerships for U.S. tax purposes.

## 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 2, 2017 was as follows (millions of dollars):

| | |
|---|---|
| Fiat Chrysler Automobiles | $17.1 |
| General Motors Company | $13.4 |
| Ford Motor Company | $ 8.6 |

### Cash Balances in Mexico

We earn a portion of our operating income in Mexico. During 2017, we changed our assertion regarding the permanent reinvestment of earnings from two of our Mexican subsidiaries. Prior to 2017, the accumulated undistributed earnings from such subsidiaries were considered to be permanently reinvested in Mexico. During 2017, the strength of the U.S. dollar to the Mexican peso significantly decreased the U.S. tax cost associated with a distribution from the Mexican subsidiaries as compared to the U.S. tax cost associated with such a distribution in prior periods. Consequently, we changed our assertion regarding the permanent reinvestment of earnings from these Mexican subsidiaries. Such earnings are no longer considered permanently reinvested. We repatriated $15.8 million from Mexico to the U.S. during 2017. As of July 2, 2017, $948,000 of our $8.4 million cash and cash equivalents balance was held in Mexico. These funds, with some restrictions and tax implications, are available for repatriation as deemed necessary.

### Cash Flow Analysis

| | Years Ended | | |
|---|---|---|---|
| | July 2, 2017 | July 3, 2016 | June 28, 2015 |
| Cash Flows from (millions of dollars): | | | |
| Operating Activities | $ 23.1 | $ 8.2 | $ 31.5 |
| Investing Activities | $ (39.5) | $ (25.3) | $ (30.8) |
| Financing Activities | $ 9.2 | $ 7.2 | $ 5.8 |

The increase in cash provided by operating activities between 2016 and 2017 reflected a net decrease in working capital requirements between the two years of $21.7 million, with the net decrease in our working capital requirements being made up of the following working capital changes (millions of dollars):

| | Increase (Decrease) in Working Capital Requirements | | |
|---|---|---|---|
| | 2017 | 2016 | Change |
| Accounts Receivable | $ 1.7 | $ 5.1 | $ (3.4) |
| Inventories | $ (3.2) | $ 3.9 | $ (7.1) |
| Customer Tooling | $ 4.6 | $ 3.5 | $ 1.1 |
| Other Assets | $ 1.9 | $ 6.0 | $ (4.1) |
| Accounts Payable and Other Liabilities | $ (5.2) | $ 3.0 | $ (8.2) |

The year over year change in the accounts receivable balances reflected a larger increase in accounts receivable balances during 2016 as compared to 2017. 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 increase in the receivable balance during 2017 was the result of sales being more heavily weighted to the end of the fourth quarter of 2017 as compared to the fourth quarter of 2016. The year over year change in inventory reflected an increase in inventory balances as of July 3, 2016, which was the result of lower sales of parts we supply for certain customer vehicle programs towards the end of 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 reduction in the income tax recoverable balance in 2017 as compared to an increase in the income tax recoverable balance in 2016, which changes were 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 and accrued liability balances reflected a decrease in working capital requirements in 2017 compared to an increase in working capital requirements in 2016. 2017 included an increase in accounts payable balances of $7.2 million, due to obtaining a change in payment terms from 30 days to 45 days with several large vendors and the timing of purchases and payments with our vendors based on normal payment terms, and an increase of $1.8 million in accrued payroll and benefit liabilities mostly due to an increase in wages and benefits in Mexico, as discussed above under Analysis of Results of Operations. These impacts were partially offset by $2.8 million of customer warranty payments during 2017, which were previously accrued, as well as $843,000 of reversals during 2017 of previously accrued customer warranty accruals. 2016 included cash payments made under our incentive bonus plans of $5.2 million and $3.2 million of customer warranty payments, which were previously accrued, partially offset by an increase in accounts payable balances of $4.6 million as a result of the timing of purchases and payments with our vendors based on normal payment terms.

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 $5.0 million during 2017 compared to $3.0 million during 2016. Net cash payments and recoveries for Federal, state and foreign income taxes totaled $318,000 during 2017 compared to $4.7 million during 2016.

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 Motors' 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 of the 2016 and 2015 years 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 2016 and 2015 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 used by investing activities of $39.5 million during 2017, $25.3 million during 2016 and $30.8 million during 2015 included capital expenditures of $37.0 million, $23.5 million and $26.1 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 2017 and 2016 capital expenditures included $12.8 million and $7.0 million, respectively 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. 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 then 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. Net cash used by investing activities during 2017, 2016 and 2015 also included an investment in our VAST LLC joint venture of $400,000, $220,000 and $4.4 million, respectively. The 2017 and 2016 investments were 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. Loans were made by each partner, STRATTEC, WITTE and ADAC to our joint venture, VAST LLC, totaling $215,000 for each partner in 2015. 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. Repayments of this outstanding loan balance totaling $100,000 were made from VAST LLC to each partner during both 2017 and 2016. Loans were made from STRATTEC to SAL LLC totaling $2.2 million during 2017, $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 $9.2 million during 2017 included $36.0 million of borrowings under credit facilities, $241,000 of proceeds from stock purchases and option plan exercises, $21,000 in excess tax benefits from option plan exercises, and $2.9 million in non-controlling interest contributions to ADAC-STRATTEC LLC in accordance with the ADAC-STRATTEC debt facility provisions, partially offset by $26 million for repayments of borrowings under credit facilities, $2.0 million for regular quarterly dividend payments to shareholders and $2.0 million for dividend payments to non-controlling interests in our subsidiaries. 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.

**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 $13.1 million at July 2, 2017 and $72,000 at July 3, 2016. The change in the other long-term assets balance related to this plan during 2017 was the result of the net impact of pension contributions, the actuarially calculated pension expense, reclassification adjustments from accumulated other comprehensive loss and the impact of the change in the year-end funded status of the plan, which was impacted by excess asset returns and contributions. The 2017 pre-tax changes in plan assets and benefit obligations related to this plan recognized in other comprehensive income increased our other long-term asset balance by approximately $9.2 million at July 2, 2017 compared to July 3, 2016. The resulting tax impact decreased our deferred income tax asset balance by $3.4 million at July 2, 2017 in comparison to the balance as of July 3, 2016.

**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 2017 and 2016, capital contributions totaling $1.2 million and $660,000, respectively were made to VAST LLC for purposes of funding operations in Brazil. STRATTEC's portion of the capital contributions totaled $400,000 in 2017 and $220,000 in 2016. 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. 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. 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 $750,000 collectively by all VAST partners to fund operations during fiscal 2018. STRATTEC's portion of the capital contributions is anticipated to be $250,000.

**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 $26 million. During 2017 and 2016, capital expenditures for the land, facility and equipment totaled $12.8 million and $7.0 million, respectively. Financing of the required capital expenditures is being completed 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 this credit facility from $10 million to $20 million, which was subsequently further increased to $25 million effective June 26, 2017. Under the terms of the amended credit agreement, a capital contribution to ADAC-STRATTEC LLC of $6 million collectively from STRATTEC and ADAC was completed during 2017. STRATTEC's portion of the required capital contribution was $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 fund 100 percent of the operating costs through the first quarter of fiscal year 2018, which will total approximately $250,000 prior to the anticipated closure of SAL LLC. During fiscal 2018, we, along with our joint venture partner, intend to wind down and discontinue operating the business of SAL LLC.

**Future Capital Expenditures**

We anticipate capital expenditures will be approximately $27 million in fiscal 2018 in support of requirements for new product programs, the upgrade and replacement of existing equipment and the completion of the construction of the 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 during our September 2017 fiscal quarter. Currently, the ADAC-STRATTEC LLC joint venture has net sales of approximately $68 million. With newly awarded customer business, we anticipate net sales will increase to approximately $110 million within the next two years. Total capital expenditures required for the land, facility, paint system and assembly equipment is expected to total approximately $26

million. During 2017, capital expenditures for the land, facility and equipment totaled $12.8 million. Capital expenditures made through July 2, 2017 for the land, facility and equipment totaled $19.8 million.
Financing of the required capital expenditures is being completed 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 2, 2017. A total of 3,655,322 shares have been repurchased over the life of the program through July 2, 2017, at a cost of approximately $136.4 million. No shares were repurchased during fiscal 2017 or 2016. 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 2018.

**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 $25 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, 2020. 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 both credit facilities 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. The ADAC-STRATTEC Credit Facility also required that a capital contribution to ADAC-STRATTEC LLC of $6 million collectively from STRATTEC and ADAC be completed by September 30, 2016. This capital contribution was completed as required. As of July 2, 2017, we were in compliance with all financial covenants required by these credit facilities. STRATTEC’s portion of this capital contribution totaled $3.06 million. Outstanding borrowings under the STRATTEC Credit Facility totaled $16.0 million at July 2, 2017 and $11.5 million at July 3, 2016. The average outstanding borrowings and weighted average interest rate on the STRATTEC Credit Facility loans were approximately $12.5 million and 1.8 percent, respectively, during 2017. 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. Outstanding borrowings under the ADAC-STRATTEC Credit Facility totaled $14.0 million at July 2, 2017 and $8.5 million at July 3, 2016. The average outstanding borrowings and weighted average interest rate on the ADAC-STRATTEC Credit Facility loans were approximately $10.9 million and 1.8 percent, respectively, during 2017. 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. We believe that the credit facilities are adequate, along with existing cash flows from operations, to meet our anticipated capital expenditure, working capital, dividend, and operating expenditure requirements.

SAL LLC maintains a license agreement with Westinghouse allowing SAL LLC to do business as Westinghouse Security. STRATTEC guaranteed all payments due to Westinghouse under this license agreement. As of July 2, 2017, STRATTEC has a recorded liability related to this guarantee of $250,000, which amount is equal to the amount of future payments required under the license agreement and the estimated fair value of the guarantee as of July 2, 2017. See further discussion under Equity Earnings (Loss) of Joint Ventures included in Notes to Condensed Consolidated Financial Statements herein.

**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, nickel silver, 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. 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. These 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. 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 2, 2017 (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, 2017 - June 15, 2018 | $12,000 | 20.37 | $1,121 |

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

| | July 2, 2017 | July 3, 2016 |
|---|---|---|
| Not Designed as Hedging Instruments: | | |
| Other Current Assets: | | |
| Mexican Peso Forward Contracts | $1,121 | $ - |
| 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 in the accompanying Consolidated Statements of Operations and Comprehensive Income and consisted of the following (thousands of dollars):

| | Years Ended | | |
|---|---|---|---|
| | July 2, 2017 | July 3, 2016 | June 28, 2015 |
| Not Designated as Hedging Instruments: | | | |
| Realized Loss | $1,650 | $1,196 | $ - |
| Unrealized Loss | $ - | $ 889 | $ - |
| Unrealized Gain | $2,010 | $ - | $ - |

## CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Contractual obligations were as follows as of July 2, 2017 (thousands of dollars):

| | Payments Due By Period | | | | |
|---|---|---|---|---|---|
| Contractual Obligation | Total | Less Than 1 Year | 1-3 Years | 3-5 Years | More Than 5 Years |
| Operating Leases | $ 1,680 | $ 884 | $ 796 | $ - | $ - |
| Other Purchase Obligations | 30,009 | 17,413 | 12,596 | - | - |
| Guarantees | 250 | 250 | - | - | - |
| Pension and Postretirement Obligations(a) | 3,598 | 3,598 | - | - | - |
| Total | $35,537 | $22,145 | $13,392 | $ - | $ - |

(a) As disclosed in our Notes to Financial Statements, estimated cash funding related to our pension and postretirement benefit plans is expected to total $3.6 million in 2018. Because the timing of funding related to these plans beyond 2018 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 2018 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 2017 Annual Report for further information related to purchase obligations.

Liabilities recognized for uncertain tax benefits of $610,000 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 $25 million secured revolving credit facility with BMO Harris Bank N.A., which is guaranteed by STRATTEC. Borrowings under the STRATTEC credit facility totaled $16.0 million at July 2, 2017. Borrowings under the ADAC-STRATTEC credit facility totaled $14.0 million at July 2, 2017. The credit facilities both expire on August 1, 2020.

## 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.

VAST LLC has investments in Sistema de Veicular Ltda, VAST Fuzhou, VAST Great Shanghai, VAST Shanghai Co. and Minda-VAST Access Systems. Sistema de Acesso Veicular Ltda is located in Brazil and services customers in South America. VAST Fuzhou, VAST Great Shanghai and VAST Shanghai Co. (collectively known as VAST China), provide a base of operations to service each partner's 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 with Minda Management Services Limited to become a 50:50 joint venture partner in the former Minda-Valeo Security Systems joint venture entity, based in Pune, India. This joint venture entity was renamed Minda-VAST Access Systems ("Minda-VAST"). Minda Management Services Limited is an affiliate of both Minda Corporation Limited and Spark Minda, Ashok Minda Group of New Delhi, India (collectively "Minda"). 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 and 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 earnings of joint ventures to STRATTEC of approximately $2.6 million during 2017, 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 2015. The 2016 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 2017 and 2016, capital contributions totaling $1.2 million and $660,000, respectively, were made to VAST LLC for purposes of funding operations in Brazil. STRATTEC's portion of the capital contributions totaled $400,000 in 2017 and $220,000 in 2016. 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.

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 $3.1 million in 2017, $2.9 million in 2016 and $2.6 million in 2015. In accordance with the provisions of the ADAC-STRATTEC Credit Facility a capital contribution to ADAC-STRATTEC LLC of $6 million collectively from STRATTEC and ADAC was completed during 2017. STRATTEC's portion of this capital contribution totaled $3.06 million. No capital contributions to ADAC-STRATTEC LLC were made during 2016 or 2015.

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 $2.6 million in 2017, increased net income to STRATTEC of approximately $2.0 million in 2016 and reduced net income to STRATTEC of approximately $269,000 in 2015.

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. SAL LLC was 51 percent owned by STRATTEC for all periods presented in this report. 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 SAL LLC resulted in an equity loss of joint ventures to STRATTEC of approximately $1.9 million in 2017, $1.6 million in 2016 and $2.0 million in 2015. 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 Earnings (Loss) 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 2, 2017 | 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 |

During fiscal 2018, we, along with our joint venture partner, intend to wind down and discontinue operating the business of SAL LLC.

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 2017, 2016 or 2015 financial results. However, we are continuing to assess the potential impact of the ACA under the new administration in Washington DC on our health care benefit costs.

## CRITICAL ACCOUNTING POLICIES

We believe the following represents our critical accounting policies:

**Pension Benefits –** Pension obligations and costs are developed from actuarial valuations. The determination of the obligation and expense for pension 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. 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 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 3.91 percent to be appropriate as of July 2, 2017, which is an increase of 0.12 percentage points from the discount rate of 3.79 percent used at June 30, 2016. The impact of this change decreased our year-end 2017 projected pension benefit obligations by approximately $2.0 million and the year-end 2017 accumulated pension benefit obligations by approximately $2.0 million. This change is also expected to decrease our 2018 pension expense by $142,000. Our pension expense increases as the discount rate decreases. Lowering our 2017 discount rate assumption by 50 basis points would have increased our 2017 pension expense by approximately $612,000.

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 6.5 percent for 2015, 5.45 percent for 2016 and 5.45 percent for 2017. This assumption remained at 5.45 percent for 2018. The changes to this assumption reduced the expected return on plan assets by approximately $1.1 million in 2015 and resulted in no change in 2016 and 2017. 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 2017 expected rate of return assumption for our plan assets by 50 basis points would have increased our 2017 pension expense by approximately $561,000.

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, 2017, we had $28 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. This change increased our 2016 pension expense by $715,000.

During fiscal years 2017, 2016 and 2015, we contributed $5 million, $3 million and $3 million, respectively, to our qualified pension plan. As discussed in the accompanying Notes to Financial Statements, our Board of Directors approved a resolution to terminate the qualified pension plan. The actual date of the termination of the qualified pension plan is subject to regulatory approvals, and, therefore, will not be known until we receive such approvals. We will contribute to the Trust Fund for the Qualified Pension Plan as necessary to ensure there are sufficient assets to provide all Qualified Pension Plan benefits as required by the PBGC. 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.

While we believe that the assumptions used to determine our pension 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 2017 Annual Report.

**Other Reserves –** We have reserves such as an environmental reserve, a warranty reserve and an excess and obsolete inventory 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 2017 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 2017 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 2017 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.

## 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 permits two methods of adoption: the full retrospective method, which requires retrospective restatement of each prior reporting period presented, or the cumulative catch-up transition method, which requires the cumulative effect of initially applying the guidance be recognized at the date of initial application. We currently anticipate adopting the standard using the full retrospective method. 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 do not anticipate early adoption. Our ability to adopt using the full retrospective method is dependent on system readiness and the completion of our analysis of information necessary to restate prior period financial statements. While we are continuing to assess all potential impacts of the application of the standard to STRATTEC, we currently do not expect that the adoption of this pronouncement will have a material impact 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 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 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 do not expect that the adoption of this pronouncement will have a material impact 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 do not expect that the adoption of this pronouncement will have a material impact on our consolidated financial statements.

In August 2016, the FASB issued an update to the accounting guidance on the classification of certain cash receipts and cash payments. The update aims to eliminate diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those years. We do not expect that the adoption of this pronouncement will have a material impact on our consolidated financial statements.

In March 2017, the FASB issued an update to the accounting guidance for the presentation of net periodic pension cost and net periodic postretirement benefit cost. The update requires the service cost component of net periodic benefit cost be reported in the same line items as other compensation costs arising from services rendered by the pertinent employees during the applicable period. The remaining components of net periodic benefit cost are required to be presented separately from the service cost component outside a subtotal of income from operations. Additionally, the update allows only the service cost component to be eligible for capitalization when applicable. The guidance requires retrospective restatement for each period presented for the presentation of the service cost component and the other components of net periodic benefit cost in the income statement and prospective application for the capitalization of the service cost component of net periodic benefit cost. The guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those years, with early adoption permitted. We anticipate early adoption beginning with the interim periods of our fiscal 2018. We anticipate the adoption of this guidance will result in the reclassification of expense within our Consolidated Statements of income and Comprehensive Income for the years ended July 2, 2017 and July 3, 2016 from cost of goods sold and engineering, selling and administrative expenses to other income, net of approximately $1.1 million and $1.3 million, respectively.

## 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 60 percent of our annual net sales (based on fiscal 2017 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.

**Cyclicality 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. Additionally, our VAST LLC joint venture in Brazil continues to report losses due to the weak automotive build in that region. 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 limited 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 our 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 and October 2020. 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 both our existing and future 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, global 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, in particular, with the VAST Automotive Group and their ability to fund and service global vehicle platforms. 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 has been impacted by the failure of our partner to be able to continue to fund their portion of the joint venture operations, which has had 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 SAL 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. As a result of some of these factors, during fiscal 2018, we, along with our joint venture partner, intend to wind down and discontinue operating the business of SAL LLC.

**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 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 2, 2017 | July 3, 2016 | June 28, 2015 |
| **NET SALES** | $417,325 | $401,419 | $411,475 |
| Cost of goods sold | 357,163 | 336,594 | 338,815 |
| **GROSS PROFIT** | 60,162 | 64,825 | 72,660 |
| Engineering, selling, and administrative expenses | 46,460 | 43,917 | 41,534 |
| **INCOME FROM OPERATIONS** | 13,702 | 20,908 | 31,126 |
| Interest income | 136 | 25 | 185 |
| Equity earnings (loss) of joint ventures | 666 | (2,235) | (788) |
| Interest expense | (417) | (176) | (71) |
| Other income, net | 2,307 | 668 | 3,481 |
| **INCOME BEFORE PROVISION FOR INCOME TAXES AND NON-CONTROLLING INTEREST** | 16,394 | 19,190 | 33,933 |
| Provision for income taxes | 4,284 | 5,068 | 9,382 |
| **NET INCOME** | 12,110 | 14,122 | 24,551 |
| Net income attributable to non-controlling interest | 4,913 | 4,973 | 3,897 |
| **NET INCOME ATTRIBUTABLE TO STRATTEC SECURITY CORPORATION** | $ 7,197 | $ 9,149 | $ 20,654 |
| **COMPREHENSIVE INCOME:** | | | |
| **NET INCOME** | $ 12,110 | $ 14,122 | $ 24,551 |
| Currency translation adjustments, net of tax | (426) | (5,248) | (5,133) |
| Pension and postretirement plan funded status adjustment, net of tax | 5,768 | (5,880) | (1,851) |
| **TOTAL OTHER COMPREHENSIVE INCOME (LOSS)** | 5,342 | (11,128) | (6,984) |
| **COMPREHENSIVE INCOME** | 17,452 | 2,994 | 17,567 |
| Comprehensive income attributable to non-controlling interest | 5,470 | 4,659 | 3,574 |
| **COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO STRATTEC SECURITY CORPORATION** | $ 11,982 | $ (1,665) | $ 13,993 |
| **EARNINGS PER SHARE ATTRIBUTABLE TO STRATTEC SECURITY CORPORATION:** | | | |
| **BASIC** | $ 2.01 | $ 2.55 | $ 5.80 |
| **DILUTED** | $ 1.96 | $ 2.51 | $ 5.66 |
| **AVERAGE SHARES OUTSTANDING:** | | | |
| **BASIC** | 3,588 | 3,559 | 3,515 |
| **DILUTED** | 3,670 | 3,621 | 3,604 |

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 2, 2017 | July 3, 2016 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS:** | | |
| Cash and cash equivalents | $ 8,361 | $ 15,477 |
| Receivables, less allowance for doubtful accounts of $500 at July 2, 2017 and July 3, 2016 | 64,933 | 63,726 |
| Inventories, net | 35,476 | 38,683 |
| Customer tooling in progress, net | 11,544 | 6,971 |
| Income taxes recoverable | 1,987 | 3,826 |
| Other current assets | 6,704 | 5,768 |
| Total current assets | 129,005 | 134,451 |
| **INVESTMENT IN JOINT VENTURES** | 16,840 | 14,168 |
| **DEFERRED INCOME TAXES** | 256 | 5,387 |
| **OTHER LONG-TERM ASSETS** | 16,022 | 3,021 |
| **PROPERTY, PLANT AND EQUIPMENT, NET** | 111,591 | 85,149 |
| | $ 273,714 | $ 242,176 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **CURRENT LIABILITIES:** | | |
| Accounts payable | $ 39,679 | $ 32,416 |
| Accrued liabilities: | | |
| Payroll and benefits | 13,055 | 11,210 |
| Environmental | 1,308 | 1,365 |
| Warranty | 5,550 | 9,228 |
| Other | 8,303 | 9,996 |
| Total current liabilities | 67,895 | 64,215 |
| **COMMITMENTS AND CONTINGENCIES** – see note beginning on page 51 | | |
| **BORROWINGS UNDER CREDIT FACILITIES** | 30,000 | 20,000 |
| **ACCRUED PENSION OBLIGATIONS** | 1,492 | 1,466 |
| **ACCRUED POSTRETIREMENT OBLIGATIONS** | 1,003 | 1,262 |
| **OTHER LONG-TERM LIABILITIES** | 610 | 721 |
| **SHAREHOLDERS' EQUITY:** | | |
| Common stock, authorized 12,000,000 shares, $.01 par value, issued 7,216,103 shares at July 2, 2017 and 7,188,363 shares at July 3, 2016 | 72 | 72 |
| Capital in excess of par value | 93,813 | 92,076 |
| Retained earnings | 225,913 | 220,728 |
| Accumulated other comprehensive loss | (32,888) | (37,673) |
| Less: Treasury stock at cost (3,619,487 shares at July 2, 2017 and 3,622,506 shares at July 3, 2016) | (135,822) | (135,871) |
| Total STRATTEC SECURITY CORPORATION shareholders' equity | 151,088 | 139,332 |
| Non-controlling interest | 21,626 | 15,180 |
| Total shareholders' equity | 172,714 | 154,512 |
| | $ 273,714 | $ 242,176 |

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 |
|---|---|---|---|---|---|---|---|
| **BALANCE June 29, 2014** | $134,903 | $ 71 | $ 87,054 | $194,498 | $ (20,198) | $(135,919) | $ 9,397 |
| 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 | - |
| **BALANCE June 28, 2015** | $152,401 | $ 71 | $ 89,560 | $213,442 | $ (26,859) | $(135,902) | $ 12,089 |
| 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 | - |
| **BALANCE July 3, 2016** | $154,512 | $ 72 | $ 92,076 | $220,728 | $ (37,673) | $(135,871) | $ 15,180 |
| Net income | 12,110 | - | - | 7,197 | - | - | 4,913 |
| Currency translation adjustments | (426) | - | - | - | (983) | - | 557 |
| Pension and postretirement funded status adjustment, net of tax of $3,387 | 5,768 | - | - | - | 5,768 | - | - |
| Cash dividends declared ($0.56 per share) | (2,012) | - | - | (2,012) | - | - | - |
| Cash dividends paid to non-controlling interests of subsidiaries | (1,964) | - | - | - | - | - | (1,964) |
| Contribution from non-controlling interests of subsidiaries | 2,940 | - | - | - | - | - | 2,940 |
| Stock-based compensation and shortfall tax benefit | 1,601 | - | 1,601 | - | - | - | - |
| Stock option exercises | 79 | - | 79 | - | - | - | - |
| Employee stock purchases | 106 | - | 57 | - | - | 49 | - |
| **BALANCE July 2, 2017** | $172,714 | $ 72 | $ 93,813 | $225,913 | $ (32,888) | $(135,822) | $ 21,626 |

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 2, 2017 | July 3, 2016 | June 28, 2015 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Net Income | $ 12,110 | $ 14,122 | $ 24,551 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Equity (earnings) loss of joint ventures | (666) | 2,235 | 788 |
| Depreciation and amortization | 11,418 | 10,121 | 8,815 |
| Foreign currency transaction (gain) loss | (1,128) | (2,559) | (3,075) |
| Unrealized (gain) loss on peso forward contracts | (2,010) | 889 | - |
| Loss (gain) on disposition of property, plant and equipment | 213 | (17) | 154 |
| Deferred income taxes | 1,851 | 3,027 | (3,330) |
| Stock based compensation expense | 1,508 | 1,625 | 1,323 |
| Change in operating assets and liabilities: | | | |
| Receivables | (1,707) | (5,129) | 9,155 |
| Inventories | 3,207 | (3,897) | (4,284) |
| Other assets | (6,499) | (9,481) | (1,482) |
| Accounts payable and accrued liabilities | 5,168 | (3,003) | (1,463) |
| Other, net | (323) | 285 | 307 |
| Net cash provided by operating activities | 23,142 | 8,218 | 31,459 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Investment in joint ventures | (400) | (1,720) | (4,384) |
| Loan to joint ventures | (2,230) | (225) | (315) |
| Repayments from loan to joint ventures | 100 | 100 | - |
| Additions to property, plant and equipment | (37,010) | (23,496) | (26,097) |
| Proceeds received on sale of property, plant and equipment | 2 | 76 | 1 |
| Net cash used in investing activities | (39,538) | (25,265) | (30,795) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Borrowings under credit facilities | 36,000 | 26,500 | 9,000 |
| Repayments under credit facilities | (26,000) | (16,500) | (1,500) |
| Exercise of stock options and employee stock purchases | 241 | 473 | 553 |
| Excess tax benefits from stock-based compensation | 21 | 170 | 367 |
| Contribution from non-controlling interest of subsidiaries | 2,940 | - | - |
| Dividends paid to non-controlling interests of subsidiaries | (1,964) | (1,568) | (882) |
| Dividends paid | (2,012) | (1,865) | (1,711) |
| Net cash provided by financing activities | 9,226 | 7,210 | 5,827 |
| **FOREIGN CURRENCY IMPACT ON CASH** | 54 | (381) | (552) |
| **NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS** | (7,116) | (10,218) | 5,939 |
| **CASH AND CASH EQUIVALENTS** | | | |
| Beginning of year | 15,477 | 25,695 | 19,756 |
| End of year | $ 8,361 | $ 15,477 | $ 25,695 |
| **SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION** | | | |
| **CASH PAID DURING THE PERIOD FOR:** | | | |
| Income taxes | $ 318 | $ 4,699 | $ 14,754 |
| Interest | $ 350 | $ 157 | $ 47 |
| **NON-CASH INVESTING ACTIVITIES:** | | | |
| Change in capital expenditures in accounts payable | $ (99) | $ 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 ("WITTE") of Velbert, Germany and ADAC Automotive ("ADAC") 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 each partner's 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 and Leon, 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 permits two methods of adoption: the full retrospective method, which requires retrospective restatement of each prior reporting period presented, or the cumulative catch-up transition method, which requires the cumulative effect of initially applying the guidance be recognized at the date of initial application. We currently anticipate adopting the standard using the full retrospective method. 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 do not anticipate early adoption. Our ability to adopt using the full retrospective method is dependent on system readiness and the completion of our analysis of information necessary to restate prior period financial statements. While we are continuing to assess all potential impacts of the application of the standard to STRATTEC, we currently do not expect that the adoption of this pronouncement will have a material impact 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 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 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 do not expect that the adoption of this pronouncement will have a material impact 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 do not expect that the adoption of this pronouncement will have a material impact on our consolidated financial statements.

In August 2016, the FASB issued an update to the accounting guidance on the classification of certain cash receipts and cash payments. The update aims to eliminate diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those years. We do not expect that the adoption of this pronouncement will have a material impact on our consolidated financial statements.

In March 2017, the FASB issued an update to the accounting guidance for the presentation of net periodic pension cost and net periodic postretirement benefit cost. The update requires the service cost component of net periodic benefit cost be reported in the same line items as other compensation costs arising from services rendered by the pertinent employees during the applicable period. The remaining components of net periodic benefit cost are required to be presented separately from the service cost component outside a subtotal of income from operations. Additionally, the update allows only the service cost component to be eligible for capitalization when applicable. The guidance requires retrospective restatement for each period presented for the presentation of the service cost component and the other components of net periodic benefit cost in the income statement and prospective application for the capitalization of the service cost component of net periodic benefit cost. The guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those years, with early adoption permitted. We anticipate early adoption beginning with the interim periods of our fiscal 2018. We anticipate the adoption of this guidance will result in the reclassification of expense within our Consolidated Statements of Income and Comprehensive Income for the years ended July 2, 2017 and July 3, 2016 from cost of goods sold and engineering, selling and administrative expenses to other income, net of approximately $1.1 million and $1.3 million, respectively.

**Fiscal Year:** Our fiscal year ends on the Sunday nearest June 30. The years ended July 2, 2017, July 3, 2016 and June 28, 2015 are comprised of 52, 53 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.

**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. 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. These 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. 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 2, 2017 (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, 2017 - June 15, 2018 | $12,000 | 20.37 | $1,121 |

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

| | July 2, 2017 | July 3, 2016 |
|---|---|---|
| Not designated as hedging Instruments: | | |
| Other current assets: | | |
| Mexican peso forward contracts | $1,121 | $ - |
| 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 on the accompanying Consolidated Statements of Income and Comprehensive Income consisted of the following (thousands of dollars):

| | Other Income, net | | |
|---|---|---|---|
| | Years Ended | | |
| | July 2, 2017 | July 3, 2016 | June 28, 2015 |
| Not Designated as Hedging Instruments: | | | |
| Realized loss | $1,650 | $1,196 | $ - |
| Unrealized loss | $ - | $ 889 | $ - |
| Unrealized gain | $2,010 | $ - | $ - |

**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 2, 2017 and July 3, 2016. 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 2, 2017 and July 3, 2016 (thousands of dollars):

| | July 2, 2017 | | | | July 3, 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | | | | | |
| Rabbi Trust Assets: | | | | | | | | |
| Stock index funds: | | | | | | | | |
| Small cap | $ 382 | $ - | $- | $ 382 | $ 356 | $ - | $- | $ 356 |
| Mid cap | 391 | - | - | 391 | 357 | - | - | 357 |
| Large cap | 519 | - | - | 519 | 498 | - | - | 498 |
| International | 541 | - | - | 541 | 389 | - | - | 389 |
| Fixed income funds | 763 | - | - | 763 | 700 | - | - | 700 |
| Cash and cash equivalents | - | 3 | - | 3 | - | 3 | - | 3 |
| Mexican peso forward contracts | - | 1,121 | - | 1,121 | - | 107 | - | 107 |
| Total assets at fair value | $2,596 | $1,124 | $- | $3,720 | $2,300 | $110 | $- | $2,410 |
| Liabilities: | | | | | | | | |
| Mexico peso forward contracts | $ - | $ - | $- | $ - | $ - | $996 | $- | $ 996 |

The Rabbi Trust assets fund our amended and restated 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 2017 or 2016.

**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 2, 2017 | $500 | $ - | $ - | $500 |
| Year ended July 3, 2016 | $500 | $ - | $ - | $500 |
| Year ended June 28, 2015 | $500 | $ - | $ - | $500 |

**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 2, 2017 | July 3, 2016 |
|---|---|---|
| Finished products | $ 9,976 | $10,137 |
| Work in process | 9,328 | 8,291 |
| Purchased materials | 20,682 | 23,055 |
| | 39,986 | 41,483 |
| Excess and obsolete reserve | (4,510) | (2,800) |
| Inventories, net | $35,476 | $38,683 |

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 2, 2017 | $2,800 | $2,718 | $1,008 | $4,510 |
| Year ended July 3, 2016 | $2,300 | $ 844 | $ 344 | $2,800 |
| Year ended June 28, 2015 | $2,150 | $ 655 | $ 505 | $2,300 |

**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 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 $3.7 million at July 2, 2017 and $3.2 million at July 3, 2016. 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 2, 2017 | $700 | $438 | $238 | $900 |
| Year ended July 3, 2016 | $620 | $366 | $286 | $700 |
| Year ended June 28, 2015 | $585 | $348 | $313 | $620 |

**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 for these assets were as follows (thousands of dollars):

| | July 2, 2017 | July 3, 2016 |
|---|---|---|
| Patents, engineering drawings and software | $890 | $890 |
| Less: accumulated amortization | (849) | (750) |
| | $ 41 | $140 |

The remaining useful life of the intangible assets in the table above is approximately 0.4 years. Intangible amortization expense was $99,000 for each of the years ended July 2, 2017, July 3, 2016 and June 28, 2015. Intangible amortization expense is expected to be $41,000 in fiscal year 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 15 years |

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

| | July 2, 2017 | July 3, 2016 |
|---|---|---|
| Land and improvements | $ 4,732 | $ 4,686 |
| Buildings and improvements | 36,046 | 29,361 |
| Machinery and equipment | 210,741 | 182,812 |
| | 251,519 | 216,859 |
| Less: accumulated depreciation | (139,928) | (131,710) |
| | $ 111,591 | $ 85,149 |

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

| | Depreciation Expense |
|---|---|
| 2017 | $11,319 |
| 2016 | $10,022 |
| 2015 | $ 8,716 |

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 2, 2017 | July 3, 2016 |
|---|---|---|
| Gross book value | $130,166 | $97,537 |
| Net book value | $ 69,652 | $43,954 |

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 2, 2017, July 3, 2016 or June 28, 2015.

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

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

| Fiscal Year | Percentage of Inventory Purchases | Number of Suppliers |
|---|---|---|
| 2017 | 39% | 7 |
| 2016 | 36% | 6 |
| 2015 | 27% | 5 |

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 3,892 full-time associates of which approximately 275 or 7.1 percent were represented by a labor union at July 2, 2017. 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 $4.6 million in 2017, $430,000 in 2016 and $280,000 in 2015.

**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 currency forward contracts and Rabbi Trust gains. Foreign currency transaction gains and losses resulted from activity associated with foreign denominated assets held by our Mexican subsidiaries. We entered into the Mexican peso currency forward contracts during fiscal 2016 and 2017 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 2, 2017 | July 3, 2016 | June 28, 2015 |
| Foreign currency transaction gain | $ 1,128 | $2,559 | $3,075 |
| Rabbi Trust gain (loss) | 296 | (41) | 96 |
| Unrealized gain (loss) on Mexican peso forward contracts | 2,010 | (889) | - |
| Realized loss on Mexican peso forward contracts | (1,650) | (1,196) | - |
| Other | 523 | 235 | 310 |
| | $ 2,307 | $ 668 | $3,481 |

**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 2014 through 2017. 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. As additional information becomes available, actual results may differ from recorded estimates, which may require us to adjust the amount of our estimated liability for claims incurred but not reported. 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 2, 2017 | $420 | $5,796 | $5,796 | $420 |
| Year ended July 3, 2016 | $420 | $5,032 | $5,032 | $420 |
| Year ended June 28, 2015 | $420 | $4,756 | $4,756 | $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 2017 and 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 | (Recoveries) Provision Charged to Expense | Payments | Balance, End of Year |
|---|---|---|---|---|
| Year ended July 2, 2017 | $ 9,228 | $ (843) | $2,835 | $ 5,550 |
| Year ended July 3, 2016 | $11,835 | $ 583 | $3,190 | $ 9,228 |
| Year ended June 28, 2015 | $ 3,462 | $8,975 | $ 602 | $11,835 |

**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 2, 2017 | July 3, 2016 | June 28, 2015 |
|---|---|---|---|
| Unrecognized pension and postretirement benefit liabilities, net of tax | $ 18,750 | $ 24,518 | $ 18,638 |
| Foreign currency translation, net of tax | 14,138 | 13,155 | 8,221 |
| | $ 32,888 | $ 37,673 | $ 26,859 |

The following tables summarize the changes in accumulated other comprehensive loss ("AOCL") for the years ended July 2, 2017 and July 3, 2016 (thousands of dollars):

| | Year Ended July 2, 2017 | | |
|---|---|---|---|
| | Foreign Currency Translation Adjustments | Retirement and Postretirement Plans | Total |
| Balance July 3, 2016 | $13,155 | $24,518 | $37,673 |
| Other comprehensive loss before reclassifications | 534 | (6,142) | (5,608) |
| Income tax | (108) | 2,272 | 2,164 |
| Net other comprehensive loss before reclassifications | 426 | (3,870) | (3,444) |
| Reclassifications: | | | |
| Prior service credits (A) | - | 753 | 753 |
| Actuarial gains (A) | - | (3,766) | (3,766) |
| Total reclassifications before tax | - | (3,013) | (3,013) |
| Income Tax | - | 1,115 | 1,115 |
| Net reclassifications | - | (1,898) | (1,898) |
| Other comprehensive loss (income) | 426 | (5,768) | (5,342) |
| Other comprehensive income attributable to non-controlling interest | (557) | - | (557) |
| Balance July 2, 2017 | $14,138 | $18,750 | $32,888 |

| | 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 | $13,155 | $24,518 | $37,673 |

(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 2, 2017 were 204,939. 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 one year 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 2016, the restricted stock grants issued vest or vested 3 to 5 years after the date of grant. As of August 2016, restricted stock grants issued vest 1 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 2, 2017 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 | $ 14 | 0.1 |
| Restricted stock granted | $1,461 | 1.0 |

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 |
|---|---|---|
| 2017 | $ 136 | $ 25 |
| 2016 | $ 364 | $ 196 |
| 2015 | $ 474 | $ 458 |

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

| | Years Ended | | |
|---|---|---|---|
| | July 2, 2017 | July 3, 2016 | June 28, 2015 |
| Intrinsic value of options exercised | $ 115 | $ 529 | $1,375 |
| Fair value of stock options vested | $ 566 | $ 331 | $ 382 |

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 |
|---|---|
| Weighted average grant date fair value: | |
| Options issued at grant date market value | n/a |
| Options issued above grant date market value | $34.93 |
| Assumptions: | |
| Risk free interest rates | 1.90% |
| Expected volatility | 57.83% |
| Expected dividend yield | 0.62% |
| Expected term (in years) | 6.0 |

No options were granted during the fiscal year ended July 2, 2017 and July 3, 2016.

The range of options outstanding as of July 2, 2017 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 | 42,214/42,214 | $15.36/$15.36 | 2.2 |
| $26.53-$38.71 | 87,284/87,284 | $30.72/$30.72 | 5.2 |
| $79.73 | 9,010/- | $79.73/$- | 7.1 |
| | | $29.23/$25.71 | |

**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.

VAST LLC has investments in Sistema de Veicular Ltda, VAST Fuzhou, VAST Great Shanghai, VAST Shanghai Co. and Minda-VAST Access Systems. Sistema de Acesso Veicular Ltda is located in Brazil and services customers in South America. 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 with Minda Management Services Limited to become a 50:50 joint venture partner in the former Minda-Valeo Security Systems joint venture entity, based in Pune, India. This joint venture entity was renamed Minda-VAST Access Systems ("Minda-VAST"). Minda Management Services Limited is an affiliate of both Minda Corporation Limited and Spark Minda, Ashok Minda Group of New Delhi, India (collectively "Minda"). 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 and 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 earnings of joint ventures to STRATTEC of approximately $2.6 million during 2017, 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 2015. The 2016 equity loss of joint ventures for VAST LLC included a $6.0 million impairment charge related to its Minda-VAST Access Systems joint venture in India. STRATTEC's portion of this impairment charge for 2016 totaled $2.0 million. During 2017 and 2016, capital contributions totaling $1.2 million and $660,000, respectively, were made to VAST LLC for purposes of funding operations in Brazil. STRATTEC's portion of the capital contributions totaled $400,000 in 2017 and $220,000 in 2016. 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.

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 $3.1 million in 2017, $2.9 million in 2016 and $2.6 million in 2015. In accordance with the provisions of the ADAC-STRATTEC Credit Facility a capital contribution to ADAC-STRATTEC LLC of $6 million collectively from STRATTEC and ADAC was completed during 2017. STRATTEC's portion of this capital contribution totaled $3.06 million. No capital contributions to ADAC-STRATTEC LLC were made during 2016 or 2015.

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 $2.6 million in 2017, increased net income to STRATTEC of approximately $2.0 million in 2016 and reduced net income to STRATTEC of approximately $269,000 in 2015.

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. SAL LLC was 51 percent owned by STRATTEC for all periods presented in this report. 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 SAL LLC resulted in an equity loss of joint ventures to STRATTEC of approximately $1.9 million in 2017, $1.6 million in 2016 and $2.0 million in 2015. 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 Earnings (Loss) 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 2, 2017 | 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 |

During fiscal 2018, we, along with our joint venture partner, intend to wind down and discontinue operating the business of SAL LLC.

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

| | July 2, 2017 | July 3, 2016 |
|---|---|---|
| Investment in Joint Ventures: | | |
| Investment in VAST LLC | $16,840 | $14,168 |
| | | |
| Other Current Liabilities: | | |
| Investment in SAL LLC | $ 463 | $ 1,265 |

**EQUITY EARNINGS (LOSS) 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 2, 2017 | July 3, 2016 | June 28, 2015 |
| Net sales | $128,963 | $114,338 | $124,929 |
| Cost of goods sold | 101,910 | 94,060 | 105,132 |
| Gross profit | 27,053 | 20,278 | 19,797 |
| Engineering, selling and administrative expense | 19,710 | 15,866 | 16,155 |
| Impairment charge | - | 6,000 | - |
| Income (loss) from operations | 7,343 | (1,588) | 3,642 |
| Other income (expense), net | 1,662 | (115) | 123 |
| Income (loss) before provision for income taxes | 9,005 | (1,703) | 3,765 |
| Provision for income taxes | 1,235 | 168 | 41 |
| Net income (loss) | $ 7,770 | $ (1,871) | $ 3,724 |
| STRATTEC's share of VAST LLC net income (loss) | $ 2,590 | $ (624) | $ 1,241 |
| Intercompany profit eliminations | 3 | (15) | 10 |
| STRATTEC's equity earnings (loss) of VAST LLC | $ 2,593 | $ (639) | $ 1,251 |

| | July 2, 2017 | July 3, 2016 |
|---|---|---|
| Cash and cash equivalents | $ 11,757 | $ 6,584 |
| Receivables, net | 41,942 | 24,557 |
| Inventories, net | 15,185 | 13,500 |
| Other current assets | 11,782 | 13,007 |
| Total current assets | 80,666 | 57,648 |
| Property, plant and equipment, net | 31,017 | 26,557 |
| Other long-term assets | 12,850 | 11,086 |
| Total assets | $124,533 | $95,291 |
| Current liabilities | $ 70,753 | $50,462 |
| Long-term liabilities | 2,960 | 2,019 |
| Total liabilities | $ 73,713 | $52,481 |
| Net assets | $ 50,820 | $42,810 |
| STRATTEC's share of VAST LLC net assets | $ 16,940 | $14,270 |

The 2016 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 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 totaled $1.5 million. 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 at February 16, 2016. STRATTEC's proportionate share of the guarantee based on our ownership percentage in SAL LLC totaled $765,000 as of February 16, 2016, and accordingly, our investment in SAL LLC included this amount as of this date. 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 Earnings (Loss) of Joint Ventures for 2016 and 2015, as applicable, in the accompanying Consolidated Statements of Income and Comprehensive Income. SAL LLC is considered a variable interest entity based on the STRATTEC guarantee and additional loans from STRATTEC as discussed below. 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 maintains a license agreement with Westinghouse allowing SAL LLC to do business as Westinghouse Security. Payments due to Westinghouse under the license agreement were guaranteed by STRATTEC. As of July 2, 2017 and July 3, 2016, STRATTEC had recorded a liability equal to the estimated fair value of the future payments due under this guarantee of $250,000. This liability is included in the accompanying Consolidated Balance Sheets in Accrued Liabilities: Other as of July 2, 2017 and in Other Long-term Liabilities as of July 3, 2016. 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 2, 2017 and July 3, 2016. 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 Earnings (Loss) of Joint Ventures for 2015 in the accompanying Consolidated Statements of Income and Comprehensive Income.

Loans were made from STRATTEC to SAL LLC in support of operating expenses and working capital needs. The outstanding loan amounts totaled $2.6 million and $325,000 as of July 2, 2017 and July 3, 2016, respectively. As of July 2, 2017, the outstanding loan amount was eliminated against STRATTEC's negative investment in SAL LLC in the preparation of the consolidated 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 Earnings (Loss) 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 2, 2017 | July 3, 2016 | June 28, 2015 |
| Net sales | $ 369 | $ 603 | $ 49 |
| Cost of goods sold | 610 | 382 | 450 |
| Gross (loss) profit | (241) | 221 | (401) |
| Engineering, selling and administrative expense | 1,534 | 1,311 | 1,492 |
| Loss from operations | (1,775) | (1,090) | (1,893) |
| Other expense, net | (155) | (34) | (4) |
| Net loss | $(1,930) | $(1,124) | $(1,897) |
| STRATTEC's share of SAL LLC loss | $(1,927) | $(1,124) | $(1,328) |
| 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 | $(1,927) | $(1,596) | $(2,039) |

| | July 2, 2017 | July 3, 2016 |
|---|---|---|
| Cash and cash equivalents | $ 11 | $ 21 |
| Receivables, net | 11 | 60 |
| Inventories, net | 345 | 283 |
| Total assets | $ 367 | $ 364 |
| Current liabilities | $ 3,189 | $ 1,256 |
| Net liabilities | $ (2,822) | $ (892) |
| STRATTEC's share of SAL LLC net liabilities | $ (1,439) | $ (455) |

During fiscal 2018, we, along with our joint venture partner, intend to wind down and discontinue operating the business of SAL LLC.

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 2, 2017 | July 3, 2016 | June 28, 2015 |
| Sales to VAST LLC | $1,966 | $ 304 | $2,298 |
| Sales to SAL LLC | $ 234 | $ 363 | $ 157 |
| Purchases from VAST LLC | $ 245 | $ 149 | $ 164 |
| Expenses charged to VAST LLC | $ 843 | $1,034 | $ 832 |
| Expenses charged from VAST LLC | $1,134 | $1,526 | $1,825 |

| | July 2, 2017 | July 3, 2016 |
|---|---|---|
| Accounts receivable from VAST LLC | $ - | $ 55 |
| Accounts receivable from SAL LLC(A) | $ - | $ 450 |
| Current loan receivable from SAL LLC(A) | $ - | $ 325 |
| Long-term loan receivable from VAST LLC | $ 300 | $ 400 |
| Accounts payable to VAST LLC | $ - | $ 213 |

(A) As of July 2, 2017, outstanding loan and accounts receivable balances due from SAL LLC to STRATTEC totaled $2.6 million and $185,000, respectively. As of July 2, 2017, these outstanding balances have been offset against our investment in SAL LLC, which is included in Other Current Liabilities in the Consolidated Balance Sheet. As of July 3, 2016, a valuation allowance was established for the full amount of the outstanding loan balance of $325,000 due from SAL LLC to STRATTEC.

## CREDIT FACILITIES

STRATTEC has a $30 million secured revolving credit facility (the "STRATTEC Credit Facility") with BMO Harris Bank N.A. ADAC-STRATTEC LLC has a $25 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, 2020. 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 both credit facilities is at varying rates based at our option, on the 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. The ADAC-STRATTEC Credit Facility also required that a capital contribution to ADAC-STRATTEC LLC of $6 million collectively from STRATTEC and ADAC be completed by September 30, 2016. This capital contribution was completed as required. STRATTEC's portion of the capital contribution totaled $3.06 million. As of July 2, 2017, we were in compliance with all financial covenants required by these credit facilities.

Outstanding borrowings under the credit facilities referenced in the above paragraph as of the end of 2017 and 2016 were as follows (thousands of dollars):

| | July 2, 2017 | July 3, 2016 |
|---|---|---|
| STRATTEC Credit Facility | $16,000 | $11,500 |
| ADAC-STRATTEC Credit Facility | $14,000 | $ 8,500 |

Average outstanding borrowings and the weighted average interest rate under each such credit facility during 2017 and 2016 were as follows (thousands of dollars):

| | Average Outstanding Borrowings | | Weighted Average Interest Rate | |
|---|---|---|---|---|
| | Years Ended | | Years Ended | |
| | July 2, 2017 | July 3, 2016 | July 2, 2017 | July 3, 2016 |
| STRATTEC Credit Facility | $12,490 | $7,608 | 1.8% | 1.5% |
| ADAC-STRATTEC Credit Facility | $10,865 | $4,443 | 1.8% | 1.3% |

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.

**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 2, 2017, costs of approximately $567,000 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 $1.3 million at July 2, 2017, is adequate.

At July 2, 2017, we had purchase commitments related to 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 |
|---|---|---|
| 2018 | $17,413 | $884 |
| 2019 | $ 8,699 | $606 |
| 2020 | $ 3,897 | $190 |
| 2021 | $ - | $ - |
| 2022 | $ - | $ - |

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

| Fiscal Year | Rental Expense |
|---|---|
| 2017 | $ 704 |
| 2016 | $ 691 |
| 2015 | $ 993 |

**INCOME TAXES**

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

| | Years Ended | | |
|---|---|---|---|
| | July 2, 2017 | July 3, 2016 | June 28, 2015 |
| Currently payable: | | | |
| Federal | $ 228 | $ 18 | $9,891 |
| State | 3 | 130 | 657 |
| Foreign | 2,202 | 1,893 | 2,164 |
| | 2,433 | 2,041 | 12,712 |
| Deferred tax provision (benefit) | 1,851 | 3,027 | (3,330) |
| | $ 4,284 | $5,068 | $9,382 |

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 2, 2017 | July 3, 2016 | June 28, 2015 |
| U.S. statutory rate | 35.0% | 34.0% | 34.7% |
| State taxes, net of Federal tax benefit | 1.2 | 1.3 | 0.7 |
| Foreign subsidiaries | (1.1) | 0.6 | (1.3) |
| U.S. taxation on non-U.S. earnings | 3.8 | - | - |
| Research and development tax credit | (2.7) | - | - |
| Non-controlling interest | (9.9) | (9.3) | (4.1) |
| Other | (0.2) | (0.2) | (2.4) |
| | 26.1% | 26.4% | 27.6% |

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

| | July 2, 2017 | July 3, 2016 |
|---|---|---|
| Unrecognized pension and postretirement benefit plan liabilities | $11,191 | $14,579 |
| Accrued warranty | 925 | 1,376 |
| Payroll-related accruals | 2,605 | 2,108 |
| Stock-based compensation | 1,488 | 1,258 |
| Inventory reserve | 1,249 | 873 |
| Environmental reserve | 484 | 505 |
| Repair and maintenance supply parts reserve | 333 | 259 |
| Allowance for doubtful accounts | 185 | 185 |
| NOL/credit carry-forwards | 1,669 | 145 |
| Postretirement obligations | (405) | (227) |
| Accumulated depreciation | (6,034) | (6,135) |
| Accrued pension obligations | (14,483) | (13,197) |
| Joint Ventures | 808 | 1,706 |
| Other | 241 | 1,952 |
| | $ 256 | $ 5,387 |

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

Federal foreign tax credit carry-forwards at July 2, 2017 resulted in future benefits of approximately $1.4 million and expire in 2027. State operating loss and credit carry-forwards at July 2, 2017 resulted in future benefits of approximately $269,000 and expire at varying times between 2024 and 2031. A valuation allowance of $267,000 has been recorded as of July 2, 2017, due to our assessment of the future realization of certain credit carry-forward benefits. We do not currently anticipate having sufficient state taxable income to offset these credit carry-forwards.

Foreign income before the provision for income taxes was $5.3 million in 2017, $6.0 million in 2016 and $5.9 million in 2015. The income tax provision for 2017 included $424,000 related to the recognition of a deferred tax liability resulting from a change in assertion regarding the permanent reinvestment of earnings from two of our Mexican subsidiaries. Prior to 2017, the accumulated undistributed earnings from such subsidiaries were considered to be permanently reinvested in Mexico. Accordingly, we did not previously record deferred income taxes on these earnings in our financial statements. During 2017, the strength of the U.S. dollar to the Mexican peso significantly decreased the U.S. tax cost associated with a distribution from the Mexican entities as compared to the U.S. tax cost associated with such a distribution in prior periods. Consequently, we changed our assertion regarding the permanent reinvestment of earnings from these Mexican subsidiaries. Such earnings are no longer considered permanently reinvested. We repatriated $15.8 million from Mexico to the U.S. during 2017, recognized the deferred tax liability resulting from the change in assertion, and concluded that, with some restrictions and tax implications, the remaining current and future accumulated undistributed earnings of these subsidiaries will be available for repatriation as deemed necessary.

The total liability for unrecognized tax benefits was $610,000 as of July 2, 2017 and $471,000 as of July 3, 2016 and was included in Other Long-term Liabilities in the accompanying Consolidated Balance Sheets. This liability includes approximately $571,000 of unrecognized tax benefits at July 2, 2017 and $441,000 at July 3, 2016 and approximately $39,000 of accrued interest at July 2, 2017 and $30,000 at July 3, 2016. 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 $143,000 at July 2, 2017 and $20,000 at July 3, 2016. 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 2, 2017 and July 3, 2016 (thousands of dollars):

| | Years Ended | |
|---|---|---|
| | July 2, 2017 | July 3, 2016 |
| Unrecognized tax benefits, beginning of year | $ 441 | $ 437 |
| Gross increases – tax positions in prior years | 28 | - |
| Gross decreases – tax positions in prior years | - | (3) |
| Gross increases – current period tax positions | 177 | 71 |
| Tax years closed | (75) | (64) |
| Unrecognized tax benefits, end of year | $ 571 | $ 441 |

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 2014 through 2017 for Federal, fiscal 2011 through 2017 for most states and calendar 2012 through 2016 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 employed by us before January 1, 2010. Benefits under the Qualified Pension Plan are based on credited years of service and final average compensation. Our policy is to fund the Qualified Pension Plan with 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, the Board of Directors amended the Qualified Pension Plan to freeze benefit accruals and future eligibility. The Board of Directors has approved the termination of the Qualified Pension Plan with a proposed termination date of December 31, 2017. The termination of the Qualified Pension Plan is contingent upon receipt of an IRS determination letter that the Qualified Pension Plan was qualified upon termination and approval by the Pension Benefit Guaranty Corporation (“PBGC”). The date the termination will be approved and benefits can be distributed will not be known until we receive all required regulatory approvals. We intend to submit our request to the IRS for a determination letter that the Qualified Pension Plan is qualified upon termination prior to the end of the 2017 calendar year. Depending on the time receipt of IRS and PBGC approval, we intend to distribute Qualified

Pension Plan assets prior to the end of the 2018 calendar year. Additionally, in connection with preparing for the termination of the Qualified Pension Plan, we have amended the 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 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 will contribute to the Trust Fund for the Qualified Pension Plan as necessary to ensure there are sufficient assets to provide all Qualified Pension Plan benefits as required by the PBGC. The financial impact of the Qualified Pension 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 percent of the participant's base salary and cash bonus, plus annual credited interest on the participant's account balance. All then current participants as of December 31, 2013 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 of the Internal Revenue Code, 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 Rabbi Trust assets had a value of $2.6 million at July 2, 2017 and $2.3 million at July 3, 2016, 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 both July 2, 2017 and July 3, 2016. 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 2, 2017, 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) | $ 7 | $ (768) |
| Net actuarial loss | 17,279 | 2,232 |
| | $17,286 | $ 1,464 |

Prior service cost (credit) and unrecognized net actuarial losses included in accumulated other comprehensive loss at July 2, 2017 which are expected to be recognized in net periodic benefit cost (credit) in fiscal 2018, 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 | 1,282 | 302 |
| | $ 1,289 | $ (179) |

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 2, 2017 | July 3, 2016 | June 28, 2015 | July 2, 2017 | July 3, 2016 | June 28, 2015 |
| **COMPONENTS OF NET PERIODIC BENEFIT COST (CREDIT):** | | | | | | |
| Service cost | $ 54 | $ 50 | $ 64 | $ 13 | $ 12 | $ 14 |
| Interest cost | 3,926 | 4,387 | 4,173 | 55 | 87 | 114 |
| Expected return on plan assets | (5,854) | (5,509) | (6,174) | - | - | - |
| Amortization of prior service cost (credit) | 11 | 11 | 11 | (764) | (764) | (764) |
| Amortization of unrecognized net loss | 3,228 | 2,443 | 2,775 | 538 | 616 | 693 |
| Net periodic benefit cost (credit) | $ 1,365 | $ 1,382 | $ 849 | $ (158) | $ (49) | $ 57 |

| | Pension and SERP Benefits | | Postretirement Benefits | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| **WEIGHTED-AVERAGE ASSUMPTIONS:** | | | | |
| Benefit Obligations: | | | | |
| Discount rate | 3.91% | 3.79% | 3.91% | 3.79% |
| Rate of compensation increases - SERP | 3.0% | 3.0% | n/a | n/a |
| Net Periodic Benefit Cost: | | | | |
| Discount rate | 3.79% | 4.53% | 3.79% | 4.53% |
| Expected return on plan assets | 5.45% | 5.45% | 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 | $106,152 | $ 99,329 | $ 1,602 | $ 2,179 |
| Service cost | 54 | 50 | 13 | 12 |
| Interest cost | 3,926 | 4,387 | 55 | 87 |
| Actuarial (gain) loss | (4,342) | 6,783 | (80) | (281) |
| Benefits paid | (4,524) | (4,397) | (322) | (395) |
| Benefit obligation at end of year | $101,266 | $ 106,152 | $ 1,268 | $ 1,602 |
| **CHANGE IN PLAN ASSETS:** | | | | |
| Fair value of plan assets at beginning of year | $104,460 | $ 105,472 | $ - | $ - |
| Actual return on plan assets | 7,574 | 371 | - | - |
| Employer contribution | 5,014 | 3,014 | 322 | 395 |
| Benefits paid | (4,524) | (4,397) | (322) | (395) |
| Fair value of plan assets at end of year | $112,524 | $ 104,460 | $ - | $ - |
| Funded status–prepaid (accrued) benefit obligations | $ 11,258 | $ (1,692) | $ (1,268) | $ (1,602) |
| **AMOUNTS RECOGNIZED IN CONSOLIDATED BALANCE SHEETS:** | | | | |
| Other long-term assets | $ 13,082 | $ 72 | $ - | $ - |
| Accrued payroll and benefits (current liabilities) | (332) | (299) | (265) | (340) |
| Accrued benefit obligations (long-term liabilities) | (1,492) | (1,465) | (1,003) | (1,262) |
| Net amount recognized | $ 11,258 | $ (1,692) | $ (1,268) | $ (1,602) |
| **CHANGES IN PLAN ASSETS AND BENEFIT OBLIGATIONS RECOGNIZED IN OTHER COMPREHENSIVE INCOME:** | | | | |
| Net periodic benefit cost (credit) | $ 1,365 | $ 1,382 | $ (158) | $ (49) |
| Net actuarial (gain) loss | (6,063) | 11,921 | (80) | (281) |
| Amortization of prior service (cost) credits | (11) | (11) | 764 | 764 |
| Amortization of unrecognized net loss | (3,228) | (2,443) | (538) | (616) |
| Total recognized in other comprehensive (income) loss, before tax | (9,302) | 9,467 | 146 | (133) |
| Total recognized in net periodic benefit cost and other comprehensive (income) loss, before tax | $ (7,937) | $ 10,849 | $ (12) | $ (182) |

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 2, 2017 | July 3, 2016 | July 2, 2017 | July 3, 2016 |
| Accumulated benefit obligation | $99,442 | $104,388 | $1,591 | $1,435 |
| Projected benefit obligation | $99,442 | $104,388 | $1,824 | $1,764 |

For measurement purposes as it pertains to the estimated obligation associated with retirees prior to January 1, 2012, a 7.2 percent annual rate increase in the per capita cost of covered health care benefits was assumed for fiscal 2018; the rate was assumed to decrease gradually to 4.5 percent by the year 2025 and remain at that level thereafter.

The health care cost trend assumption has a minimal effect on our 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 2017 | $ - | $ - |
| Effect on postretirement benefit obligation as of July 2, 2017 | $ 7 | $ (7) |

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. 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 2017 and 2016:

| | Target Allocation | July 2, 2017 | July 3, 2016 |
|---|---|---|---|
| Equity investments | 35% | 38% | 38% |
| Fixed-income investments | 30 | 56 | 27 |
| Cash | 35 | 6 | 35 |
| Total | 100% | 100% | 100% |

The following is a summary, by asset category, of the fair value of pension plan assets at the June 30, 2017 and June 30, 2016 measurement dates (thousands of dollars):

| | June 30, 2017 | | | | June 30, 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| Asset Category | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Cash and cash equivalents | $ - | $ 7,233 | $ - | $ 7,233 | $ - | $36,706 | $ - | $ 36,706 |
| Equity securities/funds: | | | | | | | | |
| Small cap | 1,008 | - | - | 1,008 | 1,714 | - | - | 1,714 |
| Mid cap | 12,414 | - | - | 12,414 | 12,341 | - | - | 12,341 |
| Large cap | 19,961 | - | - | 19,961 | 18,678 | - | - | 18,678 |
| International | 8,941 | - | - | 8,941 | 7,132 | - | - | 7,132 |
| Fixed income: | | | | | | | | |
| Bond funds/bonds | 5,718 | 57,249 | - | 62,967 | 4,837 | 23,052 | - | 27,889 |
| Total | $48,042 | $64,482 | $ - | $112,524 | $44,702 | $59,758 | $ - | $104,460 |

There were no transfers in or out of Level 3 investments during the measurement year ended June 30, 2017.

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 2018 and 2017. 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/cash to the target allocation. The actual historical returns are also relevant. Annualized returns for periods ended June 30, 2017 were 5.22 percent for 5 years, 3.71 percent for 10 years, 4.83 percent for 15 years, 4.96 percent for 20 years, 5.90 percent for 25 years and 6.33 percent for 30 years.

We expect to contribute approximately $3.0 million to our qualified pension plan, $333,000 to our SERP and $265,000 to our postretirement health care plan in fiscal 2018. 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 |
|---|---|---|
| 2018 | $ 5,308 | $ 265 |
| 2019 | $ 5,304 | $ 217 |
| 2020 | $ 5,668 | $ 164 |
| 2021 | $ 6,239 | $ 146 |
| 2022 | $ 6,257 | $ 132 |
| 2023-2027 | $29,998 | $ 315 |

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 2, 2017 | July 3, 2016 | June 28, 2015 |
| Company contributions | $ 1,805 | $ 1,783 | $ 1,729 |

**SHAREHOLDERS' EQUITY**

We have 12,000,000 shares of authorized common stock, par value $.01 per share, with 3,596,616 and 3,565,857 shares outstanding at July 2, 2017 and July 3, 2016, 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 2, 2017. As of July 2, 2017, 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 2017 or 2016.

**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 applicable 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 applicable 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 2, 2017 | July 3, 2016 | June 28, 2015 |
| Net income attributable to STRATTEC | $7,197 | $9,149 | $20,654 |
| Less: Income attributable to participating securities | 1 | 58 | 258 |
| Net income attributable to common shareholders | $7,196 | $9,091 | $20,396 |
| Weighted average shares of common stock outstanding | 3,588 | 3,559 | 3,515 |
| Incremental shares – stock based compensation | 82 | 62 | 89 |
| Diluted weighted average shares of common stock outstanding | 3,670 | 3,621 | 3,604 |
| Basic earnings per share | $ 2.01 | $ 2.55 | $ 5.80 |
| Diluted earnings per share | $ 1.96 | $ 2.51 | $ 5.66 |

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 2, 2017 | 9,010 |
| July 3, 2016 | 9,010 |
| June 28, 2015 | 10,000 |

**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 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 | | |
| Exercised | (6,490) | $20.96 | | |
| Balance at July 2, 2017 | 138,508 | $29.23 | 4.4 | $1,361 |
| Exercisable as of: | | | | |
| July 2, 2017 | 129,498 | $25.71 | 4.2 | $1,361 |
| July 3, 2016 | 103,798 | $21.39 | 4.6 | $2,174 |
| June 28, 2015 | 91,103 | $19.86 | 4.1 | $4,592 |

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

| | 2015 |
|---|---|
| Shares | 10,000 |
| Exercise price | $79.73 |

No options were granted during either fiscal 2017 or 2016.

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 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 |
| Granted | 27,150 | $43.87 |
| Vested | (21,250) | $37.53 |
| Forfeited | (1,800) | $58.24 |
| Nonvested Balance at July 2, 2017 | 75,850 | $60.61 |

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 on such date. A total of 100,000 shares may be issued under the plan. Shares issued from treasury stock under the plan totaled 3,019 at an average price of $34.88 during 2017, 1,948 at an average price of $55.77 during 2016 and 1,038 at an average price of $76.06 during 2015. A total of 64,165 shares remain available for purchase under the plan as of July 2, 2017.

**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 2, 2017 | | July 3, 2016 | | June 28, 2015 | |
| | Net Sales | % | Net Sales | % | Net Sales | % |
| Export sales | $160,275 | 38% | $152,728 | 38% | $141,584 | 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 2, 2017 | | July 3, 2016 | | June 28, 2015 | |
| | Net Sales | % | Net Sales | % | Net Sales | % |
| Export sales into Canada | $73,481 | 18% | $74,310 | 19% | $60,987 | 15% |

**PRODUCT SALES**

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

| | Years Ended | | | | | |
|---|---|---|---|---|---|---|
| | July 2, 2017 | | July 3, 2016 | | June 28, 2015 | |
| | Net Sales | % | Net Sales | % | Net Sales | % |
| Keys & locksets | $114,938 | 28% | $113,765 | 28% | $114,287 | 28% |
| Power access | 84,457 | 20 | 83,747 | 21 | 68,078 | 16 |
| Door handles & exterior trim | 67,722 | 16 | 61,376 | 15 | 60,864 | 15 |
| Driver controls | 56,983 | 14 | 55,955 | 14 | 57,894 | 14 |
| Aftermarket & OE service | 47,216 | 11 | 48,200 | 12 | 78,717 | 19 |
| Latches | 35,307 | 8 | 28,023 | 7 | 24,320 | 6 |
| Other | 10,702 | 3 | 10,353 | 3 | 7,315 | 2 |
| | $417,325 | 100% | $401,419 | 100% | $411,475 | 100% |

**SALES AND RECEIVABLE CONCENTRATION**

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

| | Years Ended | | | | | |
|---|---|---|---|---|---|---|
| | July 2, 2017 | | July 3, 2016 | | June 28, 2015 | |
| | Net Sales | % | Net Sales | % | Net Sales | % |
| Fiat Chrysler Automobiles | $100,575 | 24% | $115,858 | 29% | $116,914 | 28% |
| General Motors Company | 88,624 | 21 | 79,893 | 20 | 105,809 | 26 |
| Ford Motor Company | 62,314 | 15 | 57,317 | 14 | 45,415 | 11 |
| | $251,513 | 60% | $253,068 | 63% | $268,138 | 65% |

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

| | July 2, 2017 | | July 3, 2016 | |
|---|---|---|---|---|
| | Receivables | % | Receivables | % |
| Fiat Chrysler Automobiles | $17,107 | 26% | $18,103 | 28% |
| General Motors Company | 13,395 | 21 | 13,090 | 21 |
| Ford Motor Company | 8,644 | 13 | 6,863 | 11 |
| | $39,146 | 60% | $38,056 | 60% |

## 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 2, 2017, 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 2, 2017, 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

## 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 2, 2017, 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 2, 2017, 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 2, 2017 of the Company and our report dated September 7, 2017 expressed an unqualified opinion on those consolidated financial statements.

Deloitte & Touche LLP

Deloitte & Touche LLP
Milwaukee, Wisconsin
September 7, 2017

## 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 2, 2017 and July 3, 2016, and the related consolidated statements of income and comprehensive income, shareholders’ equity, and cash flows for each of the three years in the period ended July 2, 2017. 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 2, 2017 and July 3, 2016, and the results of their operations and their cash flows for the three years in the period ended July 2, 2017, 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 2, 2017, 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 7, 2017 expressed an unqualified opinion on the Company’s internal control over financial reporting.

Deloitte & Touche LLP

Deloitte & Touche LLP
Milwaukee, Wisconsin
September 7, 2017

## FINANCIAL SUMMARY

### FIVE-YEAR FINANCIAL SUMMARY

The financial data for each period presented below reflects the consolidated results of STRATTEC SECURITY CORPORATION, its wholly owned Mexican subsidiary and its majority owned subsidiaries. Fiscal years 2013 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 | | | | |
|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2014 | 2013 |
| **INCOME STATEMENT DATA** | | | | | |
| Net sales | $417,325 | $401,419 | $411,475 | $348,419 | $298,179 |
| Gross profit | 60,162 | 64,825 | 72,660 | 65,798 | 53,866 |
| Engineering, selling and administrative expenses | 46,460 | 43,917 | 41,534 | 39,274 | 34,934 |
| Loss on settlement of pension obligation | - | - | - | - | 2,144 |
| Income from operations | 13,702 | 20,908 | 31,126 | 26,524 | 16,788 |
| Interest income | 136 | 25 | 185 | 106 | 21 |
| Equity earnings (loss) of joint ventures | 666 | (2,235) | (788) | 957 | (225) |
| Interest expense | (417) | (176) | (71) | (45) | (34) |
| Other income, net | 2,307 | 668 | 3,481 | 272 | 329 |
| Income before taxes and non-controlling interest | 16,394 | 19,190 | 33,933 | 27,814 | 16,879 |
| Provision for income taxes | 4,284 | 5,068 | 9,382 | 8,674 | 5,366 |
| Net income | 12,110 | 14,122 | 24,551 | 19,140 | 11,513 |
| Net income attributable to non-controlling interest | 4,913 | 4,973 | 3,897 | 2,716 | 2,138 |
| Net income attributable to STRATTEC SECURITY CORPORATION | $ 7,197 | $ 9,149 | $ 20,654 | $ 16,424 | $ 9,375 |
| **Earnings per share attributable to STRATTEC SECURITY CORPORATION:** | | | | | |
| Basic | $ 2.01 | $ 2.55 | $ 5.80 | $ 4.70 | $ 2.77 |
| Diluted | $ 1.96 | $ 2.51 | $ 5.66 | $ 4.59 | $ 2.72 |
| **Cash dividends declared per share** | $ 0.56 | $ 0.52 | $ 0.48 | $ 0.44 | $ 0.40 |
| **BALANCE SHEET DATA** | | | | | |
| Net working capital | $ 61,110 | $ 70,236 | $ 63,871 | $ 64,705 | $ 51,507 |
| Total assets | $273,714 | $242,176 | $230,834 | $207,909 | $168,491 |
| Long-term liabilities | $ 33,105 | $ 23,449 | $ 13,698 | $ 7,743 | $ 5,886 |
| Total STRATTEC SECURITY CORPORATION Shareholders' equity | $151,088 | $139,332 | $140,312 | $125,506 | $104,218 |

# FINANCIAL SUMMARY

**QUARTERLY FINANCIAL DATA (UNAUDITED)**

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

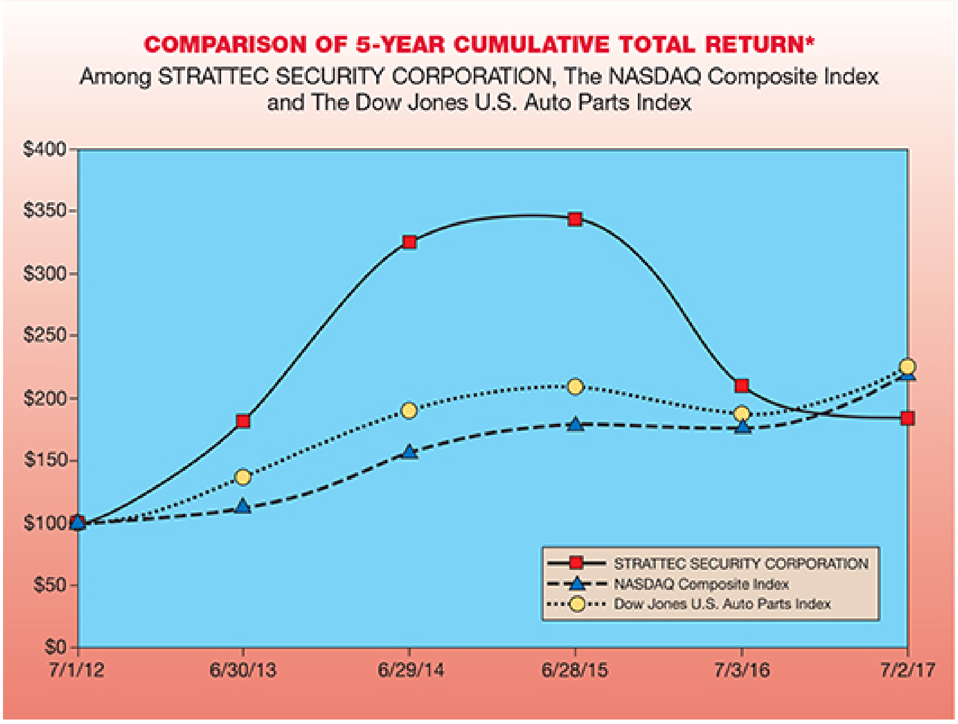
| | Quarter | Net Sales | Gross Profit | Net Income Attributable to STRATTEC | Earnings Per Share Basic | Earnings Per Share Diluted | Cash Dividends Declared Per Share | Market Price Per Share High | Market Price Per Share Low |
|---|---|---|---|---|---|---|---|---|---|
| 2017 | First | $100,244 | $14,605 | $1,542 | $0.43 | $0.42 | $0.14 | $48.86 | $34.76 |
| | Second | 98,945 | 13,495 | 398 | 0.11 | 0.11 | 0.14 | $44.00 | $31.05 |
| | Third | 109,706 | 17,403 | 3,482 | 0.97 | 0.95 | 0.14 | $44.43 | $25.65 |
| | Fourth | 108,430 | 14,659 | 1,775 | 0.49 | 0.48 | 0.14 | $39.10 | $23.00 |
| | TOTAL | $417,325 | $60,162 | $7,197 | $2.01 | $1.96 | $0.56 | | |
| 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(1) | 108,347 | 15,195 | 584 | 0.16 | 0.16 | 0.13 | $60.38 | $39.38 |
| | TOTAL | $401,419 | $64,825 | $9,149 | $2.55 | $2.51 | $0.52 | | |

(1) 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.

Registered shareholders of record at July 2, 2017, were 1,227.

## PERFORMANCE GRAPH

The chart below shows a comparison of the cumulative return since July 1, 2012 had $100 been invested at the close of business on July 1, 2012 in STRATTEC Common Stock, the NASDAQ Composite Index (all issuers), and the Dow Jones U.S. Auto Parts Index.




| | 7/1/12 | 6/30/13 | 6/29/14 | 6/28/15 | 7/3/16 | 7/2/17 |
|---|---|---|---|---|---|---|
| STRATTEC SECURITY CORPORATION** | 100.00 | 180.67 | 322.17 | 344.73 | 209.64 | 178.10 |
| NASDAQ Composite Index | 100.00 | 117.69 | 155.50 | 177.19 | 173.36 | 221.11 |
| Dow Jones U.S. Auto Parts Index | 100.00 | 143.45 | 194.98 | 210.20 | 183.15 | 225.95 |

* $100 invested on 7/1/12 in stock or in index, including reinvestment of dividends. Indexes calculated on a month-end basis.

**The Friday fiscal year end closing price (i.e. the last trading day prior to our fiscal year end) of STRATTEC Common Stock 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, the closing price on July 1, 2016 was $42.33 and the closing price on June 30, 2017 was $35.40.

*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, 69**
Chairman of the Board

**Frank J. Krejci, 67**
President and Chief Executive Officer

**Thomas W. Florsheim, Jr., 59**
Chairman and Chief Executive Officer of Weyco Group, Inc.
Director of Weyco Group, Inc.

**Michael J. Koss, 63**
Chairman, President and Chief Executive Officer of Koss Corporation
Director of Koss Corporation

**David R. Zimmer, 71**
Retired Managing Partner of Stonebridge Business Partners

## CORPORATE OFFICERS

**Frank J. Krejci, 67**

**Patrick J. Hansen, 58**
Senior Vice President-Chief Financial Officer, Treasurer and Secretary

**Rolando J. Guillot, 49**
Senior Vice President-Operations

**Brian J. Reetz, 59**
Vice President-Security Products

**Richard P. Messina, 51**
Vice President-Global Sales and Access Products

**Al-Waleed H. Hamdan, 49**
Vice President-Product Management

## SHAREHOLDERS' INFORMATION

**Annual Meeting**
The Annual Meeting of Shareholders will convene at 8:00 a.m. (CDT) on October 10, 2017, at the Holiday Inn Milwaukee Riverfront, 4700 North Port Washington Road, Milwaukee, WI 53212

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

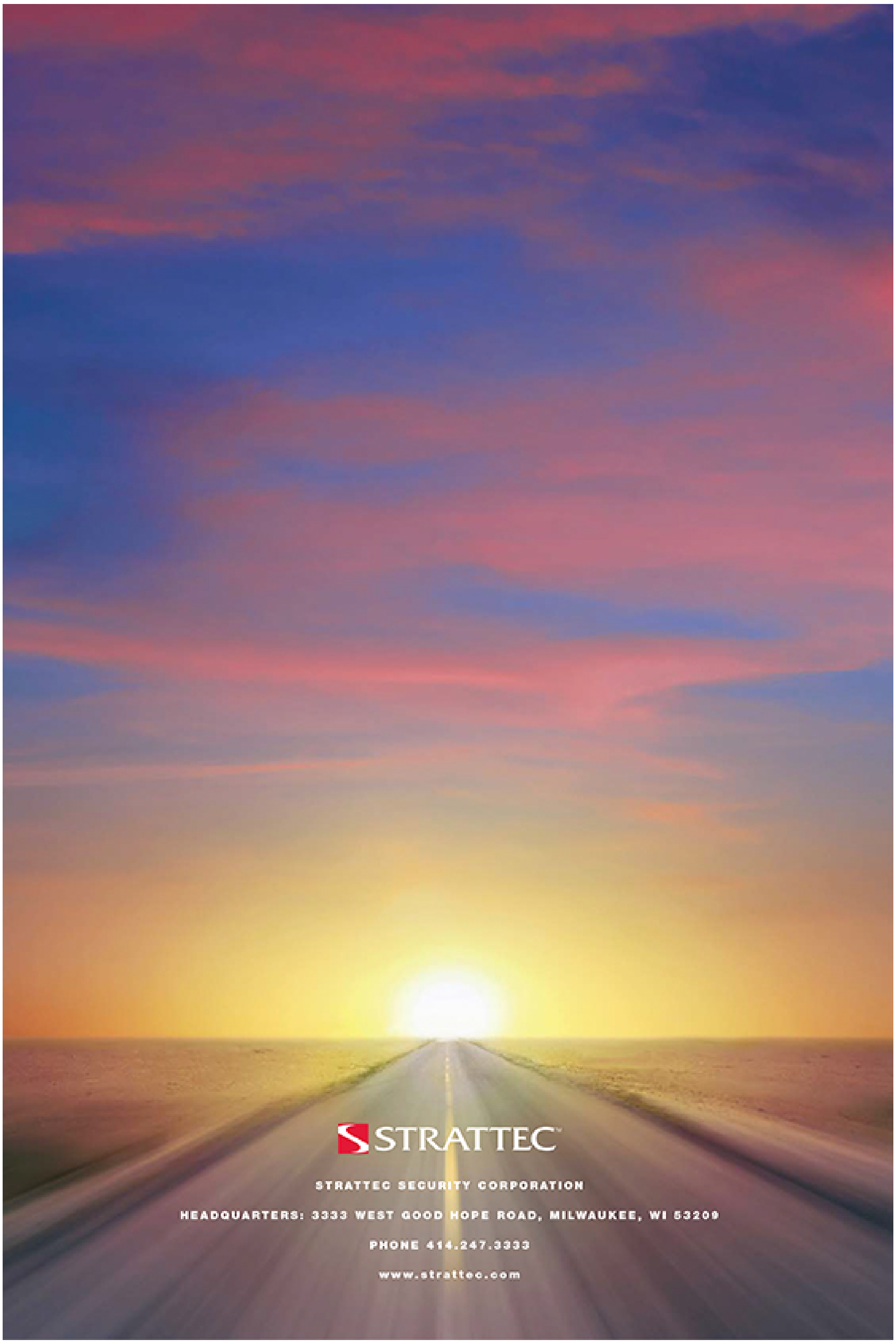
**Form 10-K**
You may receive a copy of the STRATTEC SECURITY CORPORATION Form 10-K, filed with the Securities and Exchange Commission, by writing to the Secretary at STRATTEC SECURITY CORPORATION, 3333 West Good Hope Road, Milwaukee, WI 53209.

**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.

**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, Brian J. Reetz, Frank J. Krejci, Al-Waleed H. Hamdan, Rolando J. Guillot*



STRATTEC
STRATTEC SECURITY CORPORATION
HEADQUARTERS: 3333 WEST GOOD HOPE ROAD, MILWAUKEE, WI 53209
PHONE 414.247.3333
www.strattec.com

EXHIBIT 23

## 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 7, 2017, 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 2, 2017.

/s/ Deloitte & Touche LLP

Deloitte & Touche LLP
Milwaukee, Wisconsin
September 7, 2017

Exhibit 31.1

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 7, 2017

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

Exhibit 31.2

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 7, 2017

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

Exhibit 32

**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 2, 2017 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 7, 2017

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

Dated: September 7, 2017

/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.