# 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 1, 2007.**

☐ **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. ☐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 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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer ☐ Accelerated filer ☑ Non-accelerated filer ☐

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 29, 2006 (the last business day of the Registrant's most recently completed second quarter), was approximately $161,442,000 (based upon the last reported sale price of the Common Stock at December 29, 2006, on the NASDAQ Global Market). Shares of common stock held by any executive officer or director of the registrant have been excluded from this computation because such persons may be deemed to be affiliates. This determination of affiliate status is not a conclusive determination for other purposes.

On August 5, 2007, there were outstanding 3,519,185 shares of $.01 par value Common Stock.

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 1, 2007. | I, II, IV |
| Portions of the Proxy Statement dated August 30, 2007, for the Annual Meeting of Shareholders to be held on October 9, 2007. | 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 2007 Annual Report to Shareholders and the Company's Proxy Statement, dated August 30, 2007, 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." These statements include expected future financial results, product offerings, global expansion, liquidity needs, financing ability, planned capital expenditures, management's or the Company's expectations and beliefs, and similar matters discussed in this Form 10-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, customer demand for the Company's and its customers' products, competitive and technological developments, customer purchasing actions, foreign currency fluctuations, costs of operations and other matters described under 'Risk Factors" in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of the Company's 2007 Annual Report to Shareholders, which is incorporated herein by reference in 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.



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## PART I

### Item 1. Business

The information set forth under “Company Description” which appears on pages 5 through 10 of the Company’s 2007 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 35 of the Company’s 2007 Annual Report to Shareholders, which is incorporated herein by reference.

### Emerging Technologies

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

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

### Sources and Availability of Raw Materials

The primary raw materials used by the Company are high-grade zinc, brass, magnesium, aluminum and plastic resins. These materials are generally available from a number of suppliers, but the Company has chosen to concentrate 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 17 of the Company’s 2007 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 patents discussed above are of considerable importance to the manufacturing and marketing of many of its products, the Company does not consider any single patent or trademark or group of patents or trademarks to be material to its business as a whole, except for the STRATTEC and STRATTEC with logo trademarks.

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

### Dependence Upon Significant Customers

A very significant portion of the Company's annual sales are to General Motors Corporation, Delphi Corporation, Ford Motor Company, and DaimlerChrysler Corporation. These four customers accounted for approximately 80 percent, 80 percent and 82 percent of the Company's total net sales in each fiscal year 2007, 2006 and 2005, respectively. Further information regarding sales to the Company's largest customers is set forth under the caption "Risk Factors — Loss of Significant Customers, Vehicle Content and Market Share" included on page 17 of the Company's 2007 Annual Report to Shareholders and "Notes to Financial Statements-Sales and Receivable Concentration" included on page 35 of the Company's 2007 Annual Report to Shareholders, both 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 relationships with General Motors Corporation, DaimlerChrysler Corporation, Ford Motor Company, and Delphi Corporation in the past, and expects to do so in the future. However, a significant change in the purchasing practices of, or a significant loss of volume from, one or more of these customers could have a detrimental effect on the Company's financial performance.

The Company has recently added resources and increased its emphasis on the New Domestic and the Tier 1 customer base.

### Sales and Marketing

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

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

### Competition

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

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

The Company's lockset and housing competitors include Huf North America, Ushin-Ortech, Tokai-Rika, Alpha-Tech, Valeo, Honda Lock, Methode, and Shin Chang. For additional information related to competition, see the information set forth under "Risk Factors-Highly Competitive Automotive Supply Industry" included on page 18 of the Company's 2007 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 2007, 2006, and 2005, the Company spent approximately $1,500,000, $2,300,000, and $2,000,000, respectively, on research and development. The Company believes that, historically, it has committed sufficient resources to research and development and anticipates increasing such expenditures 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. See the information set forth under "Notes to Financial Statements-Customer Tooling in Progress" included on page 24 of the Company's 2007 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 housing, lock and key manufacturing and assembly operations. These laws include the Resource Conservation and Recovery Act (as amended), the Clean Air Act (as amended), the Clean Water Act of 1990 (as amended) and the Comprehensive Environmental Response, Compensation and Liability Act (as amended). The Company has an environmental management system that is ISO-14001 certified. The Company believes that its existing environmental management system is adequate and it has no current plans for substantial capital expenditures in the environmental area.

As discussed in "Notes to Financial Statements-Commitments and Contingencies" included on pages 28 and 29 of the Company's 2007 Annual Report to Shareholders, which is incorporated herein by reference, a site at the Company's Milwaukee facility is contaminated by a solvent spill from a former above-ground solvent storage tank located on the east side of the facility, which occurred in 1985. This situation is being monitored by the Company.

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

**Employees**

At July 1, 2007, the Company had approximately 2,150 full-time employees, of which approximately 246 or 11% percent were represented by a labor union, which accounts for all production associates at the Company's Milwaukee facility. In June 2005, a new contract with the unionized associates was ratified and is effective through June 29, 2008. During June 2001, there was a 16-day strike by the represented employees at the Company's Milwaukee facility. Further information regarding the strike, work stoppages and other labor matters are discussed under "Risk Factors-Disruptions Due to Work Stoppages and Other labor Matters" included on pages 17 and 18 of the Company's 2007 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 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. Information on the Company's website is not part of this report.

**Item 1A. Risk Factors**

The information set forth under "Risk Factors" which appears on pages 17 and 18 of the Company's 2007 Annual Report to Shareholders is incorporated herein by reference.

**Item 1B. Unresolved Staff Comments**

Not Applicable

**Item 2. Properties**

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

| Location | Type | Sq. Ft. | Owned or Leased |
|---|---|---|---|
| Milwaukee, Wisconsin | Headquarters and General Offices; Component Manufacturing, Assembly and Service Parts Distribution | 352,000 | Owned |
| Juarez, Chihuahua Mexico | Subsidiary Offices and Assembly | 97,000 | Owned |
| Juarez, Chihuahua Mexico | Subsidiary Offices, Key Finishing, Injection Molding and Assembly Operations | 62,000 | Leased |
| El Paso, Texas | Finished Goods Warehouse | 38,000 | Leased** |
| Troy, Michigan | Sales and Engineering Office for Detroit Customer Area | 6,000 | Leased** |

** Leased unit within a complex.

The Company believes its production facilities are adequate for the foreseeable future as they relate to the Company's current products. As the Company evaluates and expands into other products, consideration of further production facilities will be necessary.

**Item 3. Legal Proceedings**

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

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

There were no matters submitted to a vote of shareholders during the fourth quarter of fiscal 2007.

## PART II

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

The Company's Board of Directors authorized a stock repurchase program on October 16, 1996, and the program was publicly announced on October 17, 1996. The Board of Directors has periodically increased the number of shares authorized under the program, most recently in February 2006 when an additional 200,000 shares was authorized for repurchase. The program currently authorizes the repurchase of up to 3,639,395 shares 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 1, 2007, a total of 3,384,700 shares have been repurchased at a cost of approximately $127.1 million.

Issuer Purchases of Equity Securities:

| Period | Total Number Of Shares Purchased | Average Price Paid Per Share | Total Number Of Shares Purchased As Part of Publicly Announced Program | Maximum Number Of Shares that May Yet be Purchased Under the Program |
|---|---|---|---|---|
| April 2, 2007 – May 6, 2007 | — | — | — | 279,008 |
| May 7, 2007 – June 3, 2007 | 12,513 | $47.31 | 12,513 | 266,495 |
| June 4, 2007 – July 1, 2007 | 11,800 | $47.55 | 11,800 | 254,695 |
| Total | 24,313 | $47.42 | 24,313 | 254,695 |

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 39 of the Company's 2007 Annual Report to Shareholders is incorporated herein by reference.

**Item 6. Selected Financial Data**

The information set forth under "Five Year Financial Summary" which appears on page 39 of the Company's 2007 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" included 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 11 through 18 of the Company's 2007 Annual Report to Shareholders is incorporated herein by reference.

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

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

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

The financial statements, together with the report thereon of Grant Thornton LLP dated August 21, 2007, the report of management on internal control over financial reporting and the report of Grant Thornton LLP on internal control over financial reporting dated August 21, 2007, which appear on pages 19 through 38 of the Company's 2007 Annual Report to Shareholders, are incorporated herein by reference.

Our quarterly results of operations is included under "Financial Summary-Quarterly Financial Data (Unaudited)" which appears on page 39 of the Company's 2007 Annual Report to Shareholders is incorporated herein by reference.

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

Not applicable.

**Item 9A. Controls and Procedures**

As of the end of the period covered by this report, the Company carried out an evaluation under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the Company's disclosure controls and procedures (as defined in Rules 13a – 15(e) and 15d – 15(e) under the Securities Exchange Act of 1934, as amended). Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that, as of the end of such period, the Company's disclosure controls and procedures were effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in reports that the Company files with or submits to the Commission. 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 and based on the evaluation described above, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at reaching that level of reasonable assurance.

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 1, 2007 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 36 of the Company's 2007 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 37 of the Company's 2007 Annual Report to Shareholders under the heading "Report of Independent Registered Public Accounting Firm" and is incorporated herein by reference.

**Item 9B. Other Information**

Effective August 24, 2007, the Company amended the Economic Value Added Plan for Executive Officers and Senior Managers (the "Executive EVA Plan") and the Economic Value Added Plan for Non-Employee Members of the Board of Directors (the "Director EVA Plan"), the purposes of which are to provide incentive compensation to certain key employees, including all executive officers, and non-employee members of the Company's board of directors in a form which relates the financial reward to an increase in the value of the Company to its shareholders. Copies of the amended Executive EVA Plan and amended Director EVA Plan are attached hereto as exhibits and are incorporated herein by reference.

The amendments to the Executive EVA Plan modify the plan as follows:

- Under the Executive EVA plan as previously amended on August 22, 2006, a participant could not receive a bonus payment even if the individual participant met their own personal objectives if no bonuses were to be paid to participants in the Company's Economic Value Added Bonus Plan for Salaried Employees or Economic Value Added Bonus Plan for Represented Employee Associates because the Company's performance factor was below zero. This restriction has been eliminated so that individual performance can be rewarded based on the participants meeting his or her personal objectives.
- A participant's Bonus Bank balance may not be negative.
- The plan no longer excludes cash and investments in determining the Company's level of capital employed in its business. Additionally, the plan assumes that the Company's capital structure is 80% equity and 20% debt. Using this assumed capital structure, the Company's cost of capital under the amended plan has been set at 10% for fiscal 2008. The Company's Compensation Committee will review the Company's cost of capital annually prior to each fiscal year.
- The EVA plan target for fiscal year 2008 was set at $1,154,000.
- The EVA leverage factor under the plan was reduced from 5% to 3%. The EVA leverage factor for the plan for fiscal year 2008 was set at $3,316,000.

The amendments to the Director EVA Plan modify the plan as follows:

- The plan no longer excludes cash and investments in determining the Company's level of capital employed in its business. Additionally, the plan assumes that the Company's capital structure is 80% equity and 20% debt. Using this assumed capital structure, the Company's cost of capital under the amended plan has been set at 10% for fiscal 2008. The Company's Compensation Committee will review the Company's cost of capital annually prior to each fiscal year.
- The EVA plan target for fiscal year 2008 was set at $1,154,000.
- The EVA leverage factor under the plan was reduced from 5% to 3%. The EVA leverage factor for the plan for fiscal year 2008 was set at $3,316,000.

## PART III

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

The information on pages 2, 3, 5, 6, 9 through 11 and 14 of the Company's Proxy Statement, dated August 30, 2007, under "Proposal: Election of Directors," "Code of Business Ethics," "Audit Committee Financial Expert," "Executive Officers," "Section 16(a) Beneficial Ownership Reporting Compliance", and "Director Nominations" is incorporated herein by reference.

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

### Item 11. Executive Compensation

The information on pages 15 through 36 of the Company's Proxy Statement, dated August 30, 2007, under "Director Compensation" and "Executive Compensation" is incorporated herein by reference.

The information incorporated by reference from "Report of Compensation Committee" in the Company's Proxy Statement, dated August 30, 2007, 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 Security Exchange Act of 1933, 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 on pages 12 through 14 of the Company's Proxy Statement, dated August 30, 2007, under "Security Ownership" is incorporated herein by reference.

### Equity Compensation Plan Information

The following table summarizes share information, as of July 1, 2007, for the Company's 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 | 235,420 | $ 58.71 | 342,823 |
| Equity compensation plans not approved by shareholders | — | — | — |
| Total | 235,420 | $ 58.71 | 342,823 |

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

The information on page 37 of the Company's Proxy Statement, dated August 30, 2007, under "Executive Compensation" and "Director Independence" is incorporated herein by reference.

### Item 14. Principal Accountant Fees and Services

The information on page 8 of the Company's Proxy Statement, dated August 30, 2007, under "Fees of Independent Registered Public Accounting Firm" is incorporated herein by reference.

## PART IV

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

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

(1) (i) Financial Statements — The following financial statements of the Company, included on pages 19 through 38 of the Company's 2007 Annual Report to Shareholders, are incorporated by reference in Item 8.

Reports of Independent Registered Public Accounting Firm

Consolidated Balance Sheets — as of July 1, 2007 and July 2, 2006

Consolidated Statements of Income — years ended July 1, 2007, July 2, 2006 and July 3, 2005

Consolidated Statements of Shareholders' Equity – years ended July 1, 2007, July 2, 2006 and July 3, 2005

Consolidated Statements of Cash Flows — years ended July 1, 2007, July 2, 2006 and July 3, 2005

Notes to Financial Statements

(2) Financial Statement Schedule

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

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

(b) Exhibits

The response to this portion of Item 15 is submitted as a separate section of this report.

(c) Financial Statement Schedules

The response to this portion of Item 15 is submitted as a separate section of this report.

## SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

STRATTEC SECURITY CORPORATION

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

Date: August 30, 2007

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/ Harold M. Stratton II<br>Harold M. Stratton II | Chairman, President, Chief Executive Officer, and Director (Principal Executive Officer) | August 30, 2007 |
| /s/ Frank J. Krejci<br>Frank J. Krejci | Director | August 21, 2007 |
| /s/ Michael J. Koss<br>Michael J. Koss | Director | August 21, 2007 |
| /s/ Robert Feitler<br>Robert Feitler | Director | August 21, 2007 |
| /s/ David R. Zimmer<br>David R. Zimmer | Director | August 21, 2007 |
| /s/ Patrick J. Hansen<br>Patrick J. Hansen | Senior Vice President, Chief Financial Officer, Secretary and Treasurer (Principal Financial and Accounting Officer) | August 30, 2007 |

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

| Exhibit | | |
|---|---|---|
| 3.1 (2) | Amended and Restated Articles of Incorporation of the Company | * |
| 3.2 (9) | By-laws of the Company | * |
| 4.1 (11) | Promissory Note dated November 1, 2006 by and between the Company and M&I Bank | * |
| 10.1 (9) ** | Amended STRATTEC SECURITY CORPORATION Stock Incentive Plan | * |
| 10.2 (9) ** | Form of Restricted Stock Grant Agreement | * |
| 10.3 (3) (4) (5) (6)(7)(8) (12)** | Employment Agreements between the Company and the identified executive officers | * |
| 10.4 (1) (3) (4)(5) (6)(7)(8) (12)** | Change In Control Agreements between the Company and the identified executive officers | * |
| 10.5 ** | Amended STRATTEC SECURITY CORPORATION Economic Value Added Plan for Executive Officers and Senior Managers | |
| 10.6 ** | Amended STRATTEC SECURITY CORPORATION Economic Value Added Plan for Non-employee Members of the Board of Directors | |
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* Previously filed

** Management contract or compensatory plan or arrangement

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

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

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

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

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

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

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

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

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

(10) Incorporated by reference from the January 1, 2006 Form 10-Q filed on February 7, 2006.

(11) Incorporated by reference from the December 31, 2006 Form 10-Q filed on February 1, 2007.

(12) Incorporated by reference from the April 1, 2007 Form 10-Q filed on May 8, 2007.

(13) 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 10.5**

# ECONOMIC VALUE ADDED BONUS PLAN
# FOR
# EXECUTIVE OFFICERS
# AND
# SENIOR MANAGERS

Effective February 27, 1995
As Amended August 24, 1999, August 21, 2001, October 23, 2001,
May 20, 2003, August 17, 2004, October 4, 2005, August 22, 2006
and August 24, 2007

**ECONOMIC VALUE ADDED PLAN**
**FOR**
**EXECUTIVE OFFICERS**
**AND**
**SENIOR MANAGERS**

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I. PLAN OBJECTIVES

A. To promote the maximization of shareholder value over the long term by providing incentive compensation to key employees of STRATTEC SECURITY CORPORATION (the "Company") in a form which is designed to financially reward participants for an increase in the value of the Company.

B. To provide competitive levels of compensation to enable the Company to attract and retain people who are able to exert a significant impact on the value of the Company to its shareholders.

C. To encourage teamwork and cooperation in the achievement of Company goals.

II. PLAN ADMINISTRATION

The Compensation Committee of the Board of Directors (the "Compensation Committee") shall be responsible for the design, administration, and interpretation of the Plan, subject to the Administrative Provisions contained in Article IX.

III. DEFINITIONS

A. "Accrued Bonus" means the bonus, which may be negative or positive, which is calculated in the manner set forth in Section V.A.

B. ''Actual EVA" means the EVA as calculated for the relevant Plan Year.

C. "Base Salary" means:

(1) For Participants who are employed by the Company, all wages paid in the Plan Year, excluding employment signing bonuses, EVA bonus payments, reimbursement or other expense allowances, imputed income, value of fringe benefits (cash and non-cash), moving reimbursements, welfare benefits and special payments.

(2) For Participants who are employed by the STRATTEC de Mexico S.A. de C.V., STRATTEC Componentes Automotrices S.A. de C.V., and ADAC-STRATTEC de MEXICO, "Base Salary" includes regular salary, holidays and

vacations paid during the Plan Year. Base salary does not include overtime, profit sharing, Christmas bonuses, vacation premiums, signing bonuses, EVA bonus payments, reimbursements and other expense allowances, imputed income, the value of fringe benefits (cash and non-cash), moving reimbursements and special payments.

D. "Capital" means the Company's average monthly operating capital for the Plan Year, calculated as follows:

| | |
|---|---|
| | Current Assets |
| + | Bad Debt Reserve |
| + | LIFO Reserve |
| - | Future Income Tax Benefits |
| - | Current Noninterest-Bearing Liabilities |
| + | Property, Plant, Equipment, (Net) |
| - | Construction in Progress |
| (+/-) | Unusual Capital Items |

E. "Capital Charge" means the deemed opportunity cost of employing Capital in the Company's business, determined as follows:

Capital Charge = Capital x Cost of Capital

F. "Code" means the Internal Revenue Code of 1986, as amended from time to time, and as interpreted by applicable regulations and rulings.

G. "Company" means STRATTEC SECURITY CORPORATION. The Company's Compensation Committee may act on behalf of the Company with respect to this Plan.

H. "Cost of Capital" means the weighted average of the cost of equity and the after tax cost of debt for the relevant Plan Year. For Plan administration purposes, it is assumed the Company's capital structure will be 80% Equity and 20% Debt. The Cost of Capital will be initially set at 10% for fiscal year 2008 and reviewed by the Compensation Committee prior to each Plan Year thereafter, consistent with the following methodology:

(a) Cost of Equity = Risk Free Rate + (Business Risk Index x Average Equity Risk Premium)

(b) Debt Cost of Capital = Debt Yield x (1 - Tax Rate)

(c) The weighted average of the Cost of Equity and the Debt Cost of Capital is determined by reference to the expected debt-to-capital ratio

where the Risk Free Rate is the average daily closing yield rate on 10 year U.S. Treasury Notes for an appropriate period (determined by the Compensation Committee from time to time) preceding the relevant Plan Year, the Business Risk Index is determined by reference to an auto supply industry factor selected by the Compensation Committee, the Average Equity Risk Premium is 6%, the Debt Yield is the weighted average yield of all borrowing included in the Company's permanent capital, and the tax rate is the combination of the relevant corporate Federal and state income tax rates.

I. "Disabilities or Disabled" means that the Participant: (1) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months; or (2) is, by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period not less than three months under an accident and health plan covering employees of the Company.

J. "Economic Value Added" or "EVA" means the NOPAT that remains after subtracting the Capital Charge, expressed as follows:

EVA = NOPAT - Capital Charge

EVA may be positive or negative.

K. "Effective Date" means February 27, 1995, the date as of which the Plan first applies to the Company.

L. "EVA Leverage Factor" means the adjustment factor reflecting deviation in the use of capital employed as a percentage of capital employed. For purposes of this Plan, the Company's EVA Leverage Factor is determined to be 3% of the monthly average net operating capital employed during the prior Plan year.

For fiscal year 2008 (beginning July 2, 2007) the EVA Leverage Factor is set at $3,316,000.

M. "Leave of Absence" means that the Participant is on a sick leave, military leave or other bona fide leave of absence (such as temporary employment by the government) if the period of the leave does not exceed six months. If the leave is longer, the Participant's right to reemployment with the Company must be provided by statute or contract. A Participant who is on a Leave of Absence has not terminated employment.

N. "NOPAT" means cash adjusted net operating profits after taxes for the Plan Year, calculated as follows:

| | |
|---|---|
| | Net Sales |
| - | Cost of Goods Sold |
| (+ -) | Change in LIFO Reserve |
| - | Engineering/Selling & Admin. |
| (+ -) | Change in Bad Debt Reserve |
| (+ -) | Other Income & Expense excluding Interest Expense |
| (+ -) | Other Unusual Income or Expense Items (See Section VI.B.) |
| (+ -) | Amortization of Unusual Income or Expense Items |
| | - Cash Adjusted Taxes on the Above (+/- change in deferred tax liability) |

O. "Participant" means individual who has satisfied the eligibility requirements of the Plan as provided in Section IV.

P. "Plan Year" means the one-year period coincident with the Company's fiscal year.

Q. "Executive Officers" means those Participants designated as Executive Officers by the Compensation Committee with respect to any Plan Year.

R. "Senior Managers" means those Participants designated as Senior Managers by the Compensation Committee with respect to any Plan Year.

S. "Separation from Service" means the events which allow the Available Balance (minus income and employment taxes) to be paid to an Executive Officer, as specified in Article VIII(C)(8)(b).

T. “Target EVA” means the target level of EVA for the Plan Year, determined as follows:

$$\text{Current Plan Year Target EVA} = \frac{\text{Prior Year Target EVA} + \text{Prior Year Actual EVA}}{2} + \text{Expected Improvement}$$

Expected Improvement will be approved by the Board of Directors annually, based on past practice and consideration for current relevant economic conditions.

For fiscal year 2008 (beginning July 2, 2007) the Target EVA is set at $1,154,000.

## IV. ELIGIBILITY

A. Eligible Positions. In general, only Executive Officers and Senior Managers selected by the Compensation Committee may be eligible for participation in the Plan. However, actual participation will depend upon the contribution and impact each eligible employee may have on the Company’s value to its shareholders, as determined by the Compensation Committee.

B. Nomination and Approval. Each Plan Year, the Chairman and President will nominate eligible employees to participate in the Plan for the next Plan Year. The Compensation Committee will have the final authority to select Plan participants (the “Participants”) among the eligible employees nominated by the Chairman and President. Continued participation in the Plan is contingent on approval of the Compensation Committee.

C. Employee Performance Requirement. Employees whose performance is rated “Needs Improvement” on their annual performance review will not be eligible for an EVA bonus applicable to the year covered by such performance review. However, if the employee so rated is subject to a performance improvement plan, and successfully meets the requirement of the plan in the time frame prescribed, the employee’s EVA eligibility will be reinstated, and the EVA bonus will be paid with the next regular payroll check following reinstatement.

V. INDIVIDUAL PARTICIPATION LEVELS

A. Calculation of Accrued Bonus. Each Participant's Accrued Bonus will be determined as a function of the Participant's Base Salary, the Participant's Target Incentive Award (provided in paragraph V.B., below), Company Performance Factor (provided in Section VI.A.) and the Individual Performance Factor (provided in Section VI.C.) for the Plan Year. Each Participant's Accrued Bonus will be calculated as follows:

$$\text{Participant's Earned Wages} \times \text{Target Incentive Award} \times \frac{\left[\text{Company Performance Factor} + \text{Individual Performance Factor}\right]}{2}$$

B. Target Incentive Awards. The Target Incentive Awards will be determined according to the following schedule:

| Position | Target Incentive Award (% of Base Salary) |
|---|---|
| Chairman (if also CEO of Company) | 75% |
| President | 65% |
| Executive Vice President | 50% |
| Senior Vice President | 45% |
| Vice President | 35% |
| Senior Managers as approved each year pursuant to section IV.B | 12%-20% |

VI. PERFORMANCE FACTORS

A. Company Performance Factor Calculation. For any Plan Year, the Company Performance Factor will be calculated as follows:

$$\text{Company Performance Factor} = 1.00 + \frac{\text{Actual EVA - Target EVA}}{\text{EVA Leverage Factor}}$$

B. Adjustments to Company Performance. When Company performance is based on Economic Value Added or other quantifiable financial or accounting measure, it may be necessary to exclude significant, unusual, unbudgeted or noncontrollable gains or losses from actual financial results in order to measure performance properly. The Compensation Committee will decide those items that

shall be considered in adjusting actual results. For example, some types of items that may be considered for exclusion are:

(1) Any gains or losses which will be treated as extraordinary in the Company's financial statements.

(2) Profits or losses of any entities acquired by the Company during the Plan Year, assuming they were not included in the budget and/or the goal.

(3) Material gains or losses not in the budget and/or the goal which are of a nonrecurring nature and are not considered to be in the ordinary course of business. Some of these would be as follows:

(a) Gains or losses from the sale or disposal of real estate or property.

(b) Gains resulting from insurance recoveries when such gains relate to claims filed in prior years.

(c) Losses resulting from natural catastrophes, when the cause of the catastrophe is beyond the control of the Company and did not result from any failure or negligence on the Company's part.

C. Individual Performance Factor Calculation. Determination of the Individual Performance Factor will be the responsibility of the individual to whom the participant reports. This determination will be subject to approval by the Chairman and President (or the Compensation Committee with respect to the Chairman and President) and shall conform with the process set forth below:

(1) Quantifiable Supporting Performance Factors. The Individual Performance Factor of the Accrued Bonus calculation will be based on the accomplishment of individual, financial and/or other goals ("Supporting Performance Factors"). Whenever possible, individual performance will be evaluated according to quantifiable benchmarks of success. These Supporting Performance Factors will be enumerated from 0 to 2.0 based on the levels of achievement for each goal per the schedule in VI C.(2). Provided, however, that if the quantifiable Supporting Performance Factor is based on the Company Performance

Factor as set forth in Section VI.A., then the Supporting Performance Factor may be unlimited.

(2) Non-Quantifiable Supporting Performance Factors. When performance cannot be measured according to a quantifiable monitoring system, an assessment of the Participant's overall performance may be made based on a non-quantifiable Supporting Performance Factor (or Factors). The individual to whom the Participant reports (or the Compensation Committee with respect to the Chairman) will evaluate the Participant's performance based on behavioral attributes and overall performance and this evaluation will determine the Participant's Supporting Performance Factor (or Factors) according to the following schedule:

| Non Quantifiable Supporting Performance Rating | Supporting Performance Factor | Quantifiable Supporting Performance Rating |
|---|---|---|
| Significantly Exceeds Requirements | 1.8-2.0 | Significantly Exceeds Goal |
| Exceeds Requirements | 1.4-1.7 | Exceeds Goal |
| Meets Requirements | .7-1.3 | Meets Goal |
| Marginally meets Requirements | .3-.6 | Goal Not Met, but Significant Progress Made |
| Needs Improvements | 0-.2 | |
| | 0 | Goal Not Met |

(3) Aggregate Individual Performance Factor. The Individual Performance Factor to be used in the calculation of the Accrued Bonus shall be equal to the sum of the quantifiable and/or non-quantifiable Supporting Performance Factor(s), divided by two as follows:

$$\text{Individual Performance Factor} = \frac{\text{Quantifiable Supporting Performance Factor} + \text{Non-Quantifiable Supporting Performance Factor}}{2}$$

Notwithstanding the foregoing, the individual to whom the Participant reports (with the approval of the Chairman and President or the Compensation Committee with respect to the Chairman and President), shall have the authority to weight the Supporting Performance Factors, according to relative importance. The weighting of each Supporting Performance

Factor shall be expressed as a percentage, and the sum of the percentages applied to all of the Supporting Performance Factors shall be 100%. The Individual Performance Factor, if weighted factors are used, will then be equal to the weighted average of such Supporting Performance Factors.

VII. CHANGE IN STATUS DURING THE PLAN YEAR

A. New Hires and Promotions. A newly hired employee or an employee promoted during the Plan Year to a position qualifying for participation (or leaving the participating class) may accrue (subject to discretion of the Compensation Committee) a pro rata Accrued Bonus based on Base Salary received.

B. Discharge. An employee discharged during the Plan Year shall not be eligible for an Accrued Bonus, even though his or her service arrangement or contract extends past year-end, unless the Compensation Committee determines that the conditions of the termination indicate that a prorated Accrued Bonus is appropriate. The Compensation Committee shall have full and final authority in making such a determination.

C. Resignation. An employee who resigns during the Plan Year to accept employment elsewhere (including self-employment) will not be eligible for an Accrued Bonus, unless the Compensation Committee determines that the conditions of the termination indicate that a prorated Bonus is appropriate. The Compensation Committee shall have full and final authority in making such a determination.

D. Death, Disability and Retirement. If a Participant's employment is terminated during a Plan Year by reason of death, Disability, or normal or early retirement under the Company's retirement plan, a tentative Accrued Bonus will be calculated as if the Participant had remained employed as of the end of the Plan Year. The final Accrued Bonus will be calculated based upon the Base Salary received.

Each employee may name any beneficiary or beneficiaries (who may be named contingently or successively) to whom any benefit under this Plan is to be paid in case of the employee's death.

Each such designation shall revoke all prior designations by the employee, shall be in the form prescribed by the Compensation Committee, and shall be effective only when filed by the employee

in writing with the Compensation Committee during his or her lifetime.

In the absence of any such designation, benefits remaining unpaid at the employee's death shall be paid to the employee's estate.

E. Leave of Absence. An employee whose status as an active employee is changed during a Plan Year as a result of a Leave of Absence may, at the discretion of the Compensation Committee, be eligible for a pro rata Accrued Bonus determined in the same way as in paragraph D of this Section.

F. Needs Improvement Status. Associates whose performance has been rated Needs Improvement on their annual performance review will not be eligible for an EVA bonus until such time as their performance is at an acceptable level. If the associate's performance returns to an acceptable level, the EVA bonus that was withheld will be paid with the next available pay period.

VIII. BONUS PAID AND BONUS BANK

The Accrued Bonus will be either paid to the Participant, or a portion credited to or charged against a Bonus Bank as provided in this Article.

A. Participants Who Are Not Executives Officers. All positive Accrued Bonuses of Participants who are not Executive Officers for the Plan Year shall be paid in full, less amounts required by law to be withheld for income and employment tax purposes, not later than December 31 following the end of the Plan Year in which the Accrued Bonus was earned. Participants who are not Executive Officers shall not have any portion of their Accrued Bonuses banked.

B. Participants Who Are Executive Officers. The Total Bonus Payout to Participants who are Executive Officers for the Plan Year shall be as follows:

Total Bonus Payout = [Accrued Bonus - Extraordinary Bonus Accrual] + Bank Payout

The Total Bonus Payout for each Plan Year, less amounts required by law to be withheld for income tax and employment tax purposes, shall be paid not later than December 31 following the end of the Plan Year in which the Accrued Bonus was earned.

C. Establishment of a Bonus Bank. To encourage a long term commitment to the enhancement of shareholder value by Executive Officers, "Extraordinary Bonus Accruals" shall be credited to an "at risk" deferred account ("Bonus Bank") for each such Participant, and all negative Accrued Bonuses shall be charged against the Bonus Bank, as determined in accordance with the following:

1. "Bonus Bank" means, with respect to each Executive Officer, a bookkeeping record of an account to which Extraordinary Bonus Accruals or positive Accrued Bonuses are credited, and negative Accrued Bonuses debited as the case may be, for each Plan Year, and from which bonus payments to such Executive Officers are debited.

2. "Bank Balance" means, with respect to each Executive Officer, a bookkeeping record of the net balance of the amounts credited to and debited against such Executive Officer's Bonus Bank. The Bank Balance shall initially be equal to zero and can never be less than zero.

3. "Extraordinary Bonus Accrual" shall mean the amount of the Accrued Bonus for any year that exceeds 1.25 times the portion of the Executive Officer's Base Salary which is represented by the Target Incentive Award.

4. Annual Allocation. Each Executive Officer's Extraordinary Bonus Accrual, positive Accrued Bonus or negative Accrued Bonus is credited or debited to the Bonus Bank maintained for that Executive Officer. Such Annual Allocation will occur as soon as administratively feasible after the end of each Plan Year.

5. "Available Balance" means the Bank Balance at the point in time immediately after the Annual Allocation has been made.

6. "Payout Percentage" means the percentage of the Available Balance that may be paid out in cash to the Participant. The Payout Percentage will equal 33%.

7. "Bank Payout" means the amount of the Available Balance that may be paid out in cash to the Executive Officer for each Plan Year. The Bank Payout is calculated as follows:

Bank Payout = Available Balance x Payout Percentage

The Bank Payout is subtracted from the Bank Balance.

8. Treatment of Available Balance Upon Termination.

(a) Resignation or Termination With Cause. Executive Officers leaving voluntarily to accept employment elsewhere (including self-employment) or who are terminated with cause will forfeit their Available Balance.

(b) Retirement, Death, Disability or Termination Without Cause. In the event of an Executive Officer's normal or early retirement under the STRATTEC SECURITY CORPORATION Retirement Plan, death, Disability, or termination without cause ("Separation from Service"), the Available Balance, less amounts required by law to be withheld for income tax and employment tax purposes shall be paid to the Executive Officer. The Plan will pay the amount as a lump sum. If the Executive Officer's Separation from Service occurs before March 15 of the Plan Year, the lump sum shall be paid the following September 15. If the Executive Officer's Separation from Service occurs on or after March 15 of the Plan Year, the lump sum shall be paid on the date which is six months after the date of the Participant's Separation from Service.

(c) For purposes of this Plan "cause" shall mean:

(i) The willful and continued failure of a Participant to perform substantially the Participant'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 Participant by the Board or the Chief Executive Officer of the Company which specifically identifies the manner in which the Board or Chief Executive Officer believes that the Participant has not substantially performed the Participant's duties, or

(ii) The willful engaging by the Participant 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 Participant, shall be considered "willful" unless it is done, or omitted to be done, by the Participant in bad faith or without reasonable belief that the Participant'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 Participant in good faith and in the best interests of the Company. The cessation of employment of the Participant shall not be deemed to be for cause unless and until there shall have been delivered to the Participant 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 Participant and the Participant is given an opportunity, together with counsel, to be heard before the Board), finding that, in the good faith opinion of the Board, the Participant is guilty of the conduct described in subparagraph (i) or (ii) above, and specifying the particulars thereof in detail.

IX. ADMINISTRATIVE PROVISIONS

A. Amendments. Subject to Code section 409A which applies to payments which are deferred compensation under this Plan, the Compensation Committee or full Board of Directors of the Company shall have the right to amend or restate the Plan at any time from

time to time. The Company reserves the right to suspend or terminate the Plan at any time. No such modification, amendment, suspension, or termination may, without the consent of any affected participants (or beneficiaries of such participants in the event of death), reduce the rights of any such participants (or beneficiaries, as applicable) to a payment or distribution already earned under Plan terms in effect prior to such change. The provisions of the Plan as in effect at the time of a Participant's termination of employment shall control as to that Participant, unless otherwise specified in the Plan.

B. Authority to Act. The Compensation Committee or full Board of Directors may act on behalf of the Company for purposes of the Plan.

C. Interpretation of Plan. Any decision of the Compensation Committee with respect to any issues concerning individuals selected for awards, the amounts, terms, form and time of payment of awards, and interpretation of any Plan guideline, definition, or requirement shall be final and binding.

The Compensation Committee may determine that a Participant is Disabled if the Participant is determined to be totally disabled by the Social Security Administration. The Compensation Committee may also determine that the Participant is Disabled in accordance with a disability insurance program, provided that the definition of disability applied under that program complies with the definition of Disability provided under this Plan.

D. Effect of Award on Other Employee Benefits. By acceptance of a bonus award, each recipient agrees that such award is special additional compensation and that it will not affect any employee benefit, e.g., life insurance, etc., in which the recipient participates, except as provided in paragraph D. below.

E. Retirement Programs. Awards made under this Plan shall be included in the employee's compensation for purposes of the STRATTEC SECURITY CORPORATION Retirement Plan and STRATTEC SECURITY CORPORATION Employee Savings Investment Plan.

F. Right to Continued Employment; Additional Awards. The receipt of a bonus award shall not give the recipient any right to continued employment, and the right and power to dismiss any employee is

specifically reserved to the Company. In addition, the receipt of a bonus award with respect to any Plan Year shall not entitle the recipient to an award with respect to any subsequent Plan Year.

X. MISCELLANEOUS

A. Indemnification. The Compensation Committee shall not be liable for, and shall be indemnified and held harmless by the Company from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred in connection with any claim, action, suit, or proceeding to which the Compensation Committee may be a party by reason of any action taken or failure to act under this Plan. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such person(s) may be entitled under the Company's Certificate of Incorporation of By-Laws, as a matter of law, or otherwise, or any power that the Company may have to indemnify such person(s) or hold such person(s) harmless.

B. Expenses of the Plan. The expenses of administering this Plan shall be borne by the Company.

C. Withholding Taxes. The Company shall have the right to deduct from all payments under this Plan any Federal or state taxes required by law to be withheld with respect to such payments.

D. Governing Law. This Plan is subject to federal law, including the requirements of Code section 409A, the proposed regulations for Code section 409A and other guidance provided by the Internal Revenue Service. For purposes of state law, the Plan shall be construed under the laws of the State of Wisconsin.

E. Severability. This Plan has been amended in pursuant to proposed regulations issued by the Internal Revenue Service and is intended to be in good faith compliance with the requirements under Code section 409A. To the extent that the Compensation Committee determines that additional information or interpretation of the rules, final regulations or other guidance provided by the Internal Revenue Service require amendments to the Plan to comply with Code section 409A, the Compensation Committee shall amend the Plan accordingly. Any provision of this Plan prohibited by law shall be ineffective to the extent of any such prohibition, without invalidating the remaining provisions. The illegal or invalid provisions shall be fully severable and this Plan shall be construed and enforced as if the illegal or invalid provisions had never been included in this Plan.

**Exhibit 10.6**

**STRATTEC SECURITY CORPORATION**

**ECONOMIC VALUE ADDED**
**BONUS PLAN**
**FOR**
**NON-EMPLOYEE MEMBERS OF THE**
**BOARD OF DIRECTORS**

Effective June 30, 1997
as Amended August 21, 2001, October 23, 2001
and August 24, 2007

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**STRATTEC SECURITY CORPORATION**

**ECONOMIC VALUE ADDED**
**BONUS PLAN**
**FOR**
**NON-EMPLOYEE MEMBERS OF THE**
**BOARD OF DIRECTORS**

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I. PLAN OBJECTIVES

A. To promote the maximization of shareholder value over the long term by providing incentive compensation to non-employee members of the Board of Directors of STRATTEC SECURITY CORPORATION (the "Company") in a form which is designed to financially reward participants for an increase in the value of the Company.

B. To provide competitive levels of compensation that enable the Company to attract and retain people who can have a positive impact on the economic value of the Company to its shareholders.

C. To encourage teamwork and cooperation in the achievement of Company goals.

II. PLAN ADMINISTRATION

The Chairman & C.E.O. of the Company shall be responsible for the design, administration, and interpretation of the Plan.

III. DEFINITIONS

A. "Actual EVA" means the EVA as calculated for the relevant Plan Year.

B. " Bonus" means the bonus which is calculated in the manner set forth in Section V.A.

C. "Capital" means the Company's average monthly net operating capital employed for the Plan Year, calculated as follows:

|  |  |
|---|---|
|  | Current Assets |
| + | Bad Debt Reserve |
| + | LIFO Reserve |
| - | Future Income Tax Benefits |
| - | Current Noninterest-Bearing Liabilities |
| + | Property, Plant, Equipment, (Net) |
| - | Construction in Progress |
| (+/-) | Unusual Capital Items |

D. "Capital Charge" means the deemed opportunity cost of employing Capital in the Company's business, determined as follows:

Capital Charge = Capital x Cost of Capital

E. "Company" means STRATTEC SECURITY CORPORATION. The Company's Chairman & C.E.O., or his/her designee may act on behalf of the Company with respect to this Plan.

F. "Compensation Committee" means the Compensation Committee of the Board of Directors, which among other duties, is responsible for administering the EVA Plan for the Company's Officers and Senior Managers.

G.. "Cost of Capital" means the weighted average of the cost of equity and the after tax cost of debt for the relevant Plan Year. For Plan administration purposes, it is assumed the Company's capital structure will be 80% Equity and 20% Debt. The Cost of Capital will be initially set at 10% for fiscal year 2008 and reviewed by the Compensation Committee prior to each Plan Year thereafter, consistent with the following methodology:

(a) Cost of Equity = Risk Free Rate + (Business Risk Index x Average Equity Risk Premium)

(b) Debt Cost of Capital = Debt Yield x (1 - Tax Rate)

(c) The weighted average of the Cost of Equity and the Debt Cost of Capital is determined by reference to the expected debt-to-capital ratio

where the Risk Free Rate is the average daily closing yield rate on 30 year U.S. Treasury Bonds for an appropriate period (determined by the Compensation Committee from time to time) preceding the relevant Plan Year, the Business Risk Index is determined by reference to an auto supply industry factor selected by the Compensation Committee, the Average Equity Risk Premium is 6%, the Debt Yield is the weighted average yield of all borrowing included in the Company's permanent capital, and the tax rate is the combination of the relevant corporate Federal and state income tax rates.

The Compensation Committee will review the Cost of Capital annually and make appropriate adjustments only if the calculated Cost of Capital changes by more than 1% from that used during the prior Plan Year.

H. “Earned Wages” includes all cash compensation paid in the Plan Year.

I. “Economic Value Added” or “EVA” means the NOPAT that remains after subtracting the Capital Charge, expressed as follows:

EVA = NOPAT - Capital Charge

EVA may be positive or negative.

J. Effective Date. June 30, 1997, the date as of which the Plan first applies to the Company.

K. “EVA Leverage Factor” means the adjustment factor reflecting deviation in the use of capital expressed as a percentage of net operating capital employed. For purposes of this Plan, the Company’s EVA Leverage Factor is determined to be 3% of the monthly average net operating capital employed during the prior Plan year.

For fiscal year 2008 (beginning July 2, 2007) the EVA Leverage Factor is set at $3,316,000.

L. “NOPAT” means cash adjusted net operating profits after taxes for the Plan Year, calculated as follows:

| | |
|---|---|
| | Net Sales |
| - | Cost of Goods Sold |
| (+ -) | Change in LIFO Reserve |
| - | Engineering/Selling & Admin. |
| (+ -) | Change in Bad Debt Reserve |
| (+ -) | Other Income & Expense excluding Interest Expense |
| (+ -) | Other Unusual Income or Expense Items |
| (+ -) | Amortization of Unusual Income or Expense Items |
| - | Cash Adjusted Taxes on the Above (+/- change in deferred tax liability) |

M. Participant. Any individual who has satisfied the eligibility requirements of the Plan as provided in Section IV.

N. “Plan Year” means the one-year period coincident with the Company’s fiscal year.

O. “Target EVA” means the target level of EVA for the Plan Year, determined as follows:

$$\text{Current Plan Year Target EVA} = \frac{\text{Prior Year Target EVA} + \text{Prior Year Actual EVA}}{2} + \text{Expected Improvement}$$

Expected Improvement will be approved by the Board of Directors annually, based on past practice and consideration for current relevant economic conditions.

For fiscal year 2008 (beginning July 2, 2007) the Target EVA is set at $1,154,000.

IV. ELIGIBILITY

Members of the Company’s Board of Directors who are not regular full-time employees of the Company are the only individuals eligible to participate in this Plan.

V. INDIVIDUAL PARTICIPATION LEVELS

A. Bonus Formula. Each Participant’s Bonus will be determined as a function of the Participant’s Earned Wages, the Participant’s Target Incentive Award (provided in paragraph V.B., below), and the Company Performance Factor (provided in Section VI.) for the Plan Year. Each Participant’s Accrued Bonus will be calculated as follows:

$$\text{Participant's Earned Wages} \times \text{Target Incentive Award} \times \text{Company Performance Factor}$$

B. Target Incentive Award. The Target Incentive Award for all non-employee Directors will be 40% of Earned Wages.

VI. PERFORMANCE FACTOR

A. Company Performance Factor Calculation. For any Plan Year, the Company Performance Factor will be calculated as follows:

$$\text{Company Performance Factor} = 1.00 + \frac{\text{Actual EVA} - \text{Target EVA}}{\text{EVA Leverage Factor}}$$

B. Adjustments to Company Performance. When Company performance is based on Economic Value Added, it may be necessary to exclude significant, unusual, unbudgeted or noncontrollable gains or losses from actual financial results in order to properly measure performance. The Chairman & C.E.O. will decide those items that shall be considered in adjusting actual results. For example, some types of items that may be considered for exclusion are:

(1) Any gains or losses which will be treated as extraordinary in the Company's financial statements.

(2) Profits or losses of any entities acquired by the Company during the Plan Year, assuming they were not included in the budget and/or the goal.

(3) Material gains or losses not in the budget and/or the goal which are of a nonrecurring nature and are not considered to be in the ordinary course of business. Some of these would be as follows:

(a) Gains or losses from the sale or disposal of real estate or property.

(b) Gains resulting from insurance recoveries when such gains relate to claims filed in prior years.

(c) Losses resulting from natural catastrophes, when the cause of the catastrophe is beyond the control of the Company and did not result from any failure or negligence on the Company's part.

VII. CHANGE IN STATUS DURING THE PLAN YEAR

A. New Board Members. A newly appointed or elected non-employee Director will accrue a pro rata Bonus based on Earned Wages received during the first Plan Year in which that Director joins the Board of Directors.

B. Removal. A non-employee Director removed from the Board of Directors by due process during the Plan Year shall not be eligible for a Bonus.

C. Resignation. A non-employee Director who resigns during the Plan Year will be eligible for a pro rata Bonus based on Earned Wages received.

D. Death, Disability and Retirement. If a non-employee Director ceases to function as a member of the Board of Directors during a Plan Year by reason of death or disability, a tentative Bonus will be calculated as if the Participant had remained an active member of the Board as of the end of the Plan Year. The final Bonus will be calculated based upon the Earned Wages received.

Each non-employee Director may name any beneficiary or beneficiaries (who may be named contingently or successively) to whom any benefit under this Plan is to be paid in case of the non-employee Director's death.

Each such designation shall revoke all prior designations by the non-employee Director, shall be in the form prescribed by the Compensation Committee, and shall be effective only when filed by the non-employee Director in writing during his or her lifetime with the Chairman & C.E.O.

In the absence of any such designation, benefits remaining unpaid at the non-employee Director's death shall be paid to that Director's estate.

E. Leave of Absence. A non-employee Director whose status as an active Board Member is changed during a Plan Year as a result of a leave of absence may, at the discretion of the Chairman & C.E.O., be eligible for a pro rata Bonus determined in the same way as in paragraph D of this Section.

VIII. BONUS PAYMENT

All positive Bonuses of Participants for the Plan Year shall be paid in full as soon as administratively feasible following the end of the Plan Year in which the Bonus was earned.

IX. ADMINISTRATIVE PROVISIONS

A. Amendments. The Chairman & C.E.O. of the Company shall have the right to amend or restate the Plan at any time from time to time. The Company reserves the right to suspend or terminate the Plan at any time. No such modification, amendment, suspension, or termination may, without the consent of any affected participants (or beneficiaries of such participants in the event of death), reduce the rights of any such participants (or beneficiaries, as applicable) to a payment or distribution already earned under Plan terms in effect prior to such change.

B. Authority to Act. The Chairman & C.E.O. (or in his or her absence, the President & C.O.O.) may act on behalf of the Company for purposes of the Plan.

C. Interpretation of Plan. Any decision of the Chairman & C.E.O. with respect to any issues concerning, the amounts, terms, form and time of payment of awards, and interpretation of any Plan guideline, definition, or requirement shall be final and binding.

D. Reporting Compliance. Awards made under this Plan shall be included in the employee's compensation for purposes of Securities & Exchange Commission required reporting.

E. Right to Continued Employment; Additional Awards. The receipt of a bonus award shall not give the recipient any right to continued membership on the Company's Board of Directors. In addition, the receipt of a bonus award with respect to any Plan Year shall not entitle the recipient to an award with respect to any subsequent Plan Year.

X. MISCELLANEOUS

A. Indemnification. The Chairman & C.E.O. (or any Company officer designated to act in the Chairman's behalf) shall not be liable for, and shall be indemnified and held harmless by the Company from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred in connection with any claim, action, suit, or proceeding to which the Chairman & C.E.O., President & C.O.O. and/or the Compensation Committee may be a party by reason of any action taken or failure to act under this Plan. The foregoing right of

indemnification shall not be exclusive of any other rights of indemnification to which such person(s) may be entitled under the Company's Certificate of Incorporation of By-Laws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

B. Expenses of the Plan. The expenses of administering this Plan shall be borne by the Company.

C. Governing Law. This Plan shall be construed in accordance with and governed by the laws of the State of Wisconsin.

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*Signs of Progress*

2007

ANNUAL

REPORT

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## Signs of Progress

Over the past several years, STRATTEC has embarked on a journey to transition its business through the expansion of products, customers and global capabilities. Like all journeys, the roads we take are not always as smooth or straight as we might want. Progress is not always as fast or as obvious as we plan. Yet progress is being made, and the signs are there. Those signs of progress are welcome confirmation that our journey is taking us to a successful future for STRATTEC, its shareholders and partners around the world.

**2007 ANNUAL REPORT**

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

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**PROSPECTIVE INFORMATION**

A number of the matters and subject areas discussed in this Annual Report (see above “Contents” section) contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These statements may be identified by the use of forward-looking words or phrases such as “anticipate,” “believe,” “would,” “expect,” “intend,” “may,” “planned,” “potential,” “should,” “will,” and “could.” These include expected future financial results, product offerings, global expansion, liquidity needs, financing ability, planned capital expenditures, management’s or the Company’s expectations and beliefs, and similar matters discussed in the Letter to the Shareholders, Company’s Management’s Discussion and Analysis, etc. The discussions of such matters and subject areas are qualified by the inherent risks and uncertainties surrounding future expectations generally, and also may materially differ from the Company’s actual future experience.

The Company’s business, operations and financial performance are subject to certain risks and uncertainties, which could result in material differences in actual results from the Company’s current expectations. These risks and uncertainties include, but are not limited to, general economic conditions, in particular relating to the automotive industry, customer demand for the Company’s and its customer’s products, competitive and technological developments, customer purchasing actions, foreign currency fluctuations, costs of operations and other matters described under the caption “Risk Factors” in the Management’s Discussion and Analysis section of this report.

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**

**AUGUST, 2007**

Fellow Shareholders:

Fiscal 2007 continued the challenges affecting the last half of fiscal 2006. Operationally, we faced the two-part challenge of significantly declining volume from our four largest customers and dramatically escalating raw material costs. Our operations team did an admirable job of adjusting our production base to the lower volumes while continuing our ongoing cost reduction programs. The most dramatic action taken in this regard was the movement of service assembly and packaging from our Milwaukee facility to our assembly facility in Juarez, Mexico which we estimate is saving us approximately $1.5 million per year.

At the same time, our sales team focused a considerable amount of their attention on negotiating pricing adjustments with our customers to mitigate the effect of our escalating raw material costs. These negotiations were in most cases difficult and time consuming, but we estimate that we have recovered about 50% of the cost increases through these activities, the majority of that coming into effect in the second half of the year. This effort is being continued as we move into fiscal 2008.

Fiscal 2007 net sales were $167.7 million. As a result of the sales and production decline, and the timing of our partial material cost increase recovery, net income declined to $8.2 million from the previous year's $12.5 million. While this result is disappointing, I am proud that our team was able to respond to the negative industry dynamics and sustain at least modest profitability in each quarter of the fiscal year. Further, the actions we took during the year helped move us to a stronger second half and allowed us to generate a slight amount of positive EVA.

Dealing with the negative industry dynamics was our primary focus during the year, and although we had some success in mitigating those negative dynamics, it came at the expense of some of our strategic initiatives. I therefore cannot report significant progress in either closing on a viable acquisition in support of our strategic goals, or securing future business from new domestic customers. Although our progress on these important initiatives was slowed, they remain high priority objectives.

Other initiatives showed better progress. Based on a contract from one of our major customers for a tailgate latch program, our capital expenditures this year included a large new stamping press and equipment for an expansion of our plating capability at our Milwaukee facility. We expect this program to enhance our presence in the latch marketplace, in line with our strategic intent to both expand our product offerings and support our VAST Alliance partners.

In October 2006 we began a joint venture with ADAC Automotive to produce door handles and related assemblies in Mexico. ADAC is the newest member of the VAST Alliance. (See the VAST Alliance portion of the "Company Description" section of this report.) However, this new joint venture, ADAC-STRATTEC de MEXICO (ASdM), is not directly related to the Alliance. STRATTEC owns 50.1% of ASdM, and we have initially set up operations in a

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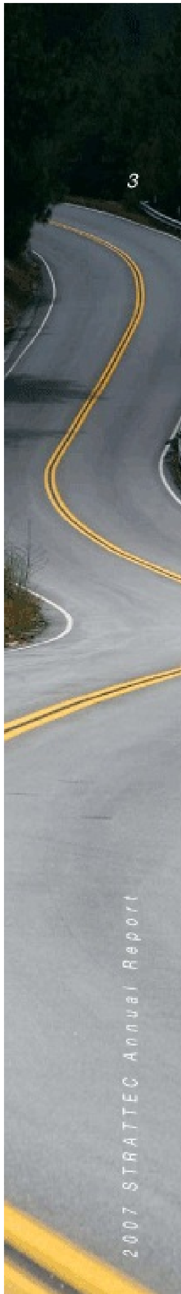


**LETTER TO THE SHAREHOLDERS**

dedicated portion of the STRATTEC Componentes Automotrices facility in Juarez. This year, the financial impact of this start up is a net loss of $75,000. However, we expect several product programs coming on stream in the months ahead will enhance our sales and revenue in fiscal 2008.

In last year's letter to shareholders, I indicated that our reputation and strong balance sheet put us in a good position to weather the current turmoil in the auto industry. Further, it might give us opportunities to capture business from suppliers less able to weather the turmoil. The tailgate program I mentioned in this letter is an example of that situation. I am pleased to report that it has also allowed us to regain some lockset business previously awarded to a foreign-based competitor. This "take-over" business began shipping late in our fourth quarter, and we expect the trend to escalate during fiscal year 2008. We are enthusiastic about taking over this business as it should have a near-term positive impact on our financial performance, while strengthening the base upon which we will continue to pursue our strategic initiatives.

The industry restructuring I wrote about in last year's letter is still going on as I write this and will likely continue for at least a year or two. Despite the continued turbulence, we believe there are signs of progress, both for your company and the industry it serves. We are therefore optimistic that we will experience improved results in the new fiscal year.

With the positive signs and our continued strong balance sheet, your management recommended to the Company's Board of Directors at our August meeting that we establish a regular quarterly dividend. The Board agreed with management's belief that a regular dividend can be established without adversely impacting the retention of cash reserves or debt capacity that can be utilized for strategic initiatives. The Board therefore declared a regular quarterly dividend of $0.15 per share. Further, given the magnitude of our cash reserves and the current relatively favorable tax treatment of qualified dividends, the Board believes this is an opportune time to declare a special, one-time dividend of $1.00 per share. Both our initial quarterly dividend and the special dividend are payable on October 1st, 2007 to shareholders of record as of September 14, 2007. Henceforth, we anticipate that the $0.15 quarterly dividend will be paid on or about January 2nd, April 1st, July 1st and October 1st of each year, subject to the approval of the Board of Directors, who will also set the appropriate record date each quarter.

The establishment of this regular dividend is another milestone in the development of our business that has progressed since we began as an independent Company twelve-and-a-half years ago. We are very pleased that we can share the value we create in this tangible way. My fellow STRATTEC associates and I thank you for your support of our business as we continue to move ahead.

Sincerely,

Harold M. Stratton II

Chairman, President and Chief Executive Officer

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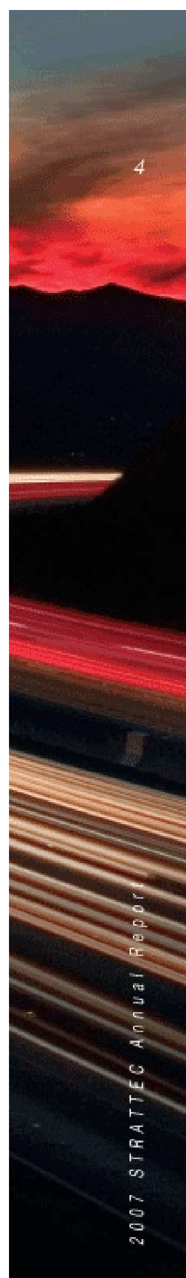


**FINANCIAL HIGHLIGHTS**

*(IN MILLIONS)*

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Net Sales | $167.7 | $181.2 | $190.3 |
| Gross Profit | 26.5 | 37.0 | 42.8 |
| Income from Operations | 6.3 | 13.4 | 22.0 |
| Net Income | 8.2 | 12.5 | 15.0 |
| Total Assets | 148.4 | 154.3 | 138.1 |
| Total Debt | — | — | — |
| Shareholders' Equity | 103.0 | 110.3 | 91.8 |

**ECONOMIC VALUE ADDED (EVA® )**

All U.S. associates and many of our Mexico-based salaried associates participate in incentive plans that are based upon our ability to add economic value to the enterprise. During 2007, $1.3 million of positive economic value was generated, a decrease of $6.9 million compared to the economic value the business generated in 2006. We continue to believe that EVA® represents STRATTEC's ultimate measure of success and shareholder value.

| | | |
|---|---|---|
| Net Operating Profit After Cash-Basis Taxes | | $ 5.5 |
| Average Net Capital Employed | $ 38.5 | |
| Capital Cost | 11 % | |
| | | 4.2 |
| Economic Value Added | | $ 1.3 |

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:**

| | |
|---|---|
| 2007 Net Income as Reported | $ 8.2 |
| Investment Income | (3.1) |
| Deferred Tax Provision | (.4) |
| Other | .8 |
| Net Operating Profit After Cash-Basis Taxes | $ 5.5 |

**Average Monthly Net Capital Employed:**

| | |
|---|---|
| Total Shareholders' Equity as Reported at July 1, 2007 | $ 103.0 |
| Current Interest Bearing Assets | (69.6) |
| Long-Term Liabilities | 13.4 |
| Prepaid Pension Obligations | (4.4) |
| Long-Term Deferred Tax Asset | (2.1) |
| Other | .5 |
| Net Capital Employed at July 1, 2007 | $ 40.8 |
| Impact of 12 Month Average | (2.3) |
| Average Monthly Net Capital Employed | $ 38.5 |

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

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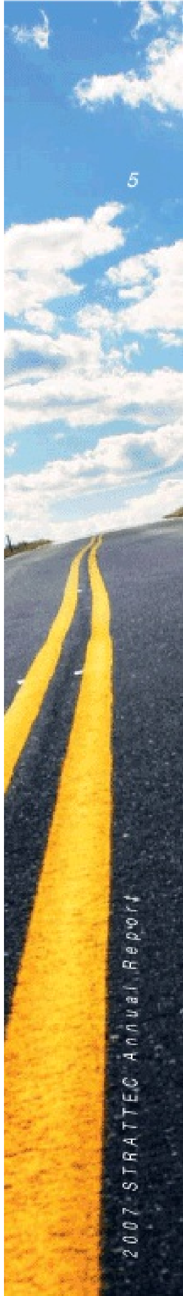
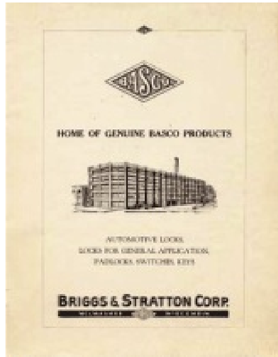



**COMPANY DESCRIPTION**

**BASIC BUSINESS**

STRATTEC SECURITY CORPORATION designs, develops, manufactures and markets mechanical locks and keys, electronically enhanced locks and keys, steering column and instrument panel ignition lock housings, latches, door handles and related access control products for North American automotive customers, and for global automotive manufacturers through the VAST Alliance in which we participate with WITTE Automotive of Velbert, Germany and ADAC Plastics, Inc. of Grand Rapids, Michigan (which does business as ADAC Automotive). Our products are shipped to customer locations in the United States, Canada, Mexico, Europe, South America and China, and we provide full service and aftermarket support.




**HISTORY**

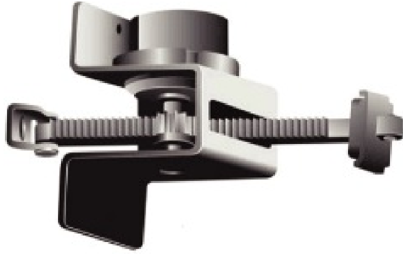
STRATTEC formerly was a division of Briggs & Stratton Corporation. In 1995, STRATTEC was spun off from Briggs & Stratton through a tax-free distribution to the then-existing Briggs & Stratton shareholders and has since been an independent public company for twelve years.

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

**PRODUCTS**

Our traditional products are locks and keys for cars and light trucks. A typical new car uses a set of two to three locks. A typical 3-way lockset contains a steering column/ignition lock, a driver's door lock and a rear compartment (trunk, hatch or liftgate) lock. Pickup trucks also use two to three locks, while sport utility vehicles and vans use three to five locks. Some vehicles have additional locks for consoles, storage compartments or folding rear seats. Pickup truck tailgate locks, spare tire locks and burglar alarm locks are offered as options. Usually, 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 theft prevention. However, keys with remote entry devices integrated into a single unit have been added to our product line.

A relatively new and growing product line for us is ignition lock housings. These housings are the mating part for our ignition locks and typically are part of the steering column structure, although there are instrument panel-mounted versions for certain vehicle applications. These housings are typically zinc or magnesium die castings and can include electronic components for theft deterrent systems.



We are also developing business for additional access control products, including trunk latches, liftgate latches, tailgate latches, hood latches, side door latches and related hardware for this product category. Through a joint venture formed with ADAC Automotive during fiscal 2007, we are also pursuing door handles and related vehicle access hardware.

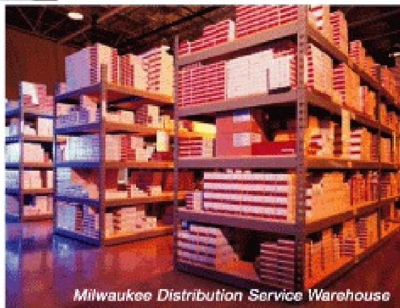
**MARKETS**

We are a direct supplier to OEM auto and light truck manufacturers as well as other transportation-related manufacturers. For the 2007 model year, our lock and key products enjoyed a 43% market share in the North American automotive industry, supplying over

**COMPANY DESCRIPTION**

53% of General Motors' production, 55% of Ford's production and 93% of DaimlerChrysler's production. Our growing ignition lock housing business captured an estimated 24% share in 2007. Our housings and OEM components are also sold to other "Tier 1" automotive suppliers and industrial manufacturers.

Direct sales to various OEMs represented approximately 75% of our total sales for fiscal 2007. The remainder of our revenue is received primarily through sales to the OEM service channels, and the aftermarket.


Milwaukee Distribution Service Warehouse

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

The majority of our OEM products are sold in North America. While a modest amount of exporting is done to automotive assembly plants in Europe and South America, we are in the process of expanding our presence in these markets and elsewhere through our Vehicle Access Systems Technology (VAST) Alliance with WITTE Automotive GmbH and ADAC Plastics, Inc., which is described in more detail on page 8.

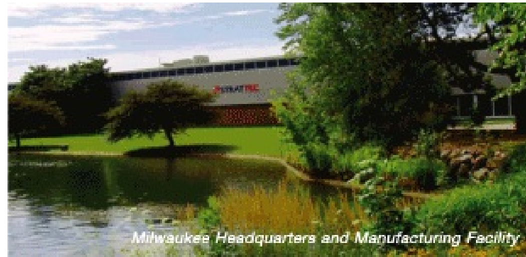
OEM service and replacement parts are sold to the OEM's own service operations. In additional, we distribute our components and security products to the automotive aftermarket through approximately 50 authorized wholesale distributors, as well as other marketers and users of component parts, including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

**CUSTOMER FOCUS**

To bring the proper focus to the relationships with our major customers, we have seven customer-focused teams, each with a Director of Sales, a Product Business Manager, one or two Engineering Program Managers and Customer Application Engineers. In addition to customer teams for General Motors, Ford and DaimlerChrysler, we have teams for New

**COMPANY DESCRIPTION**

Domestic Vehicle Manufacturers, Driver Control/Ignition Lock Housing customers, Tiered Products, and for Service and Aftermarket customers.


Milwaukee Headquarters and Manufacturing Facility

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

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

STRATTEC de Mexico Assembly Facility

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.

STRATTEC Componentes Automotrices

**OPERATIONS**

A significant number of the components that go into our products are manufactured at our main facility and headquarters in Milwaukee, Wisconsin. This facility produces zinc die cast components, stampings, and key blanks. Key finishing takes place at STRATTEC Componentes Automotrices in Juarez, Mexico, along with some limited assembly activities. The majority of our assembly operations take place at STRATTEC de Mexico, also located in Juarez. Warehousing and distribution of aftermarket product is accomplished at the Milwaukee facility.

**ADVANCED DEVELOPMENT**

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

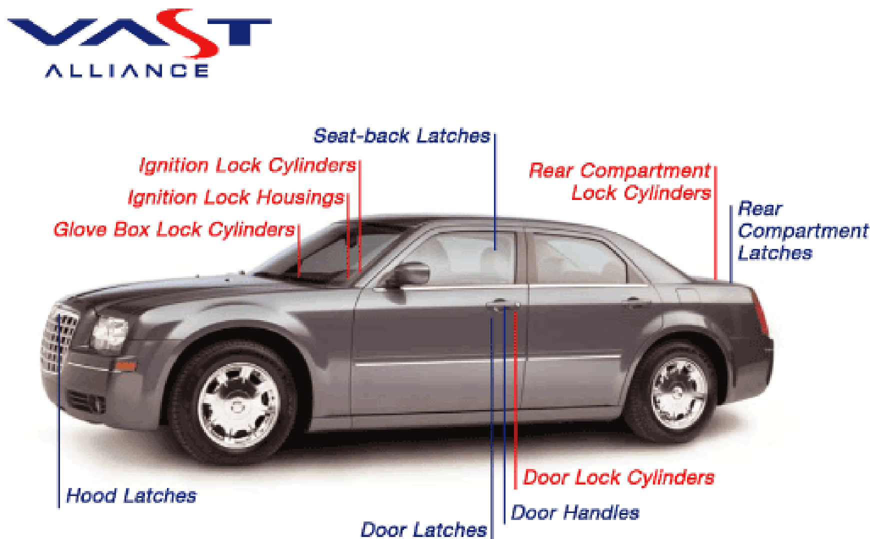
**COMPANY DESCRIPTION**

**VAST ALLIANCE**

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

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

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




**ADAC - STRATTEC de MEXICO**

During fiscal 2007, we formed a joint venture with ADAC Automotive called ADAC-STRATTEC de MEXICO (ASdM). The purpose of this joint venture is to produce certain ADAC and STRATTEC products utilizing ADAC's plastic molding expertise and STRATTEC's assembly capability. ASdM currently operates out of defined space in our STRATTEC Componentes Automotrices facility in Juarez, Mexico. Initial products from this joint venture

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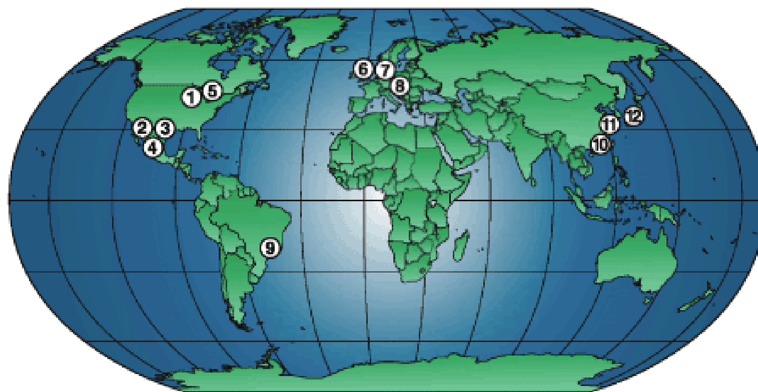
## COMPANY DESCRIPTION

include door handle components and exterior trim components for customers producing in Mexico. As a start-up operaton, ASdM had a minimal financial impact on STRATTEC's fiscal 2007. However, beginning in our fiscal 2008, there will be growing activity in this joint venture which will be consolidated into STRATTEC's financial statements.

### 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 the new model year begins. This volume strength continues through October and into early November. As the holiday and winter seasons approach, the demand for automobiles slows as does production. March usually brings a major sales and production increase, which then continues through most of June. This results in our first fiscal quarter (ending in September) sales and operating results typically being our weakest, with the remaining quarters being more consistent.

### GLOBAL PARTNERS




*1. STRATTEC – Milwaukee, Wisconsin*

*2. STRATTEC de Mexico – Juarez, Mexico*

*3. STRATTEC Componentes Automotrices – Juarez, Mexico*

*4. ADAC-STRATTEC de Mexico – Juarez, Mexico*

*5. ADAC Plastics, Inc. – Grand Rapids and Muskegan, Michigan*

*6. ADAC Paintbox, Limited – United Kingdom*

*7. WITTE Automotive – Velbert, Germany*

*8. WITTE Automotive – Nejdek, Czech Republic*

*9. VAST do Brasil – Sao Paulo, Brazil*

*10. VAST Fuzhou – Fuzhou, China*

*11. VAST Great Shanghai Co. – Shanghai, China*

*12. VAST Japan – Tokyo, Japan*

### 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 our U.S. associates, outside directors and many of our Mexico-based salaried associates as an incentive to help positively drive the business.

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

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# VEHICLE LIST





## 2008 VEHICLES

We are proud to be associated with many of the quality vehicles produced in North America and elsewhere. The following model year 2008 cars and light trucks are equipped with STRATTEC products.

## CARS AND CAR BASED UTILITY VEHICLES

Buick Allure (Canada only)
Buick Enclave
Buick LaCrosse
Buick Lucerne
Cadillac XLR
Cadillac CTS
Cadillac DTS
Chevrolet Cobalt
Chevrolet Equinox
Chevrolet Corvette
Chevrolet HHR
Chevrolet Impala
Chevrolet Malibu
Chrysler 300/300C
Chrysler Pacifica
Chrysler PT Cruiser
Chrysler Sebring
Dodge Avenger
Dodge Caliber
Dodge Charger
Dodge Magnum
Dodge Journey
Dodge Viper
Ford Crown Victoria
Ford Mustang
Ford Taurus
Ford Taurus X
GMC Acadia
Holden Commodore (Australia only)
Honda Civic
Jeep Compass
Jeep Patriot
Lincoln Town Car
Mercury Grand Marquis
Mercury Sable
Opel GT (Europe only)
Pontiac G5
Pontiac G6
Pontiac G8
Pontiac Solstice
Pontiac Torrent
Saturn Aura
Saturn Outlook
Saturn Sky
Suzuki XL7

## LIGHT TRUCKS, VANS AND SPORT UTILITY VEHICLES

Cadillac Escalade
Cadillac Escalade ESV
Cadillac Escalade EXT
Chevrolet Avalanche
Chevrolet Express Van
Chevrolet Silverado Pickup
Chevrolet Suburban
Chevrolet Tahoe
Chevrolet Trailblazer
Chevrolet Uplander
Chrysler Aspen
Chrysler Town & Country
Dodge Grand Caravan
Dodge Dakota Pickup
Dodge Durango
Dodge Nitro
Dodge Ram Pickup
Ford Expedition
Ford Expedition EL
Ford Explorer
Ford Explorer Sport Trac
Ford F-Series Pickup
Ford F-Series Supercrew
Ford F-Series Super Duty
Ford Ranger Pickup
GMC Envoy
GMC Savana
GMC Sierra Pickup
GMC Yukon
GMC Yukon XL
Hummer H2
Jeep Commander
Jeep Grand Cherokee
Jeep Liberty
Jeep Wrangler/Wrangler Unlimited
Lincoln Mark LT Pickup
Lincoln Navigator
Lincoln Navigator L
Mazda B-Series Pickup
Mercury Mountaineer
Nissan Titan
Pontiac Montana SV6
Saab 9-7X

## MANAGEMENT'S DISCUSSION AND ANALYSIS



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

**RESULTS OF OPERATIONS**
**2007 *Compared to* 2006**

Net sales were $167.7 million in 2007 compared to $181.2 million in 2006. Sales to our largest customers overall declined in 2007 as compared to 2006. Sales to DaimlerChrysler Corporation were essentially flat between years at $58.1 million in 2007 compared to $58.6 million in 2006. Sales to General Motors Corporation were $35.7 million in 2007 compared to $32.9 million in 2006 due to a combination of higher product content on certain General Motors vehicles, takeover of certain passenger car lockset production from another supplier and price adjustments received to partially recover raw material cost increases. Sales to Ford Motor Company were $21.0 million in 2007 compared to $27.3 million in 2006 due to pre-programmed price reductions and lower Ford vehicle production volumes. Sales to Delphi Corporation were $18.4 million in 2007 compared to $26.7 million in 2006 due primarily to lower levels of production and lower component content. This was partially offset by price adjustments received to partially recover raw material cost increases. Sales to Mitsubishi Motor Manufacturing of America, Inc. were $1.9 million in 2007 compared to $5.4 million in 2006 due to the previously announced phase-out of this customer relationship. The impact of the reduction in sales to our largest customers was partially offset by increased sales to our industrial and aftermarket customers. The sales increase to our industrial and aftermarket customers was primarily due to increased volumes and price adjustments received from some of these customers to partially recover raw material cost increases.

Gross profit as a percentage of net sales was 15.8 percent in 2007 compared to 20.4 percent in 2006. The lower profitability in the current year is primarily the result of higher purchased raw material costs for zinc and brass, the primary raw materials used in our business. The prior year gross margin also included a $580,000 customer reimbursement received and recorded in 2006 relating to production capacity constraint issues expensed during 2005. The current year gross profit impact of the increased zinc and brass costs was partially offset by price adjustments received from some of our customers to recover a portion of the material cost increases as discussed above in connection with our net sales. In addition, cost reduction activities, including the move of our service products assembly operation from our Milwaukee, Wisconsin facility to our Juarez, Mexico facilities, further reduced the impact of the current year increased raw material costs. The increased raw material costs and the related price adjustments from our customers reduced gross margins by approximately 3.3 percent in the current year as compared to the prior year. The average zinc price paid per pound increased to $1.77 in the current year from $1.01 in the prior year. During the current year, we used approximately 8.3 million pounds of zinc. This resulted in increased zinc costs of approximately $6.3 million in the current year over the prior year. The average brass price paid per pound increased to $3.74 in the current year from $2.81 in the prior year. During the current year, we used approximately 1.3 million pounds of brass. This resulted in increased brass costs of approximately $1.2 million in the current year over the prior year. Total price adjustments received from some of our customers to partially cover these cost increases, which are reflected in our net sales, totaled approximately $2.5 million in the current year.

Engineering, selling and administrative expenses were $20.2 million in 2007, compared to $22.1 million in 2006. This reduction is primarily the result of reduced spending in new product development, reduced benefit costs primarily related to the actuarially calculated pension expense and reduced bonus expense, and reduced stock-based compensation expense resulting from previously issued stock options becoming fully vested. No additional stock options were issued during fiscal 2007.

The provision for bad debts of $1.6 million in 2006 reflects a write-off of uncollectible pre-petition Chapter 11 accounts receivable due from Delphi Corporation. During 2006, approximately $3.4 million of pre-petition Chapter 11 accounts receivable due from Delphi Corporation were sold to a third party for $1.8 million.

Income from operations decreased to $6.3 million in 2007 from $13.4 million in 2006. This decrease is primarily the result of reductions in our net sales and gross profit margins as discussed above.

Other income, net, decreased to $715,000 in 2007 from $960,000 in 2006. The decrease is primarily due to a decrease in transaction gains related to foreign currency transactions entered into by our Mexican subsidiaries.

Our effective income tax rate for 2007 was 23.6 percent compared to 26.1 percent in

2006. The 2007 provision includes a state refund claim recovery and a favorable tax adjustment primarily related to foreign tax adjustments. The claim recovery, net of the Federal income tax impact, was $329,000. The favorable tax adjustment totaled $1.1 million. The 2006 income tax provision includes a state refund claim recovery and a favorable state income tax adjustment. The 2006 claim recovery and tax adjustment, net of the Federal income tax impact, was approximately $1.2 million. The 2006 income tax provision also includes a favorable foreign tax adjustment related to the operation of our Mexican subsidiaries of $664,000.

**RESULTS OF OPERATIONS**
**2006 *Compared to* 2005**

Net sales were $181.2 million in 2006 compared to $190.3 million in 2005. The 2005 year included one additional shipping week, which increased sales by approximately $2.9 million. Sales to our largest customers overall declined in 2006 as compared to 2005. Sales to DaimlerChrysler Corporation increased significantly to $58.6 million in 2006 compared to $51.5 million in 2005 due to additional product content and higher production volumes. Sales to Mitsubishi Motor Manufacturing of America, Inc. were $5.4 million in 2006 compared to $4.5 million in 2005 due to higher vehicle production volumes and increased product content. Sales to Ford Motor Company were $27.3 million in 2006 compared to $32.0 million in 2005 due to pre-programmed price reductions, discontinued models and lower Ford vehicle production volumes on certain vehicles. Sales to General Motors Corporation were $32.9 million in 2006 compared to $43.2 million in 2005 due to a combination of price reductions, discontinued models and lower production volumes on certain General Motors vehicles. Sales to Delphi Corporation were $26.7 million in 2006 compared to $29.6 million in 2005 due primarily to pre-programmed price reductions, lower levels of production and lower component content.

As discussed in our 2004, 2005 and 2006 Annual Reports, Mitsubishi informed STRATTEC of their intent to consolidate the purchase of their lockset requirements with their Japanese supplier beginning with the 2007 model year due primarily to economic pressures impacting Mitsubishi. As a result, in 2007 supply of production requirements to Mitsubishi continued only on a limited basis. Mitsubishi represented approximately 3 percent of STRATTEC's fiscal 2006 sales.

Gross profit as a percentage of net sales was 20.4 percent in 2006 compared to 22.5 percent in 2005. The lower gross margins were primarily attributed to lower production volumes, higher purchased material costs for brass and zinc and a less favorable Mexican peso to U.S. dollar exchange rate affecting our Mexican operations. The gross margin reduction resulting from these items was partially offset by a $580,000 customer reimbursement received and recorded in 2006 relating to production capacity constraint issues expensed during 2005. The 2005 gross margin was also reduced by a $217,000 lump sum bonus for our Milwaukee represented hourly workers related to the June 27, 2005 ratification of a new three-year labor contract. The average zinc price per pound increased to $1.01 in 2006 compared to $0.54 in 2005. During 2006 approximately 9.1 million pounds of zinc were used. This resulted in increased zinc costs of approximately $4.3 million in 2006 over 2005. The average brass price per pound increased to $2.81 in 2006 from $1.94 in 2005. During 2006 approximately 1.5 million pounds of brass were used. This resulted in increased brass costs of approximately $1.3 million in 2006 over 2005. The inflation rate in Mexico for the 12 months ended June 2006 was approximately 3 percent and increased operating costs by approximately $530,000 in 2006 over 2005. The U.S. dollar/Mexican peso exchange rate decreased to approximately 10.80 pesos to the dollar in 2006 from approximately 11.20 pesos to the dollar in 2005. This resulted in increased costs related to our Mexican operations of approximately $770,000 in 2006 over 2005.

At the beginning of the 2006 year, we adopted Statement of Financial Accounting Standards ('SFAS'), No. 123(R), "Share Based Payments," to recognize stock-based compensation expense in our financial statements. In accordance with SFAS No. 123(R), we used the modified prospective method of adoption, which requires compensation cost to be recognized for all stock awards issued subsequent to adoption, as well as the unvested portion of awards outstanding on the date of adoption. No cumulative effect of change in accounting principle was required under this method. Prior to 2006, we elected to follow APB Opinion No. 25 in accounting for awards under our stock option plan. Under APB Opinion No. 25, no stock-based compensation expense was reflected in our consolidated statements of income. The adoption of SFAS No. 123(R) resulted in the recognition of $1.0 million of compensation cost related to stock options during 2006. The modified prospective method

of adoption did not impact the financial results of our previously reported periods. We also recognized $113,000 of compensation cost related to restricted stock issued during 2006, which also would have been recognized under the provisions of APB No. 25. As of July 2, 2006, we had $737,000 of total unrecognized compensation cost related to stock options granted, which was expected to be recognized over a weighted average period of .8 years. As of July 2, 2006, we also had $343,000 of total unrecognized compensation cost related to restricted stock grants, which was expected to be recognized over a weighted average period of 1.2 years. Total unrecognized compensation cost will be adjusted for any future changes in estimated and actual forfeitures. We made no modifications to outstanding share-based payment arrangements in conjunction with the adoption of SFAS No. 123(R).

Engineering, selling and administrative expenses were $22.1 million in 2006, compared to $20.7 million in 2005. The increase over the 2005 year was primarily attributed to higher spending in new product development and recognizing stock-based compensation expense.

The provision for bad debts of $1.6 million in 2006 reflects a write-off of uncollectible pre-petition Chapter 11 accounts receivable due from Delphi Corporation. During 2006, approximately $3.4 million of pre-petition Chapter 11 accounts receivable due from Delphi Corporation were sold to a third party for $1.8 million.

Income from operations decreased to $13.4 million in 2006 from $22.0 million in 2005. This decrease was primarily the result of the increase in the provision for bad debts, the decline in net sales and gross margin and the increase in operating expenses as discussed above.

Other income, net, increased $640,000 to $960,000 in 2006 from $320,000 in 2005. The increase was primarily due to a gain on our investment in VAST LLC of $188,000 in 2006 compared to a loss of $70,000 in 2005 and an increase in transaction gains related to foreign currency transactions entered into by our Mexican subsidiaries.

Our effective income tax rate for 2006 was 26.1 percent compared to 36.0 percent in 2005. The 2006 income tax provision includes a state refund claim recovery and a favorable state income tax adjustment. The 2006 claim recovery and tax adjustment, net of the Federal income tax impact, was approximately $1.2 million. The 2006 income tax provision also includes a favorable foreign tax adjustment related to the operation of our Mexican subsidiaries of $664,000. The 2005 income tax provision included a state refund claim recovery. The 2005 claim recovery, net of the Federal income tax impact, was $162,000.



## LIQUIDITY AND CAPITAL RESOURCES

Cash flow generated from operating activities was $9.8 million in 2007 compared to $19.3 million in 2006. Cash flow generated from operating activities was mostly impacted by overall financial results and increased pension contributions. Net income, adjusted for non-cash items such as depreciation, stock-based compensation expense and provision for doubtful accounts, decreased $7.5 million between 2006 and 2007, primarily due to reduced sales and higher purchased material costs for zinc and brass. Pension contributions to our qualified plan totaled $7.0 million in 2007 compared to $6.0 million in 2006.

Our accounts receivable balance decreased $1.4 million in 2007 and increased $3.9 million in 2006. The 2007 decrease is primarily due to a reduction in outstanding customer tooling billings. The 2006 increase is primarily due to the normally scheduled July 2005 payments from two major customers totaling approximately $4.8 million being received prior to the end of our 2005 fiscal year. The normally scheduled July 2006 payments from these customers were not received until fiscal 2007.

Our LIFO inventory balance decreased $2.2 million during 2007 and decreased $2.3 million during 2006. The 2007 decrease was the result of a concentrated effort to manage inventories at lower levels. The 2006 decrease was primarily due to the July 3, 2005 buildup of inventory banks in preparation of a potential strike by our unionized associates at the Milwaukee facility. The contract with the unionized associates expired June 26, 2005. A new contract was ratified and is effective through June 29, 2008.

Our prepaid pension obligations relate to our qualified pension plan and decreased $6.0 million during 2007. The decrease is the net impact of $7.0 million of pension contributions during 2007, the actuarially calculated pension expense and an $11.7 million pre-tax reduction in the asset balance as a result of recognizing the funded status of the plan in accordance with Statement of Financial Accounting Standards (SFAS) No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 123(R)."

Capital expenditures were $5.7 million in 2007 compared to $5.8 million in 2006. Expenditures were primarily in support of requirements for new product programs and the upgrade and replacement of existing equipment. We anticipate that capital expenditures will

be approximately $6 million in fiscal 2008, primarily in support of requirements for new product programs and the upgrade and replacement of existing equipment.

Our Board of Directors has authorized a stock repurchase program to buy back outstanding shares of our common stock. Shares authorized for repurchase under the program totaled 3,639,395 at July 1, 2007. Over the life of the repurchase program through July 1, 2007, a total of 3,384,700 shares have been repurchased at a cost of approximately $127.1 million. Additional repurchases may occur from time to time and are expected to continue to be funded by cash flow from operations.

We have a $50.0 million unsecured line of credit (the "Line of Credit"), which expires October 31, 2007. There were no outstanding borrowings under the Line of Credit at July 1, 2007 or at July 2, 2006. Interest on borrowings under the Line of Credit are at varying rates based on the London Interbank Offering Rate or the bank's prime rate. We believe the Line of Credit is adequate, along with cash flow from operations, to meet our anticipated capital expenditure, working capital and operating expenditure requirements.

Up until the past 21 months, we have not been significantly impacted by general inflationary pressures over the last several years. However, in addition to rising health care costs, which have increased our cost of employee medical coverage, we have been impacted by increases in the market price of zinc, brass and magnesium over the past 21 months and inflation in Mexico, which impacts the U.S. dollar costs of our Mexican operations. We do not hedge against our Mexican peso exposure.

## CONTRACTUAL OBLIGATIONS

Contractual obligations are as follows as of July 1, 2007 (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 | $ 1,358 | $ 560 | $ 544 | $ 254 | $ — |
| Purchase Obligations | 644 | 644 | — | — | — |
| Pension and Postretirement Obligations (a) | 4,173 | 4,173 | — | — | — |
| Total | $ 6,175 | $ 5,377 | $ 544 | $ 254 | $ — |

(a) As disclosed in our Notes to Financial Statements, estimated cash funding related to our pension and postretirement benefit plans totals $4.2 million in 2008. Because the timing of funding related to these plans beyond 2008 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 2008 have not been included in the table above.

## JOINT VENTURES

We participate in certain alliance agreements with E. WITTE Verwaltungsgesellschaft GmbH, and its operating unit, WITTE-Velbert GmbH & Co. KG ("WITTE") and ADAC Plastics, Inc. ("ADAC"). WITTE, of Velbert, Germany, is a privately held automotive supplier. WITTE designs, manufactures and markets components including locks and keys, hood latches, rear compartment latches, seat back latches, door handles and specialty fasteners. WITTE's primary market for these products has been Europe. ADAC, of Grand Rapids, Michigan, is a privately held automotive supplier and manufactures engineered products, including door handles and other automotive trim parts, utilizing plastic injection molding, automated painting and various assembly processes.

The Alliance provides a set of cross-licensing agreements for the manufacture, distribution and sale of WITTE products by STRATTEC and ADAC in North America, and the manufacture, distribution and sale of STRATTEC and ADAC products by WITTE in Europe. Additionally, a joint venture company, Vehicle Access Systems Technology LLC ("VAST LLC"), in which WITTE and STRATTEC originally held a 40 percent interest and ADAC originally held a 20 percent interest, exists to seek opportunities to manufacture and sell the companies' products in areas of the world outside of North America and Europe. Effective July 1, 2007, WITTE, STRATTEC and ADAC each hold a one-third interest in VAST LLC.

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

The VAST investments are accounted for using the equity method of accounting. The activities related to the VAST joint ventures resulted in a gain of approximately $394,000 in 2007 and $188,000 in 2006. A capital contribution of $100,000 was made to the VAST LLC joint venture in 2007 primarily in support of general operating expenses. A capital contribution of $569,000 was made in 2006 in support of general operating expenses and the purchase of an additional 16 percent of VAST Fuzhou and VAST Great Shanghai by VAST LLC.

In 2007, we entered into a joint venture with ADAC, in which STRATTEC holds a 50.1 percent interest and ADAC holds a 49.9 percent interest. The joint venture was created to establish injection molding and door handle assembly operations in Mexico. ADAC-STRATTEC de MEXICO, LLC ("ASdM"), a Delaware limited liability company, was formed on October 27, 2006. An additional Mexican entity, which is wholly owned by ASdM, was formed on February 21, 2007. It is anticipated that ASdM production activities will begin in July 2007. Start-up costs for ASdM were incurred in fiscal 2007 resulting in a net loss of $75,000 to STRATTEC. ASdM's financial results are consolidated with the financial results of STRATTEC.

**RECENTLY ISSUED ACCOUNTING STANDARDS**

In June 2006, the Financial Accounting Standards Board (FASB) issued Financial Interpretation No. (FIN) 48, "Accounting for Uncertainty in Income Taxes," which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation will be effective for STRATTEC beginning in our 2008 fiscal year. The impact on our consolidated financial statements is not expected to be material.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 123(R)." SFAS No. 158 requires employers that sponsor defined benefit pension and postretirement benefit plans to recognize previously unrecognized actuarial losses and prior service costs in the statement of financial position and to recognize future changes in these amounts in the year in which changes occur through comprehensive income. As a result, the statement of financial position will reflect the funded status of those plans as an asset or liability. Additionally, employers are required to measure the funded status of a plan as of the date of its year end statement of financial position. STRATTEC adopted SFAS No. 158 as of July 1, 2007. We use a June 30 measurement date for our defined pension and postretirement plans. The measurement date will not change as a result of the adoption of SFAS No. 158. Pension and Postretirement benefits are further discussed under Retirement Plans and Postretirement Costs under Notes to Financial Statements.



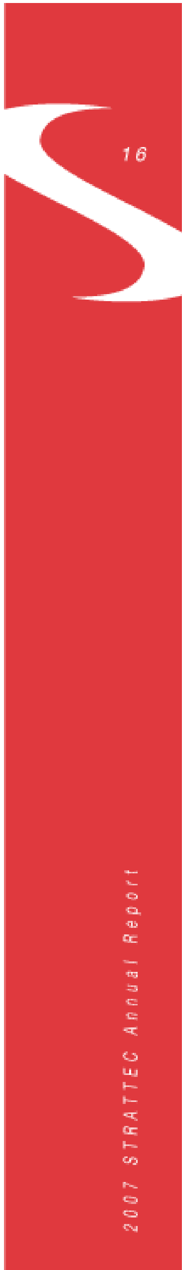
**CRITICAL ACCOUNTING POLICIES**

We believe the following represents our critical accounting policies:

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

We determine the discount rate used to measure plan liabilities using prevailing market rates of a large population of high-quality, non-callable, corporate bonds currently available that, if the obligation was settled at the measurement date, would provide the necessary future cash flows to pay the benefit obligation when due. Using this methodology, we determined a discount rate of 6.41 percent to be appropriate as of June 30, 2007, which is a decrease of .21 percentage points from the rate used at June 30, 2006.

As of June 30, 2005, we converted to the RP (Retirement Plans) 2000 Mortality Table for calculating the year-end 2005 pension and postretirement obligations and 2006 expense. The impact of this change increased our 2006 pension expense by $250,000 and postretirement expense by $17,000. As of June 30, 2007, we converted to the RP 2000 Mortality Table projected to 2014 for annuitants and 2022 for non-annuitants for calculating the year-end 2007 pension and postretirement obligations. The impact of this change increased our year-end






2007 projected pension benefit obligations by $2.4 million, the year-end 2007 accumulated pension benefit obligations by $2.1 million and the year-end 2007 accumulated postretirement obligation by $85,000. This change is also expected to increase our 2008 pension expense by $462,000 and postretirement expense by $10,000.

A significant element in determining the pension expense in accordance with SFAS No. 87 is the expected return on plan assets. Our assumption for the expected return on plan assets is based on historical results for similar allocations among asset classes and was 8.5 percent for 2007 and will remain at 8.5 percent for 2008. Refer to Notes to Financial Statements for additional information on how this rate was determined.

The difference between the expected return and actual return on plan assets is deferred and, under certain circumstances, amortized over future years of service. Therefore, the deferral of past asset gains and losses ultimately affects future pension expense. This is also the case with changes to actuarial assumptions. As of June 30, 2007, we had $11.3 million of net unrecognized pension actuarial losses, which is net of deferred asset gains of $3.6 million. As of June 30, 2007, we had unrecognized postretirement actuarial losses of $11.4 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 11.9 years for the pension plans and 14.6 years for the postretirement plan.

During fiscal years 2007, 2006 and 2005, we contributed $7 million, $6 million and $8 million, respectively, to our qualified pension plan. Future pension contributions are expected to be $2 to $3 million annually depending on market conditions. We have evaluated the potential impact of the Pension Protection Act (the "Act"), which was passed into law on August 17, 2006, on future pension plan funding requirements based on current market conditions. The Act is not anticipated to have a material effect on our level of future funding requirements or on our liquidity and capital resources.

A significant element in determining the postretirement health expense in accordance with SFAS No. 106 is the health care cost trend rates. We develop these rates based on historical cost data, the near-term outlook and an assessment of likely long-term trends. Changes in the health care cost trend rate assumption will have a significant effect on the postretirement benefit amounts reported. Refer to Notes to Financial Statements for an analysis of the impact of a one percent change in the trend rate.

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

**Other Reserves –** We have reserves such as an environmental reserve, an incurred but not reported claim reserve for self-insured health plans, a workers' compensation reserve, an allowance for doubtful accounts related to trade accounts receivable and a repair and maintenance supply parts reserve. These reserves require the use of estimates and judgment with regard to risk exposure, ultimate liability and net realizable value. We believe such reserves are estimated using consistent and appropriate methods. However, changes to the assumptions could materially affect the recorded reserves.

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

## RISK FACTORS

We understand 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 Corporation, Ford Motor Company, DaimlerChrysler Corporation and Delphi Corporation represent approximately 80 percent of our annual sales. The contracts with these customers provide for supplying the customer's requirements for a particular model. The contracts do not specify a specific quantity of parts. The contracts typically cover the life of a model, which averages approximately four to five years. Components for certain customer models may also be market tested annually. Therefore, the loss of any one of these customers, the loss of a contract for a specific vehicle model, reduction in vehicle content, early cancellation of a specific vehicle model, technological changes or a significant reduction in demand for certain key models could have a material adverse effect on our existing and future revenues and net income.

Our major customers also have significant underfunded legacy liabilities related to pension and postretirement health care obligations. The future impact of these items along with a continuing loss in their North American automotive market share to the "New Domestic" automotive manufacturers (primarily the Japanese automotive manufacturers) may have a significant impact on our future sales and collectibility risks. For example, on October 8, 2005, Delphi Corporation filed for Chapter 11 bankruptcy protection. As a result, we wrote-off $1.6 million of uncollectible pre-petition Chapter 11 accounts receivable due from Delphi Corporation. This directly reduced our pre-tax net income during fiscal 2006.

**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 highly cyclical and is dependent on consumer spending and to a certain extent on customer sales incentives. Economic factors adversely affecting consumer demand for automobiles and automotive production could adversely impact our net sales and net income. We typically experience decreased sales and operating income during the first fiscal quarter of each year due to the impact of scheduled customer plant shut-downs in July and new model changeovers.

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

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

**Sources of and Fluctuations in Market Prices of Raw Materials –** Our primary raw materials are high-grade zinc, brass, magnesium, aluminum, steel and plastic resins. These materials are generally available from a number of suppliers, but we have chosen to concentrate our sourcing with one primary vendor for each commodity or purchased component. We believe our sources of raw materials are reliable and adequate for our needs. However, the development of future sourcing issues related to using alternative raw materials and to the availability of these materials as well as significant fluctuations in the market prices of these materials may have an adverse affect on our financial results if the increased raw material costs cannot be recovered from our customers.

**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 the United Auto Workers led to a shut-down of most of General Motors Corporation's North American assembly plants in June and July of 1998. A material work stoppage experienced by one or more of our customers could have an adverse effect on our business and our financial results. In addition, all production associates at our Milwaukee facility are unionized. A sixteen-day strike by these associates in June 2001

resulted in increased costs as all salaried associates worked with additional outside resources to produce the components necessary to meet customer requirements. The current contract with the unionized associates is effective through June 29, 2008. We may encounter further labor disruption after the expiration date of this contract and may also encounter unionization efforts in our other plants or other types of labor conflicts, any of which could have an adverse effect on our business and our financial results.

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

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

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

**Program Volume and Pricing Fluctuations –** We incur costs and make capital expenditures for new program awards based upon certain estimates of production volumes over the anticipated program life for certain vehicles. While we attempt to establish the price of our products for variances in production volumes, if the actual production of certain vehicle models is significantly less than planned, our net sales and net income may be adversely affected. We cannot predict our customers' demands for the products we supply either in the aggregate or for particular reporting periods.

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

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

| | Years Ended | | |
|---|---|---|---|
| | July 1, 2007 | July 2, 2006 | July 3, 2005 |
| **NET SALES** | $ 167,707 | $ 181,197 | $ 190,314 |
| Cost of goods sold | 141,213 | 144,151 | 147,538 |
| **GROSS PROFIT** | 26,494 | 37,046 | 42,776 |
| Engineering, selling, and administrative expenses | 20,189 | 22,067 | 20,688 |
| Provision for doubtful accounts, net | — | 1,622 | 80 |
| **INCOME FROM OPERATIONS** | 6,305 | 13,357 | 22,008 |
| Interest income | 3,611 | 2,563 | 1,169 |
| Interest expense | — | — | — |
| Other income, net | 715 | 960 | 320 |
| Minority interest | 75 | — | — |
| **INCOME BEFORE PROVISION FOR INCOME TAXES** | 10,706 | 16,880 | 23,497 |
| Provision for income taxes | 2,523 | 4,403 | 8,459 |
| **NET INCOME** | $ 8,183 | $ 12,477 | $ 15,038 |
| **EARNINGS PER SHARE:** | | | |
| **BASIC** | $ 2.30 | $ 3.36 | $ 3.97 |
| **DILUTED** | $ 2.30 | $ 3.35 | $ 3.94 |
| **AVERAGE SHARES OUTSTANDING:** | | | |
| **BASIC** | 3,552 | 3,716 | 3,790 |
| **DILUTED** | 3,555 | 3,720 | 3,816 |

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

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

| | July 1, 2007 | July 2, 2006 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS:** | | |
| Cash and cash equivalents | $ 65,491 | $ 65,712 |
| Receivables, less allowance for doubtful accounts of $250 at July 1, 2007 and July 2, 2006 | 26,890 | 28,254 |
| Inventories | 7,166 | 9,337 |
| Customer tooling in progress | 1,824 | 1,422 |
| Deferred income taxes | 2,729 | 1,541 |
| Other current assets | 8,464 | 7,505 |
| Total current assets | 112,564 | 113,771 |
| **DEFERRED INCOME TAXES** | 2,117 | — |
| **INVESTMENT IN JOINT VENTURES** | 2,813 | 2,202 |
| **PREPAID PENSION OBLIGATIONS** | 4,385 | 10,358 |
| **OTHER LONG-TERM ASSETS** | 41 | 197 |
| **PROPERTY, PLANT AND EQUIPMENT, NET** | 26,526 | 27,764 |
| | $ 148,446 | $ 154,292 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **CURRENT LIABILITIES:** | | |
| Accounts payable | $ 16,575 | $ 17,701 |
| Accrued liabilities: | | |
| Payroll and benefits | 6,280 | 6,559 |
| Environmental | 2,655 | 2,683 |
| Commitments and Contingencies – see note on page 28 | | |
| Income taxes | 664 | 1,340 |
| Other | 5,307 | 5,224 |
| Total current liabilities | 31,481 | 33,507 |
| **BORROWINGS UNDER LINE OF CREDIT** | — | — |
| **DEFERRED INCOME TAXES** | — | 4,266 |
| **ACCRUED PENSION OBLIGATIONS** | 2,855 | 2,608 |
| **ACCRUED POSTRETIREMENT OBLIGATIONS** | 10,576 | 3,636 |
| **MINORITY INTEREST** | 574 | — |
| **SHAREHOLDERS' EQUITY:** | | |
| Common stock, authorized 12,000,000 shares, $.01 par value, issued 6,887,757 shares at July 1, 2007 and 6,880,457 shares at July 2, 2006 | 69 | 69 |
| Capital in excess of par value | 78,122 | 77,175 |
| Retained earnings | 165,928 | 157,745 |
| Accumulated other comprehensive loss | (14,341) | (2,958) |
| Less: Treasury stock at cost (3,368,619 shares at July 1, 2007 and 3,243,177 shares at July 2, 2006) | (126,818) | (121,756) |
| Total shareholders' equity | 102,960 | 110,275 |
| | $ 148,446 | $ 154,292 |

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

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY** *(IN THOUSANDS)*



| | Common Stock | Capital in Excess of Par Value | Retained Earnings | Accumulated Other Comprehensive Loss | Treasury Stock | Comprehensive Income |
|---|---|---|---|---|---|---|
| **BALANCE JUNE 27, 2004** | $ 68 | $70,415 | $130,230 | $ (5,385) | $(105,476) | |
| Net Income | — | — | 15,038 | — | — | $ 15,038 |
| Translation adjustments | — | — | — | 283 | — | 283 |
| Minimum pension liability, net of tax of $4,257 | — | — | — | (6,945) | — | (6,945) |
| Comprehensive income | | | | | | $ 8,376 |
| Purchase of common stock | — | — | — | — | (10,999) | |
| Exercise of stock options and employee stock purchases, including tax benefit of $956 | 1 | 4,509 | — | — | 12 | |
| **BALANCE JULY 3, 2005** | $ 69 | $74,924 | $145,268 | $ (12,047) | $(116,463) | |
| Net Income | — | — | 12,477 | — | — | $ 12,477 |
| Translation adjustments | — | — | — | (317) | — | (317) |
| Minimum pension liability, net of tax of $5,765 | — | — | — | 9,406 | — | 9,406 |
| Comprehensive income | | | | | | $ 21,566 |
| Purchase of common stock | — | — | — | — | (5,306) | |
| Stock-Based Compensation | — | 1,118 | — | — | — | |
| Exercise of stock options and employee stock purchases, including tax benefit of $62 | — | 1,133 | — | — | 13 | |
| **BALANCE JULY 2, 2006** | $ 69 | $77,175 | $157,745 | $ (2,958) | $(121,756) | |
| Net Income | — | — | 8,183 | — | — | $ 8,183 |
| Translation adjustments | — | — | — | 449 | — | 449 |
| Minimum pension liability, net of tax of $14 | — | — | — | 24 | — | 24 |
| Net gains in other comprehensive income | | | | 473 | | 473 |
| Comprehensive income | | | | | | $ 8,656 |
| Purchase of common stock | — | — | — | — | (5,075) | |
| Stock-Based Compensation | — | 698 | — | — | — | |
| Exercise of stock options and employee stock purchases, including tax benefit of $69 | — | 249 | — | — | 13 | |
| Adjustments to initially adopt SFAS No.158: | | | | | | |
| Prior service costs, net of tax of $1,363 | — | — | — | 2,224 | — | |
| Net losses, net of tax of $8,629 | — | — | — | (14,080) | — | |
| **BALANCE JULY 1, 2007** | $ 69 | $78,122 | $165,928 | $ (14,341) | $(126,818) | |

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

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**CONSOLIDATED STATEMENTS OF CASH FLOWS**
*(IN THOUSANDS)*

| | Years Ended | | |
|---|---|---|---|
| | July 1, 2007 | July 2, 2006 | July 3, 2005 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Net Income | $ 8,183 | $ 12,477 | $ 15,038 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Minority Interest | (75) | — | — |
| Depreciation | 6,988 | 7,155 | 7,225 |
| Loss on disposition of property, plant and equipment | 58 | 320 | 190 |
| Deferred income taxes | (359) | 350 | 2,282 |
| Tax benefit from options exercised | 23 | 61 | 956 |
| Stock-based compensation expense | 738 | 1,118 | — |
| Provision for doubtful accounts | — | 1,622 | 80 |
| Change in operating assets and liabilities: | | | |
| Receivables | 1,434 | (3,870) | 4,863 |
| Inventories | 2,171 | 2,317 | (3,293) |
| Other assets | (7,277) | (3,953) | 748 |
| Accounts payable and accrued liabilities | (1,937) | 2,184 | (12,621) |
| Other, net | (153) | (485) | 285 |
| Net cash provided by operating activities | 9,794 | 19,296 | 15,753 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Investment in joint ventures | (100) | (569) | (125) |
| Additions to property, plant and equipment | (5,748) | (5,766) | (5,498) |
| Proceeds received on sale of property, plant and equipment | 21 | 22 | 22 |
| Net cash used in investing activities | (5,827) | (6,313) | (5,601) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Purchase of common stock | (5,075) | (5,306) | (10,999) |
| Exercise of stock options | 238 | 1,085 | 3,566 |
| Contribution from minority interest | 649 | — | — |
| Net cash used in financing activities | (4,188) | (4,221) | (7,433) |
| **NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS** | (221) | 8,762 | 2,719 |
| **CASH AND CASH EQUIVALENTS** | | | |
| Beginning of year | 65,712 | 56,950 | 54,231 |
| End of year | $ 65,491 | $ 65,712 | $ 56,950 |
| **SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION** | | | |
| Income taxes paid | $ 3,231 | $ 3,120 | $ 6,446 |
| Interest paid | — | — | — |

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

## ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

STRATTEC SECURITY CORPORATION designs, develops, manufactures and markets mechanical locks and keys, electronically enhanced locks and keys, steering column and instrument panel ignition lock housings, latches, door handles and related access control products for North American automotive customers, and for global automotive manufacturers through the VAST Alliance in which we participate with WITTE Automotive of Velbert, Germany and ADAC Plastics, Inc. of Grand Rapids, Michigan. STRATTEC's history in the automotive business spans nearly 100 years.

The accompanying consolidated financial statements reflect the consolidated results of STRATTEC SECURITY CORPORATION, its wholly owned Mexican subsidiaries, STRATTEC de Mexico and STRATTEC Componentes Automotrices, and its majority owned subsidiary, ADAC-STRATTEC de MEXICO LLC. STRATTEC SECURITY CORPORATION is located in Milwaukee, Wisconsin. STRATTEC de Mexico and STRATTEC Componentes Automotrices are located in Juarez, Mexico. ADAC-STRATTEC de MEXICO LLC has operations in El Paso, Texas and Juarez, Mexico. STRATTEC has only one reporting segment.

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

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

**Reclassifications:** Certain reclassifications have been made to the 2005 and 2006 financial statements to conform to the 2007 presentation.

**Fiscal Year:** Our fiscal year ends on the Sunday nearest June 30. The years ended July 1, 2007, July 2, 2006 and July 3, 2005 are comprised of 52, 52 and 53 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 a money market account at a high quality financial institution and in short-term commercial paper.

**Fair Value of Financial Instruments:** The fair value of our cash and cash equivalents, accounts receivable and accounts payable approximated book value as of July 1, 2007 and July 2, 2006.

**Receivables:** Receivables consist primarily of trade receivables due from Original Equipment Manufacturers in the automotive industry and locksmith distributors relating to our service and aftermarket business. We evaluate the collectibility 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. In connection with the filing for Chapter 11 bankruptcy protection by Delphi Corporation on October 8, 2005, $3.4 million of pre-petition Chapter 11 accounts receivable was sold to a third party for $1.78 million. This resulted in a write-off of $1.62 million of accounts receivable during 2006. Changes in the allowance for doubtful accounts are as follows (thousands of dollars):

| | Balance, Beginning of Year | Provision Charged to Expense | Accounts Written Off | Balance, End of Year |
|---|---|---|---|---|
| Year ended July 1, 2007 | $ 250 | $ — | $ — | $ 250 |
| Year ended July 2, 2006 | $ 250 | $ 1,622 | $ 1,622 | $ 250 |
| Year ended July 3, 2005 | $ 250 | $ 80 | $ 80 | $ 250 |

**Inventories:** Inventories are comprised of material, direct labor and manufacturing overhead, and are stated at the lower of cost or market. The last-in, first-out (LIFO) method is used for determining the cost of the inventories at the end of each period. Inventories consist of the following (thousands of dollars):

| | July 1, 2007 | July 2, 2006 |
|---|---|---|
| Finished products | $ 2,660 | $ 2,937 |
| Work in process | 4,522 | 5,401 |
| Purchased materials | 4,813 | 5,802 |
| LIFO reserve | (4,829) | (4,803) |
| | $ 7,166 | $ 9,337 |

Inventory quantities were reduced during 2007 and 2006 which resulted in a liquidation of LIFO inventory layers carried at lower costs. The effect of the liquidations decreased cost of goods sold by approximately $292,000 in 2007 and $106,000 in 2006.

## NOTES TO FINANCIAL STATEMENTS

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

**Repair and Maintenance Supply Parts:** We maintain an inventory of repair and maintenance supply parts in support of operations. This inventory includes critical repair parts for all production equipment as well as general maintenance items. The inventory of critical repair parts is required to avoid disruptions in our customers' just-in-time production schedules due to a lack of spare parts when equipment break-downs occur. All required critical repair parts are on hand when the related production equipment is placed in service and maintained to satisfy the customer model life production and service requirements, which may be 12 to 15 years. As repair parts are used, additional repair parts are purchased to maintain a minimum level of spare parts inventory. Depending on maintenance requirements during the life of the equipment, excess quantities of repair parts arise. Excess quantities are kept on hand and are not disposed of until the equipment is no longer in service. A repair and maintenance supply parts reserve is maintained to recognize the normal adjustment of inventory for obsolete and slow moving supply and maintenance parts. The adequacy of the reserve is reviewed periodically in relation to the repair parts inventory balances. The gross balance of the repair and maintenance supply parts inventory was approximately $1.8 million at July 1, 2007, and $1.9 million at both July 2, 2006 and July 3, 2005. The repair and maintenance supply parts inventory balance is included in other current assets in the Consolidated Balance Sheets. The activity related to the repair and maintenance supply parts reserve is as follows (thousands of dollars):

| | Balance, Beginning of Year | Provision Charged to Expense | Balances Written Off | Balance, End of Year |
|---|---|---|---|---|
| Year ended July 1, 2007 | $ 650 | $ 32 | $ 42 | $ 640 |
| Year ended July 2, 2006 | $ 650 | $ 49 | $ 49 | $ 650 |
| Year ended July 3, 2005 | $ 750 | $ (24) | $ 76 | $ 650 |

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

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

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

| | July 1, 2007 | July 2, 2006 |
|---|---|---|
| Land and improvements | $ 1,405 | $ 1,404 |
| Buildings and improvements | 12,712 | 12,593 |
| Machinery and equipment | 98,803 | 94,874 |
| | 112,920 | 108,871 |
| Less: accumulated depreciation | (86,394) | (81,107) |
| | $ 26,526 | $ 27,764 |

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

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:** During 2007 approximately 31 percent of all inventory purchases were made from three major suppliers. During 2006 approximately 35 percent of all inventory purchases were made from three major suppliers. During 2005 approximately 33 percent of all inventory purchases were made from three major suppliers. We have long-term contracts or arrangements with most of our suppliers to guarantee the availability of merchandise.

**Labor Concentrations:** We had approximately 2,150 full-time employees of which approximately 246 or 11.4 percent were represented by a labor union at July 1, 2007. The employees represented by a labor union account for all production associates at our Milwaukee facility. The current contract with the unionized associates is effective through June 29, 2008.

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

**Research and Development Costs:** Expenditures relating to the development of new products and processes, including significant improvements and refinements to existing products, are expensed as incurred. Research and development expenditures were approximately $1.5 million in 2007, $2.3 million in 2006 and $2.0 million in 2005.

**Self Insurance and Loss Sensitive Plans:** We have self-insured medical and dental plans covering all eligible U.S. associates. The claims handling process for the self-insured plans is 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 2005 through 2007. In 2005, we also maintained stop-loss insurance coverage on an aggregate per calendar year basis. The aggregate stop-loss limit per calendar year was approximately $6.1 million in calendar year 2005. Each covered individual can receive up to $2 million in total benefits during his or her lifetime. Once an individual's medical claims reach $2 million, we are no longer liable for any additional claims for that individual.

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

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

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

| | Balance, Beginning of Year | Provision Charged to Expense | Payments | Balance, End of Year |
|---|---|---|---|---|
| Year ended July 1, 2007 | | | | |
| Incurred but not reported claims reserve for self-insured plans | $ 400 | $ 2,250 | $ 2,350 | $ 300 |
| Workers' Compensation | (185) | 331 | 397 | (251) |
| Year ended July 2, 2006 | | | | |
| Incurred but not reported claims reserve for self-insured plans | $ 500 | $ 2,733 | $ 2,833 | $ 400 |
| Workers' Compensation | (202) | 314 | 297 | (185) |
| Year ended July 3, 2005 | | | | |
| Incurred but not reported claims reserve for self-insured plans | $ 600 | $ 3,460 | $ 3,560 | $ 500 |
| Workers' Compensation | (202) | 672 | 672 | (202) |

**Product Warranty:** We provide a specific accrual for known product issues. Historical activity for product issues has not been significant.

NOTES TO FINANCIAL STATEMENTS

**Foreign Currency Translation:** The financial statements of our foreign subsidiaries and equity investees are translated into U.S. dollars using the exchange rate at each balance sheet date for assets and liabilities and the average exchange rate for each applicable period for sales, costs and expenses. Foreign currency translation gains and losses are included as a component of other accumulated comprehensive loss. Foreign currency transaction gains and losses are included in other income, net in the Consolidated Income Statements and are not significant for any period presented.

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

| | July 1, 2007 | July 2, 2006 | July 3, 2005 |
|---|---|---|---|
| Minimum pension liability, net of tax | $ — | $ 62 | $ 9,467 |
| Unrecognized pension and postretirement benefit liabilities, net of tax | 11,894 | — | — |
| Foreign currency translation | 2,447 | 2,896 | 2,580 |
| | $ 14,341 | $ 2,958 | $ 12,047 |

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

**Accounting For Stock-Based Compensation:** We maintain an omnibus stock incentive plan. This plan provides for the granting of stock options, shares of restricted stock and stock appreciation rights. The Board of Directors has designated 1,700,000 shares of common stock available for the grant of awards under the plan. Remaining shares available to be granted under the plan as of July 1, 2007 were 342,823. Awards that expire or are cancelled without delivery of shares become available for re-issuance under the plan. We issue new shares of common stock to satisfy stock option exercises.

Nonqualified and incentive stock options and shares of restricted stock have been granted to our officers and specified employees under the stock incentive plan. Stock options granted under the plan may not be issued with an exercise price less than the fair market value of the common stock on the date the option is granted. Stock options become exercisable as determined at the date of grant by the Compensation Committee of the Board of Directors. The options expire 5 to 10 years after the grant date unless an earlier expiration date is set at the time of grant. The options vest 1 to 3 years after the date of grant. Shares of restricted stock granted under the plan are subject to vesting criteria determined by the Compensation Committee of the Board of Directors at the time the shares are granted. Restricted shares granted have voting and dividend rights. The restricted stock granted vests 3 years after the date of grant.

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123(R), “Share Based Payments,” which changed the accounting for equity compensation programs. Under SFAS No. 123(R), companies that award share-based payments to employees, including stock options, must begin to recognize the expense of these awards in the financial statements at the time the employee receives the award. As allowed by SFAS No. 123 and SFAS No. 148, we previously elected to follow APB Opinion No. 25 in accounting for our stock incentive plan. Under APB Opinion No. 25, no compensation cost was recognized prior to fiscal 2006 because the exercise price of all options granted under this plan was equal to or exceeded the market price of the underlying shares of common stock on the grant date. In accordance with the effective date, we implemented the provisions of SFAS 123(R) on July 4, 2005, which was the beginning of our 2006 fiscal year using the modified prospective transition method. Under this transition method, stock-based compensation expense was recognized in the 2006 consolidated financial statements for all stock option awards granted during 2006, and also for stock option awards that were both outstanding and not fully vested at the beginning of our 2006 fiscal year.

Prior to the adoption of SFAS 123(R), all tax benefits resulting from the exercise of stock options were presented as operating cash inflows in the Consolidated Statements of Cash Flows. SFAS 123(R) requires the benefits of tax deductions in excess of the compensation cost recognized for those options to be classified as financing cash flows rather than operating cash flows, on a prospective basis. The impact of this change on the 2007 and 2006 Consolidated Statements of Cash Flows was not material.

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

As of July 1, 2007, there was $244,000 of total unrecognized compensation cost related to stock options granted under the plan. This cost is expected to be recognized over a weighted average period of .5 years. As of July 1, 2007, there was $448,000 of total unrecognized compensation cost related to restricted stock grants under the plan. This cost is expected to be recognized over a weighted average period of .9 years. Total unrecognized compensation cost will be adjusted for any future changes in estimated and actual forfeitures.

Cash received from stock option exercises during fiscal 2007 was $159,000. The income tax benefit from stock option exercises during 2007 was $69,000.

Prior to fiscal 2006, we accounted for our stock-based compensation plan using the intrinsic value method. Accordingly, no compensation cost related to this plan was charged against earnings during 2005. Had compensation cost for this plan been determined using the fair value method rather than the intrinsic value method, the pro forma impact on earnings per share would have been as follows for the year ended July 3, 2005 (in thousands, except per share amounts):

| | |
|---|---|
| Net Income | |
| As reported | $15,038 |
| Pro forma compensation expense, net of tax | 514 |
| Pro forma | $14,524 |
| Basic earnings per share | |
| As reported | $ 3.97 |
| Pro forma | $ 3.83 |
| Diluted earnings per share | |
| As reported | $ 3.94 |
| Pro forma | $ 3.82 |

Effective June 17, 2005, 58,040 options were voluntarily terminated by the associates who received the awards. The options were previously issued in August 2004 at an exercise price of $76.70. No form of compensation was provided to the associates as a result of the terminations, and no compensation cost related to these terminated options is included in the presentation above.

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

| | Years Ended | | |
|---|---|---|---|
| | July 1, 2007 | July 2, 2006 | July 3, 2005 |
| Intrinsic value of options exercised | $ 186 | $ 188 | $ 2,749 |
| Fair value of stock options vesting | $ 762 | $ 1,480 | $ 925 |

No options were granted during 2007. The grant date fair values and assumptions used to determine compensation expense in 2006 and the pro forma impact in 2005 are as follows:

| Options Granted During | 2006 | 2005 |
|---|---|---|
| Weighted average grant date fair value: | | |
| Options issued at grant date market value | n/a | $18.56 |
| Options issued above grant date market value | $11.92 | n/a |
| **Assumptions:** | | |
| Risk free interest rates | 4.08% | 3.69% |
| Expected volitilty | 31.77% | 24.64% |
| Expected term (in years) | 4.00 | 5.00 |

No dividends were assumed in the grant date fair value calculations as we did not intend to pay cash dividends on our common stock as of the grant date.

The range of options outstanding as of July 1, 2007, is as follows:

| | Number of Options Outstanding/Exercisable | Weighted Average Exercise Price Outstanding/Exercisable | Weighted Average Remaining Contractual Life Outstanding (In Years) |
|---|---|---|---|
| $31.95-$44.93 | 5,100/5,100 | $ 39.25/$39.25 | 4.7 |
| $53.07-$58.59 | 104,140/99,140 | $ 56.03/$56.03 | 3.5 |
| Over $61.21 | 126,180/76,840 | $ 61.72/$61.91 | 3.4 |
| | | $ 58.71/$58.05 | |

**Recent Accounting Pronouncements:** In June 2006, the FASB issued Financial Interpretation No. (FIN) 48, “Accounting for Uncertainty in Income Taxes,” which clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with SFAS No. 109, “Accounting for

## NOTES TO FINANCIAL STATEMENTS

Income Taxes." The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation will be effective for STRATTEC beginning in our 2008 fiscal year. The impact on our consolidated financial statements is not expected to be material.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 123(R)." SFAS No. 158 requires employers that sponsor defined benefit pension and postretirement benefit plans to recognize previously unrecognized actuarial losses and prior service costs in the statement of financial position and to recognize future changes in these amounts in the year in which changes occur through comprehensive income. As a result, the statement of financial position will reflect the funded status of those plans as an asset or liability. Additionally, employers are required to measure the funded status of a plan as of the date of its year end statement of financial position. STRATTEC adopted SFAS No. 158 as of July 1, 2007. We use a June 30 measurement date for our defined pension and postretirement plans. The measurement date will not change as a result of the adoption of SFAS No. 158. Pension and Postretirement benefits are further discussed under Retirement Plans and Postretirement Costs in these Notes to Financial Statements.

### INVESTMENT IN JOINT VENTURES

We participate in certain alliance agreements with E. WITTE Verwaltungsgesellschaft GmbH, and its operating unit, WITTE-Velbert GmbH & Co. KG ("WITTE") and ADAC Plastics, Inc. ("ADAC"). WITTE, of Velbert, Germany, is a privately held automotive supplier. WITTE designs, manufactures and markets components including locks and keys, hood latches, rear compartment latches, seat back latches, door handles and specialty fasteners. WITTE's primary market for these products has been Europe. ADAC, of Grand Rapids, Michigan, is a privately held automotive supplier and manufactures engineered products, including door handles and other automotive trim parts, utilizing plastic injection molding, automated painting and various assembly processes.

The Alliance provides a set of cross-licensing agreements for the manufacture, distribution and sale of WITTE products by STRATTEC and ADAC in North America, and the manufacture, distribution and sale of STRATTEC and ADAC products by WITTE in Europe. Additionally, a joint venture company, Vehicle Access Systems Technology LLC ("VAST LLC"), in which WITTE and STRATTEC originally held a 40 percent interest and ADAC originally held a 20 percent interest, exists to seek opportunities to manufacture and sell the companies' products in areas of the world outside of North America and Europe. Effective July 1, 2007, WITTE, STRATTEC and ADAC each hold a one-third interest in VAST LLC.

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

The VAST investments are accounted for using the equity method of accounting. The activities related to the VAST joint ventures resulted in a gain of approximately $394,000 in 2007 and $188,000 in 2006 and are included in other income, net in the Consolidated Statements of Income . A capital contribution of $100,000 was made to the VAST LLC joint venture in 2007 primarily in support of general operating expenses. A capital contribution of $569,000 was made in 2006 in support of general operating expenses and the purchase of an additional 16 percent of VAST Fuzhou and VAST Great Shanghai by VAST LLC.

In 2007, we entered into a joint venture with ADAC, in which STRATTEC holds a 50.1 percent interest and ADAC holds a 49.9 percent interest. The joint venture was created to establish injection molding and door handle assembly operations in Mexico. ADAC-STRATTEC de MEXICO, LLC ("ASdM"), a Delaware limited liability company, was formed on October 27, 2006. An additional Mexican entity, which is wholly owned by ASdM, was formed on February 21, 2007. It is anticipated that ASdM production activities will begin in July 2007. Start-up costs for ASdM were incurred in fiscal 2007 resulting in a net loss of $75,000 to STRATTEC. ASdM's financial results are consolidated with the financial results of STRATTEC.

### LINE OF CREDIT

We have a $50.0 million unsecured line of credit (the "Line of Credit"), which expires October 31, 2007. Interest on borrowings under the Line of Credit are at varying rates based on the London Interbank Offering Rate or the bank's prime rate. There were no outstanding borrowings at July 1, 2007 or July 2, 2006. There were no borrowings under the Line of Credit during 2007, 2006 or 2005.

### COMMITMENTS AND CONTINGENCIES

In 1995, we recorded a provision of $3.0 million for estimated costs to remediate a site at our Milwaukee facility. The site was contaminated by a solvent spill, which occurred in 1985, from a former above-ground solvent storage tank located on the east side of the facility. The reserve was established based on third party estimates to adequately cover the cost for active remediation of the contamination. We continue to monitor and

evaluate the site with the use of groundwater monitoring wells that are installed on the property. An environmental consultant samples these wells one to two times a year to determine the status of the contamination and the potential for remediation of the contamination by natural attenuation, the dissipation of the contamination over time to concentrations below applicable standards. If such sampling evidences a sufficient degree of and trend toward natural attenuation of the contamination, we may be able to obtain a closure letter from the regulatory authorities resolving the issue without the need for active remediation. If a sufficient degree and trend toward natural attenuation is not evidenced by sampling, a more active form of remediation beyond natural attenuation may be required. The sampling has not yet satisfied all of the requirements for closure by natural attenuation. As a result sampling continues and the reserve remains. The reserve is not measured on a discounted basis. Management believes, based upon findings-to-date and known environmental regulations, that the environmental reserve at July 1, 2007, is adequate to cover any future developments.

At July 1, 2007, we had purchase commitments for aluminum and natural gas totaling approximately $644,000 payable in 2008. Minimum rental commitments under all non-cancelable operating leases with a term in excess of one year are payable as follows: 2008-$560,000; 2009-$379,000; 2010-$165,000; 2011-$139,000, 2012-$115,000. Rental expense under all non-cancelable operating leases totaled approximately $595,000 in both 2007 and 2006, and $611,000 in 2005.

## SUBSEQUENT EVENT

On August 21, 2007, our Board of Directors declared a quarterly cash dividend of $0.15 per common share and a special one-time cash dividend of $1.00 per common share, both payable October 1, 2007, to shareholders of record as of September 14, 2007. The dividend will total approximately $4.1 million and will be funded by current cash balances.

## INCOME TAXES

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

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| **Currently payable:** | | | |
| Federal | $ 2,624 | $ 5,089 | $ 4,780 |
| State | 485 | 738 | 1,016 |
| State refund claim recovery | (506) | (1,814) | (250) |
| Foreign | 279 | 40 | 631 |
| | 2,882 | 4,053 | 6,177 |
| Deferred tax (benefit) provision | (359) | 350 | 2,282 |
| | $ 2,523 | $ 4,403 | $ 8,459 |

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

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| U.S. statutory rate | 34.0% | 34.4% | 34.3% |
| State taxes, net of Federal tax benefit | 2.6 | 3.1 | 3.8 |
| State refund claim recovery | (3.1) | (7.1) | (.7) |
| Foreign sales benefit | (1.2) | — | (.8) |
| Favorable foreign adjustment | (7.9) | (3.9) | — |
| Other | (.8) | (.4) | (.6) |
| | 23.6% | 26.1% | 36.0% |

The 2007 income tax provision includes a state refund claim recovery. The 2007 claim recovery, net of the Federal income tax impact, was approximately $329,000. The 2007 income tax provision also includes favorable foreign adjustments primarily related to the operation of our Mexican subsidiaries of $842,000. The 2006 income tax provision includes a state refund claim recovery and a favorable state income tax adjustment. The 2006 claim recovery and tax adjustment, net of the Federal income tax impact, was approximately $1.2 million. The 2006 income tax provision also includes a favorable foreign tax adjustment related to the operation of our Mexican subsidiaries of $664,000. The 2005 income tax provision included a state refund claim recovery, net of the Federal income tax impact, of $162,000.

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## NOTES TO FINANCIAL STATEMENTS

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

| | July 1, 2007 | July 2, 2006 |
|---|---|---|
| **Deferred income taxes–current:** | | |
| Repair and maintenance supply parts reserve | $ 243 | $ 247 |
| Payroll-related accruals | 475 | 455 |
| Environmental reserve | 1,009 | 1,019 |
| Accrued customer pricing | 1,245 | — |
| Other | (243) | (180) |
| | $ 2,729 | $ 1,541 |
| **Deferred income taxes–noncurrent:** | | |
| Accrued pension obligations | $ (4,588) | $ (2,981) |
| Additional minimum pension liability | — | 38 |
| Unrecognized pension and postretirement benefit plan liabilities | 7,290 | — |
| Accumulated depreciation | (2,863) | (3,410) |
| Stock-based compensation | 564 | 350 |
| Postretirement obligations | 1,714 | 1,737 |
| | $ 2,117 | $ (4,266) |

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

Foreign income before the provision for income taxes was $1.5 million in 2007 and $1.8 million in both 2005 and 2006. No provision for Federal income taxes was made on earnings of foreign subsidiaries and joint ventures that are considered permanently invested or that would be offset by foreign tax credits upon distribution. Such undistributed earnings at July 1, 2007 were $7.5 million.

In October 2004, the American Jobs Creation Act of 2004 and the Working Families Tax Relief Act of 2004 were signed into law. This legislation contains numerous corporate tax changes, including eliminating a tax benefit relating to U.S. product exports, a new deduction related to U.S. manufacturing, a lower U.S. tax rate on non-U.S. dividends and an extension of the research and experimentation credit. The new legislation eliminates our foreign sales benefit. The impact on the effective rate is shown in the table above.

### RETIREMENT PLANS AND POSTRETIREMENT COSTS

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

We have a noncontributory supplemental executive retirement plan (SERP), which is a nonqualified defined benefit plan. The SERP will pay supplemental pension benefits to certain key employees upon retirement based upon the employees' years of service and compensation. The SERP is being funded through a Rabbi Trust with M&I Trust Company. The trust assets had a value of $4.1 million at July 1, 2007 and $3.7 million at July 2, 2006. These assets are included in other current assets in the Consolidated Balance Sheets. The projected benefit obligation was $3.0 million at July 1, 2007 and $2.8 million at July 2, 2006. The SERP liabilities are included in the pension tables below. However, the trust assets are excluded from the table as they do not qualify as plan assets.

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

**NOTES TO FINANCIAL STATEMENTS**



dates, eligibility for the benefit requires 30 years of service and the benefit ends at age 65. The postretirement health care plan is unfunded.

We adopted SFAS No. 158 on July 1, 2007. SFAS No. 158 requires the recognition of the funded status of defined benefit pension and postretirement benefit plans in the statement of financial position. Funded status is defined as the difference between the projected benefit obligation and the fair value of plan assets. Upon adoption, we recorded an adjustment to accumulated other comprehensive income. This adjustment represents the recognition of the previously unrecorded pension and postretirement health care liabilities related to net unrecognized actuarial losses, unrecognized prior service cost and unrecognized prior service credits. These amounts will be subsequently recognized as a component of net periodic pension cost.

The incremental effects of adopting the provisions of SFAS No. 158 on our statement of financial position at July 1, 2007 are presented in the following table (thousands of dollars). The adoption of SFAS No. 158 had no effect on our consolidated statement of income for the year ended July 1, 2007, or for any prior period presented, and it will not affect operating results in future periods. Under SFAS No. 158, the minimum pension liability has been eliminated. Had we not been required to adopt SFAS No. 158 at July 1, 2007, we would have recognized an additional minimum pension liability pursuant to the provisions of SFAS No. 87. The effect of recognizing the additional minimum pension liability is included in the table below in the column labeled “Prior to Adopting SFAS No. 158.”

| | At July 1, 2007 | | |
|---|---|---|---|
| | Prior to adopting SFAS No. 158 | Effect of adopting SFAS No. 158 | As Reported |
| Prepaid pension costs | $ 16,140 | $ (11,755) | $ 4,385 |
| Other long-term assets | $ 171 | $ (130) | $ 41 |
| Deferred income taxes, net | $ (2,420) | $ 7,266 | $ 4,846 |
| Accrued payroll and benefits | $ (6,280) | $ — | $ (6,280) |
| Accrued pension obligations | $ (2,855) | $ — | $ (2,855) |
| Accrued postretirement obligations | $ (3,339) | $ (7,237) | $ (10,576) |
| Accumulated other comprehensive loss | $ 2,485 | $ 11,856 | $ 14,341 |

Amounts included in other comprehensive income, net of tax, at July 1, 2007 which have not yet been recognized in net periodic benefit cost are as follows (thousands of dollars):

| | Pension and SERP Benefits | Postretirement Benefits |
|---|---|---|
| Prior service cost (credit) | $ 386 | $ (2,610) |
| Net actuarial loss | 7,021 | 7,097 |
| | $ 7,407 | $ 4,487 |

Included in accumulated other comprehensive income at July 1, 2007 are prior service costs of $64,000 ($40,000 net of tax) and unrecognized net actuarial losses of $643,000 ($399,000 net of tax) expected to be recognized in pension and SERP net periodic benefit cost during 2008.

Included in other accumulated comprehensive income at July 1, 2007 are prior service credits of $378,000 ($234,000 net of tax) and unrecognized net actuarial losses of $702,000 ($435,000 net of tax) expected to be recognized in postretirement net periodic benefit cost during 2008.

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

## NOTES TO FINANCIAL STATEMENTS

| | Pension and SERP Benefits | | Postretirement Benefits | |
|---|---|---|---|---|
| | July 1, 2007 | July 2, 2006 | July 1, 2007 | July 2, 2006 |
| **WEIGHTED-AVERAGE ASSUMPTIONS** | | | | |
| Benefit Obligations: | | | | |
| Discount rate | 6.41% | 6.62% | 6.41% | 6.62% |
| Rate of compensation increases | 3.5% | 3.5% | n/a | n/a |
| Net Periodic Benefit Cost: | | | | |
| Discount rate | 6.62% | 5.43% | 6.62% | 5.43% |
| Expected return on plan assets | 8.5% | 8.5% | n/a | n/a |
| Rate of compensation increases | 3.5% | 3.5% | n/a | n/a |
| | 2007 | 2006 | 2007 | 2006 |
| **CHANGE IN PROJECTED BENEFIT OBLIGATION:** | | | | |
| Benefit obligation at beginning of year | $ 66,953 | $ 73,242 | $ 10,851 | $ 9,331 |
| Service cost | 1,974 | 2,540 | 219 | 232 |
| Interest Cost | 4,348 | 3,924 | 688 | 591 |
| Plan amendments | 32 | 255 | — | — |
| Actuarial (gain) loss | 3,773 | (10,502) | 1,221 | 2,079 |
| Benefits paid | (2,586) | (2,506) | (1,231) | (1,382) |
| Benefit obligation at end of year | $ 74,494 | $ 66,953 | $ 11,748 | $ 10,851 |
| **CHANGE IN PLAN ASSETS:** | | | | |
| Fair value of plan assets at beginning of year | $ 61,989 | $ 53,225 | $ — | $ — |
| Actual return on plan assets | 9,478 | 5,270 | — | — |
| Employer contribution | 7,000 | 6,000 | 1,231 | 1,382 |
| Benefits paid | (2,586) | (2,506) | (1,231) | (1,382) |
| Fair value of plan assets at end of year | 75,881 | 61,989 | — | — |
| Funded status | 1,387 | (4,964) | (11,748) | (10,851) |
| Unrecognized net loss | — | 12,119 | — | 10,867 |
| Unrecognized prior service cost | — | 688 | — | (4,588) |
| Additional minimum liability: | | | | |
| Intangible asset | — | (142) | — | — |
| Accumulated other comprehensive loss (pre-tax) | — | (99) | — | — |
| Prepaid (accrued) benefit obligations | $ 1,387 | $ 7,602 | $ (11,748) | $ (4,572) |
| **AMOUNTS RECOGNIZED IN CONSOLIDATED BALANCE SHEETS:** | | | | |
| Accrued payroll and benefits (current liabilities) | $ (143) | $ (148) | $ (1,172) | $ (936) |
| Accrued benefit obligations (long-term liabilities) | (2,855) | (2,608) | (10,576) | (3,636) |
| Prepaid pension obligations (long-term assets) | 4,385 | 10,358 | — | — |
| Net amount recognized | $ 1,387 | $ 7,602 | $ (11,748) | $ (4,572) |

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 1, 2007 | July 2, 2006 | July 1, 2007 | July 2, 2006 |
| Accumulated benefit obligation | $65,385 | $57,920 | $2,998 | $2,756 |
| Projected benefit obligation | $71,496 | $64,197 | $2,998 | $2,756 |

For measurement purposes, a 10 percent annual rate increase in the per capita cost of covered health care benefits was assumed for 2008; the rate was assumed to decrease gradually to 5 percent by the year 2012 and remain at that level thereafter.

## NOTES TO FINANCIAL STATEMENTS



| | Pension and SERP Benefits | | | Postretirement Benefits | | |
|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2005 | 2007 | 2006 | 2005 |
| **COMPONENTS OF NET PERIODIC BENEFIT COST:** | | | | | | |
| Service cost | $ 1,974 | $ 2,540 | $ 2,224 | $ 219 | $ 232 | $ 299 |
| Interest cost | 4,348 | 3,924 | 3,552 | 688 | 491 | 601 |
| Expected return on plan assets | (5,348) | (4,989) | (4,277) | — | — | — |
| Amortization of prior service cost | 64 | 20 | 8 | (378) | (378) | 10 |
| Amortization of unrecognized net loss | 473 | 1,275 | 198 | 641 | 528 | 255 |
| Amortization of net transition asset | — | — | (49) | — | — | — |
| Net periodic benefit cost | $ 1,511 | $ 2,770 | $ 1,656 | $ 1,170 | $ 873 | $ 1,165 |

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

| | 1% Increase | 1% Decrease |
|---|---|---|
| Effect on total of service and interest cost components in fiscal 2007 | $ 87 | ($ 76) |
| Effect on postretirement benefit obligation as of July 1, 2007 | $ 832 | ($ 744) |

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

| | Target Allocation | July 1, 2007 | July 2, 2006 |
|---|---|---|---|
| Equity investments | 65% | 64% | 67% |
| Fixed-Income Investments | 35% | 36% | 33% |
| Total | 100% | 100% | 100% |

The expected long-term rate of return on U.S. pension plan assets is 8.5%. The target asset allocation is 65% public equity and 35% fixed income. The 8.5% is approximated by applying returns of 10% on public equity and 6% on fixed income to the target allocation. The actual historical returns are also relevant. Annualized returns for periods ended July 1, 2007 were 7.98% for 10 years, 9.98% for 15 years and 9.72% for 20 years.

We expect to contribute approximately $3 million to our qualified pension plan, $143,000 to our SERP and $1.2 million to our postretirement health care plan in 2008. The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (thousands of dollars):

| | Pension and SERP Benefits | Postretirement Benefits |
|---|---|---|
| 2008 | $ 3,000 | $ 1,172 |
| 2009 | 3,348 | 1,259 |
| 2010 | 6,580 | 1,392 |
| 2011 | 3,936 | 1,371 |
| 2012 | 4,269 | 1,374 |
| 2013-2017 | 25,951 | 4,961 |

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## NOTES TO FINANCIAL STATEMENTS

All U.S. associates may participate in a 401(k) Plan. We contribute a fixed percentage up to the first 6 percent of eligible compensation that a participant contributes to the plan. Our contributions totaled approximately $603,000 in 2007, $574,000 in 2006 and $556,000 in 2005.

### SHAREHOLDERS' EQUITY

We have 12,000,000 shares of authorized common stock, par value $.01 per share, with 3,519,138 and 3,637,280 shares issued and outstanding at July 1, 2007 and July 2, 2006, 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 3,639,395 outstanding shares. As of July 1, 2007, 3,384,700 shares have been repurchased under this program at a cost of approximately $127.1 million.

### EARNINGS PER SHARE (EPS)

Basic earnings per share is computed on the basis of the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed on the basis of the weighted average number of shares of common stock plus the dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares include outstanding stock options and restricted stock awards. A reconciliation of the components of the basic and diluted per share computations follows (in thousands, except per share amounts):

| | 2007 | | | 2006 | | | 2005 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Net Income | Shares | Per Share Amount | Net Income | Shares | Per Share Amount | Net Income | Shares | Per Share Amount |
| Basic EPS | $8,183 | 3,552 | $ 2.30 | $12,477 | 3,716 | $ 3.36 | $15,038 | 3,790 | $ 3.97 |
| Stock-based compensation | | 3 | | | 4 | | | 26 | |
| Diluted EPS | $8,183 | 3,555 | $ 2.30 | $12,477 | 3,720 | $ 3.35 | $15,038 | 3,816 | $ 3.94 |

As of July 1, 2007, options to purchase 230,320 shares of common stock at a weighted-average exercise price of $59.14 were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive. As of July 2, 2006, options to purchase 273,130 shares of common stock at a weighted-average exercise price of $57.70 were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive. As of July 3, 2005, options to purchase 221,830 shares of common stock at a weighted-average exercise price of $58.49 were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive.

### STOCK OPTION AND PURCHASE PLANS

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

| | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value (in thousands) |
|---|---|---|---|---|
| Balance at June 27, 2004 | 387,535 | $ 49.39 | | |
| Granted | 140,000 | $ 69.83 | | |
| Exercised | (101,345) | $ 34.74 | | |
| Expired | (1,000) | $ 53.07 | | |
| Terminated | (143,330) | $ 69.04 | | |
| Balance at July 3, 2005 | 281,860 | $ 54.80 | | |
| Granted | 40,000 | $ 61.22 | | |
| Exercised | (24,220) | $ 43.30 | | |
| Expired | (5,000) | $ 54.99 | | |
| Terminated | (9,110) | $ 59.59 | | |
| Balance at July 2, 2006 | 283,530 | $ 56.53 | | |
| Granted | — | $ — | | |
| Exercised | (7,300) | $ 21.74 | | |
| Expired | (35,810) | $ 49.24 | | |
| Terminated | (5,000) | $ 56.72 | | |
| Balance at July 1, 2007 | 235,420 | $ 58.71 | 3.5 | $ 39 |
| Exercisable as of: | | | | |
| July 1, 2007 | 181,080 | $ 58.05 | 3.2 | $ 39 |
| July 2, 2006 | 157,350 | $ 52.78 | 4.0 | $ 361 |
| July 3, 2005 | 95,530 | $ 45.75 | 4.0 | $ 785 |
| Available for grant as of July 1, 2007 | 342,823 | | | |

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

| | Shares | Weighted Average Grant Date Fair Value |
|---|---|---|
| Nonvested Balance at July 3, 2005 | — | — |
| Granted | 9,900 | $ 51.24 |
| Vested | — | — |
| Forfeited | (300) | $ 51.24 |
| Nonvested Balance at July 2, 2006 | 9,600 | $ 51.24 |
| Granted | 10,000 | $ 40.00 |
| Vested | — | — |
| Forfeited | (200) | $ 40.00 |
| Nonvested Balance at July 1, 2007 | 19,400 | $ 45.56 |

Options granted at a price greater than the market value on the date of grant included above total 40,000 at an exercise price of $61.22 in 2006 and 80,000 at an exercise price of $76.70 in 2005. Effective June 17, 2005, 58,040 of the options issued at an exercise price of $76.70 in 2005 were voluntarily terminated by the associates who received the awards. No form of compensation was provided to the associates as a result of the terminations.

We have an Employee Stock Purchase Plan to provide substantially all U.S. full-time associates an opportunity to purchase shares of STRATTEC common stock through payroll deductions. A participant may contribute a maximum of $5,200 per calendar year to the plan. On the last day of each month, participant account balances are used to purchase shares of stock at the average of the highest and lowest reported sales prices of a share of STRATTEC common stock on the NASDAQ Global Market. A total of 100,000 shares may be issued under the plan. Shares issued from treasury stock under the plan totaled 771 at an average price of $43.15 during 2007, 822 at an average price of $44.70 during 2006 and 783 at an average price of $59.19 during 2005. A total of 83,919 shares are available for purchase under the plan as of July 1, 2007.

## EXPORT SALES

Export sales are summarized below (thousands of dollars):

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Export Sales | $30,643 | $34,244 | $36,802 |
| Percent of Net Sales | 18% | 19% | 19% |

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

## SALES AND RECEIVABLE CONCENTRATION

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

| | 2007 | | 2006 | | 2005 | |
|---|---|---|---|---|---|---|
| | Sales | % | Sales | % | Sales | % |
| General Motors Corporation | $ 35,687 | 21% | $ 32,887 | 18% | $ 43,227 | 23% |
| Ford Motor Company | 21,013 | 13% | 27,295 | 15% | 32,021 | 17% |
| DaimlerChrysler Corporation | 58,099 | 35% | 58,603 | 32% | 51,523 | 27% |
| Delphi Corporation | 18,398 | 11% | 26,721 | 15% | 29,621 | 15% |
| | $133,197 | 80% | $145,506 | 80% | $156,392 | 82% |

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

| | July 1, 2007 | | July 2, 2006 | |
|---|---|---|---|---|
| | Receivables | % | Receivables | % |
| General Motors Corporation | $ 8,174 | 30% | $ 6,385 | 22% |
| Ford Motor Company | 3,022 | 11% | 3,122 | 11% |
| DaimlerChrysler Corporation | 9,965 | 37% | 10,413 | 37% |
| Delphi Corporation | 1,116 | 4% | 834 | 3% |
| | $ 22,277 | 82% | $ 20,754 | 73% |

## REPORTS

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

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

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

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

Management assessed the Corporation's system of internal control over financial reporting as of July 1, 2007, in relation to criteria for effective internal control over financial reporting as described in “Internal Control – Integrated Framework,” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the assessment, management concludes that, as of July 1, 2007, its system of internal control over financial reporting is effective and meets the criteria of the “Internal Control –Integrated Framework”. Grant Thornton LLP, independent registered public accounting firm, has issued an attestation report on management's assessment of the Corporation's internal control over financial reporting, which is included herein.

| Harold M. Stratton II<br>Chairman, President and<br>Chief Executive Officer | Patrick J. Hansen<br>Senior Vice President and<br>Chief Financial Officer |
|---|---|

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors and Shareholders of STRATTEC SECURITY CORPORATION:

We have audited management's assessment, included in the accompanying Report of Management's Assessment of Internal Control Over Financial Reporting, that STRATTEC SECURITY CORPORATION (a Wisconsin Corporation) and subsidiaries, collectively the "Company," maintained effective internal control over financial reporting as of July 1, 2007, based on criteria established in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of 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, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, management's assessment that STRATTEC SECURITY CORPORATION and subsidiaries maintained effective internal control over financial reporting as of July 1, 2007, is fairly stated, in all material respects, based on criteria established in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of July 1, 2007, based on criteria established in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of STRATTEC SECURITY CORPORATION and subsidiaries as of July 1, 2007 and July 2, 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for the three years ended July 1, 2007 and our report dated August 21, 2007 expressed an unqualified opinion on those financial statements.

Grant Thornton LLP
Milwaukee, Wisconsin
August 21, 2007

**REPORTS**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors and Shareholders of STRATTEC SECURITY CORPORATION:

We have audited the accompanying consolidated balance sheets of STRATTEC SECURITY CORPORATION (a Wisconsin Corporation) and subsidiaries, collectively the “Company,” as of July 1, 2007 and July 2, 2006, and the related consolidated statements of income, shareholders’ equity and cash flows for the three years in the period ended July 1, 2007. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of STRATTEC SECURITY CORPORATION and subsidiaries as of July 1, 2007 and July 2, 2006, and the results of its operations and its cash flows for the three years in the period ended July 1, 2007 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes to Financial Statements under Recent Accounting Pronouncements and Retirement Plans and Postretirement Costs, the Company adopted Statement 158, Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans, as of July 1, 2007. As discussed in Notes to Financial Statements under Accounting for Stock-Based Compensation, the Company adopted Statement 123(R), Share-Based Payments, as of July 4, 2005.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of STRATTEC SECURITY CORPORATION’s internal control over financial reporting as of July 1, 2007, based on criteria established in “Internal Control – Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated August 21, 2007 expressed an unqualified opinion on the effectiveness of internal control over financial reporting.

Grant Thornton LLP
Milwaukee, Wisconsin
August 21, 2007

FINANCIAL SUMMARY



## FIVE-YEAR FINANCIAL SUMMARY

The financial data for each period presented below reflects the consolidated results of STRATTEC SECURITY CORPORATION and its wholly owned subsidiaries. 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 | | | | |
|---|---|---|---|---|---|
| | 2007 | 2006 | 2005 | 2004 | 2003 |
| **INCOME STATEMENT DATA** | | | | | |
| Net Sales | $167,707 | $181,197 | $190,314 | $195,646 | $196,827 |
| Gross profit | 26,494 | 37,046 | 42,776 | 47,513 | 45,359 |
| Engineering, selling, and administrative expenses | 20,189 | 22,067 | 20,688 | 20,624 | 19,613 |
| Provision for doubtful accounts, net | — | 1,622 | 80 | 26 | — |
| Income from operations | 6,305 | 13,357 | 22,008 | 26,863 | 25,746 |
| Interest income | 3,611 | 2,563 | 1,169 | 426 | 369 |
| Interest expense | — | — | — | — | — |
| Other income (expense), net | 715 | 960 | 320 | 362 | (156) |
| Minority interest | 75 | — | — | — | — |
| Income before taxes | 10,706 | 16,880 | 23,497 | 27,651 | 25,959 |
| Provision for income taxes | 2,523 | 4,403 | 8,459 | 10,369 | 9,605 |
| Net income | $ 8,183 | $ 12,477 | $ 15,038 | $ 17,282 | $ 16,354 |
| **Earnings per share:** | | | | | |
| Basic | $ 2.30 | $ 3.36 | $ 3.97 | $ 4.56 | $ 4.32 |
| Diluted | 2.30 | 3.35 | 3.94 | 4.49 | 4.24 |
| **BALANCE SHEET DATA** | | | | | |
| Net working capital | $ 81,083 | $ 80,264 | $ 74,619 | $ 68,682 | $ 51,277 |
| Total assets | 148,446 | 154,292 | 138,090 | 137,190 | 118,094 |
| Long-term liabilities | 14,005 | 10,510 | 16,271 | 12,054 | 19,190 |
| Shareholders' Equity | 102,960 | 110,275 | 91,751 | 89,852 | 69,095 |

## QUARTERLY FINANCIAL DATA (UNAUDITED)

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

| | | | | | Earnings Per Share | | Market Price Per Share | |
|---|---|---|---|---|---|---|---|---|
| | Quarter | Net Sales | Gross Profit | Net Income | Basic | Diluted | High | Low |
| 2007 | First | $ 38,050 | $ 5,282 | $ 741 | $ 0.21 | $ 0.21 | $ 48.51 | $ 37.50 |
| | Second | 37,913 | 5,040 | 1,094 | 0.31 | 0.31 | 47.11 | 33.85 |
| | Third | 45,647 | 8,354 | 2,914 | 0.82 | 0.82 | 51.40 | 41.31 |
| | Fourth | 46,097 | 7,818 | 3,434 | 0.97 | 0.97 | 49.89 | 40.49 |
| | TOTAL | $167,707 | $ 26,494 | $ 8,183 | $ 2.30 | $ 2.30 | | |
| 2006 | First | $ 44,793 | $ 9,774 | $ 1,740 | $ 0.46 | $ 0.46 | $ 65.75 | $ 49.67 |
| | Second | 43,278 | 8,542 | 2,656 | 0.71 | 0.71 | 52.38 | 39.71 |
| | Third | 46,575 | 9,122 | 4,116 | 1.11 | 1.10 | 45.04 | 36.59 |
| | Fourth | 46,551 | 9,608 | 3,965 | 1.08 | 1.08 | 49.84 | 33.00 |
| | TOTAL | $181,197 | $ 37,046 | $ 12,477 | $ 3.36 | $ 3.35 | | |

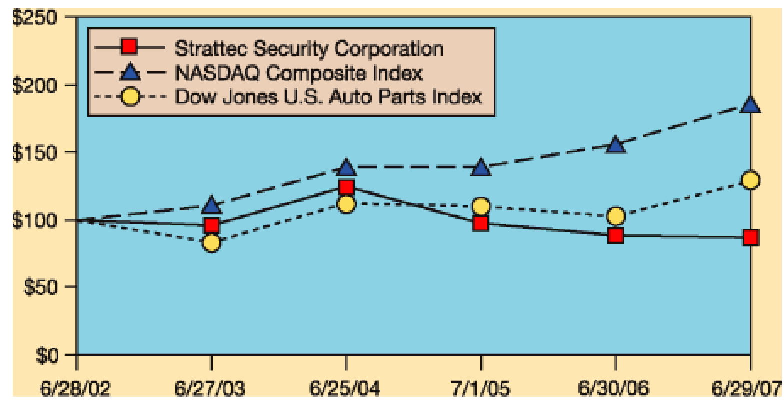
We have not paid cash dividends on STRATTEC common stock through July 1, 2007. On August 21, 2007, our Board of Directors declared a quarterly cash dividend of $0.15 per common share and a special one-time cash dividend of $1.00 per common share. Both the quarterly and special dividend are payable on October 1, 2007, to shareholders of record as of September 14, 2007.

Registered shareholders of record at July 1, 2007, were 2,429.

## PERFORMANCE GRAPH

The chart below shows a comparison of the cumulative return since June 28, 2002 had $100 been invested at the close of business on June 28, 2002 in STRATTEC Common Stock, the NASDAQ Composite Index (all issuers), and the Dow Jones U.S. Auto Parts Index.

**COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN***
Among Strattec Security Corporation, The NASDAQ Composite Index
And The Dow Jones U.S. Auto Parts Index




| | 6/28/02 | 6/27/03 | 6/25/04 | 7/1/05 | 6/30/06 | 6/29/07 |
|---|---|---|---|---|---|---|
| STRATTEC** | 100 | 96 | 122 | 97 | 90 | 85 |
| NASDAQ Composite Index | 100 | 110 | 139 | 142 | 156 | 191 |
| Dow Jones U.S. Auto Parts Index | 100 | 88 | 115 | 102 | 101 | 138 |

* $100 invested on 6/28/02 in stock or index-including reinvestment of dividends. Indexes calculated on a month-end basis.

** The fiscal year end closing price of STRATTEC Common Stock on June 28, 2002 was $55.32, the closing price on June 27, 2003 was $52.87, the closing price on June 25, 2004 was $67.57, the closing price on July 1, 2005 was $53.82, the closing price on June 30, 2006, was $49.81 and the closing price on June 29, 2007 was $46.97.

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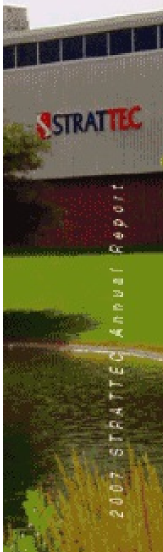
STRATTEC Board of Directors:
(Left to Right) Frank J. Krejci, Michael J. Koss, Robert Feitler, Harold M. Stratton II, David R. Zimmer



## BOARD OF DIRECTORS

**Harold M. Stratton II, 59**
Chairman, President and Chief Executive Officer

**Robert Feitler, 76**
Former President and Chief Operating Officer of Weyco Group, Inc.
Chairman of the Executive Committee and Director of Weyco Group, Inc.

**Michael J. Koss, 53**
President and Chief Executive Officer of Koss Corporation
Director of Koss Corporation

**Frank J. Krejci, 57**
President and Chief Executive Officer of Wisconsin Furniture, LLC

**David R. Zimmer, 61**
Managing Partner of Stonebridge Business Partners

## CORPORATE OFFICERS

**Harold M. Stratton II, 59**

**Patrick J. Hansen, 48**
Senior Vice President-Chief Financial Officer, Treasurer and Secretary

**Donald J. Harrod, 63**
Vice President-Engineering and Product

**Dennis A. Kazmierski, 55**
Vice President-Marketing and Sales

**Kathryn E. Scherbarth, 51**
Vice President-Milwaukee Operations

**Rolando J. Guillot, 39**
Vice President-Mexican Operations

**Milan R. Bundalo, 56**
Vice President-Materials

**Brian J. Reetz, 49**
Vice President-Product Development and Management

## SHAREHOLDERS' INFORMATION

**Annual Meeting**
The Annual Meeting of Shareholders will convene at 8:00 a.m. (CST) on October 9, 2007, at the Radisson Hotel, 7065 North Port Washington Road, Milwaukee, WI 53217

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

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

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

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

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

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*The Trusted Leader in Automotive*
*Access Control Products*

STRATTEC SECURITY CORPORATION

3333 WEST GOOD HOPE ROAD

MILWAUKEE, WI 53209

PHONE 414.247.3333 FAX 414.247.3329

www.strattec.com

**Exhibit 21**

SUBISIDARIES OF THE COMPANY

| Subsidiary | Country of Incorporation | Percent Owned |
|---|---|---|
| STRATTEC de Mexico S.A. de C.V. | Mexico | 100% |
| STRATTEC Componentes Automotrices S.A de C.V | Mexico | 100% |
| ADAC-STRATTEC de Mexico LLC | United States | 50.1% |

**Exhibit 23.1**

**CONSENT OF INDEPENDENT
REGISTERED PUBLIC ACCOUNTANTS**

We have issued our reports dated August 21, 2007, accompanying the consolidated financial statements and schedules and management's assessment of the effectiveness of internal control over financial reporting included in the Annual Report of STRATTEC SECURITY CORPORATION incorporated by reference on Form 10-K for the year ended July 1, 2007. We hereby consent to the incorporation by reference of said reports in the Registration Statements of STRATTEC SECURITY CORPORATION on Forms S-8 (File No. 333-140715, effective February 14, 2007; 333-103219, effective February 14, 2003; 333-31002, effective February 24, 2000; 333-45221, effective January 30, 1998; and 333-4300, effective April 29, 1996).

/s/ GRANT THORNTON LLP
Milwaukee, Wisconsin
August 21, 2007

**Exhibit 31.1**

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

I, Harold M. Stratton II, certify that:

1. I have reviewed this annual report on Form 10-K of STRATTEC SECURITY CORPORATION;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 30, 2007

/s/ Harold M. Stratton II
Harold M. Stratton II,
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: August 30, 2007

/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 1, 2007 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and information contained in that Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 30, 2007

/s/ Harold M. Stratton II
Harold M. Stratton II,
Chief Executive Officer

Dated: August 30, 2007

/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.