

KEY TRONIC CORP
Form 11-K
December 16, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 11-K

ANNUAL REPORT PURSUANT TO SECTION 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 For
the Fiscal Year Ended June 30, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM ____ TO ____

Commission file number 0-11559

KEY TRONIC 401(k) RETIREMENT SAVINGS PLAN

KEY TRONIC CORPORATION
4424 North Sullivan Road
Spokane Valley, WA 99216

KEY TRONIC 401(k) RETIREMENT SAVINGS PLAN

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Note: Schedules other than that listed above have been omitted because they are not applicable or are not required by 29 CFR 2520.103-10 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, as amended.

Report of Independent Registered Public Accounting Firm

To the Compensation and Administrative Committee
Key Tronic 401(k) Retirement Savings Plan
Spokane Valley, Washington

We have audited the accompanying statements of net assets available for benefits of the Key Tronic 401(k) Retirement Savings Plan (the "Plan") as of June 30, 2016 and 2015, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan'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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Plan is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of June 30, 2016 and 2015, and the changes in net assets available for benefits for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying supplemental schedule of Schedule H, Line 4i - Schedule of Assets (Held at End of Year) as of June 30, 2016 has been subjected to audit procedures performed in conjunction with the audit of the Plan's financial statements. The supplemental schedule is the responsibility of the Plan's management. Our audit procedures included determining whether the supplemental schedule reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental schedule. In forming our opinion on the supplemental schedule, we evaluated whether the supplemental schedule, including its form and content, is presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. In our opinion, the supplemental schedule is fairly stated, in all material respects, in relation to the financial statements as a whole.

/s/ BDO USA, LLP

Spokane, Washington
December 16, 2016

Key Tronic
401(k) Retirement Savings Plan

Statements of Net Assets Available for Benefits

June 30,	2016	2015
Assets:		
Investments at fair value	\$25,804,270	\$28,632,146
Participant directed brokerage accounts at fair value	826,325	791,253
Total investments at fair value	26,630,595	29,423,399
Receivables:		
Employer contribution receivable	21,539	19,296
Notes receivable from participants	409,519	495,743
Total receivables	431,058	515,039
Net assets available for benefits	\$27,061,653	\$29,938,438

See accompanying notes to financial statements.

Key Tronic
401(k) Retirement Savings Plan

Statements of Changes in Net Assets Available for Benefits

Years ended June 30,	2016	2015
Changes in net assets available for benefits attributed to:		
Investment (loss) income:		
Net depreciation in fair value of investments:	\$(3,146,402)	\$(568,734)
Dividend and interest income	1,753,511	1,513,502
Total net investment (loss) income	(1,392,891)	944,768
Interest income from notes receivable from participants	19,417	21,639
Contributions:		
Employer	605,510	580,151
Participant	1,227,896	1,261,715
Total contributions	1,833,406	1,841,866
Distributions:		
Benefits paid to participants	3,334,018	1,476,480
Administrative expenses	2,699	5,872
Total distributions	3,336,717	1,482,352
Net (decrease) increase in net assets available for benefits	(2,876,785)	1,325,921
Net assets available for benefits:		
Beginning of year	29,938,438	28,612,517
End of year	\$27,061,653	\$29,938,438

See accompanying notes to financial statements.

Key Tronic
401(k) Retirement Savings Plan

Notes to Financial Statements

Note 1. Plan Description

The following summary description of the Key Tronic 401(k) Retirement Savings Plan (the Plan) provides general information only. Participants should refer to the Plan document for more complete information.

General: The Plan is a defined contribution plan established by Key Tronic Corporation (the Company or the Employer) effective July 1, 1993, as a merger of the Key Tronic Corporation Employee Stock Ownership Plan (ESOP) into the Key Tronic Corporation Variable Investment Plan, which was amended and restated effective July 1, 2009. The Plan, which is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA) and all subsequent statutory revisions thereto, was created for the benefit of all eligible employees of the Company and subsidiaries. Effective July 1, 2003, the Plan became a Safe Harbor 401(k) Plan. A Safe Harbor 401(k) Plan complies with Code Section 401(k)(12) which permits the Plan to automatically meet the nondiscrimination requirements of the Code, therefore eliminating annual nondiscrimination testing of salary deferral and matching contributions.

Eligibility: Employees that are U.S. residents are eligible to participate after completing one hour of service. Participation in the Plan will then begin on the first day of the month following the date of hire. Leased employees, internship employees and certain employees covered by a collective bargaining agreement are ineligible for Plan participation.

Contributions: Eligible participants may make voluntary pre-tax and after-tax contributions of their base compensation of up to 75% of compensation each pay period, subject to certain statutory limits. Participant contributions made with tax-deferred dollars under Section 401(k) of the Internal Revenue Code (IRC) are excluded from the participant's current wages for federal income tax purposes. No federal income tax is paid on the tax-deferred contributions and growth thereon until the participant makes a withdrawal from the Plan.

Participants may also choose to make contributions on an after-tax basis through a Roth 401(k) option. Contributions and earnings for the Roth 401(k) option are not subject to taxation at the time of distribution, as long as the distribution is a "qualified distribution" made no earlier than five years after the first Roth 401(k) contribution to the Plan. A qualified distribution is a distribution after separation of service and due to death, disability or after age 59½. The participant's contribution rate may be adjusted at the discretion of the Plan administrator if a reduced rate is necessary to maintain Section 401(k) benefits.

Participants who have attained age 50 before the end of the Plan year are eligible to make catch-up contributions. Participants may also contribute amounts representing distributions from other qualified defined benefit or contribution plans provided that certain conditions are met.

The Company's matching contribution is equal to 100% up to 3% of a participant's contributed compensation and 50% of the next 2% of a participant's contributed compensation, for a total of 4% if a participant contributes at least 5%. The Company made matching contributions of \$605,510 and \$580,151 for the years ended June 30, 2016 and 2015, respectively.

Participant Accounts: Individual accounts are maintained for each participant. Participants may designate that their contributions and account balances be invested in any combination of several available investment alternatives. Each participant's account is credited with the participant's contribution, the Employer's matching contribution, and Plan earnings of their individual account. Plan earnings are directly credited to participant accounts.

Notes Receivable from Participants: Participants may borrow from a minimum of \$500 up to a maximum equal to the lesser of \$50,000 or 50% of their vested account balance. Participants may have only one loan outstanding at a time. Loan terms range from one to five years or up to ten years for the purchase of a primary residence. The loans are secured by the balance in the participant's account and bear interest at a rate commensurate with local prevailing rates at the loan origination date (which approximate prime plus 1%), as determined by the Plan administrator. Interest rates on loans outstanding at June 30, 2016 maintain a rate of 4.25% - 4.50%. Principal and interest are paid ratably through payroll deductions. Additional payments may be made at any time by check. At June 30, 2016, loans outstanding mature at various dates through 2025.

Vesting: All participants are immediately 100% vested in both employee and Employer contributions.

Distribution of Benefits: Participants are eligible to receive benefits upon termination of employment, attaining the age of 59½, or as hardship withdrawals subject to certain requirements. The account balance of a participant who dies, while a participant of the Plan, will be paid to the participant's designated beneficiary. Benefits are paid under various options as defined in the Plan document. Following a hardship withdrawal, a participant's elective deferrals are suspended for a period of at least six months.

Administrative Expenses: Though not required to or guaranteed in the future, the majority of fees and expenses incurred for administration of the Plan are paid by the Company. Participants are charged a fee for certain services such as loan processing and redemption fees on the sale of certain funds prior to a holding period being met.

Administration of the Plan: The Plan is administered by the Compensation and Administrative Committee of the Employer's Board of Directors and an administrative committee consisting of management personnel. Empower Retirement, a division of JP Morgan Chase, is the recordkeeper and trustee of the Plan.

Note 2. Summary of Basis of Accounting

Accounting Policies: The financial statements of the Plan are prepared under the accrual method of accounting in conformity with accounting principles generally accepted in the United States of America.

Investment Valuation and Income Recognition: The Plan's investments are reported at fair value, including the common collective trust, which holds indirect investments in fully benefit-responsive investment contracts.

Purchases and sales of investments are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date. Capital gain distributions are included in dividend income.

At June 30, 2016, the Plan had no unfunded commitments related to the common collective fund. The redemption of common collective fund units are subject to the preference of individual Plan participants and there are no restrictions on the timing of redemption. However, participant redemptions may be subject to certain redemption fees.

Notes Receivable from Participants: Notes receivable from participants are valued at their unpaid principal balance plus accrued interest.

Payment of Benefits: Benefits are recorded when paid.

Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make significant estimates and assumptions that affect the reported amounts of net assets available for benefits and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of changes in net assets available for benefits during the reporting period. Actual results could materially differ from those estimates.

Risks and Uncertainties: The Plan provides for various investment options in any combination of money market funds, mutual funds, Company common stock and participant-directed brokerage accounts. Investment securities of these types are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the financial statements.

The fair value of the Plan's investment in Key Tronic Corporation common stock amounted to \$1,359,880 and \$2,015,324 as of June 30, 2016 and 2015, respectively. For risks and uncertainties regarding Key Tronic Corporation, participants should refer to the October 1, 2016, Form 10-Q of Key Tronic Corporation filed with the Securities and Exchange Commission.

The Plan's investment options include funds that invest in securities of foreign companies, which involve special risks and considerations not typically associated with investing in U.S. companies. These risks include devaluation of currencies, less reliable information about issuers, different securities transaction clearance and settlement practices, and possible adverse political and economic developments. Moreover, securities of many foreign companies and their markets may be less liquid and their prices more volatile than securities of comparable U.S. companies.

Recent Accounting Pronouncements: In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update 2015-07, Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (ASU 2015-07). This update allows a reporting entity, as a practical expedient, to measure the fair value of certain investments using the net asset value per share of the investment.

In July 2015, the FASB issued ASU 2015-12. This three-part standard simplifies employee benefit plan reporting with respect to fully benefit-responsive investment contracts and plan investment disclosures, and provides for a measurement-date practical expedient. Part I is not applicable to the Plan. Part II is effective for fiscal years beginning after December 15, 2015 and should be applied retrospectively, with early application permitted. Management has elected to early adopt parts I and II of the accounting pronouncement. Accordingly, the amendment was retrospectively applied resulting in Plan investment accounting and disclosures for the years ended June 30, 2016 and 2015 which reflect the provisions of ASU 2015-12. Part III is not applicable to this Plan. As a result of adopting Part II of the ASU, the following disclosure requirements have been removed: (a) investments presented by class; (b) individual investments that represent five percent or more of net assets available for benefits; and (c) the net appreciation or depreciation for investments by general type.

Note 3. Fair Value Measurements

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer the liability (an exit price) in an orderly transaction between market participants. It also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The fair value hierarchy within ASC 820 distinguishes between three levels of inputs that may be utilized when measuring fair value, consisting of level 1 inputs (using quoted prices in active markets for identical assets or liabilities), level 2 inputs (using inputs other than level 1 prices, such as quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability) and level 3 inputs (unobservable inputs supported by little or no market activity based on the Plan's own assumptions used to measure assets and liabilities). A financial asset's or liability's classification within this hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date. The Plan has not made any changes in its valuation techniques used at June 30, 2016 and 2015.

The following table summarizes the Plan's assets measured at fair value on a recurring basis as of June 30, 2016:

	June 30, 2016			Total Fair
	Level 1	Level 2	Level 3	Value
Investments:				
Mutual funds	\$21,557,158	\$	—\$	—\$21,557,158
Key Tronic Corporation common stock	1,359,880	—	—	1,359,880
Participant directed brokerage accounts	826,325	—	—	826,325
Total assets in the fair value hierarchy	23,743,363	—	—	23,743,363
Investments measured at net asset value ^(a)	—	—	—	2,887,232
Investments at fair value	\$23,743,363	\$	—\$	—\$26,630,595

The following table summarizes the Plan's assets measured at fair value on a recurring basis as of June 30, 2015:

	June 30, 2015			Total Fair
	Level 1	Level 2	Level 3	Value
Investments:				
Mutual funds	\$24,124,308	\$	—\$	—\$24,124,308
Key Tronic Corporation common stock	2,015,324	—	—	2,015,324
Participant directed brokerage accounts	791,253	—	—	791,253
Total assets in the fair value hierarchy	26,930,885	—	—	26,930,885
Investments measured at net asset value ^(a)	—	—	—	2,492,514
Investments at fair value	\$26,930,885	\$	—\$	—\$29,423,399

(a) In accordance with Subtopic 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in these tables are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of net assets available for benefits.

Note 4. Reconciliation to Form 5500

The following is a reconciliation of net assets available for benefits per the financial statements to the Form 5500 as of June 30, 2016 and 2015:

	2016	2015
Net assets available for benefits per the financial statements	\$27,061,653	\$29,938,438
Adjustment from contract value to fair value for interest in common/collective trust fund	—	16,108
Net assets available for benefits per the Form 5500	\$27,061,653	\$29,954,546

The following is a reconciliation of the decrease in net assets available for benefits per the financial statements to the Form 5500 for the year ended June 30, 2016:

	2016
Decrease in net assets available for benefits per the financial statements	\$(2,876,785)
Net change in adjustment from fair value to contract value for interest in common/collective trust fund	(16,108)
Net income per the Form 5500	\$(2,892,893)

Note 5. Party-in-Interest

Certain Plan investments are managed by JPMorgan. JPMorgan holds and invests the Plan's assets and therefore, these transactions qualify as party-in-interest transactions. In addition, the investments in the Company's common stock and notes receivable from participants are also considered party-in-interest transactions. Additional disclosures on party-in-interest transactions are located on Supplemental Schedule H Part IV, Line 4i, Schedule of Assets (Held at End of Year).

Note 6. Termination of the Plan

Although it has not expressed any intent to do so, the Employer has the right to discontinue contributions and terminate the Plan by action of the Board of Directors, subject to the provisions of ERISA. Upon termination, all assets remaining in the Plan will be distributed to the participants in accordance with participant account values as of the date of termination.

Note 7. Tax Status

The Internal Revenue Service has determined and informed the Employer by a letter dated April 23, 2013, that the Plan was designed in accordance with the applicable requirements of the Internal Revenue Code (IRC). Accordingly, the accompanying financial statements do not reflect a provision for income taxes for the Plan.

Accounting principles generally accepted in the United States of America require Plan management to evaluate tax positions taken by the Plan and recognize a tax liability if the Plan has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. The Plan Administrator has analyzed the tax positions taken by the Plan, and has concluded that as of June 30, 2016 and 2015, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Plan Administrator believes it is no longer subject to income tax examinations for years prior to the Plan year ended June 30, 2013.

Note 8. Subsequent Events

Subsequent to the end of the Plan Year, the Company transferred trustee and recordkeeping duties to Wells Fargo Institutional Retirement and Trust.

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Key Tronic
401(k) Retirement Savings Plan

Schedule H, Part IV, Line 4i, Schedule of Assets (Held at End of Year)
June 30, 2016

EIN: 91-0849125
Plan Number: 001
Form 5500

(a)(b) Identity of Issuer, Borrower, Lessor, or Similar Party	(c) Description of Investment Including Maturity Date, Rate of Interest, Collateral, Par, or Maturity Value	(d) Cost	(e) Fair Value
Common/collective trust fund:			
* JPMCB Stable Asset Income Fund	6,850 units	**	\$2,887,232
Mutual Funds:			
American Beacon Large Cap Value	234,716 mutual fund shares	**	5,424,275
* JPMorgan Intrepid Growth	92,695 mutual fund shares	**	3,755,070
American Century Strategic Allocation: Moderate	369,917 mutual fund shares	**	2,411,858
Royce Premier Fund	104,330 mutual fund shares	**	1,551,385
American Century Strategic Allocation: Aggressive	256,054 mutual fund shares	**	1,928,083
American Funds EuroPacific Growth Fund	27,407 mutual fund shares	**	1,183,996
* JPMorgan Equity Index	45,032 mutual fund shares	**	1,593,694
Harbor International	17,629 mutual fund shares	**	1,025,140
American Century Strategic Allocation: Conservative	179,839 mutual fund shares	**	1,003,499
* JPMorgan Bond Select	109,607 mutual fund shares	**	918,504
PIMCO Total Return Admin.	73,875 mutual fund shares	**	761,654
Total Mutual Funds			21,557,158
* Key Tronic Corporation Common Stock	180,595 shares	**	1,359,880
Participant Directed Brokerage Accounts:			
* Securities Held by Empower	various units	**	826,325
* Notes Receivable from Participants	40 loans to participants with interest rate of 4.25% - 4.50%, due through 2025	**	409,519
Total			\$27,040,114

* Party-in-interest as defined by ERISA

** Cost of participant-directed investments is not required to be disclosed under ERISA

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Compensation and Administrative Committee, responsible for administration of the Key Tronic 401(k) Retirement Savings Plan has duly caused this Registration Statement to be signed on its behalf by the undersigned thereunto duly authorized, in the City of Spokane Valley, State of Washington, on December 16, 2016.

KEY TRONIC 401(k) RETIREMENT SAVINGS PLAN

By: /s/ Brett R. Larsen

Name: Brett R. Larsen

Title: Member of Plan Compensation and Administrative Committee