KEY TRONIC CORP
Form 11-K
December 18, 2015

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

FORM 11-K

x ANNUAL REPORT PURSUANT TO SECTION 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the Fiscal Year Ended June 30, 2015

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, 2015 and 2014, 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 audit 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, 2015 and 2014, 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, 2015 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 18, 2015

Key Tronic
401(k) Retirement Savings Plan

Statements of Net Assets Available for Benefits

June 30,	2015	2014
Investments at fair value:		
Mutual funds	$24,124,308	$23,117,177
Key Tronic Corporation common stock	2,015,324	1,501,584
Participant directed brokerage accounts:		
Cash	69,850	64,087
Mutual funds	79,764	91,568
Fixed income	47,506	35,850
Equity	594,133	653,861
Total participant directed brokerage accounts	791,253	845,366
Common/collective trust	2,508,622	2,554,260
Total investments	29,439,507	28,018,387
Receivables		
Employer contribution receivable	19,296	26,336
Notes receivable from participants	495,743	589,871
Total receivables	515,039	616,207
Net assets available for benefits at fair value	29,954,546	28,634,594
Adjustment from fair value to contract value for interest in common/collective trust fund	(16,108)	(22,077)
Net assets available for benefits	$29,938,438	$28,612,517

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,	2015	2014
Changes in net assets available for benefits attributed to:		
Investment income:		
Net (depreciation) appreciation in fair value of investments:		
Mutual funds	$(668,599)	$2,740,203
Common/collective trust	29,465	27,405
Key Tronic Corporation common stock	131,912	20,723
Participant directed brokerage accounts	(61,512)	93,583
Total net (depreciation) appreciation	(568,734)	2,881,914
Interest and dividends:		
Mutual fund dividends	1,513,502	1,011,362
Total net investment income	944,768	3,893,276
Interest income from notes receivable from participants	21,639	22,099
Contributions:		
Employer	580,151	600,755
Participant	1,261,715	1,367,681
Total contributions	1,841,866	1,968,436
Distributions:		
Benefits paid to participants	1,476,480	948,201
Administrative expenses	5,872	3,610
Total distributions	1,482,352	951,811
Net increase in net assets available for benefits	1,325,921	4,932,000
Net assets available for benefits:		
Beginning of year	28,612,517	23,680,517
End of year	$29,938,438	$28,612,517

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 $580,151 and $600,755 for the years ended June 30, 2015 and 2014, 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, 2015 maintain a rate of 4.25%. Principal and interest are paid ratably through payroll deductions. Additional payments may be made at any time by check. At June 30, 2015, 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. The Plan's record keeper, JPMorgan Retirement Plan Services, was sold to Great-West Life & Annuity Insurance Company (Great-West) during 2014. During the first quarter of fiscal year 2015, Great-West became the Plan's record keeper. JPMorgan Chase Bank (JPMorgan) held Plan assets in accordance with directions from the Compensation and Administrative Committee from July 1, 2014 through March 31, 2015, at which time the trustee became Great-West Trust Company. Great-West Trust Company is also branded as Empower Retirement.

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 in mutual funds, money market funds, participant-directed brokerage accounts and Key Tronic Corporation common stock, are stated at fair value, based on quoted market prices, which is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Shares of registered investment companies (mutual funds) are valued at the net asset value of shares held by the Plan at year end.

Investment assets in common collective trusts (CCT) are stated at fair value as reported by the CCT. The fair value of the CCT is adjusted to contract value, in accordance with Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) Topic 946, Financial Services-Investment Companies, and ASC Topic 962, Plan Accounting-Defined Contribution Pension Plans. Contract value represents contributions made plus interest accrued at the contract value, less withdrawals.

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.

Fully Benefit-Responsive Investment Contracts: The Plan follows ASC 946 and ASC 962, which define the circumstances in which an investment contract is considered to be a fully benefit-responsive investment contract in a defined-contribution pension plan.

As required under ASC 946, investments in the accompanying statements of net assets available for benefits include fully benefit-responsive investment contracts recognized at fair value. ASC 962 requires fully benefit-responsive investment contracts to be reported at fair value in the Plan's statements of net assets available for benefits, with a corresponding adjustment to reflect these investments at contract value.

At June 30, 2015, the Plan had no unfunded commitments related to common collective fund. The redemption of common collective funds units is 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 $2,015,324 and $1,501,584 as of June 30, 2015 and 2014, respectively. Such investments represented 7% and 5% of the Plan’s total net assets available for benefits as of June 30, 2015 and 2014, respectively. For risks and uncertainties regarding Key Tronic Corporation, participants should refer to the September 26, 2015, 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 July 2015, the FASB issued ASU 2015-12, Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965): (Part I) Fully Benefit-Responsive Investment Contracts, (Part II) Plan Investment Disclosures, (Part III) Measurement Date Practical Expedient. Part I of the ASU eliminates the requirements to measure the fair value of fully benefit-responsive investment contracts but will continue to provide certain disclosures that help users understand the nature and risks of fully benefit-responsive investment contracts. Upon adoption, contract value will be the only required measure for fully benefit-responsive investment contracts. Part II eliminates the requirements to disclose individual investments that represent five percent or more of net assets available for benefits and the net appreciation or depreciation in fair value of investments by general type. It also simplifies the level of disaggregation of investments that are measured using fair value. Plans will continue to disaggregate investments that are measured using fair value by general type; however, plans are no longer required to also disaggregate investments by nature, characteristics and risks. Further, the disclosure of information about fair value measurements shall be provided by general type of plan asset. Part III of the ASU is not applicable to the Plan. The ASU is effective for fiscal years beginning after December 15, 2015. Parts I and II are to be applied retrospectively. The Plan is currently evaluating the effect the provisions of ASU 2015-12 Part I and Part II will have on the Plan's financial statements.

Note 3. Investments

The fair value of the following individual investments represents 5 percent or more of the Plan’s net assets:

Investments Valued at Fair Value as Determined by Quoted Market Prices		June 30, 2015		June 30, 2014
American Beacon Large Cap Value	$	6,395,310	$	*
JPMorgan Intrepid Growth		4,025,546		3,278,539
American Century Strategic Alloc Moderate		2,677,491		2,126,449
JPMCB Stable Asset Income Fund-F-30		2,508,622		2,554,260
American Century Strategic Alloc Aggressive		2,223,930		1,981,730
Key Tronic Corporation Common Stock		2,015,324		1,501,584
Royce Premier Service		1,714,020		2,019,084
JPMorgan Equity Index Select		1,698,951		1,473,787
American Century Value		*		4,738,689
American Funds EuroPacific Growth		*		1,673,511
American Century Equity Income		*		1,617,815
Harbor International		*		1,441,438

*Less than 5% as of the date indicated

Note 4. 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 and in Note 2 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, 2015 and 2014.

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

	June 30, 2015			
	Level 1	Level 2	Level 3	Total Fair Value
Investments:				
Mutual funds				
Blended funds	$5,461,082	$—	$—	$5,461,082
Value funds	6,395,310	—	—	6,395,310
International blended funds	2,638,646	—	—	2,638,646
Growth funds	7,963,496	—	—	7,963,496
Fixed income funds	1,665,774	—	—	1,665,774
Total mutual funds	24,124,308	—	—	24,124,308
Key Tronic Corporation common stock	2,015,324	—	—	2,015,324
Participant-directed brokerage accounts				
Cash	69,850	—	—	69,850
Mutual funds	79,764	—	—	79,764
Fixed income	47,506	—	—	47,506
Equity	594,133	—	—	594,133
Total participant-directed	791,253	—	—	791,253
Common/collective fund	—	2,508,622	—	2,508,622
	$26,930,885	$2,508,622	$—	$29,439,507

The following table summarizes the Plan's assets measured at fair value on a recurring basis as of June 30, 2014:

	June 30, 2014			
	Level 1	Level 2	Level 3	Total Fair Value
Investments:				
Mutual funds				
Blended funds	$4,269,520	$—	$—	$4,269,520
Value funds	6,356,504	—	—	6,356,504
International blended funds	3,114,949	—	—	3,114,949
Growth funds	7,279,352	—	—	7,279,352
Fixed income funds	2,096,852	—	—	2,096,852
Total mutual funds	23,117,177	—	—	23,117,177
Key Tronic Corporation common stock	1,501,584	—	—	1,501,584
Participant-directed brokerage accounts				
Cash	64,087	—	—	64,087
Mutual funds	91,568	—	—	91,568
Fixed income	35,850	—	—	35,850
Equity	653,861	—	—	653,861
Total participant-directed	845,366	—	—	845,366
Common/collective fund	—	2,554,260	—	2,554,260
	$25,464,127	$2,554,260	$—	$28,018,387

Note 5. 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, 2015 and 2014:

	2015	2014
Net assets available for benefits per the financial statements	$29,938,438	$28,612,517
Adjustment from fair value to contract value for interest in common/collective trust fund	16,108	22,077
Net assets available for benefits per the From 5500	$29,954,546	$28,634,594

The following is a reconciliation of the increase in net assets available for benefits per the financial statements to the Form 5500 for the year ended June 30, 2015:

	2015
Increase in net assets available for benefits per the financial statements	$1,325,921
Net change in adjustment from fair value to contract value for interest in common/collective trust fund	(5,969)
Net income per the Form 5500	$1,319,952

Note 6. Party-in-Interest

Certain Plan investments are managed by JPMorgan. JPMorgan and Great-West held and invested the Plan’s assets and therefore, these transactions qualified 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 7. 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 8. 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, 2015 and 2014, 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, 2012.

Note 9. Subsequent Events

The Plan has evaluated subsequent events through the date these financial statements were available to be issued on December 18, 2015, and determined that there are no subsequent events that require recognition or disclosure in these financial statements.

Key Tronic
401(k) Retirement Savings Plan

Schedule H, Part IV, Line 4i, Schedule of Assets (Held at End of Year)
June 30, 2015

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	6,053	units	**	$2,508,622
Mutual Funds:					
	American Beacon Large Cap Value	230,296	mutual fund shares	**	6,395,310
*	JPMorgan Intrepid Growth	97,898	mutual fund shares	**	4,025,546
	American Century Strategic Allocation: Moderate	376,581	mutual fund shares	**	2,677,491
	American Century Strategic Allocation: Aggressive	265,069	mutual fund shares	**	2,223,930
	Royce Premier Service	87,361	mutual fund shares	**	1,714,020
*	JPMorgan Equity Index Select	41,297	mutual fund shares	**	1,698,951
	American Funds EuroPacific Growth Fund	28,988	mutual fund shares	**	1,431,983
	Harbor International	17,534	mutual fund shares	**	1,206,663
	American Century Strategic Allocation: Conservative	185,092	mutual fund shares	**	1,084,640
*	JPMorgan Bond Select	111,709	mutual fund shares	**	918,249
	PIMCO Total Return Admin.	70,655	mutual fund shares	**	747,525
	Total Mutual Funds				24,124,308
*	Key Tronic Corporation Common Stock	185,402	shares	**	2,015,324
Participant Directed Brokerage Accounts:					
*	Securities Held by Charles Schwab	various	units	**	791,253
*	Notes Receivable from Participants	45 loans to participants with interest rate of 4.25%, due through 2025		**	495,743
	Total				$29,935,250

* Party-in-interest as defined by ERISA
** Cost of participant-directed investments is not required to be disclosed under ERISA

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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 18, 2015.

KEY TRONIC 401(k) RETIREMENT SAVINGS PLAN

By: /s/ Brett R. Larsen
Name: Brett R. Larsen
Title: Member of Plan Compensation and Administrative Committee