

KEY TRONIC CORP
Form DEF 14A
September 14, 2018

September 20, 2018

Dear Shareholder:

The attached Notice of Annual Meeting of Shareholders and Proxy Statement relates to the Annual Meeting of Shareholders of Key Tronic Corporation, a Washington corporation (the “Company” or “Key Tronic”), to be held on Friday, October 26, 2018, at 10:00 a.m. Pacific Time at the principal executive offices of the Company, 4424 N. Sullivan Road - Upper Level, Spokane Valley, Washington 99216.

Whether or not you will attend the Annual Meeting in person and regardless of the number of shares you own, we request that you complete, sign, date and return the enclosed proxy card promptly in the accompanying postage-prepaid envelope. You may, of course, attend the Annual Meeting and vote in person, even if you previously have returned your proxy card.

Sincerely,

Craig D. Gates
President and Chief Executive Officer
Member of the Board of Directors

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held October 26, 2018

To the Shareholders of KEY TRONIC CORPORATION:

The Annual Meeting of Shareholders of Key Tronic Corporation, a Washington corporation (the "Company") will be held on Friday, October 26, 2018, at 10:00 a.m. Pacific Time at the principal executive offices of the Company, 4424 N. Sullivan Road - Upper Level, Spokane Valley, Washington 99216 (the "Annual Meeting"), for the following purposes:

1. To elect six directors of the Company to hold office until the next Annual Meeting of Shareholders and until their successors are elected and have qualified;
2. To hold an advisory vote to approve the compensation of the Company's named executive officers, as disclosed in "Compensation Discussion and Analysis" and "Executive Compensation" herein; and
3. To ratify the appointment of BDO USA, LLP as independent registered public accounting firm for fiscal year 2019; and
4. To transact such other business as may properly come before the meeting and any adjournments or postponements thereof.

Record holders of the Company's Common Stock at the close of business on September 6, 2018 are entitled to notice of and to vote at the Annual Meeting and any adjournments or postponements thereof. Even if you will attend the Annual Meeting, please complete, sign, date and return the enclosed proxy to the Company in the enclosed postage-prepaid envelope in order to ensure that your shares will be voted at the Annual Meeting. You may vote your shares in person at the Annual Meeting even if you previously have returned your proxy card to the Company.

By Order of the Board of Directors,

Kathleen L. Nemeth
Secretary

Spokane Valley, Washington
September 20, 2018

YOUR VOTE IS IMPORTANT. PLEASE EXECUTE AND RETURN THE ENCLOSED CARD PROMPTLY, WHETHER OR NOT YOU INTEND TO BE PRESENT AT THE ANNUAL MEETING.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE SHAREHOLDER MEETING TO BE HELD ON OCTOBER 26, 2018. The Proxy Statement and 2018 Annual Report to Shareholders are available at: www.edocumentview.com/ktcc.

PROXY STATEMENT

INTRODUCTION

General

The preceding Notice of Annual Meeting of Shareholders, this Proxy Statement and the enclosed proxy card are being furnished by Key Tronic Corporation, a Washington corporation (the "Company"), to the holders of outstanding shares of Common Stock, no par value, of the Company ("Common Stock") in connection with the solicitation of proxies by the Board of Directors of the Company from holders of such shares. The proxies are to be used at the Annual Meeting of Shareholders of the Company to be held on Friday, October 26, 2018 at 10:00 a.m. Pacific Time at the principal executive offices of the Company, 4424 N. Sullivan Road - Upper Level, Spokane Valley, Washington 99216, and any adjournments or postponements thereof (the "Annual Meeting"). The proxies appoint Craig D. Gates and Brett R. Larsen, each of them and their substitutes, as proxy to vote all shares represented at the Annual Meeting pursuant to this proxy solicitation. This proxy statement and the enclosed form of proxy were first mailed to shareholders on or about September 20, 2018.

Record Date, Proxies, Revocation

Record holders of the Common Stock at the close of business on September 6, 2018 (the "Record Date") are entitled to notice of and to vote at the Annual Meeting. As of the Record Date, 10,759,680 shares of Common Stock were issued and outstanding. A proxy card for use at the Annual Meeting is enclosed with this Proxy Statement. All completed, signed and dated proxies returned to the Company will be voted at the Annual Meeting in accordance with the instructions thereon. If no instructions are given on an otherwise signed and dated proxy card, the proxy will be voted FOR the election of nominees for director named below, FOR approval of compensation of the Company's named executive officers and FOR the ratification of the appointment of BDO USA, LLP as the Company's independent registered public accounting firm for fiscal year 2019. Any proxy may be revoked at any time before it has been voted by giving written notice of revocation to the Secretary of the Company at the address set forth above; by delivering a completed, signed proxy bearing a date later than any earlier proxy; or by voting shares in person at the Annual Meeting. The mere presence at the Annual Meeting of the shareholder who has given a proxy will not revoke such proxy.

Voting

Each share of Common Stock outstanding is entitled to one vote on each matter presented for a vote of the shareholders at the Annual Meeting. Under applicable law and the Company's Restated Articles of Incorporation and Amended and Restated By-Laws, if a quorum exists at a meeting: (i) the six nominees for election as directors who receive the greatest number of votes cast for the election of directors by the shares present in person or represented by proxy and entitled to vote shall be elected directors and (ii) matters 2 and 3 listed in the accompanying Notice of Annual Meeting of Shareholders will be approved if the number of votes cast in favor of the proposal exceeds the number of votes cast against it. In the election of directors, any action other than a vote for a nominee will have the practical effect of voting against the nominee. An abstention from voting or a broker nonvote will have no effect on matters 2 or 3 since neither represents a vote cast.

If you are a stockholder of record and do not submit your vote by proxy or vote in person at the annual meeting, your shares will not be voted. However, if you hold shares beneficially in street name, the result may be different. If you do not return the voting instruction form, your broker, trustee or nominee may vote your shares in certain circumstances and on certain proposals. Under current regulations, brokers can not vote "uninstructed" shares in director elections or on executive compensation matters. Thus, if you hold your shares in street name and you do not instruct your record holder how to vote in the election of directors (matter 1), the advisory vote to approve the compensation of the Company's named executive officers or (matter 2) no votes will be cast on your behalf. Discretionary voting by brokers is permitted in the ratification of the appointment of the independent registered public accounting firm (matter 3). When a broker votes a client's shares on some but not all of the proposals at a meeting, the missing votes are referred to as "broker non-votes." Those shares will be included in determining the presence of a quorum at the meeting, but are not considered "present" for purposes of voting on non-discretionary matters.

PROPOSAL 1

ELECTION OF DIRECTORS

Six directors are to be elected at the Annual Meeting to serve until the next Annual Meeting of Shareholders and until their respective successors have been elected and have qualified. The six nominees receiving the highest number of affirmative votes will be elected as directors. In the event any nominee is unable or unwilling to serve as a nominee or director, the proxies may be voted for the balance of those nominees named and for any substitute nominee designated by the present Board of Directors or the proxy holders to fill such vacancy, or for the balance of those nominees named without nomination of a substitute, or the size of the Board of Directors may be reduced in accordance with the By-Laws of the Company. The Board of Directors has no reason to believe that any of the persons named will be unable or unwilling to serve as a nominee or as a director if elected. It is the Company's policy that nominees for election at the Annual Meeting attend the Annual Meeting. All nominees for election at the 2017 Annual Meeting attended the 2017 Annual meeting.

The following information has been provided to the Company with respect to the nominees for election to the Board of Directors:

James R. Bean, age 68, has been a director of the Company since October 2006. Mr. Bean has been President and CEO of Preco Electronics, LLC since November 1999. From May 1997 to 1999 he held various management positions in Boise, Idaho with Preco Electronics, Inc. Previously he held various management positions in manufacturing operations with Sun Microsystems, Inc., Apple Computer, Inc. and National Semiconductor, Inc. Mr. Bean is a graduate of New Mexico State University with a B.S. in Industrial Engineering. The Board of Directors has concluded that based upon Mr. Bean's business and financial expertise, current and prior senior management positions and education that he should serve as a director of the company.

Craig D. Gates, age 59, has been a director of the Company since July 2009 and has been President and CEO of the Company since April 2009. Previously he was Executive Vice President of Marketing, Engineering and Sales since July 1997. He served as Vice President and General Manager of New Business Development from October 1995 to July 1997. He joined the Company as Vice President of Engineering in October 1994. From 1991 to October 1994, Mr. Gates served as Director of Operations, Electronics for the Microswitch Division of Honeywell Inc. From 1982 to 1991, Mr. Gates held various engineering and management positions within the Microswitch Division. Mr. Gates has a Bachelor of Science Degree in Mechanical Engineering and a Masters in Business Administration from the University of Illinois, Urbana. Mr. Gates also serves on the Board of Directors of CyberOptics Corporation. The Board of Directors has concluded that based upon Mr. Gates' business expertise, current and prior senior management experience and education that he should serve as a director of the Company.

Ronald F. Klawitter, age 66, has been a director of the Company since October 2009 and formerly served as Executive Vice President of Administration, CFO and Treasurer of the Company from July 1997 through July 2015. Previously he was Vice President of Finance, Secretary and Treasurer of the Company since October 1995. He was Acting Secretary from November 1994 to October 1995 and Vice President of Finance and Treasurer from 1992 to October 1995. From 1987 to 1992, Mr. Klawitter was Vice President, Finance at Baker Hughes Tubular Service, a subsidiary of Baker Hughes, Inc. He has a Bachelor of Arts degree from Wittenberg University and is a Certified Public Accountant. The Board of Directors has concluded that based upon Mr. Klawitter's business and financial expertise, current and prior management experience and education that he should serve as a director of the Company.

Dr. Subodh K. Kulkarni, age 54, has not previously been a director of the Company. Dr. Kulkarni has been President and Chief Executive Officer of CyberOptics Corporation since February 2014. He served as Executive Chairman of CyberOptics Corporation from September 2013 to February 2014 and served as CyberOptics Corporation's lead director from December 2012 until his election as Executive Chairman. From January 2013 to February 2014, Dr. Kulkarni served as Chief Executive Officer of Prism Computational Sciences, a developer of software tools for scientific and commercial applications in simulation of hot gases and plasma used in the semiconductor industry ("Prism"). Prior to being employed by Prism, he held various positions with Imation Corporation ("Imation"), including Chief Technology Officer and Senior Vice President, OEM/Emerging Business and Vice President, Global Commercial Business, R&D and Manufacturing. Prior to his employment with Imation, Dr. Kulkarni held various research management positions with 3M Corporation and IBM. Dr. Kulkarni received his B.S. in chemical engineering from IIT - Bombay, India (where he was first in his class), and went on to obtain a master's degree and a Ph.D. in chemical engineering from the Massachusetts Institute of Technology, where he did his thesis work on disilane surface decomposition, which is used in the manufacture of semiconductors. He has won a number of awards for commercializing technologies he and others have developed in the electronics industry. Dr. Kulkarni has significant expertise in management of technology-focused entities and in commercialization of technologies in the electronics, computer and semiconductor industries. The Board of Directors has concluded that based upon Dr. Kulkarni's business and technology expertise, current and prior senior management experience and education that he should serve as a director of the Company.

Yacov A. Shamash, age 68, has been a director of the Company since 1989. He is the Vice President for Economic Development at Stony Brook University, and was the Dean of Engineering and Applied Sciences at the campus from 1992 to 2015. Professor Shamash developed and directed the NSF Industry/University Cooperative Research Center for the Design of Analog/Digital Integrated Circuits from 1989 to 1992 and also served as Chairman of the Electrical and Computer Engineering Department at Washington State University from 1985 until 1992. Dr. Shamash also serves on the Board of Directors of Applied DNA Sciences, Inc., Softheon Inc., Advanced Convergence Group and Comtech Telecommunications Corp. The Board of Directors has concluded that based upon Dr. Shamash's professional and management experience, service on public companies' boards and education that he should serve as a director of the Company.

Patrick Sweeney, age 83, has been a director of the Company since July 2000. Mr. Sweeney was President and CEO of Hadco Corporation from 1991 through 1995 and formerly served as Hadco's Vice President/Chief Financial Officer and Vice President of Operations. Prior to that Mr. Sweeney was the Vice President of International Manufacturing at Wang - USA from 1981 through 1986 and also served as Managing Director of Ireland for Digital Equipment Corporation and as Plant Manager of its Galway and Clonmel divisions. Mr. Sweeney also serves on the Board of Directors of Photo Machining Inc., Gotcha Covered LTD and Kleen Envoy. The Board of Directors has concluded that based upon Mr. Sweeney's business and financial expertise, senior management experience, service on public companies' boards and education that he should serve as a director of the Company.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF ALL NOMINEES NAMED ABOVE.

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CORPORATE GOVERNANCE AND BOARD OF DIRECTORS MATTERS

Board Meetings

All directors hold office until the next Annual Meeting of Shareholders and until their successors have been elected and have qualified. There are no family relationships among any of the directors or executive officers of the Company. The Company's Board of Directors met four times during fiscal 2018. During fiscal 2018, each director attended 100% of the Board of Directors meetings and 100% of the meetings of committees of the Board of Directors on which the director served during the time he served on the Board or committee.

Directors' Independence

The Board of Directors has determined that all members of the Company's Board of Directors are "independent directors" within the meaning of the applicable Nasdaq Global Select Market ("NASDAQ") listing standards, except for Mr. Gates, the Company's President and Chief Executive Officer and Mr. Klawitter, the Company's former Executive Vice President of Administration, CFO and Treasurer. Mr. Klawitter retired as Executive Vice President of Administration, CFO and Treasurer on July 29, 2015 and retired as an employee of the Company on December 11, 2015.

The Board of Directors has determined that the relationship between the Company and CyberOptics Corporation ("CyberOptics"), for which Dr. Kulkarni serves as President and Chief Executive Officer and a director, would not impair Dr. Kulkarni's independence because the transactions (described in this Proxy Statement under "Related Person Transactions") between the Company and CyberOptics are immaterial to the gross revenues of CyberOptics and the relationship between the Company and CyberOptics had no unique characteristics that would interfere with Dr. Kulkarni's exercise of independent judgement in carrying out his responsibilities as a director of the Company.

The Board of Directors also has determined that all members of the Audit Committee (1) meet the definition of independence contained in the NASDAQ listing standards; (2) meet the requirements of the Securities and Exchange Commission ("SEC") Rule 10A-3(b)(1); (3) have not participated in the preparation of the financial statements of the Company or any current subsidiary of the Company at any time during the past three years; and (4) are able to read and understand fundamental financial statements, including a company's balance sheet, income statement, and cash flow statement, as required by the NASDAQ Marketplace Rules.

The Board of Directors has determined that James R. Bean and Patrick Sweeney, members of the Audit Committee, each has the requisite attributes of an "audit committee financial expert" as defined by SEC regulations and that such attributes were acquired through relevant education and/or experience.

Board Leadership Structure and Role in Risk Oversight

The Board of Directors determines whether the roles of Chief Executive Officer and Chairman of the Board should be separated based upon its judgment of the structure which best meets the current needs of the Company and promotes the most effective communication between the Board and management. The Board currently separates the role of Chief Executive Officer and Chairman of the Board.

The Board oversees the Company's risk directly and through its committees. The Board is assisted by its Audit Committee in performing its risk management oversight responsibilities with respect to financial reporting, internal controls cyber security risk, and legal and regulatory requirements. The Board is assisted by its Compensation and Administration Committee in performing its risk management oversight responsibilities with respect to risk relating to compensation programs and policies. The Board, with the assistance of its Governance and Nominating Committee, oversees risk management with respect to Board membership, structure and organization.

The Chairmen of the three Board Committees report to the Board on committee meetings at regular meetings of the Board of Directors. Management has the day to day responsibility for risk management and members of management make regular reports to the Board and its committees on identification, monitoring and mitigation of material risks.

Executive Sessions

At each of the four regular meetings of the Board of Directors held during fiscal year 2018, the independent directors met separately in executive session without management present.

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Code of Conduct

The Board of Directors has adopted a written Code of Conduct which applies to all directors, officers and employees of the Company. The Code of Conduct is available on the Company's website at www.keytronic.com. The Company intends to disclose on its website any amendments to or waivers of the Code of Conduct.

Insider Trading Policy/Prohibition of Speculative Transactions

The Board of Directors has adopted a written policy on Insider Trading which applies to all directors, officers and employees of the Company. The policy prohibits directors, officers and employees from engaging in short-term speculative transactions involving the Company's securities, including short sales and buying or selling put or call options.

Recoupment Policy

The Board of Directors has adopted a written Recoupment Policy which provides that in the event of a restatement of the Company's consolidated financial statements, the Company shall have the right to recoup from any executive officer any portion of any bonus or other equity or non-equity incentive compensation received by the executive officer the grant of which was tied to the achievement of one or more specific performance targets, with respect to the period for which such financial statements are restated, regardless of whether the executive officer engaged in any misconduct or was at fault or responsible in any way for causing the restatement, if, as a result of such restatement, the executive officer would not have received such bonus or other compensation or portion thereof.

Shareholder Communications

Shareholders of Key Tronic Corporation may send written communications to the Board of Directors or any of its members by certified mail only, addressed to the Board of Directors or any member, c/o General Counsel & Secretary, Key Tronic Corporation, 4424 N. Sullivan Road, Spokane Valley, WA 99216. All such shareholder communications will be compiled by the General Counsel & Secretary and submitted to the Board of Directors or a Board member.

Nominations to the Board

The Governance and Nominating Committee will consider written proposals from shareholders for directors to be elected at the annual meeting which are submitted to the Secretary of the Company, together with biographical information and references, at least six months prior to the annual meeting.

Board Committees

The Board of Directors has three standing committees: the Audit Committee, the Compensation and Administration Committee, and the Governance and Nominating Committee. The committees each have written charters approved by the Board. The charters of the Audit Committee, the Compensation and Administration Committee and the Governance and Nominating Committee are available on the Company's website at www.keytronic.com.

The Audit Committee, which currently consists of Messrs. Bean (Chairman), Shamash and Sweeney met nine times during fiscal 2018. The Audit Committee monitors the integrity of the Company's financial statements, financial reporting processes and systems of internal controls regarding finance, accounting, cyber security and legal compliance; selects and appoints the Company's independent registered public accounting firm, pre-approves all audit and non-audit services to be provided to the Company by the Company's independent registered public accounting

firm, and establishes the fees and other compensation to be paid to the independent registered public accounting firm; monitors the qualifications, independence and performance of the Company's independent registered public accounting firm; and establishes procedures for the receipt, retention, response to and treatment of complaints, including confidential, anonymous submissions by the Company's employees, regarding accounting, internal controls or auditing matters, and provides an avenue of communication among the Board, the independent registered public accounting firm and management.

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The Compensation and Administration Committee (“Compensation Committee”) which currently consists of Messrs. Shamash (Chairman), Bean and Sweeney, met five times during fiscal 2018 . The Committee establishes and reviews annually the Company’s general compensation policies applicable to the Company’s executive officers and other key employees, reviews and approves the level of compensation awarded to the Company’s Chief Executive Officer and other officers and key management employees, prepares and delivers annually to the Board a report disclosing compensation policies applicable to the Company’s executive officers and the basis for the Chief Executive Officer’s compensation during the last fiscal year and makes recommendations to the Board regarding changes to existing compensation plans. The Committee administers the Company’s incentive compensation plans including determining the individuals to receive awards and the terms of such awards.

The Governance and Nominating Committee, which currently consists of Messrs. Bean (Chairman), Shamash and Sweeney met one time during fiscal 2018. The Committee makes recommendations to the Board regarding corporate governance, recommends for selection by the Board nominees for election as Directors and makes recommendations to the Board with respect to the structure and composition of the Board. The Committee evaluates potential director nominees based upon a number of criteria, including the potential nominee’s skills, relevant experience and independence. The Committee has no specific minimum qualifications which must be met by a potential director nominee. Each potential nominee is considered on a case by case basis. Potential nominees may be identified to the Committee by members of the Board, officers of the Company, shareholders or other persons. The Committee evaluates each potential nominee in the same manner regardless of the source of the potential nominee’s recommendation. Although the Company does not have a policy regarding diversity, the Governance and Nominating Committee does take into consideration the value of diversity among Board members in background, experience, education and perspective in considering potential nominees for recommendation to the Board for selection. The Company has not paid any third party a fee to assist in identifying and evaluating potential director nominees. The Committee has not rejected any potential nominee recommended within the preceding year by a beneficial owner of more than 5% of the Company’s Common Stock.

Related Person Transactions

In April 2007, the Board of Directors adopted a written policy and procedures for the approval or ratification of Interested Transactions with Related Parties. The policy and procedures supplement the Company’s Code of Conduct. The policy defines an “Interested Transaction” as any transaction, arrangement or relationship or series of similar transactions, arrangements or relationships (including any indebtedness or guarantee of indebtedness) in which (1) the aggregate amount involved will or may be expected to exceed \$120,000 in any calendar year, (2) the Company is a participant, and (3) any Related Party has or will have a direct or indirect interest (other than solely as a result of being a director or a less than 10 percent beneficial owner of another entity).

The policy defines a “Related Party” as any (a) person who is or was (since the beginning of the last fiscal year for which the Company has filed a Form 10-K and proxy statement, even if they do not presently serve in that role) an executive officer, director or nominee for election as a director, (b) greater than 5 percent beneficial owner of the Company’s common stock, or (c) immediate family member of any of the foregoing. Immediate family member includes a person’s spouse, parents, stepparents, children, stepchildren, siblings, mothers- and fathers-in-law, sons- and daughters-in-law, and brothers- and sisters-in-law and anyone residing in such person’s home (other than a tenant or employee).

The Audit Committee is responsible for review, approval, ratification or disapproval of Interested Transactions. In determining whether to approve or ratify an Interested Transaction, the Committee will take into account, among other factors it deems appropriate, whether the Interested Transaction is on terms no less favorable than terms generally available to an unaffiliated third party under the same or similar circumstances and the extent of the Related Party’s

interest in the Transaction.

During the fiscal year 2018, the Company purchased surface mount technology inspection equipment from CyberOptics. The purchases by the Company during fiscal year 2018 totaled \$159,600. These transactions were conducted at arm's length in the ordinary course of business of the Company and CyberOptics, and the terms of purchase were no more favorable to the Company than purchases by unaffiliated parties from CyberOptics.

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PRINCIPAL SHAREHOLDERS AND SECURITY
OWNERSHIP OF MANAGEMENT

The following table provides certain information which has been furnished to the Company regarding beneficial ownership of the Common Stock as of the Record Date, with respect to (i) each person known by the Company to own beneficially more than 5% of the Company's Common Stock; (ii) each director and nominee for director of the Company; (iii) each of the executive officers of the Company named in the Summary Compensation table; and (iv) all officers and directors of the Company as a group.

Name of Beneficial Owner*	Number of Shares Beneficially Owned ⁽¹⁾		Percent of Class ⁽¹⁾
MORE THAN 5% SHAREHOLDERS			
Morgan Stanley Wealth Management 999 3rd Avenue, Suite 4500 Seattle, WA 98104	914,474	(2),(3)	8.50 %
Dimensional Fund Advisors, L.P. 1299 Ocean Avenue, Suite 650 Santa Monica, CA 90401	880,656	(4),(5)	8.18 %
Tieton Capital Management LLC 4700 Tieton Drive, Suite C Yakima, WA 98908	657,032	(6),(7)	6.11 %
DIRECTORS AND EXECUTIVE OFFICERS			
James R. Bean	6,786		**
Ronald F. Klawitter	196,103	(8)	1.82 %
Yacov A. Shamash	42,326	(9)	**
Patrick Sweeney	77,410		**
Craig D. Gates	221,770	(10)	2.01 %
Brett R. Larsen	15,011	(11)	**
Douglas G. Burkhardt	92,418	(12)	**
Philip S. Hochberg	33,272	(13)	**
Duane D. Mackleit	20,452	(14)	**
All officers and directors as a group (14 persons)	758,436		7.05 %

* Unless otherwise noted, the address for each named shareholder is in care of the Company at its principal executive offices.

** Less than 1%.

Percentage beneficially owned is based on 10,759,680 shares of Common Stock outstanding on the Record Date. A person or group of persons is deemed to beneficially own as of the record date any shares which such person or group of persons has the right to acquire within 60 days after the record date. In computing the percentage of outstanding shares held by each person or group of persons, any shares which such person or persons have the right to acquire within 60 days after the record date are deemed to be outstanding, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person.

2. Based on Form 13F filed with the Securities and Exchange Commission, dated June 30, 2018.

3. Morgan Stanley Wealth Management is a registered investment advisor.
4. Based on Form 13F filed with the Securities and Exchange Commission, dated June 30, 2018.

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Dimensional Fund Advisors, Inc. (“DFA”), a registered investor advisor, is deemed to have beneficial ownership of these shares all of which are held in portfolios of DFA Investment Dimensions Group, Inc., a registered open-end investment company, or in series of the DFA Investment Trust Company, a Delaware business trust, or the DFA Group Trust and DFA Participation Group Trust, investment vehicles for qualified employee benefit plans, for all of which DFA serves as investment manager. DFA disclaims beneficial ownership of all shares.

6. Based on Form 13F filed with the Securities and Exchange Commission, dated June 30, 2018.

7. Tieton Capital Management LLC is a registered investment advisor.

8. Includes Common Stock allocated to Mr. Klawitter as a participant in the Company's 401(k) Retirement Savings Plan (17,826 shares) as of June 30, 2018, 1,600 shares owned directly by Mr. Klawitter's daughter and 4,200 shares owned directly by Mr. Klawitter's son.

9. Includes 1,100 shares owned directly by Dr. Shamash's daughter.

10. Includes Common Stock allocated to Mr. Gates as a participant in the Company's 401(k) Retirement Savings Plan (7,441 shares) as of June 30, 2018.

11. Includes Common Stock allocated to Mr. Larsen as a participant in the Company's 401(k) Retirement Savings Plan (1,334 shares) as of June 30, 2018.

12. Includes Common Stock allocated to Mr. Burkhardt as a participant in the Company's 401(k) Retirement Savings Plan (176 shares) as of June 30, 2018.

13. Includes Common Stock allocated to Mr. Hochberg as a participant in the Company's 401(k) Retirement Savings Plan (4,724 shares) as of June 30, 2018 and 100 shares owned directly by Mr. Hochberg's son.

14. Includes Common Stock allocated to Mr. Mackleit as a participant in the Company's 401(k) Retirement Savings Plan (11,313 shares) as of June 30, 2018.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Executive Summary

This Compensation Discussion and Analysis explains our compensation philosophy, summarizes our compensation programs and reviews compensation decisions for the executives identified as named executive officers in the Summary Compensation Table. The named executive officers for fiscal year 2018 were:

• Craig D. Gates, President & Chief Executive Officer

• Brett R. Larsen, Executive Vice President of Administration, CFO & Treasurer

• Douglas G. Burkhardt, Executive Vice President of Worldwide Operations

• Philip S. Hochberg, Executive Vice President of Business Development

• Duane D. Mackleit, Vice President of Program Management

The compensation for the named executive officers currently consists of four elements - base salaries, performance-based annual cash incentives, performance-based long-term cash incentive and performance-based long-term equity incentives in the form of SARS - that are designed to reward performance in a simple and straightforward manner. Our executive compensation program is aligned with our business strategy and culture to attract and retain top talent, reward business results and individual performance, and most importantly, maximize shareholder returns. Our total compensation program for the named executive officers is highly incentive-based and competitive in the marketplace, with Company performance determining a significant portion of total compensation. Base Salaries. Base salaries were modified to maintain a competitive position as compared to the organization's targeted labor market. These increases were predicated on individual performance, tenure with the organization, and relative position to the market.

• Performance-Based Annual Cash Incentive Plan. Target award opportunities for fiscal 2018 for all named executive officers remained the same as the prior year.

• Performance-Based Long-Term Cash Incentive Plan. Target award opportunities for fiscal 2018 for named executive officers remained the same as the prior year, with the exception of the EVP Administration, CFO & Treasurer.

• Performance Based Long-Term Equity Incentive Plan. Equity based long-term performance based awards (SARS) for fiscal 2018 for named executive officers remained the same as the prior year.

The Compensation Committee of the Board of Directors (the "Committee") is comprised of three members, Yacov A. Shamash (Chairman), James R. Bean, and Patrick Sweeney, each of whom is an independent director under applicable NASDAQ listing standards.

The Committee oversees the Board's responsibilities relating to the compensation of the Company's Chief Executive Officer and other named executive officers. In discharging this responsibility, the Compensation Committee evaluates and approves the Company's compensation plans, policies and programs as they affect the named executive officers.

The named executive officers have substantial portions of their compensation at risk for annual and long-term performance, with the largest portion at risk for the most senior executives. Target “at risk” compensation for the CEO is 62%. “At risk” compensation is targeted slightly lower for the other named executive officers.

Executive	Target “At Risk” Compensation
Craig D. Gates, President & Chief Executive Officer	62%
Brett R. Larsen, Executive Vice President, Chief Financial Officer	51%
Douglas G. Burkhardt, Executive Vice President, Worldwide Operations	50%
Philip S. Hochberg, Executive Vice President Business Development	50%
Duane D. Mackleit, Vice President of Program Management	38%

This discussion describes and analyzes the compensation program for the named executive officers. First, it covers the Company’s compensation objectives and philosophy, the cornerstone of which is pay for performance. Next, it reviews the process the Compensation Committee follows in deciding how to compensate the named executive officers and provides a brief overview of the principal components of the Company’s compensation program, including a detailed discussion and analysis of the Compensation Committee’s specific decisions about the compensation of the Company’s named executive officers for fiscal year 2018.

Compensation Objectives and Philosophy

The Company believes that compensation of its executive officers should encourage creation of shareholder value and achievement of strategic corporate objectives. The Company attempts to align the interests of its shareholders and management by integrating compensation with the Company’s short-term and long-term corporate strategic and financial objectives. In order to attract and retain the most qualified personnel, the Company intends to offer a total compensation package competitive with companies in our industry sector, taking into account relative company size, performance and geographic location as well as individual responsibilities and performance.

The elements of compensation for the named executive officers include base salaries, annual cash incentives, long-term cash incentives and long-term equity incentives as well as severance benefits in connection with certain terminations of employment and additional benefits which are available to all other U.S. employees, including a 401(k) plan, health and welfare programs, and life insurance. In general, base salaries and other benefit programs, and severance and other termination benefits are primarily intended to attract and retain highly qualified executives as they provide predictable compensation levels that reward executives for their continued service. Annual cash incentives are primarily intended to motivate executives to achieve specific tactical and operating objectives, while long-term cash and equity incentives are primarily intended to align executives’ long-term interests with those of the Company’s shareholders. These elements of total compensation are targeted to pay at market median when performance meets expectations.

Compensation Process

As part of its process for determining the compensation for the named executive officers, the Compensation Committee considers competitive market data. As authorized by its charter, the Compensation Committee has engaged Milliman, Inc. (“Milliman”), an independent compensation consultant, to periodically review the Company’s compensation plans, policies and programs that affect executive officers and to provide advice and recommendations on competitive market practices and specific compensation decisions. Milliman has worked directly with the Compensation Committee to assist the Compensation Committee in satisfying its responsibilities and will undertake no projects for management except at the request of the Compensation Committee chair and in the capacity of the Compensation Committee’s agent. During fiscal 2018, Milliman provided no assistance to management in evaluating the competitiveness of compensation for non-executive officer personnel.

The Committee takes into consideration multiple factors for purposes of developing competitive market data for analyzing executive compensation. These factors include a combination of both published executive salary surveys as

well as an evaluation of peer organizations and their publicly disclosed compensation information. With the assistance of Milliman, the Compensation Committee identified a group of peer organizations with which the Company competes for executive talent (which may or may not be the same organizations that the company competes with directly on a business level).

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The peer companies were identified based on the following criteria: industry type, organization size/complexity, with the best indicators of organization size in the Company's industry being revenue and number of employees, as well as, enterprise value and net income.

Following this process, the Compensation Committee selected the following peer group for compensation decisions, all of which are electronics manufacturing organizations comparable to the Company in business space and profitability. This peer group is the same as the 2017 peer group.

Cabot Microelectronics Corp.	KEMET Corporation
Coherent, Inc.	Kimball Electronics, Inc.
CTS Corporation	Materion Corp.
Ducommun Inc.	Mercury Computer Systems Inc.
Entegris, Inc.	Methode Electronics Inc.
Extreme Networks, Inc.	Oclaro, Inc.
Fabrinet	Radysis Corp.
IPG Photonics Corp.	Richardson Electronics Ltd.

To ensure we have the information necessary to set appropriate compensation levels, we collect data comparing each executive officer to their counterparts in similar positions within the peer group companies. The Compensation Committee does not base its decisions on targeting compensation levels to specific benchmarks against the peer group, instead, the Compensation Committee refers to the peer group compensation data as background information regarding competitive pay levels and also considers the other factors identified below in making its decisions. The elements of total compensation are targeted to pay at the market median when performance meets expectations. The Compensation Committee supplements the peer group analysis with published compensation data on all executive officers. Published compensation data is focused on similar labor talent for the Company's executives, including organizations in the electronics manufacturing industry with annual revenues close to that of the Company. In addition, the Compensation Committee considers the value of each item of compensation, both separately and in the aggregate, in light of Company performance, each executive officer's position within the Company, the executive officer's performance history and potential for future advancement, and, with respect to long-term cash and equity incentive compensation, the value of existing vested and unvested outstanding cash and equity awards. The Compensation Committee also considers the recommendations of the Company's chief executive officer with r