SPARTON CORP
Form 10-K
September 14, 2017

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

FORM 10-K
(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended: July 2, 2017
Or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Numbers 1-1000

Sparton Corporation
(Exact name of registrant as specified in its charter)

Ohio	38-1054690
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

425 N. Martingale Road, Suite 1000
Schaumburg, Illinois 60173
(Address of principal executive offices)
Registrant’s telephone number, including area code: (847) 762-5800
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $1.25 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer ý
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o
	Emerging growth company o

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold (based on the closing price on the New York Stock Exchange) as of December 30, 2016 (the last business day of the registrant’s most recently completed second fiscal quarter) was approximately $227,525,000. For purposes of this computation, affiliates of the registrant include the registrant’s executive officers and directors and their respective affiliates as of December 30, 2016.

As of September 8, 2017 there were 9,860,635 shares of common stock, $1.25 par value per share, outstanding.

Documents Incorporated by Reference

Part III incorporates information by reference to the registrant’s definitive proxy statement for its 2017 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year.

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains statements about future events and expectations that are “forward-looking statements.” We may also make forward-looking statements in our other reports filed with the SEC, in materials delivered to our shareholders and in press releases. These statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. Certain of these risks, uncertainties and other factors are described in Item 1A, “Risk Factors” of this report. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “expects,” “intends,” “plans,” “anticipates,” “beli “estimates,” “predicts,” “potential,” or the negative use of these terms or other comparable terminology that convey the uncertainty of future events or outcomes. Although we believe these forward-looking statements are reasonable, they are based on a number of assumptions concerning future conditions, any or all of which may ultimately prove to be inaccurate. These forward-looking statements are based on management’s views and assumptions at the time originally made, and we undertake no obligation to update these statements whether as a result of new information or future events. There can be no assurance that our expectations, projections or views will materialize and you should not place undue reliance on these forward-looking statements. Any statement in this report that is not a statement of historical fact may be deemed to be a forward-looking statement and subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995.

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PART I

ITEM 1. BUSINESS

General

Sparton Corporation and subsidiaries (the “Company” or “Sparton”) has been in continuous existence since 1900. It was last reorganized in 1919 as an Ohio corporation. The Company is a provider of design, development and manufacturing services for complex electromechanical devices, as well as sophisticated engineered products complementary to the same electromechanical value stream. The Company serves the Medical & Biotechnology, Military & Aerospace and Industrial & Commercial markets through two reportable business segments; Manufacturing & Design Services (“MDS”) and Engineered Components & Products (“ECP”). All of the Company's facilities are certified to one or more of the ISO/AS standards, including ISO 9001, AS9100 and ISO 13485, with most having additional certifications based on the needs of the customers they serve. The majority of the Company's customers are in highly regulated industries where strict adherence to regulations such as the International Tariff and Arms Regulations ("ITAR") is necessary. The Company's products and services include offerings for Original Equipment Manufacturers (“OEM”) and Emerging Technology (“ET”) customers that utilize microprocessor-based systems which include transducers, printed circuit boards and assemblies, sensors and electromechanical components, as well as development and design engineering services relating to these product sales. Sparton also develops and manufactures sonobuoys, anti-submarine warfare (“ASW”) devices used by the United States Navy as well as by foreign governments that meet Department of State licensing requirements. Additionally, Sparton manufactures rugged flat panel display systems for military panel PC workstations, air traffic control and industrial applications, as well as high performance industrial grade computer systems and peripherals. Many of the physical and technical attributes in the production of these proprietary products are similar to those required in the production of the Company's other electrical and electromechanical products and assemblies.

On July 7, 2017, the Company, an Ohio corporation, entered into an Agreement and Plan of Merger (the “Merger Agreement”) among the Company, Ultra Electronics Holdings plc, a company organized under the laws of England and Wales (“Parent" or "Ultra”), and Ultra Electronics Aneira Inc., an Ohio corporation and an indirect wholly owned subsidiary of Parent (“Merger Sub”). Upon the terms and subject to the conditions set forth in the Merger Agreement, Merger Sub will be merged with and into the Company (the “Merger”) with the Company surviving the Merger as a wholly owned subsidiary of Parent.

At the effective time of the Merger, each issued and outstanding share of common stock, par value $1.25 per share, of the Company (each, a “Share”) (other than (i) Shares that immediately prior to the effective time of the Merger are owned by Parent, Merger Sub or any other wholly owned subsidiary of Parent or owned by the Company or any wholly owned subsidiary of the Company (including as treasury stock) and (ii) Shares that are held by any record holder who is entitled to demand and properly demands payment of the fair cash value of such Shares as a dissenting shareholder pursuant to, and who complies in all respects with, the provisions of Section 1701.85 of the Ohio General Corporation Law (the “OGCL”)) will be cancelled and converted into the right to receive $23.50 per Share in cash, without interest.

The Merger Agreement provides for certain other termination rights for both the Company and Ultra, and further provides that, upon termination of the Merger Agreement under certain specified circumstances, the Company will be required to pay Ultra a termination fee of $7.5 million or Ultra will be required to pay Company a termination fee of $7.5 million.

The Company's website address is www.sparton.com. Information contained on our website is not part of this Annual Report on Form 10-K. Our website provides public access to, among other items, the Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Quarterly Earnings Releases, News Releases, Governance Guidelines and the Code of Ethics, as well as various Board of Director committee charters. Upon request, the Company provides, free of charge, copies of its periodic and current reports (e.g., Forms 10-K, 10-Q and 8-K) and amendments to such reports that are filed with the Securities and Exchange Commission (“SEC”), as well as the Board of Director committee charters. Reports are available as soon as reasonably practicable after such reports are filed with or furnished to the SEC, either at the Company's website, through a link to the SEC's website or upon request through the Company's Shareholders Relations Department.

MDS Segment

MDS segment operations are comprised of contract design, manufacturing and aftermarket repair and refurbishment of sophisticated printed circuit card assemblies, sub-assemblies, full product assemblies and cable/wire harnesses for customers seeking to bring their intellectual property to market. Additionally, Sparton is a developer of embedded software and software quality assurance services in connection with medical devices and diagnostic equipment. Customers include OEM and ET customers serving the Medical & Biotechnology, Military & Aerospace and Industrial & Commercial markets. In engineering and manufacturing for its customers, this segment adheres to very strict military and aerospace specifications and Food and Drug Administration (“FDA”) guidelines and approvals, in addition to product and process certifications.

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The segment strives to exceed customers’ expectations with high delivery and quality performance. Our market advantage is our enterprise-wide Sparton Business System, experience and knowledge of the market, breadth of services that we offer and the relationships that we have developed over the past several decades. The competition includes both foreign and domestic companies, in addition to the internal capabilities of some of our customers. Some of our competitors have substantially greater financial, manufacturing or marketing resources than we do. Sparton's MDS segment excels in providing low-volume, high-mix services to highly-regulated end markets. OEM's in our market segments are continually driving costs out of their respective businesses through outsourcing strategies, allowing opportunity for Sparton to capture additional value add opportunities.

The engineering and manufacturing of highly complex devices is a fairly fragmented industry with no dominant player in the market. In the past, large printed circuit board contract manufacturers have sold their “box build” capabilities and have been very successful. The industry has continued to grow with more companies developing printed circuit board assembly (“PCBA”) capabilities and others entering the market via mergers and acquisitions of smaller companies. This has led to stronger competition with larger companies that have the financial resources to offer the services that the customers are requiring. Customers will assume that quality will be 100% and will drive their decisions based on services offered that best fit their total solutions needs as well as on the overall cost of the these services.

The understanding of the market needs is critical for our success. We are well positioned with our capabilities to meet our current organic growth plans. Historically, acquisitions have been an important element of the growth strategy for the MDS segment. The segment recently had supplemented its organic growth by identifying, acquiring and integrating acquisition opportunities that resulted in broader, more sophisticated product and service offerings while diversifying and expanding the Company's customer base and markets. Today, the Company's focus is on organic growth.

Sparton acquired 3 companies in the MDS segment in fiscal 2015. On July 9, 2014, the Company acquired Electronic Manufacturing Technology, LLC. (“eMT”), a contract services business manufacturing electromechanical controls and electronic assemblies, for $22.1 million. On January 20, 2015, the Company acquired Real-Time Enterprises, Inc. ("RTEmd"), a developer of embedded software to operate medical devices and diagnostic equipment, for $2.3 million. On April 14, 2015, the Company acquired Hunter Technology Corporation, (“Hunter”) an electronic contract manufacturing provider specializing in military and aerospace applications and providing engineering design, new product introduction and full-rate production manufacturing solutions working with major defense and aerospace companies, test and measurement suppliers, secure networking solution providers, medical device manufacturers and a wide variety of industrial customers, for $55.0 million.

The Company does not believe that the MDS segment is substantially dependent on any individual contract or agreement with any customer and the significance of these large customers continues to be reduced through the Company's customer diversification as a result of growth. The Company's typical contractual arrangement with a customer is represented by a master agreement which includes certain master terms and conditions of Sparton's relationship with this customer. This agreement does not commit the customer to any specific volume of purchases. Moreover, these terms can be amended in appropriate circumstances. Thus, until this customer submits a purchase order to Sparton, there is no guarantee of any revenue to Sparton. The Company uses the purchase orders to determine volume and delivery requirements.

The majority of Sparton's MDS segment customers are in highly regulated industries where strict adherence to regulations such as ITAR, regulations issued by the FDA, the Federal Aviation Administration (“FAA”), the Environmental Protection Agency ("EPA") and similar foreign jurisdiction regulations such as the European Union RoHS (Restriction of Hazardous Substances) and REACH (Registration, Evaluation and Authorization of Chemicals) is necessary. Non-compliance risks range from variance notifications to production/shipping prevention depending upon the agency and form of non-compliance. These requirements are highly technical in nature and require strict adherence and documentation related to operational processes. Sparton's quality system provides us the ability to service such markets, differentiating Sparton from some potential competitors which lack such systems.

While overall sales can fluctuate during the year in each of our segments, revenues from our MDS segment are typically higher in the second half of the Company's fiscal year. Various factors can affect the distribution of our

revenue between accounting periods, mainly the timing of customer demand.
ECP Segment
ECP segment operations are comprised of design, development and production of proprietary products for both domestic and foreign defense markets, as well as for commercial needs. ECP designs and manufactures ASW devices known as sonobuoys for the U.S. Navy and for foreign governments that meet Department of State licensing requirements. This segment also performs an engineering development function for the United States military and prime defense contractors for advanced technologies, primarily in the Undersea Warfare space, ultimately leading to future defense products, as well as replacements for existing products. Specifically, the sonobuoy product line is built to stringent military specifications. These products are restricted by International Tariff and Arms Regulations (“ITAR”) and qualified by the U.S. Navy, which limits opportunities for

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competition. This segment is also a provider of rugged flat panel display systems for military panel PC workstations, air traffic control and industrial and commercial marine applications, as well as high performance industrial grade computer systems and peripherals. Rugged displays are manufactured for prime contractors, in some cases to specific military grade specifications. Additionally, this segment internally develops and markets commercial products for underwater acoustics and microelectromechanical ("MEMS")-based inertial measurement.

Sparton is a 50/50 joint venture ("JV") partner with UnderSea Sensor Systems, Inc. ("USSI"), the only other major producer of U.S. derivative sonobuoys. USSI's parent company is Ultra Electronics Holdings plc, based in the United Kingdom. The JV operates under the name ERAPSCO and allows Sparton and USSI to combine their own unique and complementary backgrounds to jointly develop and produce U.S. derivative sonobuoy designs for the U.S. Navy as well as for foreign governments that meet Department of State licensing requirements. ERAPSCO maintains the DBA Sonobuoy TechSystems through which it conducts business directly with foreign governments. In concept, and in practice, ERAPSCO serves as a pass-through entity maintaining no funds or assets. While the JV provides the opportunity to maximize efficiencies in the design and development of the related sonobuoys, both of the joint venture partners function independently as subcontractors; therefore, there is no separate entity to be accounted for or consolidated. The Board of Directors of ERAPSCO has the responsibility for the overall management and operation of the JV. The six member board consists of equal representation (full time employees) from both JV partners for three year terms. Personnel necessary for the operation of ERAPSCO, specifically a president, vice president, general manager, contract administrator and financial manager, are similarly assigned by the JV partners for rotating three year terms and the costs of these assigned individuals are borne by the party assigning the personnel. In response to a customer request for proposal ("RFP") that ERAPSCO will bid on, the Board of Directors of ERAPSCO approves both the composition of a response to the RFP and the composite bid to be submitted to the customer based on financial thresholds set forth in the JV agreement. The Board of Directors of ERAPSCO strives to divide the aggregate contract awards at a 50/50 share ratio. Each JV partner bears the costs it incurs associated with the preparation and submission of proposals. Each JV partner submits to ERAPSCO a proposal for the estimated price of performing that portion of the RFP applicable to it. Upon award of a contract to the JV, separate subcontracts are generated between ERAPSCO and each of the JV partners defining the responsibilities and compensation. These subcontracts contain terms and conditions consistent with the prime contract. Each JV partner is responsible to ERAPSCO for the successful execution of its respective scope of work under its subcontract and each JV partner is individually accountable for the profit or losses sustained in the execution of the subcontract against its respective bid. In some instances, either Sparton or USSI handles the complete production and delivery of sonobuoys to ERAPSCO's customer. In other instances, either Sparton or USSI starts the production and ship completed subassemblies to the other party for additional processing before being delivered to the customers. Under ERAPSCO, individual contract risk exposures are reduced, while the likelihood of achieving U.S. Navy and other ASW objectives is enhanced. ERAPSCO has been in existence since 1987 and historically, the agreed upon products included under the JV were generally developmental sonobuoys. In 2007, the JV expanded to include all future sonobuoy development and substantially all U.S. derivative sonobuoy products for customers outside of the United States. The JV was further expanded three years later to include all sonobuoy products for the U.S. Navy beginning with U.S. Navy's 2010 fiscal year contracts. While the ERAPSCO agreement provides certain benefits to Sparton as described above, the Company does not believe that it is substantially dependent upon this agreement to conduct its business. If in the future, Sparton determines that this commercial arrangement is no longer beneficial, the Company has the ability to terminate the joint venture in relation to future business awards and return to independent bidding for U.S. Navy and foreign government sonobuoy contracts.

New internally funded products are under development for sale as commercial products to the navigation, heading and positioning systems applications markets. Markets for these products include autonomous underwater and ground vehicles, handheld laser range finders, as well as unattended aerial vehicles as our product offerings grow. The principal example of such products is a family of precision inertial sensors for applications such as navigation or undersea petroleum exploration. Competition among companies that build these products is intense and dynamic. As such, development of our commercial products requires the identification of sustainable competitive advantages ("SCA") prior to investment to ensure there is a viable market for our products. Each new product must advance the technology available to the market enough to overcome the inherent inertia preventing potential customers from switching from competitor's products. Likewise, existing products are evaluated periodically to ensure their SCA is still maintained and if not, either redesign or end-of-life occurs. The expansion of our commercial product lines leverages the intrinsic engineering talent at Sparton and capitalizes on the sonobuoy product volumes to provide technological as well as economies of scale advantages. Pursuit of commercial markets and all sales and profits from this endeavor are not a part of the ERAPSCO JV.

During fiscal years 2017, 2016 and 2015, Sparton incurred internally funded research and development (“IR&D”) expenses of $1.7 million, $2.3 million and $1.5 million, respectively, for the internal development of technologies. Customer funded R&D costs, which are usually part of a larger production agreement, totaled $5.6 million, $16.7 million and $9.9 million for fiscal years 2017, 2016 and 2015, respectively.

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Sonobuoy and related engineering services, including sales to the U.S. Navy and foreign governments, accounted for 29%, 28% and 29% of consolidated revenue for fiscal years 2017, 2016 and 2015, respectively. Sales to the U.S Navy accounted for 23%, 22% and 25% of consolidated revenue for fiscal years 2017, 2016 and 2015, respectively. The U.S. Navy issues multiple contracts annually for its sonobuoy and engineering requirements. The loss of U.S. Navy sonobuoy sales would have a material adverse financial effect on the Company. While the overall relationship with the U.S. Navy is important to Sparton, the Company does not believe that it is substantially dependent on any individual contract or agreement with the U.S. Navy, other than the Subcontract, effective December 4, 2014, between Sparton DeLeon Springs, LLC and ERAPSCO; the Subcontract, effective November 4, 2015, between Sparton DeLeon Springs, LLC and ERAPSCO; the Subcontract, effective January 19, 2017, between Sparton DeLeon Springs, LLC and ERAPSCO; the Subcontract, effective January 18, 2017, between Sparton DeLeon Springs, LLC and ERAPSCO; and the Subcontract, effective September 7, 2017, between Sparton DeLeon Springs, LLC and ERAPSCO (collectively, the “Material Subcontracts”). Each of the Material Subcontracts is filed as an exhibit to this Annual Report on Form 10-K, and each has been issued pursuant to a U.S. Navy one year Indefinite Delivery Indefinite Quantity contract with four option years (the “IDIQ Contract”). The IDIQ Contract is also considered a material contract to the Company and is filed as an exhibit to this Annual Report on Form 10-K. Pursuant to the currently effective subcontracts issued pursuant to the IDIQ, including certain of the Material Subcontracts, Sparton will supply sonobuoys to the U.S. Navy through ERAPSCO based on total subcontract awards received by Sparton DeLeon Springs, LLC in fiscal 2017 of approximately $88.6 million.

United States Navy contracts allow Sparton to submit performance based billings, which are then applied against inventories purchased and manufacturing costs incurred by the Company throughout its performance under these contracts. Inventories were reduced by performance based payments from the U.S. Navy for costs incurred related to long-term contracts, thereby establishing inventory to which the U.S. Navy then has title, of $8.5 million and $9.0 million, respectively, at July 2, 2017 and July 3, 2016. At July 2, 2017 and July 3, 2016, current liabilities include performance based payments of $1.7 million and $0.0 million, respectively, on Navy contracts. As these payments are in excess of cost, there is no inventory to which the government would claim title and, therefore, no offset to inventory has been made.

Acquisitions have been an element of the growth strategy for the ECP segment. The Segment has supplemented its organic growth by identifying, acquiring and integrating tangential technology products-based acquisition opportunities.

During fiscal year 2015, the Company acquired substantially all of the assets of Stealth.com ("Stealth"), a supplier of high performance rugged industrial grade computer systems and peripherals, for $16.0 CAD ($12.6 USD) million; certain assets of KEP Marine, a designer and manufacturer of industrial displays, industrial computers and HMI software for the Marine market, for $4.3 million; certain assets of Argotec, Inc. ("Argotec"), a business engaged in developing and manufacturing of sonar transducer products and components for the U.S. Navy, for $0.4 million and certain assets of Industrial Electronic Devices, Inc. ("IED"), a designer and manufacturer of rugged displays for the Industrial and Marine markets, for $3.3 million.

See Note 3, Acquisitions, of the “Notes to Consolidated Financial Statements” in this Form 10-K for additional information related to these acquisitions.

ECP business operations are affected by numerous laws and regulations relating to the award, administration and performance of U.S. Navy contracts. The U.S. Navy generally has the ability to terminate ECP contracts, in whole or in part, without prior notice, for convenience or for default based on performance. If any of these contracts were terminated for convenience, Sparton would generally be protected by provisions covering reimbursement for costs incurred on the contracts and profit on those costs, but not the anticipated profit that would have been earned had the contract been completed.

Non-sonobuoy related manufacturing and services are sold primarily through a direct sales force. In addition, our divisional and executive management teams are an integral part of our sales and marketing teams.

Other

Materials for our operations are generally available from a variety of worldwide sources, except for selected components. Access to competitively priced materials is critical to success in our businesses. In certain markets, the

volume purchasing power of our larger competitors creates a cost advantage for them. The Company has encountered availability and extended lead time issues on some electronic components due to strong market demand. This condition resulted in higher prices and late deliveries. However, the Company does not expect to encounter significant long-term problems in obtaining sufficient raw materials. The risk of material obsolescence in our businesses is less significant than that which exists in many other markets since raw materials and component parts are generally purchased only upon receipt of a customer's order. However, excess material resulting from order lead-time is a risk factor due to potential order cancellation or design changes by customers.
While a significant portion of the Company's revenue is from customers based in the United States, the Company has sales to customers throughout the world. See Note 17, Business, Geographic and Sales Concentration, of the "Notes to

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Consolidated Financial Statements" in this Form 10-K for financial information regarding the Company's geographic sales concentration and locations of long-lived assets.

At July 2, 2017, Sparton employed 1,710 people, including 156 contractors. None of the Company's employees are represented by a labor union. The Company considers employee relations to be good.

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Executive Officers of the Registrant

Information with respect to executive officers of the Registrant is set forth below. The positions have been held for the periods noted.

Joseph J. Hartnett	Interim President and Chief Executive Officer of Sparton Corporation since February 2016. Previously, Mr. Hartnett served as the Chairman of the Board of Directors of the Company. Prior to that, Mr. Hartnett served as President, Chief Executive Officer and Chief Operating Officer of Ingenient Technologies, Inc. a multimedia software development company, from 2008 through 2010. Before that date, Mr. Hartnett held the positions of Chairman of the Board, President and Chief Executive Officer and Chief Financial Officer with U.S. Robotics Corporation. (Age 61)
Joseph G. McCormack	Senior Vice President and Chief Financial Officer since September 2015. Previously, Mr. McCormack served as Senior Financial Consultant to the Company since June 2015. Prior to that Mr. McCormack was a senior financial consultant from May 2012 to June 2015 and was Chief Financial Officer of Ingenient Technologies from December 2005 to May 2012. (Age 54)
Gordon B. Madlock	Senior Vice President, Operations since January 2009. Previously, Mr. Madlock held the position of Senior Vice President of Operations for Citation Corporation in Novi, MI since September 1999. (Age 59)
Steven M. Korwin	Senior Vice President, Quality and Engineering since September 2009. Previously, Mr. Korwin held the position of Group Vice President, Electronic Manufacturing Services since December 2008. Prior to that date, Mr. Korwin held the position of Vice President of Quality and Engineering for Citation Corporation in Novi, MI since October 2005. (Age 54)
Joseph Schneider	Senior Vice-President, Sales and Marketing, since May 2015. Previously, Mr. Schneider held the position of Vice President for Siemens Healthcare Diagnostics in the In Vitro Diagnostics segment since 2012. Prior to that, Mr. Schneider led sales and marketing efforts for newly acquired Siemens Industry, Inc. industrial businesses since 2010. (Age 50)
Michael A. Gaul	Group Vice President, Medical Manufacturing and Design Services since January 2014. Prior to that, Mr. Gaul held the position of General Manager of the Strongsville, Ohio medical manufacturing facility since September, 2011. Prior to that, Mr. Gaul held the positions of Vice President, Operations and COO at SynCardia Systems since April 2005. Prior to that, Mr. Gaul held the position of Vice President of Manufacturing Operations for Ventana Medical since May 2003. His industry experience includes Medical Devices and Reagents, Complex Capital Automation Equipment, Public Safety Communication Systems and Industrial Controls and Instrumentation. (Age 63)
James M. Lackemacher	Group Vice President, Engineered Components and Products since January 2014. Previously, Mr. Lackemacher held the position of Vice President/General Manager, Defense and Security Systems Business Unit since April 2005. (Age 55)
James D. Shaddix II	Group Vice President, Military & Aerospace Manufacturing Services since January 2014. Prior to that, Mr. Shaddix held the position of General Manager of the Frederick, Colorado

	medical manufacturing facility since August 2011. Prior to that, Mr. Shaddix held various positions including General Manager for Citation Corporation since July 1999. (Age 53)
Christopher A. Ratliff	Vice President, Information Technology since March 2014. Previously, Mr. Ratliff held the position of Information Technologies Director for Tootsie Roll Industries in Chicago, IL since May 2003. (Age 52)

There are no family relationships among the persons named above. All officers are elected annually and serve at the discretion of the Board of Directors.

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ITEM 1A. RISK FACTORS

We operate in a changing economic, political and technological environment that presents numerous risks, many of which are driven by factors that we cannot control or predict. The following discussion, as well as our "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Critical Accounting Policies and Estimates" in Item 7, highlight some of these risks. The terms "Sparton," "the Company," "we," "us," and "our" refer to Sparto Corporation and subsidiaries.

The Company's Board of Directors is exploring a potential sale of the Company, but there can be no assurances that any transaction will occur, or if such a transaction does occur, the value of that transaction to the Company or its shareholders.

The pending merger transaction with Ultra may not be completed on the terms or anticipated timeline or at all. The completion of the pending merger transaction with Ultra is subject to certain conditions, including (i) approval by our shareholders, (ii) approval of the transactions contemplated by the Merger Agreement for the purposes of Chapter 10 of the Listing Rules of the United Kingdom Listing Authority; (iii) the periods applicable to the consummation of the merger under the Investment Canada Act shall have expired, lapsed or been terminated and any applicable regulatory clearance shall have been obtained, (iv) the expiration or early termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, (v) all periods applicable to the consummation of the Merger under the antitrust or competition Laws of each applicable non-U.S. jurisdiction shall have expired, lapsed or been terminated and all antitrust or competition regulatory clearances applicable to the consummation of the merger in each such jurisdiction shall have been obtained or waived, (vi) approval from The Committee on Foreign Investment in the United States, (vii) approval from the Defense Security Service of the United States Department of Defense, (viii) expiration or waiver under ITAR; and (ix) other closing conditions set forth in the Merger Agreement. There can be no assurance that such conditions will be satisfied in a timely manner or at all, or that an effect, event, development or change will not occur that could delay or prevent the closing conditions from being satisfied.

The pending merger transaction may not be completed, which may adversely affect our business.

If the merger with Ultra is not completed, the trading price of our common stock may decline to the extent that the market price of the common stock reflects positive market assumptions that the merger will be completed and the related benefits will be realized. We could also be subject to other risks if the merger is not completed, including:

- the requirement in the Merger Agreement that, under certain circumstances, we pay Ultra a termination fee of $7.5 million;
- incurring costs related to the merger transaction, such as legal, accounting, financial advisory and other costs that have already been incurred or will continue to be incurred until closing of the transaction;
- potential reputational harm due to any failure to successfully complete the merger transaction;
- potential disruption to our business, such as distraction of our employees to pursue other opportunities that could be beneficial to the Company, without the merger transaction actually being completed; and
- potential disruption to our ERAPSCO joint venture and/or potential difficulties negotiating a new merger transaction given a failed transaction with Ultra;
- Uncertainties and disruption caused by potential plant closures and possible restructuring;
- Need to renegotiate credit facility to provide for additional liquidity to meet working capital needs;
- Potential disruption to our business to possible loss of customers and possible changes in vendor terms as a result of uncertainties.

If the pending merger transaction with Ultra is completed, our shareholders would not benefit from potential future appreciation in the value of the Company.

If the pending merger transaction with Ultra is consummated, shareholders will no longer hold shares in the Company and, therefore, will not be entitled to benefit from any potential future appreciation in the value of the Company. In addition, in the absence of the merger transaction, the Company could have various opportunities to enhance its value. Therefore, if the merger transaction is consummated, our shareholders will forgo any future appreciation in the value of the Company.

If the pending merger transaction with Ultra is not consummated by January 31, 2018 (unless extended under the Merger Agreement), either of the Company or Ultra may terminate the Merger Agreement.

The Company or Ultra may terminate the Merger Agreement if the merger transaction has not closed by January 31, 2018 (subject to a two-month extension at the election of either Ultra or the Company, and a second extension for an additional four months in the sole discretion of Ultra, if certain conditions have not been satisfied). The Merger Agreement provides for certain other termination rights for both the Company and Ultra, and further provides that, upon termination of the Merger

Agreement under certain specified circumstances, the Company will be required to pay Ultra a termination fee of $7.5 million or Ultra will be required to pay Company a termination fee of $7.5 million.

The Merger Agreement contains provisions that could discourage a potential competing acquirer of the Company.

The Merger Agreement contains provisions that, subject to certain limited exceptions, restrict our ability to solicit, initiate, knowingly encourage or otherwise facilitate any merger transaction or acquisition proposals.

Those provisions could discourage a potential competing buyer that might have an interest in acquiring all or a part of the Company's business from considering or making a competing acquisition proposal, even if the potential competing acquirer was prepared to pay consideration with a higher per share cash value than that market value proposed to be received or realized in the merger transaction. The provisions could also cause a potential competing buyer to propose to pay a lower price than it might otherwise have proposed to pay because of the expense of a termination fee that may become payable in certain circumstances under the Merger Agreement.

Our Board and executives have different interests in the Ultra merger than those of our shareholders.

The Company's directors and executive officers have certain interests in the merger that may be different from, or in addition to, the interests of other Company shareholders. These interests include restricted stock, restricted stock units and stock options held by Company's executive officers and by directors of the Company immediately prior to the closing that may be cancelled in exchange for a cash payment. Further, our officers are party to employment agreements with the Company and may receive payments upon termination or change of control and could receive other additional payments, all as disclosed in the proxy statement.

An adverse judgment in a lawsuit challenging the pending Ultra transaction may prevent the transaction from becoming effective.

The Company and the members of our board of directors were named as defendants in four federal securities class actions purportedly brought on behalf of all holders of the Company's common stock challenging the pending merger transaction with Ultra. The lawsuits generally sought, among other things, to enjoin the defendants from proceeding with the shareholder vote on the merger at the special meeting or consummating the merger transaction unless and until the Company disclosed the allegedly omitted information. The complaints also sought damages allegedly suffered by the plaintiffs as a result of the asserted omissions, as well as related attorneys' fees and expenses.

After discussions with counsel for the plaintiffs, the Company included certain additional disclosures in the proxy statement soliciting shareholder approval of the Merger. The Company believes the demands and complaints are without merit, there were substantial legal and factual defenses to the claims asserted, and the proxy statement disclosed all material information prior to the inclusion of the additional disclosures. The Company made the additional disclosures to avoid the expense and burden of litigation. On September 1, 2017, the court dismissed the lawsuits with prejudice with respect to lead plaintiffs in the lawsuits and without prejudice as to all other shareholders. The Company and plaintiffs must still attempt to resolve the appropriate amount of attorneys' fees, if any, to be awarded to plaintiffs' counsel.

Shareholders may file additional lawsuits challenging the Ultra merger transaction, which may name the Company, members of the board of directors or others as defendants. No assurance can be made as to the outcome of such lawsuits, including the amount of costs associated with defending these claims or any other liabilities that may be incurred in connection with the litigation of these claims. If plaintiffs are successful in obtaining an injunction prohibiting the parties from completing the pending merger transaction on the agreed-upon terms, such an injunction may delay the completion of the transaction in the expected timeframe, or may prevent the transaction from being completed altogether. Whether or not any plaintiff's claim is successful, this type of litigation may result in significant costs and divert management's attention and resources, which could adversely affect the operation of business.

The industry is extremely competitive and we depend on continued outsourcing by OEMs.

The Military and Aerospace and Medical and Biotechnology industries are highly fragmented and intensely competitive. Our contract manufacturing services are available from many sources and we compete with numerous domestic and foreign firms. Within the Company's target market, the high-mix, low to medium volume sector of the MDS segment, there are substantially fewer competitors, but competition remains strong. Some competitors have substantially greater manufacturing, R&D, marketing or financial resources and, in some cases, have more geographically diversified international operations. The Company expects competition to intensify further as more companies enter our target markets and our customers consolidate. In the future, increased competition from large electronic component manufacturers that are selling, or may begin to sell, electronics manufacturing services may occur. Future growth will depend on our ability to win business from competitors, new

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outsourcing opportunities and could be limited by OEMs performing such functions internally or delaying their decision to outsource.

In some cases, the Company may not be able to offer prices as low as some competitors for a host of reasons. For example, those competitors may have lower cost structures for their services, they may be willing to accept business at lower margins in order to utilize more of their excess capacity, or they may be willing to take on business at low or even zero gross margins to gain entry into the Company's markets. Upon the occurrence of any of these events, our net sales would likely decline. Periodically, we may be operating at a cost disadvantage compared to some competitors with greater direct buying power. As a result, competitors may have a competitive advantage and obtain business from our customers.

Principal competitive factors in our targeted markets are believed to be quality, reliability, the ability to meet delivery schedules, customer service, technological sophistication, geographic location and price. During periods of recession in the Military and Aerospace and Medical and Biotechnology industries, our competitive advantages in the areas of adaptive manufacturing and responsive customer service may be of reduced importance due to increased price sensitivity. We also expect our competitors to continue to improve the performance of their current products or services, to reduce their current products or service sales prices and to introduce new products or services that may offer greater performance and improved pricing. Any of these could cause a decline in sales, loss of market acceptance of our products or services, profit margin compression or loss of market share.

Our operating results are subject to general economic conditions and may vary significantly from period to period due to a number of factors.

We are subject to inflation, interest rate changes, availability of capital markets, consumer spending rates, the effects of governmental plans to manage economic conditions and other national and global economic occurrences beyond our control. Such factors, economic weakness and constrained customer spending have resulted in the past and may result in the future, in decreased revenue, gross margin, earnings or growth rates.

We can experience significant fluctuations in our annual and quarterly results of operations. In addition to general economic conditions, other factors that contribute to these fluctuations are our effectiveness in managing manufacturing processes and costs, as well as the level of capacity utilization of our manufacturing facilities and associated fixed costs, in order to maintain or increase profitability. We rely on our customers' demands, which can change dramatically, sometimes with little notice. Such factors also could affect our results of operations in the future.

Customer cancellations, reductions or delays could adversely affect our operating results.

We generally do not obtain long-term purchase commitments from our customers. Customers may cancel orders, delay the delivery of orders or release orders for fewer products than we previously anticipated for a variety of reasons, including decreases in demand for their products and services. Such changes by a significant customer, by a group of customers, or by a single customer whose production is material to an individual facility could seriously harm results of operations in that period. In addition, since much of our costs and operating expenses are relatively fixed, a reduction in customer demand would adversely affect our margins and operating income. Although we are always seeking new opportunities, we cannot be assured that we will be able to replace deferred, reduced or canceled orders.

Our inability to forecast the level of customer orders with much certainty makes it difficult to schedule production and maximize utilization of manufacturing capacity. Additionally, we are often required to place materials orders from vendors, some of which are non-cancelable, based on an expected level of customer volume. If actual demand is higher than anticipated, we may be required to increase staffing and other expenses in order to meet such demand of our customers. Alternatively, anticipated orders from our customers may be delayed or fail to materialize, thereby adversely affecting our results of operations. Such customer order fluctuations and deferrals have had a material adverse effect on us in the past and we may experience similar effects in the future.

Such order changes could cause a delay in the repayment to us for inventory expenditures we incurred in preparation for the customer's orders or, in certain circumstances, require us to return the inventory to our suppliers, resell the inventory to another customer or continue to hold the inventory. In some cases, excess material resulting from longer order lead time is a risk due to the potential of order cancellation or design changes by customers. Additionally, dramatic changes in circumstances for a customer could also negatively impact the carrying value of our inventory for

that customer.
We are dependent on a few large customers; the loss of such customers or reduction in their demand could substantially harm our business and operating results.
For fiscal year 2017, our ten largest customers, including the U.S. Navy, accounted for 50% of total net sales. The U.S. Navy, an ECP customer through the Company’s ERAPSCO agreement, represented 23% of our total net sales. We expect to

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continue to depend upon a relatively small number of customers, but we cannot ensure that present or future large customers will not terminate, significantly change, reduce or delay their manufacturing arrangements with us. Because our major customers represent such a large part of our business, the loss of any of our major customers or reduced sales to these customers could negatively impact our business.

The U.S. Navy generally has the ability to terminate its contracts within the ECP segment, in whole or in part, without prior notice, for convenience or for default based on performance. If any of these U.S. Navy contracts were to be terminated, the Company would generally be protected by provisions covering reimbursement for costs incurred on the contracts and profit on those costs, but not the anticipated profit that would have been earned had the contract been completed.

We are partner to a 50/50 joint venture agreement with USSI, the only other major producer of U.S. derivative sonobuoys. If USSI were to terminate this joint venture, the Company would be required to return to independent bidding and production for the U.S. Navy and other foreign governments that meet Department of State licensing requirements for sonobuoy business. If this were to happen, it is possible that the Company's future results could be negatively impacted. Starting with the 2014 U.S. government fiscal year, the U.S. Navy competitively bid sonobuoy contracts, potentially allowing additional competitors to vie for this business. The Company is aware that the U.S. Navy has funded a competitor for the qualification of one future sonobuoy variant that is currently not in production. While the Company believes that there are significant barriers to entry into the sonobuoy market, if a new competitor was able to successfully develop the necessary technical capabilities and gain entry into the market space, the Company's future results could be negatively impacted.

We rely on the continued growth and financial stability of our customers. Adverse changes in the end markets they serve can reduce demand from our customers in those markets and/or make customers in these end markets more price sensitive. Furthermore, mergers or restructurings among our customers or our customers' customers could increase concentration or reduce total demand as the combined entities rationalize their business and consolidate their suppliers. Future developments, particularly in those end markets which account for more significant portions of our revenues, could harm our business and our results of operations. If one or more of our customers experiences financial difficulty and is unable to pay for the services provided, our operating results and financial condition could be adversely affected. If our customers seek bankruptcy protection, they could act to terminate all or a portion of their business with us, originate new business with our competitors and terminate or assign our long-term supply agreements. Any loss of revenue from our major customers, including the non-payment or late payment of our invoices, could materially adversely affect our business, results of operations and financial condition.

Congressional budgetary constraints or reallocations can reduce our government sales.

Our U.S. government contracts have many inherent risks that could adversely impact our financial results. Future governmental sales could be affected by a change in defense spending by the U.S. government, or by changes in spending allocation that could result in one or more of our programs being reduced, delayed or terminated, which could adversely affect our financial results. The Company's U.S. governmental sales are funded by the federal budget. Changes in negotiations for program funding levels or unforeseen world events can interrupt the funding for a program or contract.

U.S. government audits and investigations could adversely affect our business.

Federal government agencies, including the Defense Contract Audit Agency and the Defense Contract Management Agency, routinely audit and evaluate government contracts and government contractors' administrative processes and systems. These agencies review the Company's performance on contracts, pricing practices, cost structure, financial capability and compliance with applicable laws, regulations and standards. They also review the adequacy of the Company's internal control systems and policies, including the Company's purchasing, accounting, estimating, compensation and management information processes and systems. Any costs found to be improperly allocated to a specific contract will not be reimbursed, while such costs already reimbursed must be refunded. If an audit or investigation of our business were to uncover improper or illegal activities, then we could be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines and suspension or prohibition from doing business with the U.S. government. In addition, responding to governmental audits or investigations may involve significant expenses and divert management attention. If any of

the forgoing were to occur, our financial condition and operating results could be materially and adversely affected.
Our current use of performance based billings within U.S. government contracts may not continue.
Our current contracts with the U.S. Navy include provisions for certain billing and collection of funds from the U.S. Government in advance of related inventory purchases and incurrence of manufacturing expenses. These contractual provisions are an integral part of our capital and liquidity profile. While we have other sources of liquidity including, but not limited to, our operations, existing cash balances and our revolving line-of-credit and we believe we have sufficient liquidity for our

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anticipated needs over the next 12 months, no assurances regarding liquidity can be made. The discontinuance of performance based billing provisions from future U.S. Navy contracts would require us to fund the working capital requirements related to these contracts from other sources and otherwise could materially adversely impact our business, results of operations and financial condition.

The Company and its customers may be unable to keep current with technological changes.

Our customers participate in markets that have rapidly changing technology, evolving industry standards, frequent new product introductions and relatively short product life cycles. The introduction of products embodying new technologies or the emergence of new industry standards can render existing products obsolete or unmarketable. Our success depends upon our customers' ability to enhance existing products and to develop and introduce new products, on a timely and cost-effective basis, that keep pace with technological developments and emerging standards and to address increasingly sophisticated customer requirements. There is no assurance that our customers will do so and any failure to do so could substantially harm our customers and us.

Additionally, our future success will depend upon our ability to maintain and enhance our own technological capabilities, develop and market manufacturing services and products which meet changing customer needs and to successfully anticipate or respond to technological changes in manufacturing processes on a cost-effective and timely basis. If we are unable to do so, business, financial condition and operating results could be materially adversely affected.

Start-up costs and inefficiencies related to new or transferred programs can adversely affect our operating results and may not be recoverable.

Start-up costs, the management of labor and equipment resources in connection with new programs and new customer relationships, and the need to estimate the extent and timing of required resources can adversely affect our profit margins and operating results. These factors are particularly evident with the introduction of new products and programs. The effects of these start-up costs and inefficiencies can also occur when new facilities are opened or programs are transferred from one facility to another.

If new programs or customer relationships are terminated or delayed, our operating results may be harmed, particularly in the near term. We may not be able to recoup our start-up costs or quickly replace these anticipated new program revenues.

We depend on limited or single source suppliers for some critical components; the inability to obtain components as required, with favorable purchase terms, could harm our business.

A significant portion of our costs are related to electronic components purchased to produce our products. In some cases our customers dictate that we purchase particular components from a single or limited number of suppliers. Supply shortages for a particular component can delay production and thus delay shipments to customers and the associated revenue of all products using that component. This could cause the Company to experience a reduction in sales, increased inventory levels and costs and could adversely affect relationships with existing and prospective customers. In the past, we have secured sufficient allocations of constrained components so that revenue was not materially impacted. The Company believes that alternative suppliers are available to provide the components, including unique components, necessary to manufacture our customers' products. If, however, we are unable to procure necessary components under favorable purchase terms, including at favorable prices and with the order lead times needed for the efficient and profitable operation of our factories, our results of operations could suffer.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") contains provisions to improve the transparency and accountability concerning the supply of minerals originating from the conflict zones of the Democratic Republic of Congo ("DRC") and adjoining countries. As a result, the SEC established new annual disclosure and reporting requirements for those companies who use "conflict" minerals mined from the DRC and adjoining countries in their products. These requirements could affect the sourcing and availability of minerals used in the manufacturing of our electrical components. As a result, we may not be able to obtain products at competitive prices. We have had additional costs associated with complying with the new due diligence procedures as required by the SEC. Also, since our supply chain is complex, we may face reputational challenges with our customers and other stakeholders if we are unable to sufficiently verify the origins for all conflict minerals used in our products through the due diligence procedures as we implement them. We may also encounter challenges to satisfy those customers who require that all of the components of our products are certified as conflict free. If we are not able to meet customer requirements, customers may choose to disqualify us as a supplier.

A tightened credit market, either nationally or globally, may adversely affect the availability of funds to us for working capital, liquidity requirements and other purposes, which may adversely affect our cash flows and financial condition.

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We have a revolving line-of-credit facility with a group of banks which is secured by substantially all the assets of the Company. We anticipate that our credit facility will be a component of our available working capital during fiscal year 2018. However, there are no assurances that the line-of-credit will be sufficient for all purposes. Additionally, if vendors of electronic components restrict or reduce credit to us for the purchase of raw materials as a result of general market conditions, the vendor's credit status, or our financial position, it could adversely affect liquidity, cash flows and results of operations. See "Liquidity and Capital Resources" in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Form 10-K for more information related to the Company's credit facility.

Our stock price may be volatile, and the stock is thinly traded, which may cause investors to lose most or part of their investment in our common stock.

The stock market may experience volatility that is often unrelated to the operating performance of any particular company or companies. If market-sector or industry-based fluctuations occur, our stock price could decline regardless of our actual operating performance and investors could lose a substantial part of their investments. Moreover, if an active public market for our common stock is not sustained in the future, it may be difficult to resell such stock. Generally, our stock is thinly traded. When trading volumes are low, a relatively small buy or sell order can result in a relatively large change in the trading price of our common stock and investors may not be able to sell their securities at a favorable price.

Failure to attract and retain key personnel and skilled associates could hurt operations.

Our success depends to a large extent upon the continued services of key management personnel. While we have employment contracts in place with several of our executive officers, we nevertheless cannot be assured that we will retain our key employees and the loss of service of any of these officers or key management personnel could have a material adverse effect on our business growth and operating results.

Our future success will require an ability to attract and retain qualified employees. Competition for such key personnel is intense and we cannot be assured that we will be successful in attracting and retaining such personnel. We cannot make assurances that we will not have departures of key personnel in the future. Changes in the cost of providing pension and other employee benefits, including changes in health care costs, investment returns on plan assets and discount rates used to calculate pension and related liabilities, could lead to increased costs in any of our operations.

Certain of our U.S. government contracts require our employees to maintain various levels of security clearances and we are required to maintain certain facility security clearances complying with U.S. government requirements. If our employees are unable to obtain security clearances in a timely manner, or at all, or if our employees who hold security clearances are unable to maintain the clearances or terminate employment with us, then a customer requiring classified work could terminate the contract or decide not to renew it upon its expiration. In addition, we expect that many of the contracts on which we will bid will require us to demonstrate our ability to obtain facility security clearances and employ personnel with specified types of security clearances.

To the extent we are not able to obtain facility security clearances or engage employees with the required security clearances for a particular contract, we may not be able to bid on or win new contracts, or effectively bid on expiring contracts.

Adverse regulatory developments could harm our business.

Our business operates and certain of our customers' businesses operate, in heavily regulated environments. We must manage the risk of changes in or adverse actions under applicable law or in our regulatory authorizations, licenses and permits, governmental security clearances, government procurement regulations or other legal rights in order to operate our business, manage our work force or import and export goods and services as needed. We also face the risk of other adverse regulatory actions, compliance costs or governmental sanctions. The regulations and regulatory bodies include, but are not limited to, the following: the Federal Acquisition Regulations, the Truth in Negotiations Act, the False Claims Act and the False Statements Act, the Foreign Corrupt Practices Act, the Food and Drug Administration, the Federal Aviation Administration and the International Traffic in Arms Regulations.

Our failure to comply with applicable regulations, rules and approvals or misconduct by any of our employees could result in the imposition of fines and penalties, the loss of security clearances, the loss of our government contracts or our suspension or debarment from contracting with the U.S. government in general, any of which would harm our business, financial condition and results of operations. See also additional risk factors relating to U.S. government contract audits, securities laws regulations, environmental law regulations and foreign law regulations.

We are subject to a variety of environmental laws, which expose us to potential liability.

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Our operations are regulated under a number of federal, state, provincial, local and foreign environmental laws and regulations, which govern, among other things, the discharge of hazardous materials into the air and water, as well as the handling, storage and disposal of such materials. These laws and regulations include the Clean Air Act, the Clean Water Act, the Resource, Conservation and Recovery Act and the Comprehensive Environmental Response, Compensation and Liability Act, as well as analogous state and foreign laws. Compliance with these environmental laws is a significant consideration for us because we use various hazardous materials in our manufacturing processes. We may be liable under environmental laws for the cost of cleaning up properties we own or operate if they are or become contaminated by the release of hazardous materials, regardless of whether we caused the release, even if we fully comply with applicable environmental laws. In the event of contamination or violation of environmental laws, we could be held liable for damages including fines, penalties and the costs of remedial actions and could also be subject to revocation of our discharge permits. Any such penalties or revocations could require us to cease or limit production at one or more of our facilities, thereby harming our business. In addition, such regulations could restrict our ability to expand our facilities or could require us to acquire costly equipment, or to incur other significant expenses to comply with environmental regulations, including expenses associated with the recall of any non-compliant product.

The Company has been involved with ongoing environmental remediation since the early 1980's related to one of its former manufacturing facilities, located in Albuquerque, New Mexico ("Coors Road"). Uncertainties associated with environmental remediation contingencies are pervasive and often result in wide ranges of reasonably possible outcomes. Estimates developed in the early stages of remediation can vary significantly. Normally a finite estimate of cost does not become fixed and determinable at a specific point in time. Rather, the costs associated with environmental remediation become estimable over a continuum of events and activities that help to frame and define a liability. Factors which cause uncertainties for the Company include, but are not limited to, the effectiveness of the current work plans in achieving targeted results and proposals of regulatory agencies for desired methods and outcomes. It is possible that cash flows and results of operations could be materially affected by the impact of changes associated with the ultimate resolution of this contingency. At July 2, 2017, the Company estimates that it is reasonably possible, but not probable, that future environmental remediation costs associated with the Company's past operations at the Coors Road property, in excess of amounts already recorded, could be up to $2.5 million before income taxes over the next thirteen years, with this amount expected to be offset by related reimbursement from the United States Department of Energy for a net amount of $1.6 million.

The Company and its subsidiaries are also involved in certain other existing compliance issues with the EPA and various state agencies, including being named as a potentially responsible party at several sites. Potentially responsible parties ("PRPs") can be held jointly and severally liable for the clean-up costs at any specific site. The Company's past experience, however, has indicated that when it has contributed relatively small amounts of materials or waste to a specific site relative to other PRPs, its ultimate share of any clean-up costs has been minor. Based upon available information, the Company believes it has contributed only small amounts to those sites in which it is currently viewed as a PRP and that reasonably possible losses related to these compliance issues are immaterial.

The occurrence of litigation in which we could be named as a defendant is unpredictable.

Our business activities expose us to risks of litigation with respect to our customers, suppliers, creditors, shareholders, product liability, intellectual property infringement or environmental-related matters. We may incur significant expense to defend or otherwise address current or future claims. Any litigation, even a claim without merit, could result in substantial costs and diversion of resources and could have a material adverse effect on our business and results of operations. Although we maintain insurance policies, we cannot make assurances that this insurance will be adequate to protect us from all material judgments and expenses related to potential future claims or that these levels of insurance will be available in the future at economical prices or at all.

If we are not able to protect our intellectual property and other proprietary rights, we may be adversely affected.

Our success can be impacted by our ability to protect our intellectual property and other proprietary rights. We rely primarily on patents, trademarks, copyrights, trade secrets and unfair competition laws, as well as license agreements and other contractual provisions, to protect our intellectual property and other proprietary rights. However, a significant portion of our technology is not patented and we may be unable or may not seek to obtain patent protection for this technology. Moreover, existing U.S. legal standards relating to the validity, enforceability and scope of protection of intellectual property rights offer only limited protection, may not provide us with any competitive advantages and may be challenged by third parties. The laws of countries other than the United States may be even less protective of intellectual property rights. Accordingly, despite our efforts, we may be unable to prevent third parties from infringing upon or misappropriating our intellectual property or otherwise gaining access to our technology. If we fail to protect our intellectual property and other proprietary rights, then our business, results of operations or financial condition could be negatively impacted.

Business disruptions could seriously harm our business and results of operations.

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Increased international political instability, evidenced by threats and occurrence of terrorist attacks, conflicts in the Middle East and Asia and strained international relations arising from these conflicts, may hinder our ability to do business. The political environment in communist countries can contribute to the threat of instability. While we have not been adversely affected as yet due to this exposure, one of our facilities is based in Vietnam, which is a communist country. These events have had and may continue to have an adverse impact on the U.S. and world economies, particularly customer confidence and spending, which in turn could affect our revenue and results of operations. The impact of these events on the volatility of the U.S. and world financial markets could increase the volatility of our securities and may limit the capital resources available to us, our customers and our suppliers.

Our operations could be subject to natural disasters, disease and other business disruptions, including earthquakes, power shortages, telecommunications failures, water shortages, tsunamis, floods, hurricanes, fires, pandemic outbreaks and other natural or manmade disasters, which could seriously harm our financial condition and increase our expenses. In the past, hurricanes have adversely impacted the performance of two of our production facilities located in Florida. We have a production facility outside Ho Chi Minh City, Vietnam. This area, in the tropics and close to the sea, may be vulnerable to storms, floods and typhoons.

Operations outside of the United States may be affected by legal and regulatory risks and government reviews, inquiries or investigations could harm the Company’s business.

The Company’s operations in both Vietnam and Canada and the business it conducts outside the United States are subject to risks relating to compliance with legal and regulatory requirements in the United States as well as in local jurisdictions. Additionally, there is a risk of potentially higher incidence of fraud or corruption in certain foreign jurisdictions and greater difficulty in maintaining effective internal controls. From time to time, the Company may conduct internal investigations and compliance reviews to ensure that the Company is in compliance with applicable laws and regulations. Additionally, the Company could be subject to inquiries or investigations by government and other regulatory bodies. Any determination that the Company’s operations or activities are not in compliance with United States laws, including the Foreign Corrupt Practices Act, or various international laws and regulations could expose the Company to significant fines, penalties or other sanctions that may harm the business and reputation of the Company.

If we are unable to maintain effective internal control over our financial reporting, investors could lose confidence in the reliability of our financial statements, which could result in a reduction in the value of our common stock.

As required by Section 404 of the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"), the SEC adopted rules requiring public companies to include a report of management on the companies’ internal control over financial reporting in their annual reports on Form 10-K. The report must contain an assessment by management of the effectiveness of our internal control over financial reporting. In addition, the independent registered public accounting firm auditing a company’s financial statements must attest to and report on the effectiveness of the company’s internal control over financial reporting, if the company’s public equity float remains above certain thresholds.

We are continuing our comprehensive efforts to comply with Section 404 of the Sarbanes-Oxley Act. If we are unable to maintain effective internal control over financial reporting, this could lead us to issue a financial restatement or otherwise cause us to fail to meet our reporting obligations to the SEC, or could result in a finding by our independent auditors of a significant deficiency or material weakness in our controls over financial reporting, which, in turn, could result in an adverse reaction to our stock in the financial markets due to a loss of confidence in the reliability of our financial statements.

The efficiency of our operations could be adversely affected by disruptions to our information technology (IT) services and cyber incidents.

We rely in part on various IT systems to manage our operations and to provide analytical information to management. In addition, a significant portion of internal communications, as well as communication with customers and suppliers, depends on information technology. We are exposed to the risk of cyber incidents in the normal course of business and we have been the subject of such cyber incidents. Cyber incidents may be deliberate attacks for the theft of intellectual property, money or sensitive information (including our customers) or may be the result of unintentional events. Like most companies, the Company's information technology systems may be vulnerable to interruption due to a variety of events beyond the Company's control, including, but not limited to, natural disasters, terrorist attacks, power and/or telecommunications failures, computer viruses, hackers and other security issues. The Company has technology security initiatives and disaster recovery plans in place to mitigate the Company's risk to these vulnerabilities, but these measures may not be adequate or implemented properly to ensure that the Company's operations are not disrupted. Potential consequences of a material cyber incident include damage to our reputation, litigation, inefficiencies or production down-times, increased cyber security protection and remediation costs, including potential exposure to customers. Such consequences could have a negative impact on our ability to meet customers' orders, resulting in a delay or decrease to our revenue and a reduction to our operating margins.

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Our operating results may be subject to seasonality.

While overall sales can fluctuate during the year in each of our segments, revenues from our MDS segment are typically higher in the second half of the Company's fiscal year. Various factors can affect the distribution of our revenue between accounting periods, mainly timing of customer demand.

Fluctuations in foreign currency exchange rates could increase operating costs.

A portion of the Company’s operations and some customers are in foreign locations. While a significant portion of the Company's transactions are in U.S. dollars, some transactions occur in other currencies. Currency exchange rates fluctuate on a daily basis as a result of a number of factors and cannot be easily predicted. Volatility in the U.S. dollar could seriously harm our business, operating results and financial condition and could affect our ability to maintain or grow our revenues with international customers. Additionally, currency exchange fluctuations related to the remeasurement of the Company’s Canadian and Vietnamese financial statements into U.S. dollars could have a negative impact on our reported results. The Company currently does not use financial instruments to hedge foreign currency fluctuation and unexpected expenses could occur from future fluctuations in exchange rates.

Our growth strategies could be ineffective due to the risks of acquisitions and risks relating to integration.

Our growth strategy has included acquiring complementary businesses. If such a strategy was determined to be necessary in the future, we could fail to identify, finance or complete suitable acquisitions on acceptable terms and prices. Acquisitions and the related integration process could increase a number of risks, including diversion of operations personnel, financial personnel and management’s attention, difficulties in integrating systems and operations, potential loss of key employees and customers of the acquired companies and exposure to unanticipated liabilities. The price we pay for a business may exceed the value realized and we cannot provide any assurances of expected synergies and benefits of any acquisition. Our discovery of, or failure to discover, material issues during due diligence investigations of acquisition targets, either before closing with regard to potential risks of the acquired operations, or after closing with regard to the timely discovery of breaches of representations or warranties, could materially harm our business. Acquisitions also may result in the recording of goodwill and other intangible assets which are subject to potential impairments in the future that could harm our financial position and operating results. As a result of such integration risks, as well as other factors, the Company recognized an impairment of goodwill of $64.2 million in its MDS segment in fiscal 2016.

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ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

The following is a listing of Sparton's principal properties as of July 2, 2017. As described below, Sparton owns some of these properties and leases others. These facilities provide a total of approximately 858,000 square feet of manufacturing and administrative space. There are manufacturing and office facilities at most locations. Sparton's manufacturing facilities in aggregate are underutilized. Underutilized percentages vary by plant; however, ample space exists to accommodate expected growth. Sparton believes these facilities are suitable for its operations.

Segment/Location	Square Feet	Ownership	Time remaining on existing lease term		Additional lease terms at Company's option	
Manufacturing & Design Services Segment:						
Strongsville, Ohio	60,000	Owned	—		—	
Frederick, Colorado	65,000	Leased	5 years		—	
Watertown, South Dakota	125,000	Owned	—		—	
Plymouth, Minnesota	10,000	Leased	4 years		5 years	
Irvine, California	30,000	Sub-leased	1 year		2 years	(a)
Pittsford, New York	12,000	Leased	3 years		5 years	
Brooksville, Florida	125,000	Owned	—		—	
Thuan An District, Binh Duong Province, Vietnam (Outside of Ho Chi Minh City)	55,000	Owned	—		—	
Plaistow, New Hampshire	20,000	Leased	3 years		3 years	
Irvine, California	24,000	Leased	5 months		—	(d)
Irvine, California	33,000	Leased	8 years		5 years	(e)
Milpitas, California	62,000	Leased	3.5 years		5 years	
Engineered Components and Products Segment:						
De Leon Springs, Florida	183,000	Owned	—		—	
Birdsboro, Pennsylvania	41,000	Leased	1 year		5 years	(b)
Woodbridge, Ontario, Canada	21,000	Leased	3 years	(c)	5 years	(c)
Corporate Office:						
Schaumburg, Illinois	22,000	Leased	8 years		5 years	

(a) Irvine, California location sub-lease terminates May 31, 2018. This facility is not used for manufacturing or administrative purposes
(b) Lease terms include two option periods of five years each
(c) Lease terms include two leased facilities with identical lease termination and options to extend
(d) Lease term terminates December 1, 2017; no renewal
(e) Lease term began on April 28, 2017

While the Company owns the building and other assets in Vietnam, the land is occupied under a long-term lease covering forty years of which twenty-eight years remain. This lease is prepaid, with the cost amortized over the term of the lease and carried in other long-term assets on our balance sheet.

As of July 2, 2017, substantially all of our assets, including real estate, are pledged as collateral to secure any potential borrowings under our revolving line-of-credit facility. See Note 8, Debt, of the "Notes to Consolidated Financial Statements" in this Form 10-K for further information related to our credit facility.

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ITEM 3. LEGAL PROCEEDINGS

The Company and the members of our board of directors were named as defendants in four federal securities class actions purportedly brought on behalf of all holders of the Company's common stock challenging the pending merger transaction with Ultra. The lawsuits generally sought, among other things, to enjoin the defendants from proceeding with the shareholder vote on the merger at the special meeting or consummating the merger transaction unless and until the Company disclosed the allegedly omitted information. The complaints also sought damages allegedly suffered by the plaintiffs as a result of the asserted omissions, as well as related attorneys' fees and expenses.

After discussions with counsel for the plaintiffs, the Company included certain additional disclosures in the proxy statement soliciting shareholder approval of the Merger. The Company believes the demands and complaints are without merit, there were substantial legal and factual defenses to the claims asserted, and the proxy statement disclosed all material information prior to the inclusion of the additional disclosures. The Company made the additional disclosures to avoid the expense and burden of litigation. On September 1, 2017, the court dismissed the lawsuits with prejudice with respect to lead plaintiffs in the lawsuits and without prejudice as to all other shareholders. The Company and plaintiffs must still attempt to resolve the appropriate amount of attorneys' fees, if any, to be awarded to plaintiffs' counsel.

See Note 11, Commitments and Contingencies, of the "Notes to Consolidated Financial Statements" of this Form 10-K for information concerning legal proceedings.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information. Our common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "SPA". The table below sets forth the high and low closing prices of our common stock as reported by the NYSE for each quarter during the last two years:

	Quarter			
	1st	2nd	3rd	4th
Fiscal year 2017				
High	$26.26	$26.04	$24.00	$23.05
Low	$20.81	$21.57	$20.50	$17.16
Fiscal year 2016				
High	$26.91	$25.31	$21.64	$22.45
Low	$21.21	$19.03	$12.46	$17.71

Holders. As of September 12, 2017, there were 284 record holders of our common stock. The number of record holders does not include beneficial owners whose shares are held in the names of banks, brokers, nominees or other fiduciaries.

Dividends. The Company has not declared or paid dividends on our common stock in fiscal years 2017 and 2016.

Securities Authorized for Issuance Under Equity Compensation Plans. See our disclosure below in "Part III, Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters."

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Performance Graph. The performance graph below compares the cumulative total shareholder return on our common stock for the past five fiscal years against the cumulative total return of a broad market index (Russell 2000 Index) and a peer group index, which is composed of AeroVironment, Inc., American Science and Engineering, Inc., Analogic Corporation, AngioDynamics, Inc., Astronics Corporation, CTS Corporation, Ducommun, Inc., Exactech, Inc., Integer Holdings Corporation (prior to July 1, 2016, known as Greatbatch, Inc.), Key Tronic Corporation, Kimball Electronics, Inc., Maxwell Technologies, Inc., Raven Industries, Inc., Sigmatron International Inc., SMTC Corp., Sypris Solutions, Inc., and Universal Electronics, Inc. The comparative peer group was selected based on a review of publicly available information about these companies and the Company’s determination that they are engaged in electronics manufacturing businesses similar to that of the Company or its reportable operating segments.
The graph assumes that $100.00 was invested in our common stock and in each index on June 30, 2012. The total return for the common stock and the indices used assumes the reinvestment of dividends, if any. The comparisons in the graph below are based upon historical data and are not indicative of, nor intended to forecast, future performance of our common stock.
Comparison of Cumulative Total Return
Among Sparton Corporation,
Russell 2000 Index and Peer Group Index

	6/30/2012	6/30/2013	6/30/2014	6/30/2015	7/3/2016	7/2/2017
Sparton Corporation	100.00	174.14	280.20	275.96	226.77	222.12
Russell 2000 Index	100.00	124.21	153.57	163.53	153.17	190.05
Peer Group	100.00	123.52	149.62	136.39	124.63	155.17

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ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth a summary of selected financial data for the last five fiscal years. This selected financial data should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our Audited Consolidated Financial Statements and, in each case, any related notes thereto included elsewhere in this report (dollars in thousands, except per share data).

	2017 (a)	2016 (a)	2015 (a)	2014 (a)	2013 (a) (b)
Operating results:					
Net sales	$397,562	$419,362	$382,125	$336,501	$265,003
Cost of goods sold	325,663	339,214	307,311	271,551	219,192
Gross profit	71,899	80,148	74,814	64,950	45,811
Selling and administrative expenses	54,110	55,151	46,969	35,682	26,464
Internal research and development expenses	1,670	2,344	1,502	1,169	1,300
Amortization of intangible assets	8,498	9,592	6,591	3,422	1,575
Restructuring charges	—	2,206	—	188	55
Reversal of accrued contingent consideration	—	(1,530)	—	—	—
Impairment of goodwill	—	64,174	—	—	—
Legal settlement	—	—	2,500	—	—
Environmental remediation	—	—	—	4,238	—
Operating income (loss)	7,621	(51,789)	17,252	20,251	16,417
Total other expense, net	(4,377)	(3,710)	(2,297)	(649)	(245)
Income (loss) before income taxes	3,244	(55,499)	14,955	19,602	16,172
Income taxes	1,927	(17,216)	3,966	6,615	2,702
Net income (loss)	$1,317	$(38,283)	$10,989	$12,987	$13,470
Weighted average shares of common stock outstanding:					
Basic	9,812,248	9,786,315	9,874,441	10,109,915	10,193,530
Diluted	9,812,273	9,786,315	9,885,961	10,141,395	10,228,687
Income (loss) per share of common stock:					
Basic	$0.13	$(3.91)	$1.10	$1.28	$1.32
Diluted	0.13	(3.91)	1.10	1.28	1.32
Shareholders’ equity — per share	8.34	8.03	11.82	10.87	9.52
Cash dividends — per share	—	—	—	—	—
Other financial data:					
Total assets	217,143	245,998	337,551	198,980	165,922
Working capital	56,182	68,167	116,962	75,443	51,184
Working capital ratio	2.04:1	2.09:1	2.99:1	2.83:1	1.92:1
Debt (including capital leases)	$74,936	$97,755	$154,500	$41,000	$11,539
Shareholders’ equity	81,868	78,628	116,879	110,115	96,072

(a) Operating results of acquired businesses have been included in the Company’s consolidated financial results since the dates of respective acquisitions.

(b) Fiscal years 2013 reflects the retroactive impact of the Company's fiscal year 2014 change in its revenue recognition policy related to its ECP sonobuoy sales.

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ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is an analysis of the Company’s results of operations, liquidity and capital resources and should be read in conjunction with the Consolidated Financial Statements and notes related thereto included in this Form 10-K. To the extent that the following Management’s Discussion and Analysis contains statements which are not of a historical nature, such statements are forward-looking statements which involve risks and uncertainties. These risks include, but are not limited to the risks and uncertainties discussed in “Item 1A Risk Factors” in this Annual Report on Form 10-K. The following discussion and analysis should be read in conjunction with the “Forward Looking Statements” and “Item 1A Risk Factors” each included in this Annual Report on Form 10-K.

Business Overview

General

Sparton Corporation and subsidiaries (the “Company” or “Sparton”) has been in continuous existence since 1900. It was last reorganized in 1919 as an Ohio corporation. The Company is a provider of design, development and manufacturing services for complex electromechanical devices, as well as sophisticated engineered products complementary to the same electromechanical value stream. The Company serves the Medical & Biotechnology, Military & Aerospace and Industrial & Commercial markets through two reportable business segments; Manufacturing & Design Services (“MDS”) and Engineered Components & Products (“ECP”).

Reportable segments are defined as components of an enterprise for which separate financial information is available and is evaluated regularly by the chief operating decision maker ("CODM") in assessing performance and allocating resources. The Company's CODM is its Senior Vice President of Operations. In the MDS segment, the Company performs contract manufacturing and design services utilizing customer-owned intellectual property. In the ECP segment, the Company performs manufacturing and design services using the Company's intellectual property.

The Company uses an internal management reporting system, which provides important financial data to evaluate performance and allocate the Company's resources on a segment basis. Net sales are attributed to the segment in which the product is manufactured or service is performed. A segment's performance is evaluated based upon its operating income, contribution margin, gross margin and a variety of other factors. A segment's operating income includes its gross profit on sales less its selling and administrative expenses, including allocations of certain corporate operating expenses. Certain corporate operating expenses are allocated to segment results based on the nature of the service provided. Other corporate operating expenses, including certain administrative, financial and human resource activities as well as items such as interest expense, interest income, other income (expense) and income taxes, are not allocated and are excluded from segment profit. These costs are not allocated to the segments, as management excludes such costs when assessing the performance of the segments. Inter-segment transactions are generally accounted for at amounts that approximate arm's length transactions. Identifiable assets by segments are those assets that are used in each segment's operations. The accounting policies for each of the segments are the same as for the Company taken as a whole.

All of the Company's facilities are certified to one or more of the ISO/AS standards, including ISO 9001, AS9100 and ISO 13485, with most having additional certifications based on the needs of the customers they serve. The majority of the Company's customers are in highly regulated industries where strict adherence to regulations such as the International Tariff and Arms Regulations ("ITAR") is necessary. The Company's products and services include offerings for Original Equipment Manufacturers (“OEM”) and Emerging Technology (“ET”) customers that utilize microprocessor-based systems which include transducers, printed circuit boards and assemblies, sensors and electromechanical components, as well as development and design engineering services relating to these product sales. Sparton also develops and manufactures sonobuoys, anti-submarine warfare (“ASW”) devices used by the United States Navy as well as by foreign governments that meet Department of State licensing requirements. Additionally, Sparton manufactures rugged flat panel display systems for military panel PC workstations, air traffic control and industrial applications, as well as high performance industrial grade computer systems and peripherals. Many of the physical and technical attributes in the production of these proprietary products are similar to those required in the production of the Company's other electrical and electromechanical products and assemblies.

On July 7, 2017, the Company, an Ohio corporation, entered into an Agreement and Plan of Merger (the “Merger Agreement”) among the Company, Ultra Electronics Holdings plc, a company organized under the laws of England and Wales (“Parent” or "Ultra"), and Ultra Electronics Aneira Inc., an Ohio corporation and an indirect wholly owned subsidiary of Parent (“Merger Sub”). Upon the terms and subject to the conditions set forth in the Merger Agreement, Merger Sub will be merged with and into the Company (the “Merger”) with the Company surviving the Merger as a wholly owned subsidiary of Parent.

At the effective time of the Merger, each issued and outstanding share of common stock, par value $1.25 per share, of the

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Company (each, a “Share”) (other than (i) Shares that immediately prior to the effective time of the Merger are owned by Parent, Merger Sub or any other wholly owned subsidiary of Parent or owned by the Company or any wholly owned subsidiary of the Company (including as treasury stock) and (ii) Shares that are held by any record holder who is entitled to demand and properly demands payment of the fair cash value of such Shares as a dissenting shareholder pursuant to, and who complies in all respects with, the provisions of Section 1701.85 of the Ohio General Corporation Law (the “OGCL”)) will be cancelled and converted into the right to receive $23.50 per Share in cash, without interest. The Merger Agreement provides for certain other termination rights for both the Company and Ultra, and further provides that, upon termination of the Merger Agreement under certain specified circumstances, the Company will be required to pay Ultra a termination fee of $7.5 million or Ultra will be required to pay Company a termination fee of $7.5 million.

MDS Segment

MDS segment operations are comprised of contract design, manufacturing and aftermarket repair and refurbishment of sophisticated printed circuit card assemblies, sub-assemblies, full product assemblies and cable/wire harnesses for customers seeking to bring their intellectual property to market. Additionally, Sparton is a developer of embedded software and software quality assurance services in connection with medical devices and diagnostic equipment. Customers include OEM and ET customers serving the Medical & Biotechnology, Military & Aerospace and Industrial & Commercial markets. In engineering and manufacturing for its customers, this segment adheres to very strict military and aerospace specifications, Food and Drug Administration (“FDA”) guidelines and approvals, in addition to product and process certifications.

ECP

ECP segment operations are comprised of design, development and production of proprietary products for both domestic and foreign defense as well as commercial needs. Sparton designs and manufactures ASW devices known as sonobuoys for the U.S. Navy and foreign governments that meet Department of State licensing requirements. This segment also performs an engineering development function for the United States military and prime defense contractors for advanced technologies, ultimately leading to future defense products, as well as replacements for existing products. The sonobuoy product line is built to stringent military specifications. These products are restricted by International Tariff and Arms Regulations (“ITAR”) and qualified by the U.S. Navy, which limits opportunities for competition. Sparton is also a provider of rugged flat panel display systems for military panel PC workstations, air traffic control and industrial and commercial marine applications, as well as high performance industrial grade computer systems and peripherals. Rugged displays are manufactured for prime contractors, in some cases to specific military grade specifications. Additionally, this segment internally develops and markets commercial products for underwater acoustics and microelectromechanical (“MEMS”)-based inertial measurement.

Risks and Uncertainties

Sparton, as a high-mix, low to medium volume supplier, provides rapid product turnaround for customers. High-mix describes customers needing multiple product types with generally low to medium volume manufacturing runs. As a contract manufacturer with customers in a variety of markets, the Company has substantially less visibility of end user demand and, therefore, forecasting sales can be problematic. Customers may cancel their orders, change production quantities and/or reschedule production for a number of reasons. Depressed economic conditions may result in customers delaying delivery of product, or the placement of purchase orders for lower volumes than previously anticipated. Unplanned cancellations, reductions or delays by customers may negatively impact the Company's results of operations. As many of the Company's costs and operating expenses are relatively fixed within given ranges of production, a reduction in customer demand can disproportionately affect the Company's gross margins and operating income. The majority of the Company's sales have historically come from a limited number of customers. Significant reductions in sales to, or a loss of, one of these customers could materially impact our operating results if the Company were not able to replace those sales with new business.

Other risks and uncertainties that may affect our operations, performance, growth forecasts and business results include, but are not limited to, timing and fluctuations in U.S. and/or world economies, sharp volatility of world financial markets over a short period of time, competition in the overall contract manufacturing business, availability of production labor and management services under terms acceptable to the Company, congressional budget outlays for sonobuoy development and production, congressional legislation, uncertainties associated with the outcome of litigation, changes in the interpretation of environmental laws and the uncertainties of environmental remediation and customer labor and work strikes. Further risk factors are the availability and cost of materials, as well as non-cancelable purchase orders we have committed to in relation to customer forecasts that can be subject to change. A number of events can impact these risks and uncertainties, including potential escalating utility and other related costs due to natural disasters, as well as political uncertainties such as the unrest in Africa and the Middle East and increased tension between Vietnam and China over oil rights in the South China Sea. Additional trends, risks and uncertainties include dependence on key personnel, risks surrounding acquisitions, uncertainties surrounding the global economy, U.S. healthcare legislation, U.S. budget sequestration and debt ceiling negotiations and the effects of those uncertainties on OEM behavior, including heightened inventory management, product development cycles and

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outsourcing strategies. Finally, the Sarbanes-Oxley Act, and more recently the Dodd-Frank Act, have required or will require changes in, and formalization of, some of the Company's corporate governance and compliance practices. The SEC and the New York Stock Exchange have also passed or will pass related rules and regulations requiring additional compliance activities, including those implementing the conflict minerals provisions of the Dodd-Frank Act. Compliance with these rules has increased administrative costs and may increase these costs further in the future. A further discussion of the Company’s risk factors has been included in Part I, Item 1A, “Risk Factors”, of this Annual Report on Form 10-K. Management cautions readers not to place undue reliance on forward-looking statements, which are subject to influence by the enumerated risk factors as well as unanticipated future events.

Acquisitions

Fiscal Year 2015

Hunter Technology Corporation

On April 14, 2015, the Company acquired Hunter Technology Corporation ("Hunter"), with operations located in Milpitas, CA and Lawrenceville, GA, for $55.0 million. Hunter, which is part of the Company's MDS segment, provides electronic contract manufacturing in military and aerospace applications. Hunter provides engineering design, new product introduction and full-rate production manufacturing solutions working with major defense and aerospace companies, test and measurement suppliers, secure networking solution providers, medical device manufacturers and a wide variety of industrial customers.

Stealth.com

On March 16, 2015, the Company acquired substantially all of the assets of Stealth.com ("Stealth"), located in Woodbridge, ON, Canada, for $16.0 CAD ($12.6 USD) million. The acquired business, which is part of the Company's ECP segment, is a supplier of high performance rugged industrial grade computer systems and peripherals that include Mini PC/Small Form Factor Computers, Rackmount Server PCs, Rugged Industrial LCD Monitors, Rugged Portable PCs, Industrial Grade Keyboards and Rugged Trackballs and Mice.

KEP Marine

On January 21, 2015, the Company acquired certain assets of KEP Marine, a division of Kessler-Ellis Products, located in Eatontown, NJ, for $4.3 million. The acquired business, which is part of the Company's ECP segment, designs and manufactures industrial displays, industrial computers and HMI software for the Marine market. These product lines have been consolidated into the Aydin Displays facility, located in Birdsboro, PA.

Real-Time Enterprises, Inc.

On January 20, 2015, the Company acquired Real-Time Enterprises, Inc. ("RTEmd"), located in Pittsford, NY, for $2.3 million. RTEmd will continue to service its current and future customers out of its Pittsford, NY location. The acquired business, which is part of the Company's MDS segment, is a developer of embedded software to operate medical devices and diagnostic equipment through a disciplined approach to product development and quality/regulatory services with specific product experience such as patient monitoring, medical imaging, in-vitro diagnostics, electro-medical systems, surgical applications, ophthalmology, nephrology, infusion pumps and medical imaging.

Argotec, Inc.

On December 8, 2014, the Company acquired certain assets of Argotec, Inc. ("Argotec"), located in Longwood, FL, for $0.4 million. The acquired business, which is part of the Company's ECP segment, is engaged in developing and manufacturing sonar transducer products and components for the U.S. Navy and also provides aftermarket servicing. These products have been consolidated into the Company's DeLeon Springs, FL location.

Industrial Electronic Devices, Inc.

On December 3, 2014, the Company acquired certain assets of Industrial Electronic Devices, Inc. ("IED"), located in Flemington, NJ, for $3.3 million. The acquired business, which is part of the Company's ECP segment, designs and manufactures a full line of rugged displays for the Industrial and Marine markets. IED's catalog spans over 600 standard, semi-custom and custom configurations, incorporating some of the most advanced flat panel displays and touch screen technology available. These product lines have been consolidated into the Aydin Displays facility, located in Birdsboro, PA.

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Electronic Manufacturing Technology, LLC.

On July 9, 2014, the Company acquired Electronic Manufacturing Technology, LLC. (“eMT”), located in Irvine, CA, for $22.1 million, which included $1.5 million of acquired cash. The acquired business, which is part of the Company's MDS segment, is engaged in the contract services business of manufacturing electromechanical controls and electronic assemblies. Their customer profile includes international Fortune 1000 manufacturers of highly reliable industrial excimer laser products, laser eye surgery sub-assemblies, target simulators for space and aviation systems, power modules for computerized tomography products, test systems for commercial aerospace OEMs and toll road antennas and control boxes.

			Reporting period discussed as Legacy Business		
Company	Acquisition Date	Quarter Acquired	Quarterly	Quarterly, year-to-date	Annual
Hunter Technology Corporation	04/14/15	Q4 2015	Q1 2017	Q2 2017	2017
Stealth.com	03/16/15	Q3 2015	Q4 2016	Q2 2017	2017
KEP Marine	01/21/15	*	—	—	—
Real-Time Enterprises, Inc.	01/20/15	Q3 2015	Q4 2016	Q2 2017	2017
Argotec, Inc.	12/08/14	*	—	—	—
Industrial Electronic Devices, Inc.	12/03/14	*	—	—	—
Electronic Manufacturing Technology, LLC	07/09/14	Q1 2015	Q1 2016	Q2 2016	2016
Aubrey Group, Inc.	03/17/14	Q3 2014	Q4 2015	Q2 2016	2016
Beckwood Services, Inc.	12/11/13	Q2 2014	Q3 2015	Q2 2016	2016
Aydin Displays, Inc.	08/30/13	Q1 2014	Q2 2015	Q2 2016	2016

* Acquisition was treated as a "tuck in acquisition" and therefore is treated as legacy business as of the date of acquisition as stand-alone financial information is not available.

Consolidated Results of Operations

Presented below are more detailed comparative data and discussions regarding our consolidated and reportable segment results of operations for fiscal year 2017 compared to fiscal year 2016, and fiscal year 2016 compared to fiscal year 2015.

For fiscal year 2017 compared to fiscal year 2016

CONSOLIDATED

The following table presents selected consolidated statements of operations data (dollars in thousands):

	For fiscal years			
	2017		2016	
	Total	% of Sales	Total	% of Sales
Net sales	$397,562	100.0 %	$419,362	100.0 %
Cost of goods sold	325,663	81.9	339,214	80.9
Gross profit	71,899	18.1	80,148	19.1
Selling and administrative expenses	54,110	13.6	55,151	13.2
Internal research and development expenses	1,670	0.4	2,344	0.5
Amortization of intangible assets	8,498	2.2	9,592	2.3
Restructuring charges	—	—	2,206	0.5
Reversal of accrued contingent consideration	—	—	(1,530)	(0.4)
Impairment of goodwill	—	—	64,174	15.3
Operating income (loss)	7,621	1.9	(51,789)	(12.3)
Other expense, net	(4,377)	(1.1)	(3,710)	(0.9)
Income (loss) before income taxes	3,244	0.8	(55,499)	(13.2)
Income taxes	1,927	0.5	(17,216)	(4.1)
Net income (loss)	$1,317	0.3 %	$(38,283)	(9.1)%

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The decrease in net sales was a result of reduced sales of $14.6 million and $7.2 million in our MDS segment and ECP segment, respectively.
Gross profit was negatively impacted in the current year by lower sales volumes in both the ECP and MDS segments as well as shift in product mix slightly offset by favorable overhead in the MDS segment. The decrease in selling and administrative expense is due to the continued focused effort on cost containment in both the ECP and MDS segment offset slightly by higher costs at the corporate office.
Restructuring charges relate to the closing of the Company's Lawrenceville, GA manufacturing operations and consolidation of its Irvine, CA design center into its Irvine, CA manufacturing operations.
Accrued contingent consideration related to Hunter of $1.2 million and RTEmd of $0.3 million, both in the MDS segment, was reversed in fiscal year 2016 as these acquired companies did not meet the required performance thresholds necessary to earn their respective contingent considerations.
Interest expense consists of interest and fees on the Company's outstanding debt and revolving credit facility, including amortization of financing costs. Interest expense was $4.4 million and $3.8 million for fiscal years 2017 and 2016, respectively. The comparative interest expense reflects increased interest rates, partially offset by average borrowings under the Company's credit facility between the two periods, partially offset by lower amortization of loan financing fees, as fiscal year 2015 included accelerated amortization of loan financing fees in relation to the Company's old facility replaced during first quarter of fiscal year 2015. See Note 8, Debt, of the "Notes to Consolidated Financial Statements" in this Form 10-K for a further discussion of debt.
The decline in value in the MDS reporting unit in fiscal year 2016 was as a result of the underperformance of the Company's most recent acquisition (Hunter Technology Corporation), and the inability to achieve sufficient organic growth to offset the loss of a large customer due to insourcing, as well as revenue declines due to fluctuations in customer demand across the MDS reporting unit. It was determined that goodwill within this reporting unit was fully impaired. As such, the Company recorded an impairment of goodwill charge of $64.2 million. The fair value of the Company's ECP reporting unit was in excess of its carrying value and, as such, indicated no impairment of goodwill.
The Company recorded an income tax expense of $1.9 million, or 59.4% of income before income taxes in fiscal year 2017. Our tax rate is affected by recurring items, such as tax rates in foreign jurisdictions and the relative amounts of income or loss we earn in those jurisdictions, state income taxes and the domestic production activities deduction. Discrete items impacting our effective tax rate include return to provision adjustments, certain jurisdictional audit adjustments and changes in state apportionment factors. See Note 9, Income Taxes, of the "Notes to Consolidated Financial Statements" in this Form 10-K for a further discussion of income taxes.
Due to the factors described above, the Company reported net income of $1.3 million, or $0.13 income per share for fiscal year 2017, compared to net loss of $38.3 million, or $3.91 loss per share for the fiscal year 2016.
MDS
The following table presents selected consolidated statements of operations data (dollars in thousands):

	For fiscal years					
	2017	% of Sales	2016	% of Sales	$ Chg	% Chg
Gross sales	$260,514	100.0 %	$282,076	100.0 %	$(21,562)	(7.6)%
Intercompany sales	(10,074)	(3.9)	(17,028)	(6.0)	6,954	(40.8)
Net sales	250,440	96.1	265,048	94.0	(14,608)	(5.5)
Gross profit	31,441	12.1	34,788	12.3	(3,347)	(9.6)
Selling and administrative expenses	23,123	8.9	23,813	8.4	(690)	(2.9)
Amortization of intangible assets	7,011	2.7	7,938	2.8	(927)	(11.7)
Restructuring charges	—	—	2,206	0.8	(2,206)	—
Reversal of accrued contingent consideration	—	—	(1,530)	(0.5)	1,530	—
Impairment of goodwill	—	—	64,174	22.8	(64,174)	—
Operating income (loss)	$1,307	0.5 %	$(61,813)	(21.9)%	$63,120	N/A

The $14.6 million decrease in net sales was due to the continued insourcing of a large customer in our medical end-market, the loss of a customer in our industrial end-market, the closure of our Lawrenceville facility as well as other volume

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reductions. These losses were partially offset by new revenue wins and increased volumes with other customers.
Gross profit was negatively affected in fiscal year 2017 by the lower sales volumes. The selling and administrative expense decrease is primarily due to lower compensation and facility costs.

Gross margin on MDS sales was negatively impacted in the current year by an unfavorable shift in product mix as compared to the prior year.

MDS backlog was $124.8 million at July 2, 2017 compared to $138.5 million at July 3, 2016. The decrease in backlog is primarily associated with customers that have executed previously reported insourcing strategies, which has been partially offset by backlog growth from new customers. Commercial orders, in general, may be rescheduled or canceled without significant penalty, as a result, may not be a meaningful measure of future sales. A majority of the July 2, 2017 MDS backlog is currently expected to be realized in the next 12 months.

Restructuring charges relate to the previously discussed closing of the Company's Lawrenceville, GA manufacturing operations and consolidation of its Irvine, CA design center into its Irvine, CA manufacturing operations. The reversal of accrued contingent consideration related to Hunter and RTEmd, as previously discussed.

The decline in value in the MDS reporting unit in fiscal year 2016 was as a result of the underperformance of the Company's most recent acquisition (Hunter Technology Corporation), and the inability to achieve sufficient organic growth to offset the loss of a large customer due to insourcing, as well as revenue declines due to fluctuations in customer demand across the MDS reporting unit. It was determined that goodwill within this reporting unit was fully impaired. As such, the Company recorded an impairment of goodwill charge of $64.2 million.

ECP

The following table presents selected consolidated statements of income data (dollars in thousands):

	For fiscal years					
	2017	% of Sales	2016	% of Sales	$ Chg	% Chg
Gross sales	$147,259	100.0 %	$154,559	100.0 %	$(7,300)	(4.7)%
Intercompany	(137)	(0.1)	(245)	(0.2)	108	(44.1)
Net sales	147,122	99.9	154,314	99.8	(7,192)	(4.7)
Gross profit	40,458	27.5	45,360	29.3	(4,902)	(10.8)
Selling and administrative expenses	15,708	10.7	15,482	10.0	226	1.5
Internal research and development expenses	1,670	1.1	2,344	1.5	(674)	(28.8)
Amortization of intangible assets	1,487	1.0	1,654	1.1	(167)	(10.1)
Operating income	$21,593	14.7 %	$25,880	16.7 %	$(4,287)	(16.6)%

The decrease in sales is primarily from reduced engineering sales of $11.7 million to the U.S. Navy, foreign sonobuoy sales of $2.5 million and $1.9 million in Rugged Electronic sales, partially offset by increased sales in domestic sonobuoys of $9.3 million. Total sales to the U.S. Navy in the fiscal years of 2017 and 2016 were approximately $91.0 million and $93.5 million, respectively. For the fiscal years 2017 and 2016, sales to the U.S. Navy accounted for 23% and 22%, respectively, of consolidated Company net sales and 62% and 61%, respectively, of ECP segment net sales.

ECP backlog was $148.0 million at July 2, 2017 compared to $142.2 million at July 3, 2016. A majority of the July 2, 2017 ECP backlog is currently expected to be realized in the next 18 months.

Gross profit was negatively impacted in the current year by lower sales volumes, unfavorable product mix and unabsorbed fixed overhead costs due to new program launch activity compared to the previous year. The increase in selling and administrative expense is due to higher corporate allocated costs.

Internal research and development expenses reflect costs incurred for the internal development of technologies for use in undersea warfare, navigation, handheld targeting applications as well as rugged computer and display devices. These costs include salaries and related expenses, contract labor and consulting costs, materials and the cost of certain research and development specific equipment.

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Eliminations and Corporate Unallocated

The following table presents selected consolidated statements of operations data (dollars in thousands):

	For fiscal years			
	2017	2016	$ Chg	% Chg
Intercompany sales elimination	$(10,211)	$(17,273)	$7,062	(40.9)%
Selling and administrative expenses unallocated	15,279	15,856	(577)	(3.6)

Total corporate selling and administrative expenses before allocation to operating segments were $29.4 million and $27.0 million for fiscal years 2017 and 2016, respectively, or 7.5% and 7.0% of consolidated sales, respectively. Of these costs, $14.4 million and $13.5 million, respectively, were allocated to segment operations in each of these periods. Allocations of corporate selling and administrative expenses are based on the nature of the service provided and can fluctuate from period to period. The decrease in unallocated selling and administrative expenses was a result of ongoing efforts to reduce corporate selling, general and administrative expenses.

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For fiscal year 2016 compared to fiscal year 2015

CONSOLIDATED

The following table presents selected consolidated statements of income data (dollars in thousands):

	For fiscal years			
	2016		2015	
	Total	% of Sales	Total	% of Sales
Net sales - legacy business	$338,776	80.8 %	$364,187	95.3 %
Net sales - acquired business	80,586	19.2	17,938	4.7
Net sales	419,362	100.0	382,125	100.0
Cost of goods sold	339,214	80.9	307,311	80.4
Gross profit	80,148	19.1	74,814	19.6
Selling and administrative expenses	55,151	13.2	46,969	12.3
Internal research and development expenses	2,344	0.5	1,502	0.4
Amortization of intangible assets	9,592	2.3	6,591	1.7
Restructuring charges	2,206	0.5	—	—
Reversal of accrued contingent consideration	(1,530)	(0.4)	—	—
Impairment of goodwill	64,174	15.3	—	—
Legal settlement	—	—	2,500	0.7
Operating income (loss)	(51,789)	(12.3)	17,252	4.5
Other expense, net	(3,710)	(0.9)	(2,297)	(0.6)
Income (loss) before income taxes	(55,499)	(13.2)	14,955	3.9
Income taxes	(17,216)	(4.1)	3,966	1.0
Net income (loss)	$(38,283)	(9.1)%	$10,989	2.9 %

The decrease in legacy business sales reflects the inability to achieve sufficient organic growth to offset the loss of a large customer due to insourcing, as well as revenue declines due to fluctuations in customer demand across the MDS reporting unit and a reduction in sonobuoy revenues to the U.S. Navy as a result of the ramp-up of a new program, partially offset by increased sonobuoy sales to foreign governments and increased advanced engineering revenues in the ECP segment.

The decrease in gross margin was due to an unfavorable shift in product mix and the facility closure in the MDS segment. The increase in selling and administrative expenses is due to the expenses from companies acquired in the prior year, professional fees and other expenses associated with the Company’s strategic alternatives review and potential sale of the Company and investment in the Company’s business development infrastructure.

The increase in amortization of intangible assets relates to certain intangible assets acquired as part of the acquisitions in fiscal year 2015. Restructuring charges relate to the closing of the Company’s Lawrenceville, GA manufacturing operations and consolidation of its Irvine, CA design center into its Irvine, CA manufacturing operations.

Accrued contingent consideration related to Hunter of $1.2 million and RTEmd of $0.3 million, both in the MDS segment, was reversed as these acquired companies did not meet the required performance thresholds necessary to earn their respective contingent considerations.

Interest expense consists of interest and fees on the Company's outstanding debt and revolving credit facility, including amortization of financing costs. Interest expense was $3.8 million and $2.5 million for fiscal years 2016 and 2015, respectively. The comparative interest expense reflects increased average borrowings under the Company’s credit facility between the two periods, partially offset by lower amortization of loan financing fees, as fiscal year 2015 included accelerated amortization of loan financing fees in relation to the Company's old facility replaced during first quarter of fiscal year 2015. See Note 8, Debt, of the “Notes to Consolidated Financial Statements” in this Form 10-K for a further discussion of debt.

The decline in value in the MDS reporting unit was as a result of the underperformance of the Company’s most recent acquisition (Hunter Technology Corporation), and the inability to achieve sufficient organic growth to offset the loss of a large customer due to insourcing, as well as revenue declines due to fluctuations in customer demand across the MDS reporting unit. It was determined that goodwill within this reporting unit was fully impaired. As such, the

Company recorded an impairment of goodwill charge of $64.2 million. The fair value of the Company's ECP reporting unit was in excess of its carrying value and, as such, indicated no impairment of goodwill.

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The Company recorded an income tax benefit of $17.2 million, or 31.0% of loss before income taxes in fiscal year 2016. Our tax rate is affected by recurring items, such as tax rates in foreign jurisdictions and the relative amounts of income or loss we earn in those jurisdictions, state income taxes and the domestic production activities deduction. The Company recognized a number of discrete income tax items during fiscal year 2016, which also affects our tax rate, but are not consistent from year to year. In relation to an impairment analysis of goodwill, the Company recognized a discrete income tax benefit of $4.6 million for fiscal year 2016. In relation to an extensive research and development study for the current and prior three tax years for which a refund claim is anticipated, the Company recognized discrete income tax expense of $0.8 million. Additional discrete items include return to provision adjustments, certain jurisdictional audit adjustments and changes in state apportionment factors. Excluding these discrete tax items, the Company recorded an income tax benefit of $21.3 million, or 38.4%, of loss before income taxes, for fiscal year 2016. See Note 9, Income Taxes, of the "Notes to Consolidated Financial Statements" in this Form 10-K for a further discussion of income taxes.

Due to the factors described above, the Company reported net loss of $38.3 million, or $3.91 loss per share for fiscal year 2016, compared to net income of $11.0 million, or $1.10 per share for the fiscal year 2015.

MDS

The following table presents selected consolidated statements of income data (dollars in thousands):

	For fiscal years					
	2016	% of Sales	2015	% of Sales	$ Chg	% Chg
Net sales:						
Legacy business	$191,408	67.9 %	$230,787	87.5 %	$(39,379)	(17.1)%
Acquired business	73,640	26.1	15,397	5.8	58,243	N/A
Intercompany	17,028	6.0	17,756	6.7	(728)	(4.1)
Total net sales	282,076	100.0	263,940	100.0	18,136	6.9
Gross Profit	34,788	12.3	36,461	13.8	(1,673)	(4.6)
Selling and administrative expenses	23,813	8.4	18,615	7.1	5,198	27.9
Amortization of intangible assets	7,938	2.7	5,811	2.2	2,127	36.6
Restructuring charges	2,206	0.8	—	—	2,206	—
Reversal of accrued contingent consideration	(1,530)	(0.5)	—	—	(1,530)	—
Impairment of goodwill	64,174	22.8	—	—	64,174	—
Legal settlement	—	—	2,500	0.9	(2,500)	(100.0)
Operating income (loss)	$(61,813)	(21.9)%	$9,535	3.6 %	$(71,348)	N/A

The decrease in legacy business sales was due to the inability to achieve sufficient organic growth to offset the loss of a large customer due to insourcing, as well as revenue declines due to fluctuations in customer demand across the MDS reporting unit. These decreases were partially offset by increased sales from new and existing customer programs. MDS backlog was $138.5 million at July 3, 2016 compared to $170.1 million at June 30, 2015. Commercial orders, in general, may be rescheduled or canceled without significant penalty, as a result, may not be a meaningful measure of future sales.

Gross margin on MDS sales was negatively impacted in the current year by an unfavorable shift in product mix as compared to the prior year. The selling and administrative expense increase is primarily comprised of businesses acquired in the prior year.

The increase in amortization of intangible assets is due to the amortization of customer relationships and non-compete agreements from businesses acquired in the prior year. Restructuring charges relate to the previously discussed closing of the Company's Lawrenceville, GA manufacturing operations and consolidation of its Irvine, CA design center into its Irvine, CA manufacturing operations. The reversal of accrued contingent consideration related to Hunter and RTEmd, as previously discussed.

The decline in value in the MDS reporting unit was as a result of the underperformance of the Company's most recent acquisition (Hunter Technology Corporation), and the inability to achieve sufficient organic growth to offset the loss of a large customer due to insourcing, as well as revenue declines due to fluctuations in customer demand across the

MDS reporting unit. It was determined that goodwill within this reporting unit was fully impaired. As such, the Company recorded an impairment of goodwill charge of $64.2 million.

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ECP

The following table presents selected consolidated statements of income data (dollars in thousands):

	For fiscal years					
	2016	% of Sales	2015	% of Sales	$ Chg	% Chg
Net sales:						
Legacy business	$147,368	95.3 %	$133,400	97.8 %	$13,968	10.5 %
Acquired business	6,946	4.5	2,541	1.9	4,405	173.4
Intercompany	245	0.2	374	0.3	(129)	(34.5)
Total net sales	154,559	100.0	136,315	100.0	18,244	13.4
Gross profit	45,360	29.3	38,353	28.1	7,007	18.3
Selling and administrative expenses	15,482	10.0	11,038	8.1	4,444	40.3
Internal research and development expenses	2,344	1.5	1,502	1.1	842	56.1
Amortization of intangible assets	1,654	1.1	780	0.5	874	112.1
Operating income	$25,880	16.7 %	$25,033	18.4 %	$847	3.4 %

The increase in ECP legacy business sales reflects increased sonobuoy sales of $10.5 million to foreign governments, increased advanced engineering revenue of $3.9 million and increased rugged flat panel display sales of $3.7 million (includes tuck-in acquisitions sales) partially offset by decreased sonobuoy sales of $5.3 million to the U.S. Navy as a result of new sonobuoy program ramp-up. Total sales to the U.S. Navy for the fiscal years 2016 and 2015 were $93.5 million and $94.9 million, respectively. For the fiscal years 2016 and 2015, sales to the U.S. Navy accounted for 22% and 25%, respectively, of consolidated Company net sales and 61% and 70%, respectively, of ECP segment net sales. ECP backlog was $142.2 million at July 3, 2016 compared to $143.3 million at June 30, 2015.

The increase in gross margin is a result of the higher mix of foreign sonobuoy sales. The increase in selling and administrative expense was due to the prior year acquisition as well as professional service expenses associated with governmental audits and compliance.

The increase in amortization of intangible assets relates to intangible assets acquired in the Stealth, KEP Marine and IED transactions.

Internal research and development expenses reflect costs incurred for the internal development of technologies for use in undersea warfare, navigation, handheld targeting applications as well as rugged computer and display devices. These costs include salaries and related expenses, contract labor and consulting costs, materials and the cost of certain research and development specific equipment.

Eliminations and Corporate Unallocated

The following table presents selected consolidated statements of income data (dollars in thousands):

	For fiscal years			
	2016	2015	$ Chg	% Chg
Intercompany sales eliminations	$(17,273)	$(18,130)	$857	(4.7)%
Selling and administrative expenses unallocated	15,856	17,316	(1,460)	(8.4)

Total corporate selling and administrative expenses before allocation to operating segments were $29.7 million and $29.4 million for fiscal years 2016 and 2015, respectively, or 7.0% and 7.1% of consolidated sales, respectively. Of these costs, $13.5 million and $9.6 million, respectively, were allocated to segment operations in each of these periods. Allocations of corporate selling and administrative expenses are based on the nature of the service provided and can fluctuate from period to period. Decrease in unallocated selling and administrative expenses was a result of the Company's ongoing efforts to reduce corporate selling, general and administrative footprint.

Liquidity and Capital Resources

As of July 2, 2017, the Company had $45.8 million available under its $125.0 million credit facility, reflecting borrowings of $74.5 million and certain letters of credit outstanding of $4.7 million. Additionally, the Company had available cash and cash equivalents of $1.0 million.

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On June 27, 2016, the Company entered into Amendment No. 3 (“Amendment 3”) to the Credit Facility. As a result of Amendment 3, the Company reduced the revolving credit facility from $275.0 million to $175.0 million, reduced the optional increase in the Credit Facility from $100.0 million to $50.0 million, increased the permitted total funded debt to EBITDA ratio through the fiscal quarter ending September 2017, and provided for certain restrictions on business acquisitions, dividends and stock repurchases. Payments of $0.7 million related to Amendment 3 were recorded as deferred financing costs in other long-term assets.
On June 30, 2017, the Company entered into Amendment No.4 ("Amendment 4") to the Credit Facility. As a result of Amendment 4, the Company reduced the revolving credit facility from $175.0 million to $125.0 million, increased the permitted total funded debt to EBITDA ratio through the fiscal quarter ending March 2018 and provided for further restrictions on business acquisitions. Expenses of $0.8 million related to amendments were recorded as deferred financing costs in other long-term assets in fiscal year 2017. The facility is secured by substantially all assets of the Company and its subsidiaries and expires on September 11, 2019.
Outstanding borrowings under the Credit Facility will bear interest, at the Company’s option, at either LIBOR, fixed for interest periods of one, two, three or six month periods, plus 1.00% to 3.75%, or at the bank’s base rate, as defined, plus 0.00% to 2.75%, based upon the Company’s Total Funded Debt/EBITDA Ratio, as defined. The Company is also required to pay commitment fees on unused portions of the Credit Facility ranging from 0.20% to 0.50%, based on the Company’s Total Funded Debt/EBITDA Ratio, as defined. The Credit Facility includes representations, covenants and events of default that are customary for financing transactions of this nature.
As a condition of the Credit Facility, the Company is subject to certain customary covenants, with which it was in compliance with at July 2, 2017.

Certain of the Company's ECP contracts with the U.S. Navy allow for billings to occur when certain milestones under the applicable program are reached, independent of the amount shipped by Sparton as of such date. These performance based billings reduce the amount of cash that would otherwise be required during the performance of these contracts. As of July 2, 2017 and July 3, 2016, $1.7 million and $0.0 million, respectively, of proceeds from billings in excess of costs were received and were reported in the Consolidated Balance Sheets as other accrued expenses.

The Company currently expects to meet its liquidity needs through a combination of sources including, but not limited to, operations, existing cash balances, its revolving line-of-credit and anticipated continuation of performance based billings on certain ECP contracts. With the above sources providing the expected cash flows, the Company currently believes that it will have sufficient liquidity for its anticipated needs over the next 12 months, but no assurances regarding liquidity can be made.
A portion of our operating income is earned outside of the United States. Earnings in Vietnam are deemed to be indefinitely reinvested in foreign jurisdictions while earnings in Canada are not deemed to be indefinitely reinvested. We currently do not intend or foresee a need to repatriate these funds from jurisdictions for which we assert indefinite reinvestment. We expect existing domestic cash and short-term investments and cash flows of operations to continue to be sufficient to fund our domestic operating activities and cash commitments for investing and financing activities, such as dividends, debt repayment, capital expenditures, for at least the next 12 months and thereafter for the foreseeable future. The Company has recorded no liability related to Canada earnings as that entity has not had positive cumulative earnings and profits.

	For fiscal years		
CASH FLOWS	2017	2016	2015
Operating activities, excluding changes in working capital	$18,293	$22,084	$26,161
Net changes in working capital	13,175	26,048	(21,624)
Operating activities	31,468	48,132	4,537
Investing activities	(6,874)	(4,842)	(104,107)
Financing activities	(23,738)	(58,072)	106,456

Cash flows from operating activities, excluding changes in working capital, for fiscal years 2017, 2016 and 2015 reflect the Company's relative operating performance during those periods. Depreciation and amortization, had the most significant impact on cash flows from operating activities excluding changes in working capital for fiscal 2017. Fiscal 2017 working capital related cash flows primarily reflect decreased inventory, partially offset by a decrease in accounts payable. Fiscal year 2016 working capital related cash flows primarily reflect decreased accounts receivable as well as a decrease in accounts payable. Fiscal year 2015 working capital related cash flows primarily reflect increased accounts receivable as well as an

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increase in accounts payable and to a lesser degree, a decrease in advanced funding of production related to U.S. Navy contracts during the year in excess of performance based payments received.

Cash flows from investing activities include net capital expenditures of $6.9 million, $6.1 million and $5.8 million in fiscal years 2017, 2016 and 2015, respectively. Additionally, cash flows from investing activities in fiscal year 2016 reflects a sale of marketable equity securities as well as cash received in relation to a 2015 acquisition. Fiscal year 2015 reflects a $97.3 million use of cash for the acquisitions of Hunter, eMT, Stealth, KEP Marine, IED, RTEmd and Argotec, net of acquired cash and net of a working capital adjustment receipt relating to the fiscal year 2014 acquisition of Aubrey. Fiscal year 2015 also reflects a $1.0 million purchase of marketable equity securities.

Cash flows from financing activities reflect net repayments of $22.7 million and $57.3 million for 2017 and 2016, respectively, under the Company's Credit Facility and fiscal year 2015 reflects $113.5 million of net borrowings. Amendments to the Company's Credit Facility resulted in payments of debt financing costs of $0.8 million, $0.7 million and $1.4 million in fiscal years 2017, 2016 and 2015, respectively.

Fiscal 2015 also includes the repurchase of $5.0 million of the Company's common stock under the Company's since-expired stock repurchase programs, $1.8 million of payments to satisfy income tax withholding requirements in relation to the vesting of executives' restricted stock in exchange for the surrender of a portion of the vesting shares and $1.0 million of tax benefits in excess of recorded stock based compensation. The Company received $0.2 million from the exercise of stock options during fiscal year 2015. There were no stock options exercised in fiscal years 2017 or 2016.

Commitments and Contingencies

See Note 11, Commitments and Contingencies, of the “Notes to Consolidated Financial Statements” in this Form 10-K.

Contractual Obligations

Future minimum contractual cash obligations for the next five years and in the aggregate at July 2, 2017, are as follows (in thousands):

	Payments Due By Period				
	Total	Less than 1 Year	2-3 Years	4-5 Years	More than 5 Years
Contractual obligations:					
Debt	$ 74,500	$ —	$ 74,500	$ —	$ —
Cash interest (1)	7,195	3,258	3,937	—	—
Operating leases (2)	13,643	2,606	4,712	3,174	3,151
Environmental liabilities	6,036	568	784	801	3,883
Non-cancelable purchase orders	45,606	45,606	—	—	—
Total	$ 146,980	$ 52,038	$ 83,933	$ 3,975	$ 7,034

(1) Cash interest reflects interest payments on the Company's Credit Facility discussed below. The effective interest rate on the outstanding borrowing under the credit facility was 4.37% at July 2, 2017.

(2) Does not include payments due under future renewals to the original lease terms.

The Company's other non-current liabilities in the consolidated balance sheets include unrecognized tax benefits and related interest and penalties. As of July 2, 2017, we had gross unrecognized tax benefits of less than $0.1 million classified as non-current liabilities with no additional amount recorded for interest and penalties. At this time, we are unable to make a reasonably reliable estimate of the timing of payments in individual years in connection with these tax liabilities; therefore, such amounts are not included in the above contractual obligation table.

Debt — Debt consists of amounts owed under the Company's Credit Facility. See Note 8, Debt, of the “Notes to Consolidated Financial Statements” in this Form 10-K for a summary of the Company's banking arrangements.

Operating leases — See Note 11, Commitments and Contingencies, of the “Notes to Consolidated Financial Statements” in this Form 10-K for discussion of operating leases.

Environmental liabilities — See Note 11, Commitments and Contingencies, of the “Notes to Consolidated Financial Statements” in this Form 10-K for a description of the accrual for environmental remediation. Of the $6.0 million total,

$0.5 million is classified as a current liability and $5.5 million is classified as a long-term liability, both of which are included on the balance sheet as of July 2, 2017.

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Non-cancelable purchase orders — Binding orders the Company has placed with suppliers that are subject to quality and performance requirements.

Off-Balance Sheet Arrangements

The Company has standby letters of credit outstanding of $4.7 million at July 2, 2017, principally to support an operating lease agreement. Other than these standby letters of credit and the operating lease commitments included above, we have no off-balance sheet arrangements that would have a current or future material effect on our financial condition, changes in financial condition, revenue, expense, results of operations, liquidity, capital expenditures or capital resources.

Inflation

We believe that inflation has not had a significant impact in the past and is not likely to have a significant impact in the foreseeable future on our results of operations.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates, judgments and assumptions that affect the amounts reported as assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. Estimates are regularly evaluated and are based on historical experience and on various other assumptions believed to be reasonable under the circumstances. Actual results could differ from those estimates. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management's judgment in application. There are also areas in which management's judgment in selecting among available alternatives would not produce a materially different result. See Note 2, Summary of Significant Accounting Policies, of the "Notes to Consolidated Financial Statements" in this Form 10-K for a further discussion of significant accounting policies. Senior management has reviewed these critical accounting policies and related disclosures with the audit committee of Sparton's Board of Directors.

Environmental Contingencies

Sparton has been involved with ongoing environmental remediation since the early 1980's related to one of its former manufacturing facilities, located in Albuquerque, New Mexico ("Coors Road"). Although the Company entered into a long-term lease of the Coors Road property that was accounted for as a sale of property during fiscal year 2010, it remains responsible for the remediation obligations related to its past operation of this facility. During the fourth quarter of each fiscal year, Sparton performs a review of its remediation plan, which includes remediation methods currently in use, desired outcomes, progress to date, anticipated progress and estimated costs to complete the remediation plan by fiscal year 2030, following the terms of a March 2000 Consent Decree. The Company's minimum cost estimate is based upon existing technology and excludes certain legal costs, which are expensed as incurred. The Company's estimate includes equipment and operating and maintenance costs for onsite and offsite pump and treatment containment systems, as well as continued onsite and offsite monitoring. It also includes periodic reporting requirements. The review performed in the fourth quarters of fiscal years 2017, 2016 and 2015 did not result in changes to the related liability. As of July 2, 2017 and July 3, 2016, Sparton has accrued $6.0 million and $6.7 million, respectively, as its estimate of the remaining minimum future undiscounted financial liability with respect to this matter, of which $0.5 million and $0.6 million was classified as a current liability and included on the balance sheet in other accrued expenses.

In fiscal year 2003, Sparton reached an agreement with the United States Department of Energy ("DOE") and others to recover certain remediation costs. Under the settlement terms, Sparton received cash and obtained some degree of risk protection as the DOE agreed to reimburse Sparton for 37.5% of certain future environmental expenses in excess of $8.4 million incurred from the date of settlement, of which $7.1 million has been expended as of July 2, 2017 toward the $8.4 million threshold. It is expected that the DOE reimbursements will commence in the years after fiscal year 2019. At July 2, 2017 and at July 3, 2016, the Company recognized $1.6 million in long-term assets in relation to these expected reimbursements which are considered collectible and are included in other non-current assets on the balance sheet. Uncertainties associated with environmental remediation contingencies are pervasive and often result in wide ranges of reasonably possible outcomes. Estimates developed in the early stages of remediation can vary significantly. Normally a finite estimate of cost does not become fixed and determinable at a specific point in time.

Rather, the costs associated with environmental remediation become estimable over a continuum of events and activities that help to frame and define a liability. Factors which cause uncertainties for the Company include, but are not limited to, the effectiveness of the current work plans in achieving targeted results and proposals of regulatory agencies for desired methods and outcomes. It is possible that cash flows and results of operations could be materially affected by the impact of changes associated with the ultimate resolution of this contingency. At July 2, 2017, the Company estimates that it is reasonably possible, but not probable, that future environmental remediation costs associated with the Company’s past operations at the Coors Road property, in excess of amounts already

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recorded, could be up to $2.5 million before income taxes over the next thirteen years, with this amount expected to be offset by related reimbursement from the DOE for a net amount of $1.6 million.

The Company and its subsidiaries are also involved in certain existing compliance issues with the EPA and various state agencies, including being named as a potentially responsible party at several sites. Potentially responsible parties ("PRPs") can be held jointly and severally liable for the clean-up costs at any specific site. The Company's past experience, however, has indicated that when it has contributed relatively small amounts of materials or waste to a specific site relative to other PRPs, its ultimate share of any clean-up costs has been minor. Based upon available information, the Company believes it has contributed only small amounts to those sites in which it is currently viewed as a PRP and that reasonably possible losses related to these compliance issues are immaterial.

Percentage-of-Completion Accounting

In the first quarter of fiscal year 2014, the Company voluntarily changed its revenue recognition policy related to ECP sonobuoy sales to the U.S. Navy and foreign government customers under long-term contracts that require lot acceptance testing. The new policy continues to recognize revenue under the percentage of completion method, but changes the measurement of progress under these contracts from a completed units accepted basis (whereby revenue was recognized for each lot of sonobuoys produced when that lot was formally accepted by the customer) to a units-of-production basis (whereby revenue is recognized when production and internal testing of each lot of sonobuoys is completed). The Company now has significant experience in producing sonobuoys to customer specifications and internal testing to assess compliance with those specifications and, as such, now has an adequate history of continuous customer acceptance of all sonobuoys produced. Accordingly, the Company believes the new method is preferable primarily because it eliminates delays in revenue and related cost of goods sold recognition due to timing of customer testing and acceptance delays. Such delays commonly occur due to customer circumstances that are unrelated to the product produced. Under the new policy, the revenue and related costs of goods sold of these manufactured sonobuoy lots will more closely match the period in which the product was produced and the related revenue earned, thereby better reflecting the economic activity of the ECP segment. Additionally, this new method provides better matching of periodic operating expenses incurred during production. The Company additionally has certain other long-term contracts that are accounted for under the percentage-of-completion method of accounting, whereby contract revenues are recognized on a pro-rata basis based upon the ratio of costs incurred compared to total estimated contract costs. Contract costs include labor and material placed into production, as well as allocation of indirect costs.

Losses for the entire amount of long-term contracts are recognized in the period when such losses are determinable. Significant judgment is exercised in determining estimated total contract costs including, but not limited to, cost experience to date, estimated length of time to contract completion, costs for materials, production labor and support services to be expended and known issues on remaining units to be completed. In addition, estimated total contract costs can be significantly affected by changing test routines and procedures, resulting design modifications and production rework from these changing test routines and procedures and limited range access for testing these design modifications and rework solutions. Estimated costs developed in the early stages of contracts can change, sometimes significantly, as the contracts progress and events and activities take place. Changes in estimates can also occur when new designs are initially placed into production. The Company formally reviews its costs incurred-to-date and estimated costs to complete on all significant contracts at least quarterly and revised estimated total contract costs are reflected in the financial statements. Depending upon the circumstances, it is possible that the Company's financial position, results of operations and cash flows could be materially affected by changes in estimated costs to complete one or more significant government contracts.

Commercial Inventory Valuation

Valuation of commercial customer inventories requires a significant degree of judgment. These valuations are influenced by the Company's experience to date with both customers and other markets, prevailing market conditions for raw materials, contractual terms and customers' ability to satisfy these obligations, environmental or technological materials obsolescence, changes in demand for customer products and other factors resulting in acquiring materials in excess of customer product demand. Contracts with some commercial customers may be based upon estimated quantities of product manufactured for shipment over estimated time periods. Raw material inventories are purchased

to fulfill these customer requirements. Within these arrangements, customer demand for products frequently changes, sometimes creating excess and obsolete inventories.
The Company regularly reviews raw material inventories by customer for both excess and obsolete quantities. Wherever possible, the Company attempts to recover its full cost of excess and obsolete inventories from customers or, in some cases, through other markets. When it is determined that the Company’s carrying cost of such excess and obsolete inventories cannot be recovered in full, a charge is taken against income for the difference between the carrying cost and the estimated realizable amount. These cost adjustments for excess and obsolete inventory create a new cost basis for the inventory. The Company recorded inventory write-downs totaling $0.5 million, $1.7 million and $0.9 million for fiscal years 2017, 2016 and 2015, respectively. These charges are included in cost of goods sold for the periods presented. If inventory that has previously been

impaired is subsequently sold, the amount of reduced cost basis is reflected as cost of goods sold. The Company experienced minimal subsequent sales of excess and obsolete inventory during fiscal years 2017, 2016 and 2015 that resulted in higher gross margins due to previous write-downs. Such sales and the impact of those sales on gross margin were not material to the years presented. If assumptions the Company has used to value its inventory deteriorate in the future, additional write-downs may be required.

Allowance for Probable Losses on Receivables

The accounts receivable balance is recorded net of allowances for amounts not expected to be collected from customers. The allowance is estimated based on historical experience of write-offs, the level of past due amounts, information known about specific customers with respect to their ability to make payments and future expectations of conditions that might impact the collectability of accounts. Accounts receivable are generally due under normal trade terms for the industry. Credit is granted and credit evaluations are periodically performed, based on a customer’s financial condition and other factors. Although the Company does not generally require collateral, cash in advance or letters of credit may be required from customers in certain circumstances, including some foreign customers. When management determines that it is probable that an account will not be collected, it is charged against the allowance for doubtful accounts. The Company reviews the adequacy of its allowance monthly. The allowance for doubtful accounts considered necessary was $0.4 million and $0.4 million at July 2, 2017 and July 3, 2016, respectively. If the financial condition of customers were to deteriorate, resulting in an impairment of their ability to make payment, additional allowances may be required. Given the Company’s significant balance of government receivables and in some cases letters of credit from foreign customers, collection risk is considered minimal. Historically, uncollectible accounts have generally been insignificant, have generally not exceeded management’s expectations and the allowance is deemed adequate.

Pension Obligations

The Company calculates the cost of providing pension benefits under the provisions of FASB Accounting Standards Codification (“ASC”) Topic 715, “Compensation — Retirement Benefits”, (“ASC Topic 715”). The key assumptions required within the provisions of ASC Topic 715 are used in making these calculations. The most significant of these assumptions are the discount rate used to value the future obligations and the expected return on pension plan assets. The discount rate is consistent with market interest rates on high-quality, fixed income investments. The expected return on assets is based on long-term returns and assets held by the plan, which is influenced by historical averages. If actual interest rates and returns on plan assets materially differ from the assumptions, future adjustments to the financial statements would be required. While changes in these assumptions can have a significant effect on the pension benefit obligation and the unrecognized gain or loss accounts, the effect of changes in these assumptions is not expected to have the same relative effect on net periodic pension expense in the near term. While these assumptions may change in the future based on changes in long-term interest rates and market conditions, there are no known expected changes in these assumptions as of July 2, 2017. As indicated above, to the extent the assumptions differ from actual results, there would be a future impact on the financial statements. The extent to which this will result in future expense is not determinable at this time as it will depend upon a number of variables, including trends in interest rates and the actual return on plan assets. The annual actuarial valuation of the pension plan is completed at the end of each fiscal year. Based on these valuations, net periodic pension expense (income) for fiscal years 2017, 2016 and 2015 was calculated to be $0.3 million, $0.3 million and $(0.2) million, respectively.

Effective April 1, 2009, participation and the accrual of benefits in the Company’s pension plan were frozen, at which time all participants became fully vested and all remaining prior service costs were recognized. Lump-sum benefit distributions during fiscal years 2017 and 2016 exceeded plan service and interest costs, resulting in lump-sum settlement charges of $0.2 million and $0.3 million also being recognized during the respective years. See Note 10, Employee Retirement Benefit Plans, of the “Notes to Consolidated Financial Statements” in this Form 10-K for further details regarding the Company's pension plan.

Business Combinations

The Company accounts for business combinations under the acquisition method of accounting in accordance with ASC Topic 805, “Business Combinations”. Accordingly, the Company recognizes amounts for identifiable assets acquired and liabilities assumed equal to their estimated acquisition date fair values. Transaction and integration costs associated with business combinations are expensed as incurred. Any excess of the acquisition price over the estimated fair value of net assets acquired is recorded as goodwill while any excess of the estimated fair value of net assets acquired over the acquisition price is recorded in current earnings as a gain.

The Company makes various assumptions in estimating the fair values of assets acquired and liabilities assumed. As fair value is a market-based measurement, it is determined based on the assumptions that market participants would use. The most significant assumptions typically relate to the estimated fair values of inventory and intangible assets, including customer lists and non-compete agreements. Management arrives at estimates of fair value based upon assumptions it believes to be reasonable. These estimates are based on historical experience and information obtained from the management of the acquired business and is inherently uncertain. Critical estimates in valuing certain intangible assets include but are not limited to: future expected discounted cash flows from customer relationships and contracts assuming similar product platforms and completed projects; the acquired company's market position, as well as assumptions about the period of time the acquired customer relationships will continue to generate revenue streams; and attrition and discount rates. Unanticipated events and circumstances may occur which may affect the accuracy or validity of such assumptions, estimates or actual results, particularly with respect to amortization periods assigned to identifiable intangible assets.

Goodwill

Goodwill resulting from business combinations represents the excess of purchase price over the fair value of the net assets of the businesses acquired. Goodwill is not amortized, but rather tested for impairment annually, as well as whenever there are events or changes in circumstances (triggering events) which suggest that the carrying value of goodwill may not be recoverable. The Company performs its annual goodwill impairment testing in the fourth quarter based on its historical financial results through the third quarter end. The goodwill impairment test is performed at the reporting unit level, which is the lowest level at which goodwill is evaluated for management purposes. The Company has identified reporting units to be its two reportable business segments - MDS and ECP for fiscal years 2017, 2016 and 2015.

The Company may elect to perform a qualitative assessment for its annual goodwill impairment test. If the qualitative assessment indicates that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, or if Sparton elects to not perform a qualitative assessment, then the Company would be required to perform a quantitative impairment test for goodwill.

The quantitative impairment analysis is a two-step process. First, the Company determines the fair value of the reporting unit and compares it to its carrying value. The fair value of reporting units is determined based on a weighting of both projected discounted future results and comparative market multiples. The projected discounted future results (discounted cash flow approach) is based on assumptions that are consistent with the Company's estimates of future growth and the strategic plan used to manage the underlying business. Factors requiring significant judgment include assumptions related to future revenue growth rates, operating margins, terminal growth rates and discount factors, amongst other considerations. If the carrying value of the reporting unit exceeds the fair value in the first step, a second step is performed to measure the amount of an impairment loss. In the second step, an impairment loss is recognized for any excess of the carrying value of the reporting unit's goodwill over its implied fair value. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit using a residual fair value allocation. The residual fair value allocated to goodwill is the implied fair value of the reporting unit's goodwill. The Company's fair value estimates related to its goodwill impairment analyses are based on Level 3 inputs within the fair value hierarchy as described in Note 2, Summary of Significant Accounting Policies, Fair value measurements, of the "Notes to Consolidated Financial Statements" in this Form 10-K. Determining the fair value of any reporting unit and intangible asset is judgmental in nature and involves the use of significant estimates and assumptions. The Company bases its fair value estimates on assumptions believed to be reasonable, but which are unpredictable and inherently uncertain. Actual future results may differ from those estimates. Circumstances that may lead to future impairment of goodwill include, but are not limited to, unforeseen decreases in future performance or industry demand, a further loss of a significant customer or the inability to achieve sufficient organic revenue growth to offset fluctuations in customer demand.

In fiscal years 2017 and 2015, the Company elected to perform the optional qualitative assessment of goodwill and concluded that it was more likely than not that the fair value of goodwill in its reporting units was in excess of its respective carrying amount and therefore, no further testing was required. In fiscal year 2016, the Step 1 impairment testing of goodwill was performed and resulted in the carrying values of its MDS reporting unit in excess of its fair value indicating potential impairment. The decline in value in the MDS reporting unit was a result of the underperformance of the Company's most recent acquisition (Hunter Technology Corporation), and the inability to achieve sufficient organic growth to offset the loss of a large customer due to insourcing, as well as revenue declines due to fluctuations in customer demand across the MDS reporting unit. The Company performed the Step 2 analysis of goodwill impairment for this reporting unit and based on the valuation of the reporting unit as well as the fair value of the reporting unit's individual tangible and intangible assets, it was determined that goodwill within this reporting unit was fully impaired. As such, the Company recorded an impairment of goodwill charge of $64.2 million. Prior to the fourth quarter of fiscal 2016, no triggering events or other facts and circumstances were identified that indicated that it was more likely than not that the fair value of the MDS segment was less than its carrying value. The impairment recognized in the fourth quarter of fiscal 2016 was a result of the continued underperformance of the acquired Hunter Technology Corporation operations and the inability of the Company to achieve sufficient organic revenue growth to offset fluctuations in customer demands. The fair value of the Company’s ECP reporting unit was in excess of its carrying value at the end of fiscal year 2016 and, as such, indicated no impairment of goodwill.

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Other Intangible Assets
The Company’s intangible assets other than goodwill represent the values assigned to acquired customer relationships, acquired non-compete agreements, acquired trademarks/tradenames, acquired unpatented technology and patents. At July 2, 2017, customer relationships and non-compete agreements totaling $21.4 million and $1.2 million, respectively, are included in the MDS segment, while customer relationships, non-compete agreements, trademarks/trade names, unpatented technology and patents totaling $4.0 million, $0.1 million, $1.2 million, $0.5 million and $0.01 million, respectively, are included in the ECP segment. The impairment test for these intangible assets is conducted when impairment indicators are present. The Company continually evaluates whether events or circumstances have occurred that would indicate the remaining estimated useful lives of its intangible assets warrant revision or that the remaining balance of such assets may not be recoverable. The Company uses an estimate of the related undiscounted cash flows over the remaining life of the asset in measuring whether the asset is recoverable. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge would be recognized for the amount that the carrying amount of the asset exceeds the fair value of the asset. The Company’s fair value estimates related to its intangible assets impairment analyses are based on Level 3 inputs within the fair value hierarchy as described in Note 2, Summary of Significant Accounting Policies, Fair value measurements, of the "Notes to Consolidated Financial Statements" in this Form 10-K. The Company had a third-party valuation of the recoverability of intangible assets performed in the fourth quarter of fiscal 2016 and it was determined that the assets were fully recoverable and no write-down of such assets was necessary.
Acquired customer relationships are being amortized using an accelerated methodology over periods of seven to fifteen years. Acquired non-compete agreements are being amortized on a straight-line basis over periods of two to five years as the ratable decline in value over time is most consistent with the contractual nature of these assets. Acquired trademarks/trade names are being amortized on a straight-line basis over periods of one to ten years and acquired unpatented technology is being amortized using an accelerated methodology over seven years. Patents are being amortized using an accelerated methodology over three years.
Other long-lived assets
The Company reviews other long-lived assets, including property, plant and equipment, that are not held for sale, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is determined by comparing the carrying value of the assets to their estimated future undiscounted cash flows. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset group exceeds the fair value of the asset group. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.
Income Taxes
We recognize federal, state and foreign current tax liabilities or assets based on our estimate of taxes payable or refundable in the current fiscal year by tax jurisdiction. We also recognize federal, state and foreign deferred tax assets or liabilities, as appropriate, for our estimate of future tax effects attributable to temporary differences and carryforwards.
We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such positions are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution. Management must also assess whether uncertain tax positions as filed could result in the recognition of a liability for possible interest and penalties if any. Our estimates are based on the information available to us at the time we prepare the income tax provisions. Our income tax returns are subject to audit by federal, state and local governments, generally years after the returns are filed. These returns could be subject to material adjustments or differing interpretations of the tax laws. We recognize interest and penalties related to unrecognized tax benefits on the income tax expense line in the accompanying consolidated statements of operations. Accrued interest and penalties are included on the related tax liability line in the consolidated balance sheets.
Our calculation of current and deferred tax assets and liabilities is based on certain estimates and judgments and involves dealing with uncertainties in the application of complex tax laws. Our estimates of current and deferred tax

assets and liabilities may change based, in part, on added certainty or finality to an anticipated outcome, changes in accounting or tax laws in the United States and overseas, or changes in other facts or circumstances. In addition, we recognize liabilities for potential United States tax contingencies based on our estimate of whether, and the extent to which, additional taxes may be due. If we determine that payment of these amounts is unnecessary, or if the recorded tax liability is less than our current assessment, we may be required to recognize an income tax benefit, or additional income tax expense, respectively, in our consolidated financial statements.

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In preparing our consolidated financial statements, management assesses the likelihood that our deferred tax assets will be realized from future taxable income. In evaluating our ability to recover our deferred income tax assets, management considers all available positive and negative evidence, including operating results, ongoing tax planning and forecasts of future taxable income on a jurisdiction by jurisdiction basis. A valuation allowance is established if we determine that it is more likely than not that some portion or all of the net deferred tax assets will not be realized.

Stock-Based Compensation

ASC Topic 718, “Share-Based Payment”, requires significant judgment and the use of estimates in the assumptions for the model used to value the share-based payment awards, including stock price volatility and expected option terms. In addition, expected forfeiture rates for the share-based awards must be estimated. Because of our small number of option grants during our history, we are limited in our historical experience to use as a basis for these assumptions. While we believe that the assumptions and judgments used in our estimates are reasonable, actual results may differ from these estimates under different assumptions or conditions.

New Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 ("ASU 2014-09"), Revenue from Contracts with Customers, which amends guidance for revenue recognition. Under the new standard, revenue will be recognized when control of the promised goods or services is transferred to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods and services. The standard creates a five-step model that will generally require companies to use more judgment and make more estimates than under current guidance when considering the terms of contracts along with all relevant facts and circumstances. These include the identification of customer contracts and separating performance obligations, the determination of transaction price that potentially includes an estimate of variable consideration, allocating the transaction price to each separate performance obligation and recognizing revenue in line with the pattern of transfer. In August 2015, the FASB issued an amendment to defer the effective date for all entities by one year. The new standard will become effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted as of annual reporting periods beginning after December 15, 2016. Companies have the option of using either a full or modified retrospective approach in applying this standard. During fiscal 2016, the FASB issued three additional updates which further clarify the guidance provided in ASU 2014-09. The Company has identified key personnel to evaluate the guidance and approve a transition method, while also formulating a time line to review the potential impact of the new standard on its existing revenue recognition policies and procedures.

In July 2015, the FASB issued Accounting Standards Update No. 2015-11 ("ASU 2015-11"), Simplifying the Measurement of Inventory. ASU 2015-11 clarifies that inventory should be held at the lower of cost or net realizable value. Net realizable value is defined as the estimated selling price, less the estimated costs to complete, dispose and transport such inventory. ASU 2015-11 will be effective for fiscal years and interim periods beginning after December 15, 2016. ASU 2015-11 is required to be applied prospectively and early adoption is permitted. The Company does not expect ASU 2015-11 to have a material impact on its consolidated financial statements when it is adopted in the first quarter of fiscal year 2018.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02 (“ASU 2016-02”), Leases (Topic 842). ASU 2016-02 establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for capital leases and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently in the process of evaluating the impact of adoption on its consolidated financial statements.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09 ("ASU 2016-09"), Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. ASU 2016-09 will directly impact the tax administration of equity plans. ASU 2016-09 is effective for fiscal years beginning after

December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted and any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company elected to early adopt ASU 2016-09 as of July 4, 2016 on a prospective basis. There was no significant impact on the Company's financial statements as a result of the adoption in fiscal year 2017.

In June 2016, the FASB issued Accounting Standards Update No. 2016-13 ("ASU 2016-13"), Financial Instruments—Credit Losses (Topic 326). ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019 and early adoption is permitted. The Company is currently in the process of evaluating the impact of adoption on its consolidated financial statements.

In August 2016, the FASB issued Accounting Standards Update No. 2016-15 ("ASU 2016-15"), Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 will make eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017. The new standard will require adoption on a retrospective basis unless it is impracticable to apply, in which case it would be required to apply the amendments prospectively as of the earliest date practicable. The Company is currently in the process of evaluating the impact of adoption on its consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16 ("ASU 2016-16"), Income Taxes - Intra-Entity Transfers of Assets Other Than Inventory, which requires entities to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. ASU 2016-16 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted as of the beginning of a fiscal year. ASU 2016-16 must be adopted using a modified retrospective transition method which is a cumulative-effective adjustment to retained earnings as of the beginning of the first effective reporting period. The Company is currently in the process of evaluating the impact of adoption on its consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18 ("ASU 2016-18"), Restricted Cash, which addresses classification and presentation of changes in restricted cash on the statement of cash flows. ASU 2016-18 requires an entity's reconciliation of the beginning-of-period and end-of-period total amounts shown on the statement of cash flows to include in cash and cash equivalents amounts generally described as restricted cash and restricted cash equivalents. ASU 2016-18 does not define restricted cash or restricted cash equivalents, but an entity will need to disclose the nature of the restrictions. ASU 2016-18 is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, adjustments should be reflected at the beginning of the fiscal year that includes that interim period. Entities should apply this ASU using a retrospective transition method to each period presented. The Company is currently in the process of evaluating the impact of adoption on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04 ("ASU 2017-04"), Simplifying the Test for Goodwill Impairment. ASU 2017-04 eliminates step 2 from the goodwill impairment test. As amended, the goodwill impairment test will consist of one step comparing the fair value of a reporting unit with its carrying amount. An entity should recognize a goodwill impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. An entity may still perform the optional qualitative assessment for a reporting unit to determine if it is more likely than not that goodwill is impaired. ASU 2017-04 will be effective for fiscal years and interim periods beginning after December 15, 2019. ASU 2017-04 is required to be applied prospectively and early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently in the process of evaluating the impact of adoption on its consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07, ("ASU 2017-07"), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. ASU 2017-07 requires that the service cost component be disaggregated from the other components of net benefit cost and provides guidance for separate presentation in the income statement. ASU 2017-07 also changes the rules for capitalization of costs such that only the service cost component of net benefit cost may be capitalized rather than total net benefit cost. ASU 2017-07 will be effective for fiscal years and interim periods beginning after December 15, 2017. ASU 2017-07 is required to be applied retrospectively for the income statement presentation and prospectively for the capitalization of the service cost component of net periodic pension cost. The Company is currently in the process of evaluating the impact of adoption on its consolidated financial statements.

In May 2017, the FASB issued Accounting Standards Update No. 2017-09 ("ASU 2017-09"), Scope of Modification Accounting. ASU 2017-09 clarifies when to account for a change to the terms or conditions of a share-based payment award as a modification. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. ASU 2017-09 is effective for all entities for fiscal years beginning after December 15, 2017, including interim periods within those years. Early adoption is permitted, including adoption in an interim period. The Company is currently in the process of evaluating the impact of adoption on its consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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The Company manufactures its products in the United States, Canada and Vietnam. Sales of the Company’s products are in the U.S. and foreign markets. The Company is subject to foreign currency exchange rate risk relating to intercompany activity and balances and to receipts from customers and payments to suppliers in foreign currencies. Adjustments related to the remeasurement of the Company's Canadian and Vietnamese financial statements into U.S. dollars are included in current earnings. As a result, the Company's financial results could be affected by factors such as changes in foreign currency exchange rates or economic conditions in the domestic and foreign markets in which the Company operates. However, minimal third party receivables and payables are denominated in foreign currencies and the related market risk exposure is considered to be immaterial.

The Company's revolving credit line, when drawn upon, is subject to future interest rate fluctuations which could potentially have a negative impact on cash flows of the Company. The Company had $74.5 million outstanding under its Credit Facility at July 2, 2017. A prospective increase of 100 basis points in the interest rate applicable to the Company's outstanding borrowings under its Credit Facility would result in an increase of $0.7 million in our annual interest expense. The Company is not party to any currency exchange or interest rate protection agreements as of July 2, 2017.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our financial statements required by this item are submitted as a separate section of this Annual Report on Form 10-K. See “Index to Consolidated Financial Statements,” commencing on page F-1 hereof.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Each of our Chief Executive Officer and Chief Financial Officer has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934) as of the end of the period covered by this Annual Report. Based on such evaluation, such officers have concluded that, as of the end of the period covered by this Annual Report, our disclosure controls and procedures are effective.

There have been no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities and Exchange Act of 1934) during the quarter ended July 2, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Management Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system was designed to provide reasonable assurance to our management and board of directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Any internal control system, no matter how well designed, has inherent limitations and may not prevent or detect misstatements. Accordingly, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Our management conducted an assessment of the effectiveness of our internal control over financial reporting as of July 2, 2017. This assessment was based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO, in Internal Control — Integrated Framework (2013). Based on this assessment, management believes that, as of July 2, 2017, our internal control over financial reporting was effective.

BDO USA, LLP, our independent registered public accounting firm, issued an attestation report on the effectiveness of our internal control over financial reporting. Their report appears below.

/S/ JOSEPH J. HARTNETT	/S/ JOSEPH G. MCCORMACK
Joseph J. Hartnett	Joseph G. McCormack
Interim President and Chief Executive Officer	Senior Vice President and Chief Financial Officer
September 14, 2017	September 14, 2017

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Sparton Corporation
Schaumburg, Illinois
We have audited Sparton Corporation's internal control over financial reporting as of July 2, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Sparton Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, Sparton Corporation maintained, in all material respects, effective internal control over financial reporting as of July 2, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Sparton Corporation as of July 2, 2017 and July 3, 2016, and the related consolidated statements of operations, comprehensive income (loss), cash flows and shareholders' equity for each of the three years in the period ended July 2, 2017, and our report dated September 15, 2017 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP
Grand Rapids, Michigan

September 14, 2017

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ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 is incorporated herein by reference from the Company's Proxy Statement for the 2017 Annual Meeting of Shareholders. Information concerning executive officers is set forth in Part I, Item 1 of this Annual Report on Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated herein by reference from the Company's Proxy Statement for the 2017 Annual Meeting of Shareholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 12 is incorporated herein by reference from the Company's Proxy Statement for the 2017 Annual Meeting of Shareholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by Item 13 is incorporated herein by reference from the Company's Proxy Statement for the 2017 Annual Meeting of Shareholders.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 14 is incorporated herein by reference from the Company's Proxy Statement for the 2017 Annual Meeting of Shareholders.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this Annual Report on Form 10-K:

1. Financial Statements

See the Index to Consolidated Financial Statements on page F-1.

2. Financial Statement Schedules

See the Index to Consolidated Financial Statements on page F-1.

3. See the Exhibit Index following the financial statements.

(b) See the Exhibit Index following the financial statements.

(c) Financial Statement Schedules. See (a) 2 above.

ITEM 16. FORM 10-K SUMMARY

None

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Sparton Corporation
By: /S/ JOSEPH J. HARTNETT
Joseph J. Hartnett
Interim President and Chief Executive Officer
Date: September 14, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
/S/ JAMES R. SWARTWOUT James R. Swartwout	Director, Chairman of the Board of Directors	September 14, 2017
/S/ JOSEPH J. HARTNETT Joseph J. Hartnett	Director, Interim President and Chief Executive Officer, (Principal Executive Officer)	September 14, 2017
/S/ ALAN L. BAZAAR Alan L. Bazaar	Director	September 14, 2017
/S/ JAMES D. FAST James D. Fast	Director	September 14, 2017
/S/ JOHN A. JANITZ John A. Janitz	Director	September 14, 2017
/S/ CHARLES R. KUMMETH Charles R. Kummeth	Director	September 14, 2017
/S/ DAVID P. MOLFENTER David P. Molfenter	Director	September 14, 2017
/S/ FRANK A. WILSON Frank A. Wilson	Director	September 14, 2017
/S/ JOSEPH G. MCCORMACK Joseph G. McCormack	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	September 14, 2017

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SPARTON CORPORATION AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULE

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Sparton Corporation
Schaumburg, Illinois

We have audited the accompanying consolidated balance sheets of Sparton Corporation and subsidiaries as of July 2, 2017 and July 3, 2016, and the related consolidated statements of operations, comprehensive income (loss), cash flows and shareholders’ equity for each of the three years in the period ended July 2, 2017. In connection with our audits of the financial statements, we have also audited the financial statement schedule listed in the accompanying index. These financial statements and schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sparton Corporation and subsidiaries as of July 2, 2017 and July 3, 2016, and their results of operations and cash flows for each of the three years in the period ended July 2, 2017, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Sparton Corporation’s internal control over financial reporting as of July 2, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated September 14, 2017 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Grand Rapids, Michigan
September 14, 2017

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SPARTON CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except share data)

	July 2, 2017	July 3, 2016
Assets		
Current Assets:		
Cash and cash equivalents	$988	$132
Accounts receivable, net of allowance for doubtful accounts of $429 and $407, respectively	45,347	46,759
Inventories and cost of contracts in progress, net	60,248	77,871
Prepaid expenses and other current assets	3,851	5,844
Total current assets	110,434	130,606
Property, plant and equipment, net	34,455	33,320
Goodwill	12,663	12,663
Other intangible assets, net	28,445	36,933
Deferred income taxes	24,893	25,784
Other non-current assets	6,253	6,692
Total assets	$217,143	$245,998
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	$27,672	$38,290
Accrued salaries and wages	11,453	10,609
Accrued health benefits	1,150	903
Performance based payments on customer contracts	1,749	—
Current portion of capital lease obligations	269	217
Other accrued expenses	11,959	12,420
Total current liabilities	54,252	62,439
Credit facility	74,500	97,206
Capital lease obligations, less current portion	167	332
Environmental remediation	5,468	6,117
Pension liability	888	1,276
Total liabilities	135,275	167,370
Commitments and contingencies		
Shareholders' Equity:		
Preferred stock, no par value; 200,000 shares authorized; none issued	—	—
Common stock, $1.25 par value; 15,000,000 shares authorized, 9,860,635 and 9,845,469 shares issued and outstanding, respectively	12,326	12,307
Capital in excess of par value	17,851	16,407
Retained earnings	52,967	51,650
Accumulated other comprehensive loss	(1,276)	(1,736)
Total shareholders' equity	81,868	78,628
Total liabilities and shareholders' equity	$217,143	$245,998

See Notes to consolidated financial statements.

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SPARTON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands, except per share data)

	For fiscal years		
	2017	2016	2015
Net sales	$397,562	$419,362	$382,125
Cost of goods sold	325,663	339,214	307,311
Gross profit	71,899	80,148	74,814
Operating expense:			
Selling and administrative expenses	54,110	55,151	46,969
Internal research and development expenses	1,670	2,344	1,502
Amortization of intangible assets	8,498	9,592	6,591
Restructuring charges	—	2,206	—
Reversal of accrued contingent consideration	—	(1,530)	—
Impairment of goodwill	—	64,174	—
Legal settlement	—	—	2,500
Total operating expense	64,278	131,937	57,562
Operating income (loss)	7,621	(51,789)	17,252
Other income (expense):			
Interest expense, net	(4,437)	(3,803)	(2,456)
Other, net	60	93	159
Total other expense, net	(4,377)	(3,710)	(2,297)
Income (loss) before income taxes	3,244	(55,499)	14,955
Income tax expense (benefit)	1,927	(17,216)	3,966
Net income (loss)	$1,317	$(38,283)	$10,989
Income (loss) per share of common stock:			
Basic	$0.13	$(3.91)	$1.10
Diluted	$0.13	$(3.91)	$1.10
Weighted average shares of common stock outstanding:			
Basic	9,812,248	9,786,315	9,874,441
Diluted	9,812,273	9,786,315	9,885,961

See Notes to consolidated financial statements.

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SPARTON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Dollars in thousands)

	For fiscal years		
	2017	2016	2015
Net income (loss)	$1,317	$(38,283)	$10,989
Other comprehensive income (loss), net:			
Pension experience gain (loss), net of tax benefit	143	100	(458)
Pension amortization of unrecognized net actuarial loss, net of tax	157	(682)	54
Pension pro rata recognition of lump-sum settlements, net of tax	160	218	—
Unrecognized gain (loss) on marketable equity securities, net of tax	—	85	(85)
Other comprehensive income (loss), net	460	(279)	(489)
Comprehensive income (loss)	$1,777	$(38,562)	$10,500

See Notes to consolidated financial statements.

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SPARTON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	For fiscal years		
	2017	2016	2015
Cash Flows from Operating Activities:			
Net income (loss)	$1,317	$(38,283)	$10,989
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	5,894	6,083	4,645
Amortization of intangible assets	8,498	9,592	6,591
Deferred income taxes	630	(18,562)	(873)
Stock-based compensation expense	1,463	289	1,885
Amortization of deferred financing costs	498	298	1,169
Loss (gain) on sale of property, plant and equipment, net	(7)	56	—
Loss on sale of securities available for sale	—	129	—
Impairment of goodwill	—	64,174	—
Reversal of accrued contingent consideration	—	(1,530)	—
Excess tax benefit from stock-based compensation	—	(162)	(1,044)
Legal settlement	—	—	2,500
Gross profit effect of capitalized profit in inventory from acquisition	—	—	299
Changes in operating assets and liabilities, net of business acquisitions:			
Accounts receivable	1,412	23,829	(7,040)
Inventories and cost of contracts in progress	17,622	(3,419)	501
Prepaid expenses and other assets	2,690	(609)	(2,319)
Performance based payments on customer contracts	1,749	(1,756)	(1,440)
Accounts payable and accrued expenses	(10,298)	8,003	(11,326)
Net cash provided by operating activities	31,468	48,132	4,537
Cash Flows from Investing Activities:			
Acquisition of businesses, net of cash acquired	—	178	(97,319)
Proceeds from sale of securities available for sale	—	857	—
Purchases of property, plant and equipment	(6,896)	(6,098)	(5,802)
Proceeds from sale of property, plant and equipment	22	221	—
Purchase of securities available for sale	—	—	(986)
Net cash used in investing activities	(6,874)	(4,842)	(104,107)
Cash Flows from Financing Activities:			
Borrowings from credit facility	130,082	128,050	215,835
Repayments against credit facility	(152,788)	(185,344)	(102,335)
Payment of debt financing costs	(765)	(692)	(1,423)
Repurchase of stock	—	(140)	(6,830)
Payments under capital lease agreements	(267)	(108)	—
Excess tax benefit from stock-based compensation	—	162	1,044
Proceeds from the exercise of stock options	—	—	165
Net cash (used in) provided by financing activities	(23,738)	(58,072)	106,456
Net increase (decrease) in cash and cash equivalents	856	(14,782)	6,886
Cash and cash equivalents at beginning of year	132	14,914	8,028
Cash and cash equivalents at end of year	$988	$132	$14,914
Supplemental disclosure of cash flow information:			
Cash paid for interest	$3,828	$3,506	$1,747
Cash paid for income taxes	1,115	766	7,190

Machinery and equipment financed under capital leases	148	656	—
Supplemental disclosure of non-cash investing activities:			
Adjustments to acquired companies' opening balance sheets	—	3,412	603

See Notes to consolidated financial statements.

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SPARTON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Dollars in thousands)

	Common Stock		Capital In Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares	Amount				
Balance at June 30, 2014	10,129,031	12,661	19,478	78,944	(968)	110,115
Issuance of stock	26,793	34	(34)	—	—	—
Forfeiture of restricted stock	(39,031)	(49)	49	—	—	—
Repurchase of stock	(249,420)	(312)	(6,518)	—	—	(6,830)
Exercise of stock options	19,245	24	141	—	—	165
Stock-based compensation expense	—	—	1,885	—	—	1,885
Excess tax benefit from stock-based compensation	—	—	1,044	—	—	1,044
Comprehensive income (loss), net of tax	—	—	—	10,989	(489)	10,500
Balance at June 30, 2015	9,886,618	12,358	16,045	89,933	(1,457)	116,879
Issuance of stock	17,245	22	(22)	—	—	—
Forfeiture of restricted stock	(52,303)	(65)	65	—	—	—
Repurchase of stock	(6,091)	(8)	(132)	—	—	(140)
Stock-based compensation expense	—	—	289	—	—	289
Excess tax benefit from stock-based compensation	—	—	162	—	—	162
Comprehensive income (loss), net of tax	—	—	—	(38,283)	(279)	(38,562)
Balance at July 3, 2016	9,845,469	$12,307	$ 16,407	$51,650	$ (1,736)	$ 78,628
Issuance of stock	41,905	52	(52)	—	—	—
Forfeiture of restricted stock	(26,739)	(33)	33	—	—	—
Stock-based compensation expense	—	—	1,463	—	—	1,463
Comprehensive income (loss), net of tax	—	—	—	1,317	460	1,777
Balance at July 2, 2017	9,860,635	$12,326	$ 17,851	$52,967	$ (1,276)	$ 81,868

See Notes to consolidated financial statements.

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SPARTON CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except share data)
(1) Business
Sparton Corporation and subsidiaries (the “Company” or “Sparton”) has been in continuous existence since 1900. It was last reorganized in 1919 as an Ohio corporation. The Company is a provider of design, development and manufacturing services for complex electromechanical devices, as well as sophisticated engineered products complementary to the same electromechanical value stream. The Company serves the Medical & Biotechnology, Military & Aerospace and Industrial & Commercial markets through two reportable business segments; Manufacturing & Design Services (“MDS”) and Engineered Components & Products (“ECP”). See Note 16, Business Segments, of the "Notes to Consolidated Financial Statements" in this form 10-K for a further discussion of business segments. All of the Company's facilities are certified to one or more of the ISO/AS standards, including ISO 9001, AS9100 and ISO 13485, with most having additional certifications based on the needs of the customers they serve. The majority of the Company's customers are in highly regulated industries where strict adherence to regulations such as the International Tariff and Arms Regulations ("ITAR") is necessary. The Company's products and services include offerings for Original Equipment Manufacturers (“OEM”) and Emerging Technology (“ET”) customers that utilize microprocessor-based systems which include transducers, printed circuit boards and assemblies, sensors and electromechanical components, as well as development and design engineering services relating to these product sales. Sparton also develops and manufactures sonobuoys, anti-submarine warfare (“ASW”) devices used by the United States Navy and foreign governments that meet Department of State licensing requirements. Additionally, Sparton manufactures rugged flat panel display systems for military panel PC workstations, air traffic control and industrial applications as well as high performance industrial grade computer systems and peripherals. Many of the physical and technical attributes in the production of these proprietary products are similar to those required in the production of the Company's other electrical and electromechanical products and assemblies.
In fiscal year 2016, the Company changed from a calendar year to a 52-53 week year (5-4-4 basis) ending on the Sunday closest to June 30. Therefore, the financial results of certain fiscal years and the associated 14 week quarters, will not be exactly comparable to the prior and subsequent 52 week fiscal years and the associated quarters having only 13 weeks. The change was not deemed a change in fiscal year for purposes of reporting subject to Rule 13a-10 or 15d-10; hence, no transition reports are required. The Company made the change in fiscal years on a prospective basis and thus the change did not impact the Company’s financial statements as of and for fiscal year 2016 or any interim period therein. The Company believes the change in fiscal years will provide numerous benefits, including more consistency between reported periods and to better align its reporting periods with the Company’s peer group.
On July 7, 2017, the Company, an Ohio corporation, entered into an Agreement and Plan of Merger (the “Merger Agreement”) among the Company, Ultra Electronics Holdings plc, a company organized under the laws of England and Wales ("Parent" or “Ultra”), and Ultra Electronics Aneira Inc., an Ohio corporation and an indirect wholly owned subsidiary of Parent (“Merger Sub”). Upon the terms and subject to the conditions set forth in the Merger Agreement, Merger Sub will be merged with and into the Company (the “Merger”) with the Company surviving the Merger as a wholly owned subsidiary of Parent.
At the effective time of the Merger, each issued and outstanding share of common stock, par value $1.25 per share, of the Company (each, a “Share”) (other than (i) Shares that immediately prior to the effective time of the Merger are owned by Parent, Merger Sub or any other wholly owned subsidiary of Parent or owned by the Company or any wholly owned subsidiary of the Company (including as treasury stock) and (ii) Shares that are held by any record holder who is entitled to demand and properly demands payment of the fair cash value of such Shares as a dissenting shareholder pursuant to, and who complies in all respects with, the provisions of Section 1701.85 of the Ohio General Corporation Law (the “OGCL”)) will be cancelled and converted into the right to receive $23.50 per Share in cash, without interest.

The Merger Agreement provides for certain other termination rights for both the Company and Ultra, and further provides that, upon termination of the Merger Agreement under certain specified circumstances, the Company will be required to pay Ultra a termination fee of $7.5 million or Ultra will be required to pay Company a termination fee of $7.5 million.

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(2) Summary of Significant Accounting Policies

Basis of presentation and principles of consolidation — The consolidated financial statements include the accounts of Sparton Corporation and subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). All significant intercompany accounts and transactions have been eliminated in consolidation. Certain reclassifications of prior year amounts have been made to conform to the current year presentation.

Use of estimates — Management of the Company has made a number of estimates, judgments and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent liabilities at the dates of the consolidated balance sheets and revenue and expense during the reporting periods to prepare these consolidated financial statements in conformity with GAAP. Actual results could differ from those estimates.

Cash and cash equivalents — Cash and cash equivalents include cash on hand, demand deposits and money market funds with original maturities of three months or less. Cash equivalents are stated at cost which approximates fair value.

Accounts receivable, credit practices and allowances for doubtful accounts — Accounts receivable are customer obligations generally due under normal trade terms for the industry. Credit terms are granted and periodically revised based on evaluations of the customers’ financial condition. The Company performs ongoing credit evaluations of its customers and although the Company does not generally require collateral, letters of credit or cash advances may be required from customers in order to support accounts receivable in certain circumstances. The Company maintains an allowance for doubtful accounts on receivables for estimated losses resulting from the inability of its customers to make required payments. The allowance is estimated primarily based on information known about specific customers with respect to their ability to make payments and future expectations of conditions that might impact the collectability of accounts. When management determines that it is probable that an account will not be collected, all or a portion of the amount is charged against the allowance for doubtful accounts.

Inventories and costs of contracts in progress — Inventories are valued at the lower of cost (first-in, first-out basis) or market and include costs related to long-term contracts as disclosed below. Inventories, other than contract costs, are principally raw materials and supplies. Certain United States government contracts allow Sparton to submit performance based billings, which are then applied against inventories purchased and manufacturing costs incurred by the Company throughout its performance under these contracts. Inventories were reduced by performance based payments from the U.S. government for costs incurred related to long-term contracts, thereby establishing inventory to which the U.S. government then has title, of $8,541 and $8,963 respectively, at July 2, 2017 and July 3, 2016. At July 2, 2017 and July 3, 2016, current liabilities include performance based payments of $1,749 and $0, respectively, on government contracts. As these payments were in excess of cost, there is no inventory to which the government would claim title and, therefore, no offset to inventory has been made.

Customer orders are based upon forecasted quantities of product manufactured for shipment over defined periods. Raw material inventories are purchased to fulfill these customer requirements. Within these arrangements, customer demands for products frequently change, sometimes creating excess and obsolete inventories. The Company regularly reviews raw material inventories by customer for both excess and obsolete quantities. Wherever possible, the Company attempts to recover its full cost of excess and obsolete inventories from customers or, in some cases, through other markets. When it is determined that the Company’s carrying cost of such excess and obsolete inventories cannot be recovered in full, a charge is taken against income for the difference between the carrying cost and the estimated realizable amount. These cost adjustments for excess and obsolete inventory create a new cost basis for the inventory. The Company recorded inventory write-downs totaling $544, $1,653 and $927 for fiscal years 2017, 2016 and 2015, respectively. These charges are included in cost of goods sold for the periods presented. If inventory that has previously been impaired is subsequently sold, the amount of reduced cost basis is reflected as cost of goods sold. The Company experienced minimal subsequent sales of excess and obsolete inventory during fiscal years 2017, 2016 and 2015 that resulted in higher gross margins due to previous write-downs. Such sales and the impact of those sales on gross margin were not material to the years presented.

Property, plant and equipment, net — Property, plant and equipment are stated at cost less accumulated depreciation. Major improvements and upgrades are capitalized while ordinary repair and maintenance costs are expensed as incurred. Depreciation is provided over estimated useful lives on both straight-line and accelerated methods. Estimated useful lives generally range from twelve to thirty-nine years for buildings and improvements, twelve years for machinery and equipment and five years for test equipment.

Goodwill — Goodwill resulting from business combinations represents the excess of purchase price over the fair value of the net assets of the businesses acquired. Goodwill is not amortized, but rather tested for impairment annually, as well as whenever there are events or changes in circumstances (triggering events) which suggest that the carrying value of goodwill may not be recoverable. The Company performs its annual goodwill impairment testing in the fourth quarter based on its historical financial results through the third quarter end. The goodwill impairment test is performed at the reporting unit level,

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which is the lowest level at which goodwill is evaluated for management purposes. The Company has identified reporting units to be its two reportable business segments - MDS and ECP for fiscal years 2017, 2016 and 2015.
The Company may elect to perform a qualitative assessment for its annual goodwill impairment test. If the qualitative assessment indicates that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, or if Sparton elects to not perform a qualitative assessment, then the Company would be required to perform a quantitative impairment test for goodwill.
The quantitative impairment analysis is a two-step process. First, the Company determines the fair value of the reporting unit and compares it to its carrying value. The fair value of reporting units is determined based on a weighting of both projected discounted future results and comparative market multiples. The projected discounted future results (discounted cash flow approach) is based on assumptions that are consistent with the Company’s estimates of future growth and the strategic plan used to manage the underlying business. Factors requiring significant judgment include assumptions related to future revenue growth rates, operating margins, terminal growth rates and discount factors, amongst other considerations. If the carrying value of the reporting unit exceeds the fair value in the first step, a second step is performed to measure the amount of an impairment loss. In the second step, an impairment loss is recognized for any excess of the carrying value of the reporting unit’s goodwill over its implied fair value. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit using a residual fair value allocation. The residual fair value allocated to goodwill is the implied fair value of the reporting unit's goodwill. The Company’s fair value estimates related to its goodwill impairment analyses are based on Level 3 inputs within the fair value hierarchy as described below in this note under “Fair value measurements.” Determining the fair value of any reporting unit and intangible asset is judgmental in nature and involves the use of significant estimates and assumptions. The Company bases its fair value estimates on assumptions believed to be reasonable, but which are unpredictable and inherently uncertain. Actual future results may differ from those estimates. Circumstances that may lead to future impairment of goodwill include, but are not limited to, unforeseen decreases in future performance or industry demand, a further loss of a significant customer, or the inability to achieve sufficient organic revenue growth to offset fluctuations in customer demand.
In fiscal years 2017 and 2015, the Company elected to perform the optional qualitative assessment of goodwill and concluded that it was more likely than not that the fair value of goodwill in its reporting units was in excess of its respective carrying amount and therefore, no further testing was required. In fiscal 2016, the Step 1 impairment testing of goodwill was performed and resulted in the carrying values of its MDS reporting unit in excess of its fair value indicating potential impairment. The decline in value in the MDS reporting unit was a result of the underperformance of the Company’s most recent acquisition (Hunter Technology Corporation), and the inability to achieve sufficient organic revenue growth to offset the loss of a large customer due to insourcing, as well as revenue declines due to fluctuations in customer demand across the MDS reporting unit. The Company performed the Step 2 analysis of goodwill impairment for this reporting unit and based on the valuation of the reporting unit as well as the fair value of the reporting unit's individual tangible and intangible assets, it was determined that goodwill within this reporting unit was fully impaired. As such, the Company recorded an impairment of goodwill charge of $64,174. Prior to the fourth quarter of fiscal 2016, no triggering events or other facts and circumstances were identified that indicated that it was more likely than not that the fair value of the MDS segment was less than its carrying value. The impairment recognized in the fourth quarter of fiscal 2016 was a result of the continued underperformance of the acquired Hunter Technology Corporation operations and the inability of the Company to achieve sufficient organic revenue growth to offset fluctuations in customer demands. The fair value of the Company’s ECP reporting unit was in excess of its carrying value and, as such, indicated no impairment of goodwill.
Other Intangible Assets — The Company’s intangible assets other than goodwill represent the values assigned to acquired customer relationships, acquired non-compete agreements, acquired trademarks/trade names, acquired unpatented technology and patents. At July 2, 2017, customer relationships and non-compete agreements totaling $21,416 and $1,222, respectively, are included in the MDS segment, while customer relationships, non-compete agreements, trademarks/trade names, unpatented technology and patents totaling $3,961, $123, $1,221, $494 and $8 respectively, are included in the ECP segment. The impairment test for these intangible assets is conducted when impairment indicators are present. The Company continually evaluates whether events or circumstances have occurred

that would indicate the remaining estimated useful lives of its intangible assets warrant revision or that the remaining balance of such assets may not be recoverable. The Company uses an estimate of the related undiscounted cash flows over the remaining life of the asset in measuring whether the asset is recoverable. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge would be recognized for the amount that the carrying amount of the asset exceeds the fair value of the asset. The Company's fair value estimates related to its intangible assets impairment analyses are based on Level 3 inputs within the fair value hierarchy as described below in this note under "Fair value measurements." The Company had a third party evaluation performed in the fourth quarter of fiscal year 2016 and performed an internal evaluation in the fourth quarter of fiscal 2017. It was determined for both periods that the assets were fully recoverable and no write-down of such assets was necessary.

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Acquired customer relationships are being amortized using an accelerated methodology over periods of seven to fifteen years. Acquired non-compete agreements are being amortized on a straight-line basis over periods of two to five years as the ratable decline in value over time is most consistent with the contractual nature of these assets. Acquired trademarks/trade names are being amortized on a straight-line basis over periods of one to ten years and acquired unpatented technology is being amortized using an accelerated methodology over seven years. Patents are being amortized using an accelerated methodology over three years.

Other long-lived assets - The Company reviews other long-lived assets, including property, plant and equipment, that are not held for sale, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is determined by comparing the carrying value of the assets to their estimated future undiscounted cash flows. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset group exceeds the fair value of the asset group. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Stock-based compensation — The Company measures the cost of employee and director services received in exchange for an award of equity-based securities using the fair value of the award on the date of the grant. The Company recognizes that cost on a straight-line basis over the period that the award recipient is required to provide service to the Company in exchange for the award and, for certain awards, subject to the probability that related performance targets will be met.

Net earnings (loss) per share — Basic earnings (loss) per share is based on the weighted average number of common shares and participating securities outstanding during the period. Diluted earnings or loss per share include the dilutive effect of additional potential common shares issuable under our stock-based compensation plans and are determined using the treasury stock method. Unvested restricted stock awards, which contain non-forfeitable rights to dividends whether paid or unpaid, are included in the number of shares outstanding for both basic and diluted earnings or loss per share calculations. Unvested contingently issuable participating restricted shares are excluded from basic earnings (loss) per share. In the event of a net loss, unvested restricted stock awards are excluded from the calculation of both basic and diluted loss per share.

Income taxes - Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement amounts of assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in future years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rate is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced through the establishment of a valuation allowance at the time, based upon available evidence, it becomes more likely than not that the deferred tax assets will not be realized.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. Management also assesses whether uncertain tax positions, as filed, could result in the recognition of a liability for possible interest and penalties. The Company's policy is to include interest and penalties related to unrecognized tax benefits as a component of income tax expense.

ERAPSCO Agreement — Sparton is a 50/50 joint venture (“JV”) partner with UnderSea Sensor Systems, Inc. (“USSI”), the only other major producer of U.S. derivative sonobuoys. USSI’s parent company is Ultra Electronics Holdings plc, based in the United Kingdom. The JV operates under the name ERAPSCO and allows Sparton and USSI to combine their own unique and complementary backgrounds to jointly develop and produce U.S. derivative sonobuoy designs for the U.S. Navy as well as foreign governments that meet Department of State licensing requirements. ERAPSCO maintains the DBA Sonobuoy TechSystems through which it conducts business directly with foreign governments. In concept, and in practice, ERAPSCO serves as a pass-through entity maintaining no funds or assets. While the JV provides the opportunity to maximize efficiencies in the design and development of the related sonobuoys, both of the joint venture partners function independently as subcontractors; therefore, there is no separate entity to be accounted for or consolidated. The Board of Directors of ERAPSCO has the responsibility for the overall management and operation of the JV. The six member board consists of equal representation (full time employees) from both JV partners for three year terms. Personnel necessary for the operation of ERAPSCO, specifically a president, vice president, general manager, contract administrator and financial manager, are similarly assigned by the JV partners for rotating three year terms and the costs of these assigned individuals are borne by the party assigning the personnel. In response to a customer request for proposal ("RFP") that ERAPSCO will bid on, the Board of Directors of ERAPSCO approves both the composition of a response to the RFP and the composite bid to be submitted to the customer. The Board of Directors strives to divide the aggregate contract awards at a 50/50 share ratio. Each JV partner bears the costs it incurs associated with the preparation and submission of proposals. Each JV partner submits to ERAPSCO a

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proposal for the estimated price of performing that portion of the RFP applicable to it. Upon award of a contract to the JV, separate subcontracts are generated between ERAPSCO and each of the JV partners defining the responsibilities and compensation. These subcontracts contain terms and conditions consistent with the prime contract. Each JV partner is responsible to ERAPSCO for the successful execution of its respective scope of work under its subcontract and each JV partner is individually accountable for the profit or losses sustained in the execution of the subcontract against its respective bid. In some instances, either Sparton or USSI handles the complete production and delivery of sonobuoys to ERAPSCO's customer. In other instances, either Sparton or USSI starts the production and ship completed subassemblies to the other party for additional processing before being delivered to the customers. Under ERAPSCO, individual contract risk exposures are reduced, while the likelihood of achieving U.S. Navy and other ASW objectives is enhanced. ERAPSCO has been in existence since 1987 and historically, the agreed upon products included under the JV were generally developmental sonobuoys. In 2007, the JV expanded to include all future sonobuoy development and substantially all U.S. derivative sonobuoy products for customers outside of the United States. The JV was further expanded three years later to include all sonobuoy products for the U.S. Navy beginning with U.S. Navy's 2010 fiscal year contracts.

Revenue recognition — The Company’s net sales are comprised primarily of product sales, with supplementary revenues earned from engineering and design services. Standard contract terms are FOB shipping point. Revenue from product sales is generally recognized upon shipment of the goods; service revenue is recognized as the service is performed or under the percentage of completion method, depending on the nature of the arrangement. Long-term contracts related to ECP sonobuoy sales to the U.S. Navy and foreign government customers that require lot acceptance testing recognize revenue under the units-of-production percentage of completion method. The Company additionally has certain other long-term contracts that are accounted for under the units shipped percentage-of-completion method. Certain upfront engineering costs in relation to certain of these long-term contracts are capitalized and recognized over the life of the contract. At July 2, 2017 and July 3, 2016, current liabilities include payments in excess of costs of $1,749 and $0, respectively, on government contracts. As noted above, sales related to these billings are recognized based upon units completed and are not recognized at the time of billings. A provision for the entire amount of a loss on a contract is charged to operations as soon as the loss is identified and the amount is reasonably determinable. Shipping and handling costs are included in cost of goods sold.

Advertising Costs — The Company expenses advertising costs as they are incurred. Advertising expense was $25, $106 and $160 for fiscal years 2017, 2016 and 2015, respectively.

Research and development expenditures — Internal research and development expenses reflect costs incurred for the internal development of technologies for use in undersea warfare, navigation, handheld targeting applications as wells as rugged computer and display devices. These costs include salaries and related expenses, contract labor and consulting costs, materials and the cost of certain research and development specific equipment. The Company incurred $1,670, $2,344 and $1,502 of internally funded research and development expenses during fiscal years 2017, 2016 and 2015, respectively. Customer funded research and development costs, which are usually part of a larger production agreement, totaled $5,610, $16,736 and $9,944 for the fiscal years 2017, 2016 and 2015, respectively.

Fair value measurements — Fair value estimates and assumptions and methods used to estimate the fair value of the Company’s assets and liabilities are made in accordance with the requirements of the Financial Accounting Standards Board (the “FASB”), Accounting Standards Codification (“ASC”) Topic 820, “Fair Value Measurements and Disclosures” (“ASC 820”).

ASC 820 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, ASC 820 establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows: Level 1 are observable inputs such as quoted prices in active markets; Level 2 are inputs other than the quoted prices in active markets that are observable either directly or indirectly; and Level 3 are unobservable inputs in which there is little or no market data, which require the Company to develop its own assumptions. This hierarchy requires the Company to use observable market data when available and to minimize the use of unobservable inputs when determining fair value. As of July 2, 2017 and July 3, 2016, the

Company had no assets or liabilities which it measures and carries on its balance sheet at fair value on a recurring basis.

The fair value of the Company's Credit Facility (as defined below) debt at July 2, 2017 approximated its carrying value of $74,500, as the rates on these borrowings are variable in nature. In the event of an acquisition, the Company estimates the fair value of the assets acquired and liabilities assumed at acquisition date. See Note 3, Acquisitions, of the "Notes to Consolidated Financial Statements" in this form 10-K for a further discussion of these estimated fair values.

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At June 30, 2015, the Company established liabilities for accrued contingent consideration related to the acquisition of RTE ($350) and Hunter ($1,180). In fiscal year 2016, these liabilities were reversed to income as the contingent consideration was not achieved.

Market risk exposure — The Company manufactures its products in the United States, Canada and Vietnam. Sales of the Company’s products are in the U.S. and foreign markets. The Company is subject to foreign currency exchange rate risk relating to intercompany activity and balances and to receipts from customers and payments to suppliers in foreign currencies. Adjustments related to the remeasurement of the Company's Canadian and Vietnamese financial statements into U.S. dollars are included in current earnings. As a result, the Company's financial results could be affected by factors such as changes in foreign currency exchange rates or economic conditions in the domestic and foreign markets in which the Company operates. However, minimal third party receivables and payables are denominated in foreign currency and the related market risk exposure is considered to be immaterial.

The Company's revolving credit line, when drawn upon, is subject to future interest rate fluctuations which could potentially have a negative impact on cash flows of the Company. The Company had $74,500 outstanding under its credit facility at July 2, 2017. A prospective increase of 100 basis points in the interest rate applicable to the Company's outstanding borrowings under its Credit Facility would result in an increase of $745 in its annual interest expense. The Company is not party to any currency exchange or interest rate protection agreements as of July 2, 2017. See Note 8, Debt, of the "Notes to Consolidated Financial Statements" in this form 10-K for a further description on Sparton’s debt.

New accounting standards — In May 2014, the FASB issued Accounting Standards Update No. 2014-09 ("ASU 2014-09"), Revenue from Contracts with Customers, which amends guidance for revenue recognition. Under the new standard, revenue will be recognized when control of the promised goods or services is transferred to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods and services. The standard creates a five-step model that will generally require companies to use more judgment and make more estimates than under current guidance when considering the terms of contracts along with all relevant facts and circumstances. These include the identification of customer contracts and separating performance obligations, the determination of transaction price that potentially includes an estimate of variable consideration, allocating the transaction price to each separate performance obligation, and recognizing revenue in line with the pattern of transfer. In August 2015, the FASB issued an amendment to defer the effective date for all entities by one year. The new standard will become effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted as of annual reporting periods beginning after December 15, 2016. Companies have the option of using either a full or modified retrospective approach in applying this standard. During fiscal 2016, the FASB issued three additional updates which further clarify the guidance provided in ASU 2014-09. The Company has identified key personnel to evaluate the guidance and approve a transition method, while also formulating a time line to review the potential impact of the new standard on its existing revenue recognition policies and procedures.

In July 2015, the FASB issued Accounting Standards Update No. 2015-11 ("ASU 2015-11"), Simplifying the Measurement of Inventory. ASU 2015-11 clarifies that inventory should be held at the lower of cost or net realizable value. Net realizable value is defined as the estimated selling price, less the estimated costs to complete, dispose and transport such inventory. ASU 2015-11 will be effective for fiscal years and interim periods beginning after December 15, 2016. ASU 2015-11 is required to be applied prospectively and early adoption is permitted. The Company does not expect ASU 2015-11 to have a material impact on its consolidated financial statements when it is adopted in the first quarter of fiscal year 2018.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02 (“ASU 2016-02”), Leases (Topic 842). ASU 2016-02 establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for capital leases and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently in the process of evaluating the impact of adoption on its consolidated financial statements.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09 ("ASU 2016-09"), Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. ASU 2016-09 will directly impact the tax administration of equity plans. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted and any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company elected to early adopt ASU 2016-09 as of July 4, 2016 on a prospective basis. There was no significant impact on the Company's financial statements as a result of the adoption in fiscal year 2017.

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In June 2016, the FASB issued Accounting Standards Update No. 2016-13 ("ASU 2016-13"), Financial Instruments—Credit Losses (Topic 326). ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019 and early adoption is permitted. The Company is currently in the process of evaluating the impact of adoption on its consolidated financial statements.

In August 2016, the FASB issued Accounting Standards Update No. 2016-15 ("ASU 2016-15"), Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 will make eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017. The new standard will require adoption on a retrospective basis unless it is impracticable to apply, in which case it would be required to apply the amendments prospectively as of the earliest date practicable. The Company is currently in the process of evaluating the impact of adoption on its consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16 ("ASU 2016-16"), Income Taxes - Intra-Entity Transfers of Assets Other Than Inventory, which requires entities to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. ASU 2016-16 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted as of the beginning of a fiscal year. ASU 2016-16 must be adopted using a modified retrospective transition method which is a cumulative-effective adjustment to retained earnings as of the beginning of the first effective reporting period. The Company is currently in the process of evaluating the impact of adoption on its consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18 ("ASU 2016-18"), Restricted Cash, which addresses classification and presentation of changes in restricted cash on the statement of cash flows. ASU 2016-18 requires an entity's reconciliation of the beginning-of-period and end-of-period total amounts shown on the statement of cash flows to include in cash and cash equivalents amounts generally described as restricted cash and restricted cash equivalents. ASU 2016-18 does not define restricted cash or restricted cash equivalents, but an entity will need to disclose the nature of the restrictions. ASU 2016-18 is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, adjustments should be reflected at the beginning of the fiscal year that includes that interim period. Entities should apply this ASU using a retrospective transition method to each period presented. The Company is currently in the process of evaluating the impact of adoption on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04 ("ASU 2017-04"), Simplifying the Test for Goodwill Impairment. ASU 2017-04 eliminates step 2 from the goodwill impairment test. As amended, the goodwill impairment test will consist of one step comparing the fair value of a reporting unit with its carrying amount. An entity should recognize a goodwill impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. An entity may still perform the optional qualitative assessment for a reporting unit to determine if it is more likely than not that goodwill is impaired. ASU 2017-04 will be effective for fiscal years and interim periods beginning after December 15, 2019. ASU 2017-04 is required to be applied prospectively and early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently in the process of evaluating the impact of adoption on its consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07, ("ASU 2017-07"), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. ASU 2017-07 requires that the service cost component be disaggregated from the other components of net benefit cost and provides guidance for separate presentation in the income statement. ASU 2017-07 also changes the rules for capitalization of costs such that only the service cost component of net benefit cost may be capitalized rather than total net benefit cost. ASU 2017-07 will be effective for fiscal years and interim periods beginning after December 15, 2017. ASU 2017-07 is required to be applied retrospectively for the income statement presentation and prospectively for the capitalization of the service cost component of net periodic pension cost. The Company is currently in the process of evaluating the impact of adoption on its consolidated financial statements.

In May 2017, the FASB issued Accounting Standards Update No. 2017-09 ("ASU 2017-09"), Scope of Modification Accounting. ASU 2017-09 clarifies when to account for a change to the terms or conditions of a share-based payment award as a modification. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. ASU 2017-09 is effective for all entities for fiscal years beginning after December 15, 2017, including interim periods within those years. Early adoption is permitted, including adoption in an interim period. The Company is currently in the process of evaluating the impact of adoption on its consolidated financial statements.

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(3) Acquisitions

Fiscal Year 2015

The following table represents the allocation of the total consideration to assets acquired and liabilities assumed in the 2015 acquisitions based on Sparton’s estimate of their respective fair values at the acquisition date:

	Hunter	Stealth	KEP Marine	RTEmd	Argotec	IED	eMT
Total purchase consideration:							
Cash	$55,194	$12,558	$4,300	$2,332	$ 350	$3,000	$20,000
Common stock	673	—	—	—	—	—	—
Section 338 gross-up payable	572	—	—	—	—	—	—
Working capital adjustment	—	—	(147)	103	75	292	1,600
Income tax adjustment	—	—	—	—	—	(271)	469
Total purchase consideration	$56,439	$12,558	$4,153	$2,435	$ 425	$3,021	$22,069
Assets acquired and liabilities assumed:							
Cash	$687	$—	$—	$206	$ —	$—	$1,505
Accounts receivable	10,455	360	—	273	—	—	4,444
Inventories	15,683	562	1,203	134	55	450	4,090
Other assets	682	—	—	10	—	—	56
Property, plant and equipment	3,195	—	—	7	118	—	584
Goodwill	29,277	6,718	1,570	1,930	232	1,962	6,959
Other intangibles	15,820	5,415	1,380	800	20	880	8,760
Accounts payable and other liabilities	(19,360)	(497)	—	(925)	—	(271)	(4,329)
Total assets acquired and liabilities assumed	$56,439	$12,558	$4,153	$2,435	$ 425	$3,021	$22,069

Hunter Technology Corporation — On April 14, 2015, the Company acquired Hunter Technology Corporation ("Hunter"), with operations located in Milpitas, CA and Lawrenceville, GA, for $55,000. Hunter, which is part of the Company's MDS segment, provides electronic contract manufacturing in military and aerospace applications. Hunter provides engineering design, new product introduction and full-rate production manufacturing solutions working with major defense and aerospace companies, test and measurement suppliers, secure networking solution providers, medical device manufacturers and a wide variety of industrial customers.

Included in the Company’s Consolidated Statements of Income for fiscal year 2015 are net sales of $14,288 and net loss before income taxes $656, since the April 14, 2015 acquisition of Hunter.

Stealth.com — On March 16, 2015, the Company acquired substantially all of the assets of Stealth.com ("Stealth"), located in Woodbridge, ON, Canada, for $16,000 CAD ($12,558 USD). The acquired business, which is part of the Company's ECP segment, is a supplier of high performance rugged industrial grade computer systems and peripherals that include Mini PC/Small Form Factor Computers, Rackmount Server PCs, Rugged Industrial LCD Monitors, Rugged Portable PCs, Industrial Grade Keyboards and Rugged Trackballs and Mice.

Included in the Company’s Consolidated Statements of Income for fiscal year 2015 are net sales of $2,541 and income before income taxes of $384, since the March 16, 2015 acquisition of Stealth.

KEP Marine — On January 21, 2015, the Company acquired certain assets of KEP Marine, a division of Kessler-Ellis Products, located in Eatontown, NJ, for $4,300. The acquired business, which is part of the Company's ECP segment, designs and manufactures industrial displays, industrial computers and HMI software for the Marine market. These product lines have been consolidated into the Aydin Displays facility, located in Birdsboro, PA.

Real-Time Enterprises, Inc. — On January 20, 2015, the Company acquired Real-Time Enterprises, Inc. ("RTEmd"), located in Pittsford, NY, for $2,332. RTEmd will continue to service its current and future customers out of its Pittsford, NY location. The acquired business, which is part of the Company's MDS segment, is a developer of embedded software to operate medical devices and diagnostic equipment through a disciplined approach to product development and quality/regulatory

services with specific product experience such as patient monitoring, medical imaging, in-vitro diagnostics, electro-medical systems, surgical applications, ophthalmology, nephrology, infusion pumps and medical imaging. Included in the Company’s Consolidated Statements of Income for fiscal year 2015 are net sales of $1,173 and loss before income taxes of $182, since the July 9, 2014 acquisition of eMT.

Argotec, Inc. — On December 8, 2014, the Company acquired certain assets of Argotec, Inc. ("Argotec"), located in Longwood, FL, for $350. The acquired business, which is part of the Company's ECP segment, is engaged in developing and manufacturing sonar transducer products and components for the U.S. Navy and also provides aftermarket servicing. These products have been consolidated into the Company's DeLeon Springs, FL location.

Industrial Electronic Devices, Inc. — On December 3, 2014, the Company acquired certain assets of Industrial Electronic Devices, Inc. ("IED"), located in Flemington, NJ, for $3,292. The acquired business, which is part of the Company's ECP segment, designs and manufactures a full line of rugged displays for the Industrial and Marine markets. IED's catalog spans over 600 standard, semi-custom and custom configurations, incorporating some of the most advanced flat panel displays and touch screen technology available. These product lines have been consolidated into the Aydin Displays facility, located in Birdsboro, PA.

Electronic Manufacturing Technology, LLC. — On July 9, 2014, the Company acquired Electronic Manufacturing Technology, LLC. (“eMT”), located in Irvine, CA, for $22,069, which included $1,505 of acquired cash. The acquired business, which is part of the Company's MDS segment, is engaged in the contract services business of manufacturing electromechanical controls and electronic assemblies. Their customer profile includes international Fortune 1000 manufacturers of highly reliable industrial excimer laser products, laser eye surgery sub-assemblies, target simulators for space and aviation systems, power modules for computerized tomography products, test systems for commercial aerospace OEMs and toll road antennas and control boxes.

Included in the Company’s Consolidated Statements of Income for fiscal year 2015 are net sales of $23,503 and income before income taxes of $2,452, since the July 9, 2014 acquisition of eMT.

The following table summarizes, on a pro forma basis, the combined results of operations of the Company and the acquired businesses of Hunter, Stealth, KEP, RTEmd, Argotec, IED and eMT, as though the acquisitions had occurred as of July 1, 2014. The pro forma amounts presented are not necessarily indicative of either the actual consolidated results had the acquisitions occurred as of July 1, 2014 or of future consolidated operating results (unaudited):

	Fiscal Year 2015
Net sales	$461,734
Income before income taxes	19,345
Net income	15,219
Net income per share — basic	1.54
Net income per share — diluted	1.54

The unaudited pro forma results presented above reflect: (1) incremental depreciation relating to fair value adjustments to property, plant and equipment; (2) amortization adjustments relating to fair value estimates of intangible assets; (3) elimination of interest expense relating to debt paid off in conjunction with the transaction; (4) incremental interest expense on assumed indebtedness and amortization of capitalized financing costs incurred in connection with the transactions; and (5) additional cost of goods sold relating to the capitalization of gross profit recognized in the year of acquisition as part of purchase accounting recognized for purposes of the pro forma as if it was recognized during the preceding year. The unaudited pro forma adjustments described above have been tax effected using Sparton's effective rate during the respective periods.

During fiscal 2016, the Company elected to adopt Accounting Standards Update No. 2015-16, Business Combinations (Topic 805) Simplifying the Accounting for Measurement-Period Adjustment. As a result, during fiscal year 2016, the Company recorded adjustments to the opening balance sheets of Hunter and RTEmd as follows:

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Changes to goodwill:	
Inventory	$5,052
Accounts receivable	386
Property, plant and equipment	(974)
Intangible assets - customer relationships	(700)
Other assets and liabilities, net	(352)
Non-cash adjustments	3,412
Adjustment to purchase consideration	(750)
Total	$2,662

For fiscal year 2016, the Company recorded depreciation expense of $362 in cost of goods sold and amortization of intangible assets of $26 that would have otherwise been recorded in prior periods.

Certain of the acquisitions included escrow accounts based on final working capital adjustments and other performance criteria. During fiscal year 2016, the Company received $750 in adjustments to the purchase price under the terms of an acquisition agreement, as reflected in the table above.

During fiscal year 2016, the Company recorded an adjustment to Goodwill of $428 which reduced certain tax liabilities related to the Company's purchase of Hunter.

(4) Inventories and Cost of Contracts in Progress, net

The following are the major classifications of inventory, net of interim billings:

	July 2, 2017	July 3, 2016
Raw materials	$31,353	$40,914
Work in process	19,098	23,626
Finished goods	18,338	22,294
Total inventory and cost of contracts in progress, gross	68,789	86,834
Inventory to which the U.S. government has title due to interim billings	(8,541)	(8,963)
Total inventory and cost of contracts in progress, net	$60,248	$77,871

(5) Property, Plant and Equipment, net

Property, plant and equipment, net consists of the following:

	July 2, 2017	July 3, 2016
Land and land improvements	$1,439	$1,429
Buildings and building improvements	28,121	27,660
Machinery and equipment	46,502	43,134
Construction in progress	4,463	1,372
Total property, plant and equipment	80,525	73,595
Less accumulated depreciation	(46,070)	(40,275)
Property, plant and equipment, net	$34,455	$33,320

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(6) Other Non-current Assets

Other non-current assets consist of the following:

	July 2, 2017	July 3, 2016
Deferred engineering and design costs - non-current	$1,116	$2,263
Environmental remediation - indemnification asset	1,606	1,606
Favorable lease, net	138	256
Deferred financing fees, net	1,887	1,563
Other	1,506	1,004
Total other non-current assets	$6,253	$6,692

Engineering and design costs on long-term contracts not otherwise immediately reimbursed are deferred and recognized ratably over related revenue streams. For fiscal years 2017 and 2016, respectively, deferred engineering and design costs totaled $1,536 and $3,263 of which $420 and $1,000 were reflected in prepaid expenses and other current assets.

See Note 11, Commitments and Contingencies, of the "Notes to Consolidated Financial Statements" in this Form 10-K for a discussion of the Company's environmental remediation - indemnification asset.

The Company acquired a favorable leasehold in relation to its acquisition of Aydin Displays. The favorable leasehold is being amortized on a straight-line basis over the five year life of the lease and related amortization is reflected primarily within cost of goods sold on the consolidated statement of operations.

Costs incurred in connection with the Company’s current Credit Facility of $2,869 were deferred and amortized to interest expense over the five year term of the facility on a straight-line basis. Amortization of $498, $298 and $631 for these loan costs, as well as the previous revolving-credit facility's loan costs, were recognized and reported as interest expense for fiscal years 2017, 2016 and 2015, respectively.

The investment in securities available for sale was sold during fiscal year 2016 at a loss of $129.

(7) Goodwill and Other Intangible Assets

Changes in the carrying value of goodwill and ending composition of goodwill are as follows:

	July 3, 2016		
	Manufacturing & Design Services	Engineered Components & Products	Total
Goodwill, beginning of period	$61,512	$ 12,663	$74,175
Additions to goodwill	2,662	—	2,662
Impairment of goodwill	(64,174)	—	$(64,174)
Goodwill, end of period	$—	$ 12,663	$12,663

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There were no changes to the carrying value of goodwill during the fiscal year ended July 2, 2017.

The amortization periods, gross carrying amounts, accumulated amortization, accumulated impairments and net carrying values of intangible assets are as follows:

	July 2, 2017				
	Original Amortization Period in Months	Gross Carrying Amount	Accumulated Amortization	Accumulated Impairments	Net Carrying Value
Amortized intangible assets:					
Non-compete agreements	24-60	$4,229	$ (2,884)	$ —	$1,345
Customer relationships	84-180	57,295	(28,255)	(3,663)	25,377
Trademarks/tradenames	12-120	1,696	(475)	—	1,221
Patents and unpatented technology	84	1,351	(849)	—	502
		$64,571	$ (32,463)	$ (3,663)	$28,445

	July 3, 2016				
	Original Amortization Period in Months	Gross Carrying Amount	Accumulated Amortization	Accumulated Impairments	Net Carrying Value
Amortized intangible assets:					
Non-compete agreements	24-60	$4,229	$ (2,036)	$ —	$2,193
Customer relationships	84-180	57,295	(21,007)	(3,663)	32,625
Trademarks/tradenames	12-120	1,696	(314)	—	1,382
Unpatented technology	84	1,341	(608)	—	733
		$64,561	$ (23,965)	$ (3,663)	$36,933

The Company did not incur any significant costs to renew or alter the terms of its intangible assets during fiscal year 2017. Amortization expense for fiscal years 2017, 2016 and 2015 were $8,498, $9,592 and $6,591, respectively.

Aggregate amortization expense relative to existing intangible assets for the periods shown is currently estimated to be as follows:

For fiscal years	
2018	$7,337
2019	6,306
2020	4,775
2021	3,729
2022	2,776
2023 and thereafter	3,522
Total	$28,445

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(8) Debt

The Company had $74,500 and $97,206 borrowed against its Credit Facility at July 2, 2017 and July 3, 2016, respectively, which is classified as long-term on the Company's Consolidated Balance Sheets.

On June 27, 2016, the Company entered into Amendment No. 3 (“Amendment 3”) to the Credit Facility. As a result of Amendment 3, the Company reduced the revolving credit facility from $275,000 to $175,000, reduced the optional increase in the Credit Facility from $100,000 to $50,000, increased the permitted total funded debt to EBITDA ratio through the fiscal quarter ending September 2017, and provided for certain restrictions on business acquisitions, dividends and stock repurchases. Payments of $692 related to Amendment 3 were recorded as deferred financing costs in other long-term assets.

On June 30, 2017, the Company entered into Amendment No.4 ("Amendment 4") to the Credit Facility. As a result of Amendment 4, the Company reduced the revolving credit facility from $175,000 to $125,000, increased the permitted total funded debt to EBITDA ratio through the fiscal quarter ending March 2018 and provided for further restrictions on business acquisitions. Expenses of $822 related to amendments were recorded as deferred financing costs in other long-term assets in fiscal year 2017. The facility is secured by substantially all assets of the Company and its subsidiaries and expires on September 11, 2019.

Outstanding borrowings under the Credit Facility will bear interest, at the Company’s option, at either LIBOR, fixed for interest periods of one, two, three or six month periods, plus 1.00% to 3.75%, or at the bank’s base rate, as defined, plus 0.00% to 2.75%, based upon the Company’s Total Funded Debt/EBITDA Ratio, as defined. The Company is also required to pay commitment fees on unused portions of the Credit Facility ranging from 0.20% to 0.50%, based on the Company’s Total Funded Debt/EBITDA Ratio, as defined. The Credit Facility includes representations, covenants and events of default that are customary for financing transactions of this nature. The effective interest rate on outstanding borrowings under the Credit Facility was 4.37% at July 2, 2017.

As a condition of the Credit Facility, the Company is subject to certain customary covenants, with which it was in compliance at July 2, 2017.

As of July 2, 2017, the Company had $45,762 available under its $125,000 credit facility, reflecting borrowings of $74,500 and certain letters of credit outstanding of $4,738. Additionally, the Company had available cash and cash equivalents of $988.

The Company entered into capital leases of $148 and $656 in fiscal years 2017 and 2016. The remaining liability at the end of the fiscal year 2017 totaled $436, with $269 reflected as short term.

(9) Income Taxes

Income (loss) before income taxes by country consists of the following amounts:

	For fiscal years		
	2017	2016	2015
United States	$2,377	$(56,184)	$14,533
Vietnam	1,124	364	38
Canada	(257)	321	384
	$3,244	$(55,499)	$14,955

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Income taxes consists of the following components:

	For fiscal years		
	2017	2016	2015
Current:			
United States	$1,050	$544	$4,317
Vietnam	112	130	6
Canada	—	—	15
State and local	135	672	501
	1,297	1,346	4,839
Deferred:			
United States	60	(16,133)	465
Vietnam	—	(8)	—
Canada	(32)	141	(1,055)
State and local	602	(2,562)	(283)
	630	(18,562)	(873)
	$1,927	$(17,216)	$3,966

The consolidated effective income tax rate differs from the statutory U.S. federal tax rate for the following reasons and by the following percentages:

	For fiscal years		
	2017	2016	2015
Statutory U.S. federal income tax rate	35.0 %	35.0 %	35.0 %
Significant increases (reductions) resulting from:			
Changes in valuation allowance	(8.1)	—	(7.5)
Expiration of capital loss	8.1	—	—
Domestic production activities deduction	(2.9)	0.3	(2.7)
Goodwill impairment	—	(8.3)	—
Foreign tax rate differences	(4.9)	0.2	(0.2)
State and local income taxes, net of federal benefit	14.5	2.7	2.7
Research and development tax credit	(2.4)	1.4	—
Audits	(2.2)	(0.3)	—
Provision to return true-up	18.2	—	—
Other	4.1	—	(0.8)
Effective income tax rate	59.4 %	31.0 %	26.5 %

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Significant components of deferred income tax assets and liabilities are as follows:

	July 2, 2017	July 3, 2016
Deferred tax assets:		
Goodwill	$15,118	$17,258
Environmental remediation	1,677	1,953
Inventories	3,788	4,553
Employment and compensation accruals	1,287	1,595
Capital loss carryover	—	263
State tax carryovers	212	213
Canadian tax carryovers	898	933
Pension asset	313	450
Intangible assets	3,881	2,042
Other	2,539	1,866
Deferred tax assets	29,713	31,126
Less valuation allowance	—	(263)
Deferred tax assets, net	29,713	30,863
Deferred tax liabilities:		
Property, plant and equipment	(3,091)	(2,935)
Other	(1,729)	(2,144)
Deferred tax liabilities	(4,820)	(5,079)
Net deferred tax assets	$24,893	$25,784

In preparing the Company's consolidated financial statements, management has assessed the likelihood that its deferred income tax assets will be realized from future taxable income. In evaluating the ability to recover its deferred income tax assets, management considers all available evidence, positive and negative, including the Company's operating results, ongoing tax planning and forecasts of future taxable income on a jurisdiction by jurisdiction basis. A valuation allowance is established if it is determined that it is more likely than not that some portion or all of the net deferred income tax assets will not be realized. Management exercises significant judgment in determining the Company's income tax expense, its deferred income tax assets and liabilities and its future taxable income for purposes of assessing its ability to utilize any future tax benefit from its deferred income tax assets.

Although management believes that its tax estimates are reasonable, the ultimate tax determination involves significant judgments that could become subject to audit by tax authorities in the ordinary course of business. As of each reporting date management considers new evidence, both positive and negative, that could impact management's view with regards to future realization of deferred tax assets.

The Company has deferred tax assets of $212 and $898 related to state net operating losses and Canadian net operating losses which will both expire beginning in 2029. For financial reporting purposes, valuation allowances related to capital loss carryovers and state income tax carryovers were $0 and $263 as of July 2, 2017 and July 3, 2016, respectively. The capital loss carryover expired in fiscal year 2017, and therefore, the balance and associated valuation allowance was removed from the total deferred tax assets as of July 2, 2017.

The Company's income tax returns are subject to audit by federal, state and local governments. These returns could be subject to material adjustments or differing interpretations of the tax laws. Fiscal years 2013 through 2017 remain open to examination by various tax authorities. The Company is currently undergoing an examination by the Internal Revenue Service, with any proposed adjustments not being anticipated to be material at this time.

A portion of our operating income is earned outside of the United States. Earnings in Vietnam are deemed to be indefinitely reinvested in foreign jurisdictions while earnings in Canada are not deemed to be indefinitely reinvested. The Company currently does not intend or foresee a need to repatriate these funds from jurisdictions for which it asserts indefinite reinvestment. We expect existing domestic cash and short-term investments and cash flows of operations to continue to be sufficient to fund our domestic operating activities and cash commitments for investing and financing activities, such as dividends, debt repayment, capital expenditures, for at least the next 12 months and thereafter for the foreseeable future.

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(10) Employee Retirement Benefit Plans

Defined Benefit Pension Plan

As of July 2, 2017, 278 employees and retirees of the Company were covered by a defined benefit pension plan. Effective April 1, 2009, participation and the accrual of benefits in this pension plan were frozen, at which time all participants became fully vested and all remaining prior service costs were recognized. The components of net periodic pension expense were as follows:

	For fiscal years		
	2017	2016	2015
Interest cost	271	336	326
Expected return on plan assets	(416)	(524)	(560)
Amortization of unrecognized net actuarial loss	218	153	81
Net periodic income cost	73	(35)	(153)
Pro rata recognition of lump-sum settlements	240	333	—
Total periodic pension expense (income)	$313	$298	$(153)

Lump sum settlements in 2017 and 2016 were higher than certain statutory thresholds, thereby requiring portions of those settlements to be recognized in expense for those years.

The weighted average assumptions used to determine benefit obligations and net periodic benefit cost were as follows:

	Benefit Obligation			Benefit Cost		
	2017	2016	2015	2017	2016	2015
Discount rate	3.85%	3.70%	4.45%	3.70%	4.45%	4.35%
Rate of compensation increase	N/A	N/A	N/A	—	—	—
Expected long-term rate on plan assets	N/A	N/A	N/A	7.00%	7.50%	7.50%

The Company determines its assumption for the discount rate using market information as of the measurement date such as the Citigroup Pension Liability Index and Composite Corporate Bond Rates. The rate of compensation increase for calculation of the benefit obligation does not apply due to the freezing of the plan as of April 1, 2009. The expected long-term rate of return for plan assets is based on the Company’s expectation of future experience for trust asset returns and future market conditions, reflecting the plan trust’s current and expected future asset allocation.

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At July 2, 2017 and July 3, 2016, as a result of the fiscal year 2009 plan curtailment, the accumulated benefit obligation is equal to the projected benefit obligation. The following tables summarize the changes in benefit obligations, plan assets and funded status of the plan:

	July 2, 2017	July 3, 2016
Change in prepaid benefit cost:		
Prepaid benefit cost at beginning of fiscal year	$1,413	$1,711
Net periodic benefit cost for fiscal year	(313)	(298)
Prepaid benefit cost at end of fiscal year	$1,100	$1,413
Change in projected benefit obligation:		
Projected benefit obligation at beginning of fiscal year	$7,903	$8,350
Interest cost	271	336
Actuarial experience and changes in assumptions	(91)	554
Benefits paid	(362)	(360)
Settlements	(832)	(977)
Projected benefit obligation at end of fiscal year	$6,889	$7,903
Change in plan assets:		
Fair value of plan assets at beginning of fiscal year	$6,627	$7,926
Actual return on plan assets	568	38
Benefits paid	(362)	(360)
Settlements	(832)	$(977)
Fair value of plan assets at end of fiscal year	$6,001	$6,627
Amounts recognized in the Consolidated Balance Sheets:		
Pension liability — non-current portion	(888)	(1,276)
Funded status — total balance sheet liability	$(888)	$(1,276)

Plan participants receive retiree benefits from the plan through regular annuity payments (benefits paid) or through one-time, lump-sum distributions (settlements).

The Company's policy is to fund the plan based upon legal requirements and tax regulations. For fiscal year 2017 and 2016, no cash contributions were required or made to the plan. Based upon current actuarial calculations and assumptions, no cash contributions are anticipated for fiscal year 2018. Anticipated contributions, if any, are reflected as a current portion of the pension liability.

Pension related amounts recognized in other comprehensive income (loss), excluding tax effects were as follows:

	For fiscal years		
	2017	2016	2015
Amortization of unrecognized net actuarial loss	$218	$153	$81
Pro rata recognition of lump-sum settlements	240	333	—
Net actuarial gain (loss)	244	(1,040)	(702)
Total recognized in other comprehensive income (loss)	$702	$(554)	$(621)

Net actuarial costs recorded in accumulated other comprehensive loss on the consolidated balance sheets, excluding tax effects, that have not yet been recognized as components of net periodic benefit cost as of July 2, 2017 and July 3, 2016 were $1,987 and $2,689, respectively.

The estimated amount that will be amortized from accumulated other comprehensive loss, pre-tax, into net periodic pension cost in fiscal year 2018 is expected to total approximately $150, consisting of amortization of unrecognized actuarial loss as well as lump sum settlement charges.

Expected benefit payments for the defined benefit pension plan for the next ten fiscal years are as follows:

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For fiscal years	
2018	$724
2019	588
2020	589
2021	547
2022	533
2023 – 2027	2,304
Total	$5,285

The Company's investment policy related to pension plan assets is based on a review of the actuarial and funding characteristics of the plan. Capital market risk and return opportunities are also considered. The investment policy's primary objective is to achieve a long-term rate of return consistent with the actuarially determined requirements of the plan, as well as maintaining an asset level sufficient to meet the plan's benefit obligations. A target allocation range between asset categories has been established to enable flexibility in investment, allowing for a better alignment between the long-term nature of pension plan liabilities, invested assets and current and anticipated market returns on those assets.

Below is a summary of pension plan asset allocations by asset category:

	Weighted average allocation for fiscal years		
	Target	2017	2016
Equity securities	40%-70%	60 %	59 %
Fixed income (debt) securities	30%-60%	36 %	38 %
Cash and cash equivalents	0%-10%	4 %	3 %
		100 %	100 %

The fair value of all the defined benefit pension plan assets is based on quoted prices in active markets for identical assets which are considered Level 1 inputs within the fair value hierarchy described in Note 2, Summary of Significant Accounting Policies, of the "Notes to Consolidated Financial Statements" in this form 10-K. The total estimated fair value of plan assets by asset class were as follows:

	July 2, 2017	July 3, 2016
Asset Class:		
Equity securities:		
Directly held corporate stock — Large Cap	$599	$2,408
Registered investment companies — Large Cap	2,752	1,139
Registered investment companies — Mid-Cap Growth	—	—
Registered investment companies — Small-Cap	85	151
Registered investment companies — International	169	205
Fixed income (debt) securities:		
Registered investment companies — Intermediate Bond	2,181	2,520
Cash and cash equivalents	215	204
Total assets measured at fair value	$6,001	$6,627

During the fourth quarter of fiscal year 2016, the Company adopted Accounting Standards Update No. 2015-04 ("ASU 2015-04"), Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets. As a result, for pension reporting as of July 2, 2017 and July 3, 2016, the Company was able to calculate the pension plan assets and obligations using information as of June 30 of each year without the additional expense of adjusting the June 30 information for activity that occurred between June 30 and the end of each fiscal year.

Defined Contribution Plans

Substantially all of the Company's U.S. employees are eligible to participate in the Company's 401(k) defined contribution plan. The plan allows employees to contribute up to 100% of their eligible compensation up to a maximum amount allowed by law and provides that the Company may, at its discretion, make matching contributions, profit sharing contributions

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or qualified non-elective contributions. During each of the fiscal years 2017, 2016 and 2015, the Company matched 50% of participants' contributions up to 6% of their eligible compensation.

Under the plan, at the election of the participant, both employee and employer contributions may be invested in any of the available investment options, which include Sparton common stock. As of July 2, 2017, approximately 98,089 shares of Sparton common stock were held in the 401(k) plan. Amounts expensed related to the Company's matching contributions and administrative expenses for the plan were $1,429, $1,475 and $1,233 for fiscal years 2017, 2016 and 2015, respectively.

(11) Commitments and Contingencies

Operating Leases — The Company is obligated under operating lease agreements for certain manufacturing and administrative facilities and a portion of its production machinery and data processing equipment. Such leases, some of which are non-cancelable and in many cases include purchase or renewal options, expire at various dates and typically provide for monthly payments over a fixed term in equal amounts. Some of these leases provide for escalating minimum monthly base rental payments. Generally, the Company is responsible for maintenance, insurance and property taxes relating to these leased assets. At July 2, 2017, the future minimum annual lease payments under these agreements are as follows:

For fiscal years	
2018	$2,606
2019	2,406
2020	2,306
2021	1,717
2022	1,457
Thereafter	3,151
Total	$13,643

Rent expense was $2,645, $3,573 and $2,480 for fiscal years 2017, 2016 and 2015, respectively. Included in rent expense for fiscal years 2017, 2016 and 2015 was $275, $250 and $493, respectively, of contingent rent expense primarily relating to the Company's corporate headquarters in Schaumburg, Illinois and its Frederick, Colorado facility. During fiscal year 2016, the Company entered into a sublease agreement related to its Irvine, CA design center, which extends through May of 2018. Amounts receivable under the sublease agreement total $0.3 million as of July 2, 2017.

Environmental Remediation — Sparton has been involved with ongoing environmental remediation since the early 1980's related to one of its former manufacturing facilities, located in Albuquerque, New Mexico ("Coors Road"). Although the Company entered into a long-term lease of the Coors Road property that was accounted for as a sale of property during fiscal year 2010, it remains responsible for the remediation obligations related to its past operation of this facility. During the fourth quarter of each fiscal year, Sparton performs a review of its remediation plan, which includes remediation methods currently in use, desired outcomes, progress to date, anticipated progress and estimated costs to complete the remediation plan by fiscal year 2030, following the terms of a March 2000 Consent Decree. The Company's minimum cost estimate is based upon existing technology and excludes certain legal costs, which are expensed as incurred. The Company's estimate includes equipment and operating and maintenance costs for onsite and offsite pump and treatment containment systems, as well as continued onsite and offsite monitoring. It also includes periodic reporting requirements. The reviews performed in the fourth quarters of fiscal years 2017, 2016 and 2015 did not result in changes to the related liability. As of July 2, 2017 and July 3, 2016, Sparton has accrued $6,036 and $6,701, respectively, as its estimate of the remaining minimum future undiscounted financial liability with respect to this matter, of which $568 and $584, respectively, are classified as a current liability and included on the balance sheet in other accrued expenses.

In fiscal year 2003, Sparton reached an agreement with the United States Department of Energy ("DOE") and others to recover certain remediation costs. Under the settlement terms, Sparton received cash and obtained some degree of risk protection as the DOE agreed to reimburse Sparton for 37.5% of certain future environmental expenses in excess of $8,400 incurred from the date of settlement, of which $7,097 has been expended as of July 2, 2017 toward the $8,400 threshold. It is expected that the DOE reimbursements will commence in the years after fiscal year 2019. At July 2, 2017 and at July 3, 2016, the Company recognized $1,606 in long-term assets in relation to these expected reimbursements which are considered collectible and are included in other non-current assets on the balance sheet. Uncertainties associated with environmental remediation contingencies are pervasive and often result in wide ranges of reasonably possible outcomes. Estimates developed in the early stages of remediation can vary significantly. Normally a finite estimate of cost does not become fixed and determinable at a specific point in time. Rather, the costs associated with environmental remediation become estimable over a continuum of events and activities that help to frame and define a liability. Factors which cause uncertainties for the Company include, but are not limited to, the effectiveness of the current work plans in achieving targeted results and proposals of

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regulatory agencies for desired methods and outcomes. It is possible that cash flows and results of operations could be materially affected by the impact of changes associated with the ultimate resolution of this contingency. At July 2, 2017, the Company estimates that it is reasonably possible, but not probable, that future environmental remediation costs associated with the Company’s past operations at the Coors Road property, in excess of amounts already recorded, could be up to $2,497 before income taxes over the next thirteen years, with this amount expected to be offset by related reimbursement from the DOE for a net amount of $1,561.

The Company and its subsidiaries are also involved in certain existing compliance issues with the EPA and various state agencies, including being named as a potentially responsible party at several sites. Potentially responsible parties ("PRPs") can be held jointly and severally liable for the clean-up costs at any specific site. The Company’s past experience, however, has indicated that when it has contributed relatively small amounts of materials or waste to a specific site relative to other PRPs, its ultimate share of any clean-up costs has been minor. Based upon available information, the Company believes it has contributed only small amounts to those sites in which it is currently viewed as a PRP and that reasonably possible losses related to these compliance issues are immaterial.

Litigation — In addition to the foregoing, from time to time, the Company is involved in various legal proceedings relating to claims arising in the ordinary course of business. The Company and the members of our board of directors have been named as defendants in a federal securities class action purportedly brought on behalf of all holders of the Company’s common stock challenging the pending merger transaction with Ultra.

The Company and the members of our board of directors were named as defendants in four federal securities class actions purportedly brought on behalf of all holders of the Company’s common stock challenging the pending merger transaction with Ultra. The lawsuits generally sought, among other things, to enjoin the defendants from proceeding with the shareholder vote on the merger at the special meeting or consummating the merger transaction unless and until the Company disclosed the allegedly omitted information. The complaints also sought damages allegedly suffered by the plaintiffs as a result of the asserted omissions, as well as related attorneys’ fees and expenses.

After discussions with counsel for the plaintiffs, the Company included certain additional disclosures in the proxy statement soliciting shareholder approval of the Merger. The Company believes the demands and complaints are without merit, there were substantial legal and factual defenses to the claims asserted, and the proxy statement disclosed all material information prior to the inclusion of the additional disclosures. The Company made the additional disclosures to avoid the expense and burden of litigation. On September 1, 2017, the court dismissed the lawsuits with prejudice with respect to lead plaintiffs in the lawsuits and without prejudice as to all other shareholders. The Company and plaintiffs must still attempt to resolve the appropriate amount of attorneys’ fees, if any, to be awarded to plaintiffs’ counsel.

The Company is not currently a party to any other such legal proceedings, the adverse outcome of which, individually or in the aggregate, is expected to have a material adverse effect on our business, financial condition or results of operations.

U.S. Government Audits — Federal government agencies, including the Defense Contract Audit Agency and the Defense Contract Management Agency, routinely audit and evaluate government contracts and government contractors’ administrative processes and systems. These agencies review the Company’s performance on contracts, pricing practices, cost structure, financial capability and compliance with applicable laws, regulations and standards. They also review the adequacy of the Company’s internal control systems and policies, including the Company’s purchasing, accounting, estimating, compensation and management information processes and systems. The Company works closely with these agencies to ensure compliance. The Company is not currently aware of any issues of noncompliance that would have a material impact on the Company’s financial position or results of operations.

(12) Stock-Based Compensation

The Company has a long-term incentive plan. The Sparton Corporation 2010 Long-Term Incentive Plan (the “2010 Plan”) was approved by the Company’s shareholders on October 28, 2009. Under the 2010 Plan, the Company may grant to employees, officers and directors of the Company or its subsidiaries incentive and non-qualified stock options, stock appreciation rights, restricted stock or restricted stock units, performance awards and other stock-based awards, including grants of shares. Restricted stock awards granted to date to employees under the 2010 Plan vest annually over four years, subject to achievement of certain financial performance metrics in addition to the service

requirements. Unrestricted stock awards granted to date under the 2010 Plan represent annual stock grants to directors as a component of their overall compensation. The 2010 Plan has a term of ten years. The total number of shares that may be awarded under the 2010 Plan is 1,000,000 shares of common stock, of which amount, 531,229 shares remain available for awards as of July 2, 2017.
The following table shows stock-based compensation expense (credit) by type of share-based award included in the consolidated statements of operations:

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	For fiscal years		
	2017	2016	2015
Fair value expense of stock option awards	$154	$286	$352
Restricted stock units	1,422	273	518
Restricted stock and unrestricted stock	(113)	(270)	1,015
Total stock-based compensation	$1,463	$289	$1,885

Restricted stock-based compensation reflects a reduction in expense in fiscal years 2017 and 2016 as a result of the separation of certain executives from the Company and the reversal of previously recorded expense associated with certain stock-based compensation awards.

The following table shows the total remaining unrecognized compensation cost related to restricted stock grants, restricted stock units grants and the fair value expense of stock option awards, as well as the weighted average remaining required service period over which such costs will be recognized as of July 2, 2017:

	Total Remaining Unrecognized Compensation Cost	Weighted Average Remaining Required Service Period (in years)
Fair value expense of stock option awards	$ 150	0.81
Restricted stock units	1,116	1.89
All awards	$ 1,266	1.75

Stock Options

No stock options were granted in fiscal year 2017. The following is a summary of activity for fiscal years 2017 and 2016 related to stock options granted under the Company's 2010 plan:

	Number of Options	Weighted-Average Exercise Price
Options outstanding as of June 30, 2015	107,584	$ 26.54
Granted	129,800	23.02
Forfeited	(121,969)	24.68
Options outstanding as of July 3, 2016	115,415	24.11
Forfeited	(15,393)	25.05
Options outstanding as of July 2, 2017	100,022	24.29

The stock options outstanding at July 2, 2017 have exercise prices ranging from $22.09 to $26.86, a weighted average exercise price of $24.29 and a weighted average remaining contractual life of 7.90 years. Of the outstanding stock options, 35,097 of these options were exercisable at a weighted average exercise price of $24.94 and a weighted average remaining contractual life of 7.75 years.

Restricted Stock Units

The following is a summary of activity for fiscal years 2017 and 2016 related to restricted stock units granted under the Company's 2010 plan:

	Shares	Weighted Average Fair Value
Restricted stock units at June 30, 2015	62,828	$ 26.77
Granted	96,754	23.02
Forfeited	(80,308)	24.74
Restricted stock units at July 3, 2016	79,274	24.25
Granted	79,889	23.63
Forfeited	(6,029)	24.10
Vested	(25,000)	21.72

Restricted stock units at July 2, 2017	128,134	24.36

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Restricted Stock

The following is a summary of activity for fiscal years 2017 and 2016 related to restricted stock granted under the Company's 2010 plan:

	Shares	Weighted Average Fair Value
Restricted stock at June 30, 2015	132,299	$ 14.58
Vested	(27,346)	7.88
Forfeited	(52,302)	15.92
Restricted stock at July 3, 2016	52,651	16.72
Forfeited	(26,739)	11.48
Restricted stock at July 2, 2017	25,912	$ 22.14

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(13) Earnings (loss) Per Share Data

Earnings (loss) per share calculations, including weighted average number of shares of common stock outstanding used in calculating basic and diluted (loss) income per share are as follows:

	For fiscal years		
	2017	2016	2015
Net income (loss)	$1,317	$(38,283)	$10,989
Less net income (loss) allocated to contingently issuable participating securities	(4)	—	(126)
Net income (loss) available to common shareholders	$1,313	$(38,283)	$10,863
Weighted average shares outstanding – Basic	9,812,248	9,786,315	9,874,441
Dilutive effect of stock options	25	—	11,520
Weighted average shares outstanding – Diluted	9,812,273	9,786,315	9,885,961
Net income (loss) available to common shareholders per share:			
Basic	$0.13	$(3.91)	$1.10
Diluted	$0.13	$(3.91)	$1.10

For fiscal years 2017 and 2015, net income available to common shareholders was reduced by allocated earnings associated with unvested restricted shares of 25,912 and 132,299, respectively. No adjustment for net loss available to common shareholders was required for fiscal year 2016 as 52,651 unvested restricted shares did not participate in the net loss for the year.

There were 97,484 and 115,415 potential shares of common stock issuable upon exercise of stock options excluded from diluted income or loss per share computations for fiscal years 2017 and 2016, respectively, as they were anti-dilutive. For fiscal year 2017, they were anti-dilutive due to option exercise prices in excess of the average share prices and for fiscal year 2016, they were anti-dilutive due to the net loss. No potential shares of common stock issuable upon exercise of stock options were excluded from diluted income per share computations for fiscal year 2015, as none would have been anti-dilutive.

(14) Stock Repurchase Plan

On October 22, 2014, the Company’s Board of Directors approved a repurchase by the Company of up to $5,000 of shares of its common stock. The Company was authorized to purchase shares from time to time in open market, block and privately negotiated transactions. The stock repurchase program did not require the Company to repurchase any specific number of shares. Pursuant to this stock repurchase program, during fiscal year 2015, the Company purchased 181,278 shares of its common stock at an average price of $27.55 per share for approximately $5,000.

Shares purchased under the plan were canceled upon repurchase. As of July 2, 2017, all authorized funds under the stock repurchase program have been expended.

In fiscal years 2016 and 2015, shares were also purchased from employees for withholding tax purposes related to the vesting of restricted shares under the Company's compensation plan.

(15) Restructuring Activities

During the second quarter of fiscal year 2016, the Company announced the closing of its Lawrenceville, GA manufacturing operations and the consolidation of the Irvine, CA design center into the Irvine, CA manufacturing operations to optimize the Company’s manufacturing and design facility footprint and realize synergies from the Company’s acquisitions. The Company recorded restructuring expense of $2,206 in fiscal year 2016 and made payments of $90 and $2,085 in fiscal year 2017 and 2016, respectively. These restructuring activities were substantially complete as of the end of fiscal year 2016. The remaining reserve balance of $31, as of the end of fiscal year 2017, represents lease payments net of sublease income.

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(16) Business Segments

The Company is a provider of design, development and manufacturing services for complex electromechanical devices, as well as sophisticated engineered products complementary to the same electromechanical value stream. The Company serves the Medical & Biotechnology, Military & Aerospace and Industrial & Commercial markets through two reportable business segments; MDS and ECP. Reportable segments are defined as components of an enterprise for which separate financial information is available and is evaluated regularly by the chief operating decision maker ("CODM") in assessing performance and allocating resources. The Company's CODM is its Senior Vice President of Operations.

The Company uses an internal management reporting system, which provides important financial data to evaluate performance and allocate the Company's resources on a segment basis. Net sales are attributed to the segment in which the product is manufactured or service is performed. A segment's performance is evaluated based upon its operating income, contribution margin, gross margin and a variety of other factors. A segment's operating income includes its gross profit on sales less its selling and administrative expenses, including allocations of certain corporate operating expenses. Certain corporate operating expenses are allocated to segment results based on the nature of the service provided. Other corporate operating expenses, including certain administrative, financial and human resource activities as well as items such as interest expense, interest income, other income (expense) and income taxes are not allocated to operations and are excluded from segment profit. These costs are not allocated to the segments, as management excludes such costs when assessing the performance of the segments. Inter-segment transactions are generally accounted for at amounts that approximate arm's length transactions. Identifiable assets by segments are those assets that are used in each segment's operations. The accounting policies for each of the segments are the same as for the Company taken as a whole.

MDS segment operations are comprised of contract design, manufacturing and aftermarket repair and refurbishment of sophisticated printed circuit card assemblies, sub-assemblies, full product assemblies and cable/wire harnesses for customers seeking to bring their intellectual property to market. Additionally, Sparton is a developer of embedded software and software quality assurance services in connection with medical devices and diagnostic equipment. Customers include OEM and ET customers serving the Medical & Biotechnology, Military & Aerospace and Industrial & Commercial markets. In engineering and manufacturing for its customers, this segment adheres to very strict military and aerospace specifications, Food and Drug Administration (“FDA”) guidelines and approvals, in addition to product and process certifications.

ECP segment operations are comprised of design, development and production of proprietary products for both domestic and foreign defense as well as commercial needs. Sparton designs and manufactures ASW devices known as sonobuoys for the U.S. Navy and foreign governments that meet Department of State licensing requirements. This segment also performs an engineering development function for the United States military and prime defense contractors for advanced technologies ultimately leading to future defense products as well as replacements for existing products. The sonobuoy product line is built to stringent military specifications. These products are restricted by International Tariff and Arms Regulations (“ITAR”) and qualified by the U.S. Navy, which limits opportunities for competition. This segment is also a provider of rugged flat panel display systems for military panel PC workstations, air traffic control and industrial and commercial marine applications, as well as high performance industrial grade computer systems and peripherals. Rugged displays are manufactured for prime contractors, in some cases to specific military grade specifications. Additionally, this segment internally develops and markets commercial products for underwater acoustics and microelectromechanical (“MEMS”)-based inertial measurement.

Operating results and certain other financial information about the Company’s two reportable segments were as follows:

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	Fiscal year 2017				
	Manufacturing & Design Services	Engineered Components & Products	Unallocated	Eliminations	Total
Net sales	$260,514	$ 147,259	$ —	$ (10,211)	$397,562
Gross profit	31,441	40,458	—	—	71,899
Selling and administrative expenses (incl. depreciation)	23,123	15,708	15,279	—	54,110
Internal research and development expenses	—	1,670	—	—	1,670
Depreciation and amortization	10,300	2,312	1,780	—	14,392
Operating income	1,307	21,593	(15,279)	—	7,621
Capital expenditures	2,118	1,203	3,575	—	6,896
Total assets at July 2, 2017	$142,513	$ 64,694	$ 9,936	$ —	$217,143

	Fiscal year 2016				
	Manufacturing & Design Services	Engineered Components & Products	Unallocated	Eliminations	Total
Net sales	$282,076	$ 154,559	$ —	$ (17,273)	$419,362
Gross profit	34,788	45,360	—	—	80,148
Selling and administrative expenses (incl. depreciation)	23,813	15,482	15,856	—	55,151
Internal research and development expenses	—	2,344	—	—	2,344
Restructuring charges	2,206	—	—	—	2,206
Depreciation and amortization	11,826	2,573	1,276	—	15,675
Operating income (loss)	(61,813)	25,880	(15,856)	—	(51,789)
Capital expenditures	2,182	1,244	2,672	—	6,098
Total assets at July 3, 2016	$167,277	$ 69,627	$ 9,094	$ —	245,998

	Fiscal year 2015				
	Manufacturing & Design Services	Engineered Components & Products	Unallocated	Eliminations	Total
Net sales	$263,940	$ 136,315	$ —	$ (18,130)	$382,125
Gross profit	36,461	38,353	—	—	74,814
Selling and administrative expenses (incl. depreciation)	18,615	11,038	17,316	—	46,969
Internal research and development expenses	—	1,502	—	—	1,502
Depreciation and amortization	8,875	1,648	713	—	11,236
Operating income	9,535	25,033	(17,316)	—	17,252
Capital expenditures	1,599	1,294	2,909	—	5,802

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(17) Business, Geographic and Sales Concentration

Sales to individual customers in excess of 10% of total net sales were as follows:

	For fiscal years		
	2017	2016	2015
U.S. Navy	23 %	22 %	25 %
Fenwal Blood Technologies	N/A	N/A	10 %

Sales to the United States Navy, including those made through the Company's ERAPSCO joint venture, are included in the results of the Company's ECP segment. Sales to Fenwal Blood Technologies are included in the results of the Company's MDS segment.

Net sales were made to customers located in the following countries:

	For fiscal years		
	2017	2016	2015
United States	$325,370	$369,127	$345,643
Other foreign countries	72,192	50,235	36,482
Consolidated total	$397,562	$419,362	$382,125

No other single country or currency zone accounted for 10% or more of export sales in the fiscal years 2017, 2016, or 2015.

ASW devices and related engineering contract services to the U.S. government and foreign countries contributed $114,354, (29%), $119,291, (28%) and $110,201, (29%), respectively, to total net sales for fiscal years 2017, 2016 and 2015.

The Company's investment in property, plant and equipment, which are located in the United States, Canada and Vietnam, are summarized, net of accumulated depreciation, as follows:

	July 2, 2017	July 3, 2016
United States	$29,952	$29,867
Canada	27	23
Vietnam	4,476	3,430
Consolidated total	$34,455	$33,320

(18) Quarterly Results of Operations (Unaudited):

	Quarter			
	1st	2nd	3rd	4th
Fiscal year 2017				
Net sales	$100,367	$97,399	$95,410	$104,386
Gross profit	17,285	15,898	16,915	21,801
Net income (loss)	108	(907)	429	1,687
Income (loss) per share - Basic	0.01	(0.09)	0.04	0.17
Income (loss) per share - Diluted	0.01	(0.09)	0.04	0.17
Fiscal year 2016				
Net sales	$106,691	$103,529	$102,175	$106,967
Gross profit	21,138	18,521	19,067	21,422
Net income (loss)	2,394	268	1,136	(42,081)
Income (loss) per share - Basic	0.24	0.03	0.12	(4.30)
Income (loss) per share - Diluted	0.24	0.03	0.12	(4.30)

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SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS
(In thousands)

Fiscal Years	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Allowance for Losses Acquired	Write-Offs/ Dispositions	Balance at End of Period
2017					
Allowance for losses on accounts receivable	$ 407	$ 206	$ —	$ (184)	$ 429
2016					
Allowance for losses on accounts receivable	$ 173	$ 583	$ —	$ (349)	$ 407
2015					
Allowance for losses on accounts receivable	$ 126	$ 47	$ 97	$ (97)	$ 173

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INDEX TO EXHIBITS

Exhibit Number	Description
2.1	Agreement and Plan of Merger dated July 7, 2017 between the Company, Ultra Electronics Holdings plc and Ultra Electronics Aneira, Inc., incorporated by reference from Exhibit 10.1 to the Registrant's Form 8-K filed with the SEC on July 11, 2017.
3.1	Second Amended Articles of Incorporation of the Registrant, incorporated herein by reference from the Registrant’s Proxy Statement on Form DEF 14A filed with the SEC on September 21, 2010.
3.2	Amended and Restated Code of Regulations of the Registrant, incorporated herein by reference from Exhibit 3.2 to the Registrant’s Current Report on Form 8-K filed with the SEC on May 5, 2015.
3.3	Amendment to Amended and Restated Code of Regulations of the Registrant, incorporated by reference from Exhibit 99.1 to the Registrant’s current report on Form 8-K filed with the SEC on June 15, 2017.
10.1	Amended and Restated Credit and Guaranty Agreement dated September 11, 2014, entered into between BMO Harris Bank N.A. and the Borrowers, incorporated by reference from Exhibit 10.1 to the Registrant’s Current Report on Form 8-K filed with the SEC on September 16, 2014.
10.2	Amendment No. 1 dated March 16, 2015 to the Amended and Restated Credit and Guaranty Agreement dated September 11, 2014, entered into between BMO Harris Bank N.A. and the Borrowers, incorporated by reference from Exhibit 10.1 to the Registrant’s Form 10-Q filed with SEC on May 5, 2015.
10.3	Amendment No. 2 dated April 13, 2015 to the Amended and Restated Credit and Guaranty Agreement dated September 11, 2014, entered into between BMO Harris Bank N.A. and the Borrowers, incorporated by reference from Exhibit 10.1 to the Registrant’s Current Report on Form 8-K filed with the SEC on April 17, 2015.
10.4	Amendment No. 4 dated June 30, 2017 to the Amended and Restated Credit and Guaranty Agreement dated September 11, 2014, entered into between BMO Harris Bank N.A. and the Borrowers, incorporated by reference from Exhibit 10.1 to the Registrant’s Form 8-K filed with the SEC on July 3, 2017.
10.5†	Sparton Short-Term Incentive Plan, incorporated by reference from Exhibit 10.1 to the Registrant’s Current Report on Form 8-K filed with the SEC on July 1, 2009.
10.6†	First Amendment to Sparton Short-Term Incentive Plan, incorporated by reference from Exhibit 10.1 to the Registrant’s Form 8-K filed with the SEC on May 4, 2016.
10.7†	2010 Long-Term Stock Option Incentive Plan, incorporated by reference from Exhibit 10.1 to the Registrant’s Current Report on Form 8-K filed with the SEC on September 11, 2009.
10.8†	Amendment to the Sparton Corporation 2010 Long-Term Incentive Plan dated June 24, 2010, incorporated by reference from Exhibit 10.21 to the Registrant’s Annual Report on Form 10-K filed with the SEC on September 7, 2011.
10.9†	

	Second Amendment to the Sparton Corporation 2010 Long-Term Incentive Plan dated June 24, 2010, incorporated by reference from Exhibit 10.7 to the Registrant's Annual Report on Form 10-K filed with the SEC on September 9, 2014.
10.10†	Form of Grant of Restricted Stock under Sparton Corporation's Long-Term Incentive Plan, incorporated by reference from Exhibit 10.9 to the Registrant's Annual Report on Form 10-K filed with the SEC on September 5, 2012.
10.11†	Executive Employment Agreement dated September 23, 2015 between the Company and Gordon Madlock, incorporated by reference from Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the SEC on September 24, 2015.
10.12†	Executive Employment Agreement dated September 23, 2015 between the Company and Steven Korwin, incorporated by reference from Exhibit 10.1 to the Registrant's Report on Form 8-K filed with the SEC on September 24, 2015.
10.13†	Executive Employment Agreement effective as of September 8, 2015 between the Company and Joseph G. McCormack, incorporated by reference from Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on September 8, 2015.

Exhibit Number	Description
10.14†	Employment Agreement dated February 5, 2016 between the Company and Joseph J. Hartnett, incorporated by reference from Exhibit 10.5 to the Registrant’s Form 8-K filed with the SEC on February 8, 2016.
10.15†	Separation Agreement dated February 5, 2016 between the Registrant and Cary B. Wood, incorporated by reference from Exhibit 10.1 to the Registrant’s Form 8-K filed with the SEC on February 8, 2016.
10.16	Lease Extension and Amendment Agreement dated May 1, 2010 between Sparton Technology, Inc. and 9621 Coors, L.L.C., guaranteed by Albuquerque Motor Company, Inc., incorporated by reference from Exhibit 10.1 to the Registrant’s Current Report on Form 8-K filed with the SEC on May 6, 2010.
10.17	Option Agreement dated May 1, 2010 by and between Sparton Technology, Inc. and 9621 Coors, L.L.C., guaranteed by Albuquerque Motor Company, Inc., incorporated by reference from Exhibit 10.2 to the Registrant’s Current Report on Form 8-K filed with the SEC on May 6, 2010.
10.181	Solicitation, Offer and Award with an effective date of July 16, 2014 issued by the Naval Warfare Center to ERAPSCO, incorporated by reference from Exhibit 10.20 to the Registrant’s Annual Report on Form 10-K filed with the SEC on September 9, 2014.
10.191	Amendment of Solicitation/Modification of Contract with an effective date of July 28, 2014 issued by the Naval Warfare Center to ERAPSCO, incorporated by reference from Exhibit 10.21 to the Registrant’s Annual Report on Form 10-K filed with the SEC on September 9, 2014.
10.201	Amendment of Solicitation/Modification of Contract with an effective date of August 5, 2014 2014 issued by the Naval Warfare Center to ERAPSCO, incorporated by reference from Exhibit 10.24 to the Registrant’s Annual Report on Form 10-K filed with the SEC on September 9, 2014.
10.211	Amendment of Solicitation/Modification of Contract with an effective date of August 25, 2014 issued by the Naval Warfare Center to ERAPSCO, incorporated by reference from Exhibit 10.22 to the Registrant’s Annual Report on Form 10-K filed with the SEC on September 9, 2014.
10.221	Order for Supplies or Services with an effective date of July 17, 2014 issued by the Naval Warfare Center to ERAPSCO, incorporated by reference from Exhibit 10.23 to the Registrant’s Annual Report on Form 10-K filed with the SEC on September 9, 2014.
10.231	Subcontract with an effective date of July 17, 2014 between Sparton DeLeon Springs, LLC and ERAPSCO, incorporated by reference from Exhibit 10.25 to the Registrant’s Annual Report on Form 10-K filed with the SEC on September 9, 2014.
10.241	Modification of Subcontract with an effective date of April 10, 2015 between Sparton DeLeon Springs, LLC and ERAPSCO, incorporated by reference from Exhibit 10.26 to the Registrant's annual Report on Form 10-K filed with the SEC on September 8, 2015.
10.25†	Form of Nonqualified Stock Option Agreement under Sparton Corporation’s Long-Term Incentive Plan, incorporated by reference from Exhibit 10.3 to the Registrant’s Form 10-Q filed with the SEC on November 4, 2014.

10.26†	Form of Grant of Restricted Stock Unit under Sparton Corporation’s Long Term Incentive Plan, incorporated by reference from Exhibit 10.4 to the Registrant’s Form 10-Q filed with the SEC on November 4, 2014.
10.27†	Form of Director and Officer Indemnification Agreement entered into as of May 1, 2014 with each of the Company’s directors and executive officers, incorporated herein by reference from Exhibit 10.1 to the Registrant’s Quarterly Report on Form 10-Q filed with the SEC on February 3, 2014.
10.28†	Adoption Agreement to Deferred Compensation Plan dated as of January 29, 2014, incorporated by reference from Exhibit 10.1 to the Registrant’s Current Report on Form 8-K filed with the SEC on February 4, 2014.
10.29†	First Amendment to the Sparton Corporation Deferred Compensation Plan, incorporated by reference from Exhibit 10.1 to the Registrant’s Current Report on Form 8-K filed with the SEC on July 3, 2014.

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Exhibit Number	Description
10.30†	Second Amendment to the Sparton Corporation Deferred Compensation Plan, incorporated by reference from Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the SEC on July 3, 2014.
10.31	Engine Capital Agreement dated May 4, 2016 among the Company, Engine Capital, L.P., Engine Jet Capital, L.P., Engine Capital Management, LLC, Engine Investments, LLC, Arnaud Ajdler, Norwood Capital Partners, LP, Norwood Investment Partners, LP, Norwood Investment Partners GP, LLC, Charles H. Hoeveler, Alan L. Bazaar and John A. Janitz, incorporated by reference from Exhibit 10.1 to the Registrant's Form 8-K filed with the SEC on May 4,10, 2016.
10.32†	Form of Retention Bonus Agreement, incorporated by reference from Exhibit 10.1 to the Registrant's Form 8-K filed with the SEC on July 19, 2016.
10.331	Modification of Subcontract with an effective date of September 23, 2015 between Sparton DeLeon Springs, LLC and ERAPSCO, incorporated by reference from Exhibit 10.33 to the Registrant's Form 10-K filed with the SEC on September 6, 2016.
10.341	Modification of Subcontract with an effective date of April 11, 2016 between Sparton DeLeon Springs, LLC and ERAPSCO, incorporated by reference from Exhibit 10.34 to the Registrant's Form 10-K filed with the SEC on September 6, 2016.
10.35†	Executive Employment Agreement dated as of September 23, 2015 between the Company and Joseph Schneider.
10.36*1	Subcontract with an effective date of January 18, 2017 between Sparton DeLeon Springs, LLC and ERAPSCO.
10.37*1	Modification of Subcontract with an effective date of January 19, 2017 between Sparton DeLeon Springs, LLC and ERAPSCO.
10.38*1	Modification of Subcontract with an effective date of September 7, 2017 between Sparton DeLeon Springs, LLC and ERAPSCO.
21.1*	Subsidiaries of Sparton Corporation.
23.1*	Consent of BDO USA, LLP.
31.1*	Interim Chief Executive Officer certification under Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Chief Financial Officer certification under Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Interim Chief Executive Officer and Chief Financial Officer certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	XBRL Instance Document.
101.SCH**	XBRL Taxonomy Extension Schema Document.

101.CAL** XBRL Taxonomy Calculation Linkbase Document.

101.DEF** XBRL Taxonomy Extension Definition Linkbase Document.

101.LAB** XBRL Taxonomy Extension Label Linkbase Document.

101.PRE** XBRL Taxonomy Extension Presentation Linkbase Document.

* Filed herewith.
† Indicates management contract or compensatory arrangement.
** XBRL (Extensible Business Reporting Language) information is deemed not filed or part of a registration statement or
prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.
1 Confidential treatment has been requested with respect to the redacted portions of this exhibit.