sparton

Fiscal 2016 2nd Quarter Financial Results

February 3, 2016

Conquering Complexity™

Safe Harbor Statement

Certain statements herein constitute forward-looking statements within the meaning of the Securities Act of 1933, as amended and the Securities Exchange Act of 1934, as amended. When used herein, words such as “believe,” “expect,” “anticipate,” “project,” “plan,” “estimate,” “will” or “intend” and similar words or expressions as they relate to the Company or its management constitute forward-looking statements. These forward-looking statements reflect our current views with respect to future events and are based on currently available financial, economic and competitive data and our current business plans. The Company is under no obligation to, and expressly disclaims any obligation to, update or alter its forward-looking statements whether as a result of such changes, new information, subsequent events or otherwise. Actual results could vary materially depending on risks and uncertainties that may affect our operations, markets, prices and other factors. Important factors that could cause actual results to differ materially from those forward-looking statements include those contained under the heading of risk factors and in the management’s discussion and analysis contained from time-to-time in the Company’s filings with the Securities and Exchange Commission.

Adjusted EBITDA and related reconciliation presented here represents earnings before interest, taxes, depreciation and amortization as adjusted for gross profit effects of capitalized profit in inventory from acquisitions, certain legal expenses, corporate reorganization charges, success based finder’s fees, acquisition contingency settlements, certain restructuring expenses, and stock based compensation expense. The Company believes Adjusted EBITDA is commonly used by financial analysts and others in the industries in which the Company operates and, thus, provides useful information to investors. The Company does not intend, nor should the reader consider, Adjusted EBITDA an alternative to net income, net cash provided by operating activities or any other items calculated in accordance with GAAP. The Company's definition of Adjusted EBITDA may not be comparable with Adjusted EBITDA as defined by other companies. Accordingly, the measurement has limitations depending on its use.

Today’s Agenda

- 2nd Quarter Business Review
- Consolidated Financial Results
- MDS Segment Operating Results
- ECP Segment Operating Results
- Liquidity & Capital Resources
- Fiscal 2016 Outlook
- Q & A

2nd Quarter Business Review

- Overall revenue growth was 21% in the quarter and legacy revenues in the business declined 5% over last year second quarter.
  - Legacy business growth continues to be strong in the ECP segment, up 35% from the prior year, primarily driven by increased sonobuoy sales to foreign governments.
  - In the MDS segment, legacy business revenues decreased by 26% due to fluctuations in customer demand as well as product in-sourcing.
- 213 new program or product wins were awarded with a first time revenue potential of $40.0 million as compared to 77 new product or program wins with a first time revenue potential of $17.7 million in the prior year quarter.
  - 91 in MDS with a first time revenue potential of $18.5 million versus 14 with a first time revenue potential of $4.0 million in the prior year quarter.
  - 122 in ECP (excluding domestic sonobuoy awards) with a first time revenue potential of $21.5 million versus 63 wins with a first time revenue potential of $13.7 million in the prior year quarter.
- Quarter end sales backlog of approximately $264 million, representing a 16% increase over the prior year quarter.
- Total sales to the U.S. Navy were $22.1 million from $23.0 million in Q2 fiscal 2015; sonobuoy sales to foreign governments increased to $9.4 million from $0.9 million.

Consolidated Financial Results

Fiscal 2016 2nd Quarter

	(Reported) For the 2nd Quarter of FY 2016	(Reported) For the 2nd Quarter of FY 2015	(Adjusted) For the 2nd Quarter of FY 2016	(Adjusted) For the 2nd Quarter of FY 2015	(Adjusted) Total YoY Variance ($)	(Adjusted) Total YoY Variance (%)
Net Sales	$ 103,529	$ 85,642	$ 103,529	$ 85,642	$ 17,887	21%
Legacy Business	81,076	85,642	81,076	85,642	(4,566)	-5%
Acquired Business	22,453	-	22,453	-	22,453	
Gross Profit	18,521	15,206	18,521	15,286	3,235	21%
% of sales	**17.9%**	**17.8%**	**17.9%**	**17.8%**		
Selling and Administrative Expense	14,340	10,792	13,409	10,642	(2,767)	-26%
	13.9%	**12.6%**	**13.0%**	**12.4%**		
Internal R&D Expense	438	197	438	197	(241)	
Amortization of intangible assets	2,459	1,485	-	-	-	
Restructuring charges	2,360	-	-	-	-	
Reversal of accrued contingent consideration	(1,530)	-	-	-	-	
Operating Income	454	2,732	4,674	4,447	227	5%
% of sales	**0.4%**	**3.2%**	**4.5%**	**5.2%**		
Interest expense	(900)	(357)	(900)	(357)	(543)	
Interest (expense) income and other, net	34	(46)	34	(46)	80	
Income (Loss) Before Provision For Income Taxes	(412)	2,329	3,808	4,044	(236)	
Income Taxes	(680)	767	1,333	1,367	34	
Net Income	$ 268	$ 1,562	$ 2,475	$ 2,677	$ (202)	-8%
% of sales	**0.3%**	**1.8%**	**2.4%**	**3.1%**		
Income per Share (Basic)	$ 0.03	$ 0.16	$ 0.25	$ 0.27	$ (0.02)	-7%
Income per Share (Diluted)	$ 0.03	$ 0.16	$ 0.25	$ 0.27	$ (0.02)	-7%

($ in 000's, except per share)

Consolidated Financial Results
Adjusted EBITDA

	For the 2nd Quarter of Fiscal Year		
	2016	2015	Variance
Net Income	$ 268	$ 1,562	$ (1,294)
Interest expense	900	357	543
Income taxes	(680)	767	(1,447)
Depreciation and amortization	4,274	2,588	1,686
Legal related expense	384	-	384
Restructuring charges	2,360	-	2,360
Capitalized profit in inventory from acquisition	-	80	(80)
Success based acquisition finder's fee	-	150	(150)
Stock-based compensation expense - Directors	325	250	75
Stock-based compensation expense - Non-Directors	113	519	(406)
Corporate reorganization	547	-	547
Reversal of accrued contingent consideration	(1,530)	-	(1,530)
Adjusted EBITDA	$ 6,961	$ 6,273	$ 688
% of sales	**6.7%**	**7.3%**	

($ in 000's)

Operating Results
MDS

	For the 2nd Quarter of Fiscal Year			
	2016	2015	Chg ($)	Chg (%)
Net Sales:				
Legacy Business	$ 42,173	$ 56,861	$ (14,688)	-25.8%
Acquired Business	20,773	-	20,773	
Intercompany	4,640	3,929	711	18.1%
Total Sales	67,586	60,790	6,796	11.2%
Gross Profit	6,989	8,208	(1,219)	-14.9%
Gross Margin	10.3%	13.5%		
Selling and Administrative Expenses	6,646	4,133	2,513	60.8%
% of Sales	9.8%	6.8%		
Amortization of Intangible Assets	2,037	1,402	635	45.3%
Restructuring Charges	2,360	-	2,360	
Reversal of Accrued Contingent Consideration	(1,530)	-	(1,530)	
Operating Income (Loss)	$ (2,524)	$ 2,673	$ (5,197)	-194.4%
Operating Margin	-3.7%	4.4%		

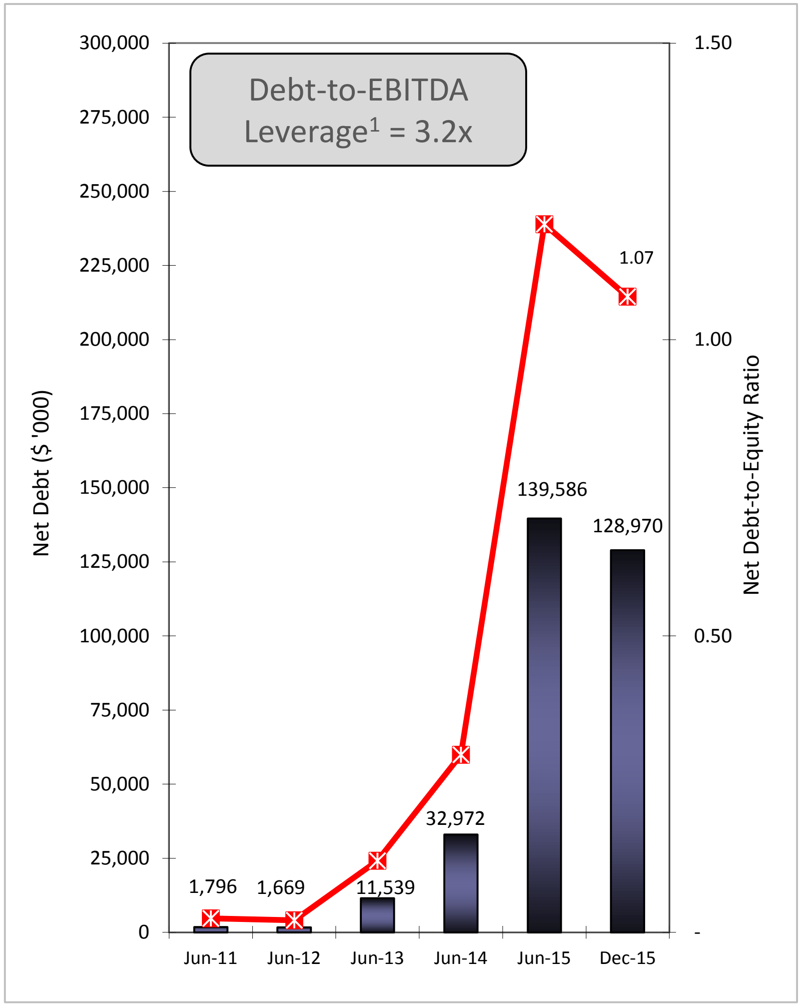
($ in 000's)

Operating Results
ECP

	For the 2nd Quarter of Fiscal Year			
	2016	2015	Chg ($)	Chg (%)
Net Sales:				
Legacy Business	$ 38,903	$ 28,781	$ 10,122	35.2%
Acquired Business	1,680	-	1,680	
Intercompany	59	138	(79)	-57.2%
Total Sales	40,642	28,919	11,723	40.5%
Gross Profit	11,532	6,998	4,534	64.8%
Gross Margin	28.4%	24.2%		
Selling and Administrative Expenses	3,715	2,445	1,270	51.9%
% of Sales	9.1%	8.4%		
Internal Research & Development	438	197	241	
Amortization of Intangible Assets	422	83	339	
Operating Income	$ 6,957	$ 4,273	$ 2,684	62.8%
Operating Margin	17.1%	14.8%		

($ in 000's)

Liquidity & Capital Resources



(1) – As calculated under the Credit Revolver Agreement.

Cash Availability

($ in '000)	FY15Q2	FY15Q3	FY15Q4	FY16Q1	FY16Q2
Cash and equivalents	3,236	5,581	14,914	2,187	4,830
Credit Availability*	140,500	119,100	119,800	135,800	140,700
Total	143,736	124,681	134,714	137,987	145,530

Debt

($ in '000)	FY15Q2	FY15Q3	FY15Q4	FY16Q1	FY16Q2
Credit Revolver	58,500	80,000	154,500	138,800	133,800

Inventory

($ in '000)	FY15Q2	FY15Q3	FY15Q4	FY16Q1	FY16Q2
Net Inventory	56,333	64,340	79,503	86,589	76,717
Net Inventory Turns	5.0	4.9	4.8	4.6	4.5

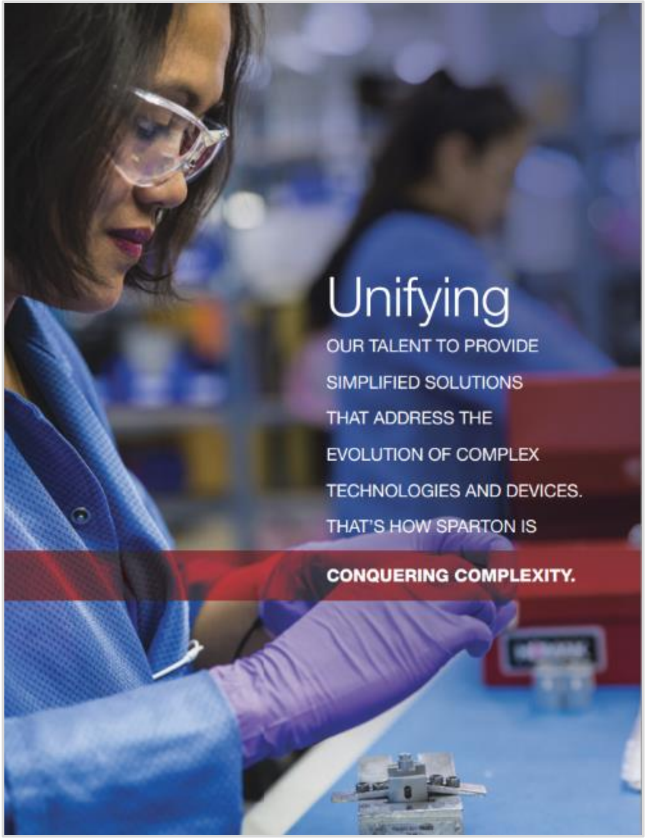
* As of June 2015, Credit Availability takes into account outstanding Letters of Credit.

Note: Turns are calculated as sum of TTM COGS divided by the average of L4Q ending inventory.

Fiscal 2016 Outlook

- Focus on MDS performance improvements
  - Customer delays, end-of-life programs, and program cancellations in the legacy MDS segment are resulting in a projected 16% decrease of revenue in fiscal 2016 as compared to fiscal 2015
- Continue to accelerate organic growth initiatives
  - Implement customer-facing enhancements to drive customer retention and increased business from existing customers
  - Continue to increase the pipeline and new business wins with targeted selling initiatives, augmented by accelerated lead generation from manufacturing rep agencies.
- Improve margins through multiple cost savings initiatives
  - Complete the closure and consolidations of Lawrenceville and the Irvine Design Center sites
  - Continue integration activities of the Hunter Technology acquisition
- Upcoming investor relations events
  - Non-deal road show with Sidoti in Ohio on February 23rd
  - ROTH Capital Partners Spring Conference in Los Angeles from March 14th – 16th
  - Sidoti Emerging Growth Conference in NYC on March 31st
  - Other future non-deal road shows in the coming months with our coverage firms

Q&A



"Reach $1 billion by 2020, expanding our manufacturing and design services while providing more engineered components and products to meet the needs of our customers and markets"