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

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended April 2, 2017
Or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission File Number 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	**60173-2213**
(Address of principal executive offices)	**(Zip code)**

(847) 762-5800
(Registrant's telephone number, including area code)

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 ☒ 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 ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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. ☐

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

As of May 5, 2017, there were 9,860,635 shares of common stock, $1.25 par value per share, outstanding.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements.

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

	April 2, 2017	July 3, 2016
Assets	**(Unaudited)**	
Current Assets:		
Cash and cash equivalents	$ 1,032	$ 132
Accounts receivable, net of allowance for doubtful accounts of $271 and $407, respectively	48,092	46,759
Inventories and cost of contracts in progress, net	64,966	77,871
Prepaid expenses and other current assets	4,933	5,844
Total current assets	119,023	130,606
Property, plant and equipment, net	33,819	33,320
Goodwill	12,663	12,663
Other intangible assets, net	30,434	36,933
Deferred income taxes	25,752	25,784
Other non-current assets	5,794	6,692
Total assets	$ 227,485	$ 245,998
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	$ 35,366	$ 38,290
Accrued salaries and benefits	9,058	11,512
Current portion of capital lease obligations	268	217
Other accrued expenses	8,927	12,420
Total current liabilities	53,619	62,439
Credit facility	87,622	97,206
Capital lease obligations, less current portion	234	332
Environmental remediation	5,614	6,117
Pension liability	1,168	1,276
Total liabilities	148,257	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	17,213	16,407
Retained earnings	51,280	51,650
Accumulated other comprehensive loss	(1,591)	(1,736)
Total shareholders' equity	79,228	78,628
Total liabilities and shareholders' equity	$ 227,485	$ 245,998

See Notes to unaudited consolidated financial statements.

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

	For the Third Quarter of Fiscal Years		For the First Three Quarters of Fiscal Years	
	2017	2016	2017	2016
Net sales	$ 95,410	$ 102,175	$ 293,176	$ 312,395
Cost of goods sold	78,495	83,108	243,078	253,669
Gross profit	16,915	19,067	50,098	58,726
Operating Expense:				
Selling and administrative expenses	12,862	13,727	39,198	41,691
Internal research and development expenses	424	561	1,308	1,512
Amortization of intangible assets	2,099	2,361	6,509	7,323
Restructuring charges	—	(258)	—	2,102
Reversal of accrued contingent consideration	—	—	—	(1,530)
Total operating expense	15,385	16,391	47,015	51,098
Operating income	1,530	2,676	3,083	7,628
Other income (expense)				
Interest expense, net	(1,075)	(956)	(3,327)	(2,739)
Other, net	20	28	29	130
Total other expense, net	(1,055)	(928)	(3,298)	(2,609)
Income (loss) before income taxes	475	1,748	(215)	5,019
Income taxes	46	612	155	1,221
Net income (loss)	$ 429	$ 1,136	$ (370)	$ 3,798
Income (loss) per share of common stock:				
Basic	$ 0.04	$ 0.12	$ (0.04)	$ 0.38
Diluted	$ 0.04	$ 0.12	$ (0.04)	$ 0.38
Weighted average shares of common stock outstanding:				
Basic	9,818,789	9,789,807	9,804,908	9,784,544
Diluted	9,818,789	9,789,807	9,804,908	9,784,544

See Notes to unaudited consolidated financial statements.

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

	For the Third Quarter of Fiscal Years		For the First Three Quarters of Fiscal Years	
	2017	2016	2017	2016
Net income (loss)	$ 429	$ 1,136	$ (370)	$ 3,798
Other comprehensive income, net:				
Pension amortization of unrecognized net actuarial loss, net of tax	55	40	145	87
Unrecognized loss on marketable equity securities, net of tax	—	169	—	(4)
Other comprehensive income, net	55	209	145	83
Comprehensive income (loss)	$ 484	$ 1,345	$ (225)	$ 3,881

See Notes to unaudited consolidated financial statements.

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

	For the First Three Quarters of Fiscal Years	
	2017	2016
Cash Flows from Operating Activities:		
Net income (loss)	$ (370)	$ 3,798
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	4,474	4,488
Amortization of intangible assets	6,509	7,323
Deferred income taxes	32	82
Stock-based compensation expense	825	(32)
Amortization of deferred financing costs	373	210
Loss (gain) on sale of property, plant and equipment, net	(13)	56
Reversal of accrued contingent consideration	—	(1,530)
Excess tax benefit from stock-based compensation	—	(161)
Changes in operating assets and liabilities (net of acquisitions):		
Accounts receivable	(1,333)	9,492
Inventories and cost of contracts in progress	12,905	(5,508)
Prepaid expenses and other assets	1,440	(1,928)
Performance based payments on customer contracts	—	(1,756)
Accounts payable and accrued expenses	(9,336)	6,774
Net cash provided by operating activities	15,506	21,308
Cash Flows from Investing Activities:		
Acquisition of businesses, net of cash acquired	—	750
Purchases of property, plant and equipment	(4,829)	(5,227)
Proceeds from sale of property, plant and equipment	17	221
Net cash used in investing activity	(4,812)	(4,256)
Cash Flows from Financing Activities:		
Borrowings from credit facility	101,163	97,150
Repayments against credit facility	(110,747)	(128,250)
Payments under capital lease agreements	(195)	(52)
Payment of debt financing costs	(15)	—
Repurchase of stock	—	(141)
Excess tax benefit from stock-based compensation	—	161
Net cash used in financing activities	(9,794)	(31,132)
Net increase (decrease) in cash and cash equivalents	900	(14,080)
Cash and cash equivalents at beginning of period	132	14,914
Cash and cash equivalents at end of period	$ 1,032	$ 834
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 2,352	$ 2,352
Cash paid for income taxes	553	766
Supplemental disclosure of non-cash investing activities:		
Machinery and equipment financed under capital leases	148	656
Adjustments to acquired companies' opening balance sheets	—	3,412

See Notes to unaudited consolidated financial statements.

SPARTON CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except per share data)

(1) Business and Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Certain reclassifications of prior year amounts have been made to conform to the current year presentation. Subsequent events have been evaluated through the date these financial statements were issued. Additionally, the consolidated financial statements should be read in conjunction with Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, included in this Quarterly Report on Form 10-Q. Operating results for the quarter and three quarters ended April 2, 2017 are not necessarily indicative of the results that may be expected for the year ending July 2, 2017. The consolidated balance sheet at July 3, 2016 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States ("GAAP") for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended July 3, 2016.

The Company reports fiscal years on a 52-53 week year (5-4-4 basis) ending on the Sunday closest to June 30.

On April 27, 2016, Sparton announced that its Board of Directors had authorized a process to identify parties interested in acquiring the Company. This process is ongoing and there can be no assurance that this process will result in a consummation of any transaction. The Company cannot currently determine if the process will ultimately conclude in a sale of all or some of its assets. As such, no adjustments have been made to the Company's carrying value of its assets or liabilities as a result of the contemplated sale.

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

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

	April 2, 2017	July 3, 2016
Raw materials	$ 35,079	$ 40,914
Work in process	21,988	23,626
Finished goods	18,190	22,294
Total inventory and cost of contracts in progress, gross	75,257	86,834
Inventory to which the U.S. government has title due to interim billings	(10,291)	(8,963)
Total inventory and cost of contracts in progress, net	$ 64,966	$ 77,871

(3) Property, Plant and Equipment, net

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

	April 2, 2017	July 3, 2016
Land and land improvements	$ 1,439	$ 1,429
Buildings and building improvements	28,085	27,660
Machinery and equipment	45,614	43,134
Construction in progress	3,347	1,372
Total property, plant and equipment	78,485	73,595
Less accumulated depreciation	(44,666)	(40,275)
Total property, plant and equipment, net	$ 33,819	$ 33,320

(4) Other Intangible Assets

The components of other intangible assets, net consist of the following:

	Net Carrying Value at July 3, 2016	Additions	Amortization	Net Carrying Value at April 2, 2017
Non-compete agreements	$ 2,193	$ —	$ (663)	$ 1,530
Customer relationships	32,625	—	(5,540)	27,085
Trademarks/Tradenames	1,382	—	(121)	1,261
Unpatented technology	733	—	(184)	549
Patents	—	10	(1)	9
Other intangible assets, net	$ 36,933	$ 10	$ (6,509)	$ 30,434

(5) Debt

On September 11, 2014, the Company entered into a revolving line-of-credit facility with a group of banks (the “Credit Facility”). The Company amended the Credit Facility on April 13, 2015 and again on June 27, 2016. As of the June 27, 2016 amendment, the Credit Agreement permits the Company to borrow up to $175,000, and the Company has the right to request an increase of the facility in an amount of up to $50,000, subject to restrictions. The facility is secured by substantially all assets of the Company and its subsidiaries and expires on September 11, 2019. As of April 2, 2017, the Company had $82,166 available under the facility, which included letters of credit of $4,710 and capital leases of $502. The letters of credit balance includes a $3,114 standby letter of credit issued during the second quarter of fiscal 2017 to support environmental remediation obligations. (See Note 8, Commitments and Contingencies, of the “Notes to Unaudited Consolidated Financial Statements” in this Quarterly Report on Form 10-Q for further information). All borrowings under the Facility are classified as long-term.

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 3.00%, or at the bank’s base rate, as defined, plus 0.00% to 2.00%, 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 3.65% at April 2, 2017. As a condition of the Credit Facility, the Company is subject to certain customary covenants, with which it was in compliance at April 2, 2017.

(6) Income Taxes

The Company recognized a discrete income tax expense of $350 in the second quarter of fiscal year 2017 for a tax event at its Vietnam subsidiary, a discrete income tax benefit of $121 in the third quarter of fiscal year 2017 related to the conclusion of a state tax audit and a discrete income tax benefit of $536 in the second quarter of fiscal year 2016 as a result of the reversal of previously accrued contingent purchase price consideration liability. The Company's effective income tax rate for interim periods was determined based on the Company's estimated annual effective tax rate for the applicable year using the federal statutory income tax rate, permanent tax differences, foreign income taxes and state income taxes. Excluding the discrete tax events described above, the Company's estimated annual effective rate for the third quarters and first three quarters of fiscal year 2017 and 2016 was determined to be approximately 35%.

(7) Defined Benefit Pension Plan

The Company has a frozen defined benefit pension plan. The Company recorded net periodic pension expense of $18 and $7 for the third quarter of fiscal year 2017 and 2016, respectively. Net periodic pension income was $55 for the first three quarters of fiscal year 2017 and net periodic pension income was $16 for the first three quarters of 2016, respectively. No contributions were made to the pension plan during the first three quarters of fiscal years 2017 and 2016, respectively.

(8) Commitments and Contingencies

From time to time, the Company is involved in various legal proceedings relating to claims arising in the ordinary course of business. The Company is not currently a party to any such legal proceedings, the adverse outcome of which, individually or in the aggregate, is expected to have a material adverse effect on the Company's financial condition or results of operations. Additionally, the Company believes it has sufficient insurance coverage to effectively mitigate any litigation exposure.

The Company is a party to an environmental remediation matter in Albuquerque, New Mexico ("Coors Road"). As of April 2, 2017 and July 3, 2016, Sparton had accrued $6,197 and $6,701, respectively, as its estimate of the remaining minimum future discounted financial liability regarding this matter, of which $583 and $584, respectively, was classified as a current liability and included on the balance sheets in other accrued expenses. As of April 2, 2017 and July 3, 2016, the Company had accrued $1,606, in relation to expected reimbursements from the Department of Energy, which are included in other non-current assets on the balance sheets and are considered collectible.

On October 3, 2016, the Company established the Sparton Corporation Standby Financial Assurance Trust and issued a standby letter of credit in the amount of $3,114 related to the Coors Road environmental remediation liability. The trust was established to meet the United States Environmental Protection Agency's financial assurance requirements. As a result of the goodwill write-off of $64,174 in the prior fiscal year, the Company was not in compliance with these requirements. The release of such funds would only occur should the Company not meet its financial remediation requirements. The trust will remain in place until the Company is in compliance with the financial requirements. Upon successful compliance with the financial requirements, the trust will be dissolved and the letter of credit canceled. See the Company's Annual Report on Form 10-K for the fiscal year ended July 3, 2016 for further information.

The Company is subject to audits by certain federal government agencies, including the Defense Contract Audit Agency and the Defense Contract Management Agency. The agencies 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. From time to time, the Company is notified of claims related to noncompliance arising from the audits performed by agencies. Such claims have historically been subject to actions of remediation and/or financial claims that are typically subject to negotiated settlements. The Company believes that it has appropriate reserves established for outstanding issues and is not aware of any other issues of noncompliance that would have a material effect on the Company's financial position or results of operations.

(9) Stock-Based Compensation

The Company has a long-term incentive plan to offer 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 under the Sparton Corporation 2010 Long-Term Incentive Plan (the "2010 Plan").

The following table shows stock-based compensation expense (income) by type of share-based award included in the consolidated statements of income:

	For the Third Quarter of Fiscal Years		For the First Three Quarters of Fiscal Years	
	2017	2016	2017	2016
Fair value expense of stock option awards	$ 48	$ (111)	$ 145	$ 206
Restricted stock units	447	(444)	1,251	123
Restricted and unrestricted stock	(947)	(346)	(571)	(361)
Total stock-based compensation expense (income)	$ (452)	$ (901)	$ 825	$ (32)

At the end of the third quarter of fiscal 2017, the Company recorded income of $986 for the reversal of previously recorded expense associated with certain stock-based compensation awards.

No stock options were granted during the first three quarters of fiscal year 2017. During the first three quarters of fiscal year 2016, the Company awarded an aggregate of 129,798 stock options to certain members of management with an average exercise price of $23.02, none of which were granted during the third quarter of fiscal year 2016. Unrestricted shares of 16,905 and 14,234 were granted to the Company's board of directors in the second quarter of fiscal year 2017 and 2016, respectively, as part of their annual compensation.

The following is a summary of activity for the first three quarters of fiscal year 2017 related to the 2010 Plan:

	Stock Options	Restricted stock units	Restricted shares
Outstanding at July 3, 2016	115,415	79,274	52,651
Granted	—	79,889	—
Forfeited	(10,630)	(6,029)	(26,739)
Vested	—	(25,000)	—
Outstanding at April 2, 2017	104,785	128,134	25,912

As of April 2, 2017, 33,829 stock options were exercisable, of which 20,011 vested in the first three quarters of fiscal year 2017, none of which vested in the third quarter.

(10) Earnings Per Share Data

The following table sets forth the computation of basic and diluted net income (loss) per share:

	For the Third Quarter of Fiscal Years		For the First Three Quarters of Fiscal Years	
	2017	2016	2017	2016
Numerator:				
Net income (loss)	$ 429	$ 1,136	$ (370)	$ 3,798
Less net income allocated to contingently issuable participating securities	—	(9)	—	(36)
Net income (loss) available to common shareholders	$ 429	$ 1,127	$ (370)	$ 3,762
Weighted average shares outstanding – Basic	9,818,789	9,789,807	9,804,908	9,784,544
Dilutive effect of stock options	—	—	—	—
Weighted average shares outstanding – Diluted	9,818,789	9,789,807	9,804,908	9,784,544
Net income (loss) available to common shareholders per share:				
Basic	$ 0.04	$ 0.12	$ (0.04)	$ 0.38
Diluted	$ 0.04	$ 0.12	$ (0.04)	$ 0.38

The number of shares excluded from the calculation of diluted net income (loss) per share because the shares were either contingently issuable or their inclusion would be anti-dilutive was 258,831 and 244,912 for the third quarter and first three quarters of fiscal years 2017 and 2016, respectively.

(11) Business Segments

The Company has identified two reportable segments; Manufacturing & Design Services ("MDS") and Engineered Components & Products ("ECP"). 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. The Company's Chief Operating Decision Maker assesses segment performance and allocates resources to each segment individually.

Operating results and certain other financial information about the Company's two reportable segments for the third quarters and first three quarters of fiscal years 2017 and 2016 were as follows:

	For the Third Quarter of Fiscal Year 2017				
	MDS	ECP	Unallocated	Eliminations	Total
Net sales	$ 61,084	$ 37,053	$ —	$ (2,727)	$ 95,410
Gross profit	6,690	10,225	—	—	16,915
Selling and administrative expenses (incl. depreciation)	5,684	4,160	3,018	—	12,862
Internal research and development expenses	—	424	—	—	424
Operating income (loss)	(722)	5,270	(3,018)	—	1,530
Capital expenditures	1,291	260	708	—	2,259
Total assets at April 2, 2017	$ 149,989	$ 68,066	$ 9,430	$ —	$ 227,485

	For the Third Quarter of Fiscal Year 2016				
	MDS	ECP	Unallocated	Eliminations	Total
Net sales	$ 68,187	$ 37,566	$ —	$ (3,578)	$ 102,175
Gross profit	7,771	11,296	—	—	19,067
Selling and administrative expenses (incl. depreciation)	5,850	3,898	3,979	—	13,727
Internal research and development expenses	—	561	—	—	561
Restructuring charges	(258)	—	—	—	(258)
Operating income (loss)	231	6,424	(3,979)	—	2,676
Capital expenditures	473	496	995	—	1,964
Total assets at July 3, 2016	$ 167,277	$ 69,627	$ 9,094	$ —	$ 245,998

	For the First Three Quarters of Fiscal Year 2017				
	MDS	ECP	Unallocated	Eliminations	Total
Net sales	$ 193,468	$ 106,995	$ —	$ (7,287)	$ 293,176
Gross profit	22,341	27,757	—	—	50,098
Selling and administrative expenses (incl. depreciation)	17,221	11,529	10,448	—	39,198
Internal research and development expenses	—	1,308	—	—	1,308
Operating income (loss)	(250)	13,781	(10,448)	—	3,083
Capital expenditures	$ 1,960	$ 1,018	$ 1,851	$ —	$ 4,829

	For the First Three Quarters of Fiscal Year 2016				
	MDS	ECP	Unallocated	Eliminations	Total
Net sales	$ 209,730	$ 116,297	$ —	$ (13,632)	$ 312,395
Gross profit	25,056	33,670	—	—	58,726
Selling and administrative expenses (incl. depreciation)	18,377	11,210	12,104	—	41,691
Internal research and development expenses	—	1,512	—	—	1,512
Restructuring charges	2,102	—	—	—	2,102
Reversal of accrued contingent consideration	(1,530)	—	—	—	(1,530)
Operating income (loss)	48	19,684	(12,104)	—	7,628
Capital expenditures	$ 1,906	$ 769	$ 2,552	$ —	$ 5,227

(12) New Accounting Standards

In May 2014, the Financial Accounting Standards ("FASB") issued Accounting Standards Update ("ASU") 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 and 2017, the FASB issued four additional updates which further clarify the guidance provided in ASU 2014-09. The Company is currently in the process of evaluating the impact of adoption on its consolidated financial statements.

In July 2015, the FASB issued ASU 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 is currently in the process of evaluating the impact of adoption on its consolidated financial statements.

In February 2016, the FASB issued ASU 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 ASU 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 has elected to early adopt ASU 2016-09 as of July 4, 2016 on a prospective basis. There was no impact on the Company's financial statements as a result of early adoption in the first quarter of fiscal year 2017.

In June 2016, the FASB issued ASU 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 ASU 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 Cos*t. 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.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following is management's discussion and analysis of certain significant events affecting Sparton Corporation's (the "Company" or "Sparton") results of operations and financial condition during the periods included in the accompanying financial statements. Additional information regarding the Company can be accessed via Sparton's website at www.sparton.com. Information provided at the website includes, among other items, the Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Quarterly Earnings Releases, News Releases and the Code of Business Conduct and Ethics, as well as various corporate charters and documents.

Consolidated Results of Operations

Presented below is comparative data and discussions regarding our consolidated results of operations for the third quarter and first three quarters of fiscal year 2017 compared to the third quarter and first three quarters of fiscal year 2016. Results of operations for any period less than one year are not necessarily indicative of results of operations that may be expected for a full year. The following discussion should be read in conjunction with the Unaudited Consolidated Financial Statements and Notes thereto included in Item 1 of this Quarterly Report on Form 10-Q.

For the Third Quarter of Fiscal Year 2017 compared to the Third Quarter of Fiscal Year 2016

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

CONSOLIDATED

	For the Third Quarter of Fiscal Years			
	2017	% of Sales	2016	% of Sales
Net sales	$ 95,410	100.0%	$ 102,175	100.0%
Cost of goods sold	78,495	82.3	83,108	81.3
Gross profit	16,915	17.7	19,067	18.7
Selling and administrative expenses	12,862	13.5	13,727	13.4
Internal research and development expenses	424	0.4	561	0.6
Amortization of intangible assets	2,099	2.2	2,361	2.3
Restructuring charges	—	—	(258)	(0.2)
Operating income	1,530	1.6	2,676	2.6
Other expense, net	(1,055)	(1.1)	(928)	(0.9)
Income (loss) before income taxes	475	0.5	1,748	1.7
Income taxes	46	0.1	612	0.6
Net income	$ 429	0.4%	$ 1,136	1.1%

The decrease in net sales was a result of reduced sales of $6.2 million and $0.5 million in our MDS segment and ECP segment, respectively. The decrease in our gross profit was a result of the reduced sales volumes. Selling and administrative expense was lower due to the continued focused effort on cost containment and expense reduction.

The Company recognized a discrete income tax benefit of $0.1 million in the third quarter of fiscal year 2017 related to the conclusion of a state tax audit. Excluding this discrete tax event, the Company's estimated annual effective tax rate for the third quarter of fiscal years 2017 and 2016 was determined to be 35%.

Due to the factors described above, the Company reported net income of $0.4 million, or $0.04 earnings per share, basic and diluted, for the third quarter of fiscal year 2017, compared to net income of $1.1 million, or $0.12 earnings per share, basic and diluted, for the third quarter of fiscal year 2016.

Segment Information

The Company has two reportable segments - Manufacturing and Design Services ("MDS") and Engineered Components and Products ("ECP").

Manufacturing and Design Services Segment

Manufacturing and Design Services 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 guidelines and approvals, in addition to product and process certifications.

Engineered Components and Products Segment

Engineered Components and Products 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 anti-submarine warfare ("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 and qualified by the U.S. Navy, which limits opportunities for competition. This segment is also a provider of rugged electronics 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 electronics 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.

MDS

The following table presents selected segment data (dollars in thousands):

	For the Third Quarter of Fiscal Years				
	2017	**% of Sales**	**2016**	**% of Sales**	**$ Chg**
Gross sales	$ 61,084	100.0 %	$ 68,187	100.0%	$ (7,103)
Intercompany sales	(2,654)	(4.3)	(3,533)	(5.2)	879
Net sales	58,430	95.7	64,654	94.8	(6,224)
Gross profit	6,690	11.0	7,771	11.4	(1,081)
Selling and administrative expenses	5,684	9.3	5,850	8.6	(166)
Amortization of intangible assets	1,728	2.9	1,948	2.9	(220)
Restructuring charges	—	—	(258)	(0.4)	258
Operating income (loss)	$ (722)	(1.2)%	$ 231	0.3%	$ (953)

The $6.2 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 reductions. These losses were offset by new revenue wins and increased volumes with other customers. MDS backlog was $118.0 million at April 2, 2017 compared to $160.3 million at March 27, 2016. Commercial orders, in general, may be rescheduled or canceled without significant penalty, and, as a result, may not be a meaningful measure of future sales. A majority of the April 2, 2017 MDS backlog is currently expected to be realized in the next 12 months.

The decrease in gross profit is primarily due to lower sales volumes. Gross profit percentage decreased slightly as a result of revenue mix. The decrease in selling and administrative expense is due to lower compensation and related benefit costs partially offset by higher corporate allocated costs.

ECP

The following table presents selected segment data (dollars in thousands):

	For the Third Quarter of Fiscal Years				
	2017	% of Sales	2016	% of Sales	$ Chg
Gross sales	$ 37,053	100.0%	$ 37,566	100.0%	$ (513)
Intercompany sales	(73)	(0.2)	(45)	(0.1)	(28)
Net sales	36,980	99.8	37,521	99.9	(541)
Gross profit	10,225	27.6	11,296	30.1	(1,071)
Selling and administrative expenses	4,160	11.2	3,898	10.4	262
Internal research and development expenses	424	1.2	561	1.5	(137)
Amortization of intangible assets	371	1.0	413	1.1	(42)
Operating income	$ 5,270	14.2%	$ 6,424	17.1%	$ (1,154)

The segment had decreases of $2.7 million in engineering sales to U. S. Navy, $1.0 million in domestic sonobuoy sales and $0.3 million in rugged electronics, partially offset by an increase of $3.4 million in foreign sonobuoy sales. Total sales to the U.S. Navy in the third quarter of fiscal years 2017 and 2016 were $19.7 million and $23.4 million, respectively. For the third quarter of fiscal years 2017 and 2016, sales to the U.S. Navy accounted for 21% and 23%, respectively, of consolidated Company net sales and 53% and 62%, respectively, of ECP segment net sales. ECP backlog was $124.4 million at April 2, 2017 compared to $111.4 million at March 27, 2016. A majority of the April 2, 2017 ECP backlog is currently expected to be realized in the next 18 months.

Gross profit decreased compared to the third quarter of the prior year due to performance within the Rugged Electronics platform as offset by additional margins provided by higher foreign sonobuoy sales. 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, hand held targeting applications as well as rugged electronics. 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 data (dollars in thousands):

	For the Third Quarter of Fiscal Years		
	2017	2016	$ Chg
Intercompany sales elimination	$ (2,727)	$ (3,578)	$ 851
Selling and administrative expenses unallocated	3,018	3,979	(961)

Total corporate selling and administrative expenses before allocation to operating segments were $6.7 million and $7.3 million for the third quarter of fiscal year 2017 and fiscal year 2016, respectively, or 7.1% and 7.1% of consolidated sales, respectively. Of these costs, $3.7 million and $3.3 million, respectively, were allocated to segment operations in each of these periods.

For the First Three Quarters of Fiscal Year 2017 compared to the First Three Quarters of Fiscal Year 2016

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

CONSOLIDATED

	For the First Three Quarters of Fiscal Years			
	2017	% of Sales	2016	% of Sales
Net sales	$ 293,176	100.0 %	$ 312,395	100.0%
Cost of goods sold	243,078	82.9	253,669	81.2
Gross profit	50,098	17.1	58,726	18.8
Selling and administrative expenses	39,198	13.4	41,691	13.4
Internal research and development expenses	1,308	0.5	1,512	0.5
Amortization of intangible assets	6,509	2.2	7,323	2.3
Restructuring charges	—	—	2,102	0.7
Reversal of accrued contingent consideration	—	—	(1,530)	(0.5)
Operating income	3,083	1.0	7,628	2.4
Other expense, net	(3,298)	(1.1)	(2,609)	(0.8)
Income (loss) before income taxes	(215)	(0.1)	5,019	1.6
Income taxes	155	—	1,221	0.4
Net income (loss)	$ (370)	(0.1)%	$ 3,798	1.2%

The decrease in net sales was a result of reduced sales of $10.0 million and $9.2 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. The decrease in selling and administrative expense is due to the continued focused effort on cost containment in the MDS segment and the corporate office.

The Company recognized a discrete income tax expense of $0.4 million in the second quarter of fiscal year 2017 for a tax event at its Vietnam subsidiary, a discrete income tax benefit of $0.1 million in the third quarter of fiscal year 2017 related to the conclusion of a state tax audit and a discrete income tax benefit of $0.5 million in the second quarter of fiscal year 2016 as a result of the reversal of previously accrued contingent purchase price consideration liability. Excluding these discrete tax events, the Company's estimated annual effective rate for the first three quarters of fiscal 2017 and 2016 was determined to be approximately 35%.

Due to the factors described above, the Company reported net loss of $0.4 million, or $0.04 loss per share for the first three quarters of fiscal year 2017, compared to net income of $3.8 million, or $0.38 earnings per share for the first three quarters of fiscal year 2016.

MDS

The following table presents selected segment data (dollars in thousands):

	For the First Three Quarters of Fiscal Years				
	2017	% of Sales	2016	% of Sales	$ Chg
Gross sales	$ 193,468	100.0 %	$ 209,730	100.0%	$ (16,262)
Intercompany sales	(7,187)	(3.7)	(13,402)	(6.4)	6,215
Net sales	186,281	96.3	196,328	93.6	(10,047)
Gross profit	22,341	11.6	25,056	11.9	(2,715)
Selling and administrative expenses	17,221	8.9	18,377	8.8	(1,156)
Amortization of intangible assets	5,370	2.8	6,059	2.9	(689)
Restructuring charges	—	—	2,102	1.0	(2,102)
Reversal of accrued contingent consideration	—	—	(1,530)	(0.8)	1,530
Operating income (loss)	$ (250)	(0.1)%	$ 48	—%	$ (298)

The $10.0 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 reductions. These losses were offset by new revenue wins and increased volumes with other customers. Gross profit was negatively affected in the first three quarters of fiscal year 2017 by lower sales volumes. The selling and administrative expense decrease is primarily due to lower professional fees and compensation costs.

ECP

The following table presents selected segment data (dollars in thousands):

	For the First Three Quarters of Fiscal Years				
	2017	% of Sales	2016	% of Sales	$ Chg
Gross sales	$ 106,995	100.0%	$ 116,297	100.0%	$ (9,302)
Intercompany sales	(100)	(0.1)	(230)	(0.2)	130
Net sales	106,895	99.9	116,067	99.8	(9,172)
Gross profit	27,757	26.0	33,670	29.0	(5,913)
Selling and administrative expenses	11,529	10.8	11,210	9.7	319
Internal research and development expenses	1,308	1.2	1,512	1.3	(204)
Amortization of intangible assets	1,139	1.1	1,264	1.1	(125)
Operating income	$ 13,781	12.9%	$ 19,684	16.9%	$ (5,903)

The decrease in sales is primarily from reduced engineering sales to the U.S. Navy and Rugged Electronics sales, partially offset by increased sales in domestic and foreign sonobuoys. Total sales to the U.S. Navy in the first three quarters of fiscal years 2017 and 2016 were approximately $61.8 million and $69.9 million, respectively. For the first three quarters of fiscal years 2017 and 2016, sales to the U.S. Navy accounted for 21% and 22%, respectively, of consolidated Company net sales and 58% and 60%, respectively, of ECP segment net sales.

Gross profit was negatively impacted in the current year by lower sales volumes and unabsorbed fixed overhead costs due to new program launch activity compared to the same period last 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 navigation, oil and gas exploration and flat panel display technology. 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 statement of income data (dollars in thousands):

	For the First Three Quarters of Fiscal Years		
	2017	2016	$ Chg
Intercompany sales elimination	$ (7,287)	$ (13,632)	$ 6,345
Selling and administrative expenses unallocated	10,448	12,104	(1,656)

Total corporate selling and administrative expenses before allocation to operating segments were $21.0 million and $22.2 million for the third quarter of fiscal year 2017 and fiscal year 2016, respectively, or 7.2% and 7.1% of consolidated sales, respectively. Of these costs, $10.6 million and $10.1 million, respectively, were allocated to segment operations in each of these periods.

Liquidity and Capital Resources

As of April 2, 2017, the Company had $82.2 million available under its $175.0 million credit facility, reflecting borrowings under the facility of $87.6 million, letters of credit of $4.7 million and capital leases of $0.5 million. The letters of credit balance includes a $3.1 million standby letter of credit issued during the second quarter of fiscal year 2017 to support environmental remediation obligations. (See Note 8, Commitments and Contingencies, of the "Notes to Unaudited Consolidated Financial Statements" in this Quarterly Report on Form 10-Q for further information)

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

The Company currently expects to meet its liquidity needs through a combination of sources including, but not limited to, operations and its revolving line-of-credit. 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.

	For the First Three Quarters of Fiscal Years	
CASH FLOWS	2017	2016
Operating activities, excluding net changes in working capital	$ 11,830	$ 14,234
Net changes in working capital	3,676	7,074
Operating activities	15,506	21,308
Investing activities	(4,812)	(4,256)
Financing activities	(9,794)	(31,132)

Net changes in working capital related cash flows in the first three quarters of fiscal year 2017 primarily reflect decreased inventories partially offset by decreased accounts payable and accrued expenses. Working capital related cash flows in the first three quarters of fiscal year 2016 primarily reflect collections of accounts receivables and increased accounts payable and accrued expenses, partially offset by decreased inventories.

Net cash flows from investing activity for the first three quarters of fiscal year 2017 and 2016 reflect net capital expenditures of $5.0 million and $5.2 million, respectively.

Net cash used in financing activities in the first three quarters of fiscal year 2017 reflects $9.6 million of net payments under the Company's Credit Facility as compared to $31.1 million in net payments for the first three quarters of fiscal year 2016.

Commitments and Contingencies

See Note 8, Commitments and Contingencies, of the "Notes to Unaudited Consolidated Financial Statements" in this Quarterly Report on Form 10-Q for a discussion of the Company's commitments and contingencies.

Contractual Obligations

Information regarding the Company's long-term debt obligations, environmental liability payments, operating lease payments and other commitments is provided in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," of the Company's Annual Report on Form 10-K for fiscal year ended July 3, 2016. As of July 3, 2016, there were $49.0 million of non-cancelable purchase orders outstanding, $97.2 million of debt, $9.8 million of operating lease payments and a liability related to performance based billings was eliminated. As of April 2, 2017, compared to July 3, 2016, the non-cancelable purchase orders outstanding increased to $52.6 million, debt decreased to $87.6 million, operating lease payments, net of subleases, increased to $10.0 million and the liability related to performance based billings was unchanged. Other than as noted above, there have been no material changes in the nature or amount of the Company's contractual obligations since fiscal year end 2016.

Off-Balance Sheet Arrangements

The Company has standby letters of credit outstanding of $4.7 million at April 2, 2017, principally to support environmental remediation obligations and insurance arrangements. Other than these standby letters of credit and the operating lease commitments referenced 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.

Critical Accounting Policies

Our financial statements are prepared in conformity with GAAP and require us to select appropriate accounting policies. The assumptions and judgments we use in applying our accounting policies have a significant impact on our reported amounts of assets, liabilities, revenue and expenses. 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.

We have identified the most critical accounting policies upon which our financial status depends. The critical policies were determined by considering accounting policies that involve the most complex or subjective decisions or assessments. We also have other policies considered key accounting policies; however, these policies do not meet the definition of critical accounting policies because they do not generally require us to make estimates or judgments that are complex or subjective.

Our critical accounting policies include the following:

- Revenue recognition
- Goodwill and other intangible assets
- Percentage-of-completion accounting
- Environmental contingencies
- Income taxes
- Commercial inventory valuation
- Stock-based compensation

There have been no significant changes to our critical accounting policies that are described in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of our Annual Report on Form 10-K for the fiscal year ended July 3, 2016.

New Accounting Pronouncements

See Note 12, New Accounting Standards, of the "Notes to Unaudited Consolidated Financial Statements" in this Quarterly Report on Form 10-Q for a discussion of new accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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 $87.6 million outstanding under its Credit Facility at April 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 $0.9 million in our annual interest expense. The Company is not party to any currency exchange or interest rate protection agreements as of April 2, 2017.

Item 4. Controls and Procedures.

Our Interim Chief Executive Officer and our Chief Financial Officer each 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 Exchange Act of 1934) as of the end of the period covered by this quarterly report. Based on such evaluation, such officers have concluded that, as of the end of the period covered by this quarterly report, our disclosure controls and procedures are effective.

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

See Note 8, Commitments and Contingencies, of the “Notes to Unaudited Consolidated Financial Statements” in this Quarterly Report on Form 10-Q for a discussion of legal proceedings and other commitments and contingencies.

Item 1A. Risk Factors.

You should carefully consider the risks and uncertainties described in Part I, Item 1A., "Risk Factors," in our Annual Report on Form 10-K for the year ended July 3, 2016 and the other information in our subsequent filings with the SEC, including this Quarterly Report on Form 10-Q. Our business, financial condition, results of operations and stock price could be materially and adversely affected by any of these risks. The risks described in our Annual Report on Form 10-K are not the only ones we face. Additional risks and uncertainties that are currently unknown to us or that we currently consider to be immaterial may also impair our business or adversely affect our financial condition, results of operations and stock price.

Item 6. Exhibits.

Exhibit Number	Description
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.
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.

SIGNATURES

Pursuant to the requirements 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

Date: May 9, 2017	By:	/s/ JOSEPH J. HARTNETT
		Joseph J. Hartnett
		Interim President and Chief Executive Officer
		(Principal Executive Officer)
Date: May 9, 2017	By:	/s/ JOSEPH G. MCCORMACK
		Joseph G. McCormack
		Senior Vice President and Chief Financial Officer
		(Principal Financial Officer)

Exhibit 31.1

CERTIFICATION UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Joseph J. Hartnett, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sparton Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting to be designed under our supervision, 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;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2017

/s/ JOSEPH J. HARTNETT

Joseph J. Hartnett, Interim President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Joseph G. McCormack, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sparton Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting to be designed under our supervision, 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;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2016

/s/ JOSEPH G. MCCORMACK

Joseph G. McCormack, Senior Vice President and Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Sparton Corporation (the "Company") on Form 10-Q for the period ended April 2, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Periodic Report"), we, Joseph J. Hartnett, Interim President and Chief Executive Officer of the Company, and Joseph G. McCormack, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1 The Periodic Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2 The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 9, 2017

/s/ JOSEPH J. HARTNETT

Joseph J. Hartnett, Interim President and Chief Executive Officer

Date: May 9, 2017

/s/ JOSEPH G. MCCORMACK

Joseph G. McCormack, Senior Vice President and Chief Financial Officer