

SPARTON CORP
Form 10-K
September 07, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended: June 30, 2011

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

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(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

425 N. Martingale Road, Suite 2050

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 ☒

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 ☒

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

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 31, 2010 (the last business day of the registrant's most recently completed second fiscal quarter) was approximately \$77,981,000. For purposes of this computation, affiliates of the registrant include the registrant's executive officers and directors and their respective affiliates as of December 31, 2010.

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ☐ No ☐

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As of August 31, 2011, there were 10,236,484 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 2011 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. In some cases, you can identify forward-looking statements by terminology such as may, will, should, expects, intends, plans, anticipates, believes, estimates, predicts, potential, 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 complex and sophisticated electromechanical devices with capabilities that include concept development, industrial design, design and manufacturing engineering, production, distribution, and field service. The Company operates through three reportable business segments; Medical Device ("Medical"), Complex Systems ("CS"), formerly called Electronic Manufacturing Services ("EMS"), and Defense & Security Systems ("DSS"), which serves Defense, Security Systems, Navigation and Exploration markets. The electromechanical device end markets that Sparton, as a whole, serves are in Medical, Military & Aerospace and Industrial & Instrumentation. Effective beginning in fiscal 2010, the Company reports its operating results under these three reportable business segments. Prior to fiscal 2010, all of our operating units were aggregated into one line of business, EMS. Fiscal 2009 information presented herein reflects this change to segment reporting. Financial information by segment is presented in Note 15, Business Segments, of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K. All of the Company's facilities are registered to ISO standards, including 9001 or 13485, with most having additional certifications. The Company's products and services include products for Original Equipment Manufacturers ("OEM") and Emerging Technology ("ET") customers that are microprocessor-based systems that 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 other free-world countries. Many of the physical and technical attributes in the production of sonobuoys are similar to those required in the production of the Company's other electrical and electromechanical products and assemblies.

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.

Medical Segment

Medical Device operations, with locations in Ohio and Colorado, are comprised of contract development, design, production and distribution of complex and sophisticated medical related electromechanical devices for customers with specialized needs, specifically in the design and manufacturing process, to assure product reliability and safety in accordance with Food and Drug Administration ("FDA") guidelines and approvals. This group specializes in systems and procedures targeted to the requirements of medical OEM and ET customers primarily in the In Vitro Diagnostic and Therapeutic Device segments of the Medical Device market space.

Our Medical segment's objective is to be the preferred contract design and manufacturer of medical devices/instruments for market leading OEM's as well as emerging technologies. The market is driven by providing the total solution concept, at a competitive price to the customer. Our market advantage is our experience and knowledge of the market, breadth of services that we offer, and the referral relationships which have developed

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over the past 20 years. The major corporations on the customer side want to focus their time and energy supporting their major profit areas of consumables and new innovation through research and development. In addition, many companies are outsourcing certain engineering activities finding it costly and inefficient to have full time engineers available for new product development which cycles with new projects every three to five years. This is the niche that has proven to be successful to Sparton Medical.

The contract manufacturing of highly complex medical instrumentation is a fairly young industry with no dominate 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 offering and services offered that best fit their total solutions needs.

The understanding of the medical market needs is critical for our success. We are well positioned with our engineering development, reliability engineering, manufacturing/testing, and service support services to meet our current organic growth plans. Additional growth may be gained through an acquisition strategy employed to expand our market reach and footprint into other geographic areas of the U.S.

On August 6, 2010, the Company completed the acquisition of certain assets related to the contract manufacturing business of Delphi Medical Systems, LLC (Delphi Medical or Delphi) in an approximate \$8.4 million all-cash transaction. The acquired business, which is reported in the Company's Medical segment, provides a new and diversified customer base and provides Sparton with a geographic presence in the western United States. Delphi Medical primarily manufactures OEM medical devices including blood separation equipment, spinal surgery products and 3-D eye mapping devices. It also provides engineering and manufacturing support to a market-leading environmental sensor company whose markets include meteorology, weather critical operations and controlled environment applications.

On March 4, 2011, the Company completed the acquisition of certain assets and assumption of certain liabilities of Byers Peak, Incorporated (Byers Peak) in an approximate \$4.1 million all-cash transaction. The acquired business, which is reported in the Company's Medical segment, provides further expansion into the therapeutic device market, diversifies Sparton's customer base, and further expands the Company's geographic reach into the western United States. Additionally, the acquisition increases Sparton's offerings with the inclusion of field service and refurbishment capabilities. Byers Peak primarily manufactures medical devices for OEM and emerging technology companies in the Therapeutic device market, including devices for surgical navigation, RF energy generation, arterial disease, and kidney dialysis. It also has a field service and installation group that primarily provides water filtration and disinfection systems for the medical industry as well as device refurbishment programs. Additionally, Byers Peak provides electromechanical device manufacturing support for a limited number of customers outside of the medical industry.

Medical sales to Siemens Diagnostics accounted for 18%, 21% and 17% of consolidated revenue for the fiscal years ended June 30, 2011, 2010 and 2009, respectively. Fenwal Blood Technologies, which became a customer with the Delphi acquisition, contributed 12% of consolidated revenue during the year ended June 30, 2011. The loss of either Siemens Diagnostics or Fenwal Blood Technologies as a customer could have a material adverse financial effect on the Company. See Item 1A. Risk Factors, 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 a further discussion regarding these customers. While the overall relationships with the Siemens Diagnostics and Fenwal Blood Technologies are important to Sparton, the contracts with these companies are such as ordinarily accompany the kind of business conducted by Sparton and the Company does not believe that it is substantially dependent on any individual contract or agreement with these customers. The contractual arrangements entered into with Siemens Diagnostics and Fenwal Blood Technologies are represented

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by master agreements which include certain master terms and conditions of Sparton's relationship with these customers. These agreements do not commit the customers to any specific volume of purchases. Moreover, these terms can be amended in appropriate circumstances. Thus, until these customers submit a purchase order to Sparton, there is no guarantee of any revenue to Sparton. Rather than depending on these contracts for revenue, the Company accepts purchase orders from these customers which determine volume and delivery requirements. Medical backlog was approximately \$42.3 million and \$14.0 million at June 30, 2011 and 2010, respectively. A majority of the June 30, 2011 Medical backlog is currently expected to be realized within the next 12 months.

As a medical device manufacturer, Sparton Medical Systems operates in a heavily regulated environment. Despite efforts to harmonize domestic and international regulations, inconsistencies still exist. Quality Management System requirements are generally compatible but device approval, licensing and environmental requirements vary widely and change frequently. RoHS (Restriction of Hazardous Substances) and REACH (Registration, Evaluation and Authorization of Chemicals) directives are among the more recent regulatory challenges. Similar environmental regulations are expected from other countries and the United States. Non-compliance risks range from variance notifications to production/shipping prevention depending upon the agency and form of non-compliance.

Complex Systems Segment

Sparton's Complex Systems Business Unit, with locations in Florida and Vietnam, provides multiple industries with complex electronics systems offering end-to-end development and manufacturing solutions focused on high expectations of quality and delivery performance through a global footprint. As a vertically integrated business unit, we assist in providing our customers with seamless development of circuit card assemblies for integration into electro-mechanical solutions. Complex Systems has a diverse and highly skilled group of engineers that focus on maximizing efficiency and cost containment at the various steps in the design, engineering, and manufacturing process. These electronic specialists act as an intelligent source and ideal partner for development firms and OEMs. This business unit is a trusted source and supplier for low to medium volume/high complexity commercial and military aerospace applications, medical devices, telecommunications, energy, and industrial controls. Current portfolio of product line applications include: flight controls, cock pit displays, fuel system controls, secure communications, early warning detection, diagnostics systems, security systems, detection systems, lighting, satellite communications, audio, nuclear detection, inventory control, and defense.

Complex Systems provides to its customers support services that include engineering services, design, material management, obsolescence analysis and management, documentation development, and process improvement. Our engineering services, led by our rapid prototype and pilot build process, offer our customers a high quality product that can quickly be placed into their channels of distribution. Once a product has been proven viable, we offer domestic and low cost country manufacturing and distribution solutions.

The segment strives to exceed customers' expectations of low cost with high delivery and quality performance. As these attributes are demanded by CS customers that produce the aforementioned products, Complex Systems strives to exceed those expectations through utilization of contemporary management tools to ascertain the effectiveness of all business operating systems. This has allowed Complex Systems to gain competitive traction in the market place.

Competitors in our market segments are much larger in size and typically operate in a medium to higher volume sector. These competitors, however, typically do not provide low-volume, high-mix legacy services that Sparton can provide, as this remains our niche in the market. Other EMS providers of comparable size to Sparton's Complex Systems Business Unit are forecasted to modestly grow by leading industry experts. 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.

Sparton Complex Systems continues to engage in ongoing strategic initiatives to expand market awareness of Sparton capabilities. As we continue to execute to our growth strategy, we anticipated adding additional resources in

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Marketing Services, Business Development, and Program Administration services. We further intend to expand our web presence and continue direct participation in trade shows and networking forums. We are also engaged with local and regional economic development authorities. We continue to gain traction in this area as partnerships have developed with higher educational institutions research and development programs and county and regional economic leadership teams. Our Vietnam location continues to be engaged with the local government authority assisting North American Companies seeking to conduct business in Vietnam. These additional efforts will allow focused marketing for each of our identified markets optimizing our ability to selectively target new customers.

Complex Systems backlog was approximately \$29.5 million and \$29.1 million at June 30, 2011 and 2010, respectively. A majority of the June 30, 2011 Complex Systems backlog is currently expected to be realized within the next 12 months.

The majority of Sparton's Complex Systems customers are in regulated industries where strict adherence to regulations is required such as Federal Drug Administration (FDA), International Tariff and Arms Regulations (ITAR), Federal Aviation Administration (FAA). These requirements are highly technical in nature and require strict adherence and documentation related to operational processes and documentation. Sparton's quality system provides us the ability to service such markets, differentiating Sparton from some potential competitors which lack such systems.

DSS Segment

DSS operations, located in Florida, are comprised of design, development and production of products for a number of technologically significant programs aimed at fulfilling defense and commercial needs. Specializing in the development and production of complex electromechanical equipment, DSS designs and manufactures sonobuoys, anti-submarine warfare (ASW) devices used by the U.S. Navy and foreign governments. This business unit also performs an engineering development function for the United States military and prime defense contractors on advanced technologies targeted as future defense products as well as replacement of current systems. The sonobuoy product line is built to the customer's demanding specifications. These products are ITAR restricted, which limits opportunities for competition.

DSS is partner to a 50/50 joint venture agreement (JV) with UnderSea Sensor Systems, Inc. (USSSI), the only other major producer of sonobuoys to the free world. USSSI's parent company is Ultra Electronics Holdings PLC, based in the United Kingdom. The joint venture arrangement operates under the name ERAPSCO and allows Sparton and USSSI to consolidate 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 countries. In concept, and in practice, ERAPSCO serves as a pass-through entity with no funds or assets. While the joint venture agreement provides the opportunity to maximize efficiencies in the design and development of the related sonobuoys, both venture companies 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 (6) member board consists of equal representation (full time employees) from both JV partners for three (3) year terms. Manpower for ERAPSCO, specifically a general manager role, contract administrator role and financial manager role, is 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 determines 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 joint venture 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 cost 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 for each JV partner. These subcontracts contain terms and conditions consistent with the prime contract. Each JV partner is responsible for

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the successful performance of its bid to the JV for its respective scope of work and each JV partner is responsible for profit or losses sustained in the execution of the subcontract against its respective bid. 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 for approximately twenty years and historically, the agreed upon products included under the joint venture agreement were generally developmental or sonobuoys with low volume demand. Four years ago, the Company's ERAPSCO arrangement was expanded to include additional products for U.S. customers and substantially all U.S. derivative sonobuoy products for customers outside of the United States. Beginning with the U.S. Government 2011 fiscal year contracts, all U.S. sonobuoy products are now bid and executed through ERAPSCO, completing the joint venture expansion which now includes sales of all U.S. derivative sonobuoys worldwide.

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 ASW awards.

New internally funded products are under development for sale as commercial products to the navigation and underwater acoustic systems market. Markets for these products include autonomous underwater and ground vehicles, as well as unattended aerial vehicles as our product offerings grow. The principal example of such products is a family of precision electronic compasses for applications such as navigation and mineral or 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 competitors 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 DSS and capitalizes on the sonobuoy product volumes to provide technological as well as economies of scale advantages.

Sonobuoy and related engineering services, including sales to the U.S. Navy, accounted for approximately 33%, 36% and 19% of consolidated revenue for the fiscal years ended June 30, 2011, 2010 and 2009, respectively. Sales to the U.S. Navy, including subcontract sales through ERAPSCO, accounted for 30%, 28% and 14% of consolidated revenue for the fiscal years ended June 30, 2011, 2010 and 2009, 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 contracts with the U.S. Navy, including subcontracts through ERAPSCO, are such as ordinarily accompany the kind of business conducted by Sparton and the Company does not believe that it is substantially dependent on any individual contract or agreement with this customer other than the Subcontract effective June 20, 2011 between Sparton Electronics, Florida, Inc. and ERAPSCO that is filed as an exhibit to this Annual Report on Form 10-K (the Subcontract). Pursuant to the Subcontract, DSS will supply sonobuoys to the U.S. Navy through ERAPSCO for a total contract value of approximately \$32.2 million to Sparton Electronics.

DSS backlog was approximately \$65.5 million and \$69.6 million at June 30, 2011 and 2010, respectively. A majority of the June 30, 2011 DSS backlog is currently expected to be realized within the next 12 to 16 months.

United States Government contracts allow Sparton to submit advance 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 advance billings to 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 approximately \$9.0 million and \$7.4 million, respectively, at June 30, 2011 and 2010. At June 30, 2011 and

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2010, current liabilities include advance billings of \$13.0 million and \$21.6 million, respectively, on government contracts. As these billings 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.

DSS's business is affected by numerous laws and regulations relating to the award, administration and performance of U.S. Government contracts. The U.S. Government generally has the ability to terminate DSS contracts, in whole or in part, without prior notice, for convenience or for default based on performance. If any of these U.S. Government 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.

Other

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.

While overall sales can fluctuate during the year in each of our segments, such fluctuations do not reflect a seasonal pattern or tendency.

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, and 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.

During fiscal 2011, the Company incurred internally funded research and development expenses of \$1.1 million for the internal development of technologies for use in navigation, oil and gas exploration and port security. These efforts relate to our DSS segment. During fiscal 2010 and 2009, the Company incurred no expenditures for research and development (R&D) not funded by customers. Customer funded R&D costs, which are usually part of a larger production agreement, totaled approximately \$9.1 million, \$10.0 million and \$4.4 million for the years ended June 30, 2011, 2010 and 2009, respectively, all of which relates to our DSS segment.

Sparton earns revenues from United States based customers as well as foreign country based customers. Additionally, the Company has a manufacturing facility in Vietnam. Financial information regarding the Company's geographic sales concentration and locations of long-lived assets is presented in Note 16, Business, Geographic and Sales Concentration, of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.

At June 30, 2011, Sparton employed 1,013 people, including 140 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.

Cary B. Wood	Chief Executive Officer since November 2008 and President since April 2009. Previously Mr. Wood held the position of Chief Operating Officer for Citation Corporation in Novi, MI since August 2004. (Age 44)
Gregory A. Slome	Senior Vice President and Chief Financial Officer since April 2009. Previously, Mr. Slome was an independent financial contractor since November 2007. Prior to that date, Mr. Slome was Director of Treasury and International Finance, U.S. Robotics Corporation since July 2000. (Age 48)
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 53)
Michael W. Osborne	Senior Vice President, Corporate and Business Development since January 2009. Previously, Mr. Osborne held the position of Vice President, Operations at The Niven Marketing Group in Carol Stream, IL since January 2006. Prior to that date, Mr. Osborne held the position of Vice President, Operations & Engineering at Gardner Bender in Milwaukee, WI since March 2004. (Age 40)
Steven M. Korwin	Senior Vice President, Quality, Engineering and Information Systems since September 2010 and 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 48)
Lawrence R. Brand	Vice President, Human Resources since May 2011. Previously, Mr. Brand held the position of Director, Corporate Human Resources since February 2010. Prior to that date, Mr. Brand held the position of Senior Manager, Human Resources for Fellowes, Inc. in Itasca, IL since November 2004. (Age 44)
Jake Rost	Vice President/General Manager, Medical Business Unit since March 2011. Prior to that date, Mr. Rost held the position of Vice President, Business Development for Byers Peak since January 2007. (Age 42)
Duane K. Stierhoff	Vice President/General Manager, Medical Device Operations since June 2006. Prior to that date, Mr. Stierhoff held the position of Vice President Operations at Astro Instrumentation, LLC in Strongsville, OH. (Age 56)
James M. Lackemacher	Vice President/General Manager, Defense and Security Systems Business Unit since April 2005. Previously Mr. Lackemacher held the position of Director of Government Engineering since September 2003. (Age 49)
Robert L. Grimm II	Vice President/General Manager, Complex Systems Business Unit since July 2010. Previously Mr. Grimm held the position of General Manager, Electronic Manufacturing Services since January 2009. Prior to that date, Mr. Grimm held the position of General Manager for Citation Corporation in Novi, Michigan. (Age 45)
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 Critical Accounting Policies and Estimates and Management's Discussion and Analysis in Item 7, highlight some of these risks. The terms Sparton, the Company, we, us, and our refer to Sparton Corporation and subsidiaries.

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

The Complex Systems and Medical industries in general 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 Sparton's target market, the high-mix, low-to medium-volume sector of the Complex Systems and Medical industries, 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. Sparton 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 new outsourcing opportunities, and could be limited by OEMs performing such functions internally or delaying their decision to outsource.

DSS is partner to a 50/50 joint venture agreement with USSI, the only other major producer of sonobuoys to the free world. If USSI were to terminate this joint venture, DSS would be required to return to independent bidding for U.S. Navy and other foreign country sonobuoy business. If this was 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 will open up its sonobuoy contract bidding process potentially allowing additional competitors to vie for this business. 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.

In some cases, Sparton 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 Complex Systems and Medical 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.

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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 the manufacturing processes and costs in order to decrease manufacturing expenses, as well as the level of capacity utilization of our manufacturing facilities and associated fixed costs. The timing of our sonobuoy sales to the U.S. Navy is dependent upon access to the test range and successful passage of product tests performed by the U.S. Navy. Additionally, we rely on our customers' demands, which can and do change dramatically, sometimes with little notice. Such factors also could affect our results of operations in the future.

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. If 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 Company believes that alternative suppliers are available to provide the components, including unique components, necessary to manufacture our customers' products.

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 the fiscal year ended June 30, 2011, our six largest customers, including the U.S. Navy, accounted for approximately 75% of total net sales. The U.S. Navy, a DSS customer through the Company's ERAPSCO agreement, represented 30% of our total net sales in the same period. Siemens Diagnostics and Fenwal Blood Technologies, both Medical customers, contributed 18% and 12%, respectively, of total net sales in fiscal 2011. We expect to 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.

During the fourth quarter of fiscal 2011, Siemens notified the Company that it intends to dual source two of its larger programs with the Company beginning in fiscal 2012. Annual sales related to these programs aggregated approximately \$27.8 million in fiscal 2011. While the Company cannot estimate the ultimate impact that this dual sourcing will have on its future annual sales, unless overall sales related to these programs increase,

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this dual sourcing is expected to have an adverse impact on fiscal 2012 sales from the Company's Ohio facility. Related in part to this event and in conjunction with the Company's annual goodwill impairment analysis, the Company recorded impairments of \$13.2 million and \$3.7 million against its goodwill and customer relationships intangible asset, respectively, related to its Ohio reporting unit. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates Goodwill and Intangible Assets for a further description of these impairments.

Additionally, the U.S. Navy generally has the ability to terminate DSS contracts, 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 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.

We rely on the continued growth and financial stability of our customers, including our major 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.

Sparton also generates large accounts receivable in connection with electronic contract manufacturing. 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. The timing of sonobuoy sales to the U.S. Navy is dependent upon access to their test facilities and successful passage of their product tests. Reduced governmental budgets have made access to the test range less predictable and less frequent than in the past, which has impacted the consistency or predictability of our reported revenues.

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 cancelled orders.

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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. At June 30, 2011, non-cancelable purchase orders with vendors totaled approximately \$29.6 million. 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.

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 industry standards, and 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 which meet changing customer needs, and 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.

Our growth strategies could be ineffective due to the risks of further acquisitions.

Our growth strategy has included acquiring complementary businesses. We could fail to identify, finance or complete suitable acquisitions on acceptable terms and prices. Acquisition efforts could increase a number of risks, including diversion of 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. 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.

Our current use of advance billings within Government contracts may not continue.

Our current contracts with the U.S. Navy include provisions for certain billing and collection of funds from the 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 anticipated needs over the next 12 months, no assurances regarding liquidity can be made. The discontinuance of advance 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.

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Fluctuations in foreign currency exchange rates could increase operating costs.

A portion of the Company's operations and some customers are in foreign locations. As a result, transactions may occur in currencies other than the U.S. dollar. 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. The primary impact of currency exchange fluctuations is on the adjustments related to the translation of the Company's Vietnamese financial statements into U.S. dollars, which are included in current earnings, as well as impacting the cash, receivables, payables, property and equipment of our operating entities. The Company currently does not use financial instruments to hedge foreign currency fluctuation and unexpected expenses could occur from future fluctuations in exchange rates.

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. 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.

We are involved in legal proceedings and unfavorable decisions could materially affect us.

Our business activities expose us to risks of litigation with respect to our customers, suppliers, creditors, shareholders, product liability, 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.

Adverse regulatory developments could harm our business.

Our business operates 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 efficiency of our operations could be adversely affected by disruptions to our Information Technology (IT) Services, including implementation of our new enterprise resource planning (ERP) system.

We rely in part on various IT systems to manage our operations and to provide analytical information to management. These systems are vulnerable to, among other things, damage and interruption from power loss or natural disasters, computer system and network failures, loss of telecommunication services, physical and electronic loss of data, security breaches and computer viruses. Any inefficiencies or production down-times resulting from such disruptions 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. Further, we are in the process of implementing a new ERP system. While we believe we are effectively managing the implementation, there are risks involved in the rollout of an enterprise wide project. Any disruption to our financial or other systems as a result of the ERP rollout could have a material adverse impact on our business.

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

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 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 and other business disruptions, including earthquakes, power shortages, telecommunications failures, water shortages, tsunamis, floods, hurricanes, fires, 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, which is in an area previously affected by avian flu. To the best of our knowledge, concerns about the spread of various types of flu have not affected our employees or operations. However, our production could be severely impacted by an epidemic spread of these or other forms of flu. These factors could also affect our suppliers and customers, and results of operations.

Changes in the securities laws and regulations have increased, and are likely to continue to increase our costs.

The Sarbanes-Oxley Act and more recently the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) required or will require changes in some of our corporate governance, securities disclosure and compliance practices. In response to the requirements of the Sarbanes-Oxley Act, the SEC and the New York Stock Exchange (NYSE) promulgated new rules on a variety of subjects. Similar rules are expected to be promulgated in relation to the Dodd-Frank Act. Compliance with these new rules has increased and may increase further our legal, financial and accounting costs. We expect some level of increased costs related to these new regulations to continue indefinitely. While preparation and consulting costs are anticipated to decline, continuous review and audit costs related to these regulations may increase. However, absent significant changes in related rules (which we cannot assure), we anticipate these costs may decline somewhat in future years as we become more efficient in our compliance processes. We also expect these developments to make it more difficult and more expensive to obtain director and officer liability insurance, and we may be forced to accept reduced coverage or incur substantially higher costs to obtain coverage. Likewise, these developments may make it more difficult for us to attract and retain qualified members of our Board of Directors or qualified management personnel.

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, the SEC adopted rules requiring public companies to include a report of management on the company's 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.

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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 to a failure to meet our reporting obligations to the SEC which, in turn, could result in an adverse reaction in the financial markets due to a loss of confidence in the reliability of our financial statements.

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

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.

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. At June 30, 2011, Sparton had accrued approximately \$4.2 million as its estimate of the remaining minimum future undiscounted financial liability with respect to this matter. 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 June 30, 2011, 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 and net of DOE reimbursement, could be up to \$1.9 million before income taxes over the next approximately twenty years. See Item 3 Legal Proceedings of this Annual Report on Form 10-K.

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 Vietnam 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.

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Certain shareholders have significant control and shares eligible for public sale could adversely affect the share price.

As of June 30, 2011, the directors, executive officers and 5% shareholders beneficially owned or controlled an aggregate of approximately 38% of our common stock. Accordingly, certain persons have significant influence over the election of our Board of Directors, the approval or disapproval of any other matters requiring shareholder approval, and the affairs and policies of Sparton. Such voting power could also have the effect of deterring or preventing a change in control of the Company that might otherwise be beneficial to other shareholders. Conversely, such voting power could have the effect of deterring or preventing a change in control of the Company that might otherwise be detrimental to other shareholders. In addition, substantially all of the outstanding shares of common stock are freely tradable without restriction or further registration. Sales of substantial amounts of common stock by shareholders, or even the potential for such sales, may cause the market price to decline and could impair the ability to raise capital through the sale of equity securities.

In the future, we may need additional funding, which could be raised through issuances of equity securities. We also have the right to issue shares upon such terms and conditions and at such prices as our Board of Directors may establish. Such offerings would dilute the ownership interest of existing shareholders and could cause a dilution of the net tangible book value of such shares.

At June 30, 2011, there were options outstanding for the purchase of 220,341 shares of common stock of the Company, all of which options were vested and exercisable. Holders of our common stock could suffer dilution if outstanding common stock options are exercised in excess of the number of shares repurchased by Sparton.

Market volatility may have an adverse impact on our pension costs associated with our defined benefit plan.

The recent volatility and uncertainty in the global financial market has resulted in the Company making significant cash contributions to our pension plan in recent years. For a further discussion of the Sparton Corporation Pension Plan, see Pension Obligations in the Critical Accounting Policies and Estimates section in Part II, Item 7 of this report and Note 9, Employee Retirement Benefits Plans, of the Notes to Consolidated Financial Statements in this Annual Report on Form 10-K. Notwithstanding the actions recently taken to reduce the costs of the plan, if the global financial market continues to be unstable or declines further, we may be required to make further contributions to the pension plan in future periods. These contributions, if made, would negatively impact our liquidity, cash flows, and financial position.

The tightened credit market, both nationally and 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.

We anticipate that our revolving line-of-credit facility will be a component of our available working capital during fiscal 2012. For a summary of our banking arrangements, see Note 7, Debt, of the Notes to Consolidated Financial Statements in this Annual Report on Form 10-K. If the turmoil in the credit market continues or intensifies, we may have difficulty maintaining a line-of-credit on similar or more favorable terms, which could adversely affect our liquidity, cash flows, and results of operations. There are no assurances we will always have access to a line-of-credit or that the line-of-credit would always be sufficient for all purposes. Additionally, if vendors of electronic components restricted or reduced credit extended to us for 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.

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.

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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. In addition, should the vested and exercisable stock options be exercised and the resulting common shares simultaneously sold (to fund the cost of the exercise and the related taxes associated with the stock sale), our stock price could be significantly adversely impacted.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The following is a listing of Sparton's principal properties as of June 30, 2011. Except as described below, Sparton owns all of these properties. These facilities provide a total of approximately 513,000 square feet of manufacturing and administrative space. There are manufacturing and office facilities at each location. Reflective of the current economic environment, Sparton's manufacturing facilities 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
Medical Segment:		
Strongsville, Ohio	60,000	Owned
Frederick, Colorado	65,000	Leased
Complex Systems Segment:		
Brooksville, Florida	136,000	Owned
Thuan An District, Binh Duong Province, Vietnam (Outside of Ho Chi Minh City)	55,000	Owned
DSS Segment:		
De Leon Springs, Florida	197,000	Owned
Corporate Office:		
Schaumburg, Illinois	8,000	Leased
The Company's Frederick, Colorado facility has approximately 6 years remaining on its initial lease term. The lease provides the Company the option to extend the term up to an additional five years.		

While the Company owns the building and other assets in Vietnam, the land is occupied under a long-term lease covering approximately 40 years. 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.

The Company is additionally leasing approximately 30,000 square feet of manufacturing and administrative space in connection with its acquisition of Byers Peak, Incorporated (Byers Peak) in March 2011. This lease has an initial term of six months with options to extend the lease up to an additional eighteen months and is needed to facilitate the transition of the Byers Peak business to the Frederick, Colorado facility. The Company expects to have this transition completed by the end of the Company's fiscal 2012 second quarter and be able to terminate the lease at that time.

As of June 30, 2011, substantially all of our assets, including real estate, are pledged as collateral to secure any potential borrowings under our revolving line of credit (see Note 7, Debt, of the Notes to Consolidated Financial Statements in this Annual Report on Form 10-K).

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ITEM 3. LEGAL PROCEEDINGS

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 2010 (see Note 2, Summary of Significant Accounting Policies, Net, of the Notes to Consolidated Financial Statements in this Annual Report on Form 10-K), it remains responsible for the remediation obligations related to its past operation of this facility. At June 30, 2011, Sparton had accrued approximately \$4.2 million as its estimate of the remaining minimum future undiscounted financial liability with respect to this matter, of which approximately \$0.4 million is classified as a current liability and included on the balance sheet in other accrued expenses. 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 treat containment systems, as well as continued onsite and offsite monitoring. It also includes periodic reporting requirements.

On October 15, 2009, approximately \$3.1 million of cash was utilized to establish a trust, the Sparton Corporation Financial Assurance Trust, for remediation activity. The funds were held in Sparton's name and were invested with Sparton receiving the benefit of the investment return. As of June 30, 2010, approximately \$3.2 million was held in this trust and reflected as restricted cash on the consolidated balance sheet. These funds were available for use against the expected remediation liability. The trust was established to meet the United States Environmental Protection Agency's (EPA) financial assurance requirements for the fiscal year ended June 30, 2010, with trust funds to be drawn upon only should Sparton not continue to meet its financial remediation requirements. The trust was to remain in place until the Company could again satisfy the EPA financial assurance requirements through compliance with financial ratios, as was previously attained on an annual basis until fiscal year 2009. Based on the Company's financial results for fiscal year 2010, the Company was again in compliance with the financial ratios and dissolved the trust during October 2010.

In fiscal 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, if any, of which approximately \$3.6 million has been expended as of June 30, 2011 toward the \$8.4 million threshold. 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 June 30, 2011, 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 and net of DOE reimbursement, could be up to \$1.9 million before income taxes over the next approximately twenty years.

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.

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Customer Relationships

The Company had an action before the U.S. Court of Federal Claims to recover damages arising out of an alleged infringement by the U.S. Navy of certain patents held by Sparton and used in the production of sonobuoys. Pursuant to an agreement between the Company and counsel conducting the litigation, a significant portion of the claim will be retained by the Company's counsel in contingent fees if the litigation is successfully concluded. A trial of the matter was conducted by the court in April 2008, with a decision against Sparton filed in August 2009 and published in September 2009. In October 2009, an appeal of this unfavorable decision was filed with the Federal Circuit Court of Appeals. Based on this decision, management believes that the Company's ability to obtain any recovery with respect to the claim is remote.

Litigation

On August 9, 2009, Sparton and certain subsidiaries were named as defendants in a wrongful death suit, alleging that a defective transmission shifter assembly in a 1996 Chrysler automobile caused a July 2007 death. The suit also named Chrysler LLC, Dura Automotive Systems, Inc., and Chandler Motors Company as defendants. The suit was filed in Pontotoc County Circuit Court in Mississippi. Sparton has not manufactured automotive shifter assemblies for Chrysler since December 1996, when it sold its KPI Group subsidiary to Dura Automotive Systems, Inc. The plaintiff sought damages for economic loss, pain and suffering, and loss of companionship, as well as punitive damages. After Sparton filed a motion for summary judgment, and after plaintiff took the deposition of a Chrysler representative who testified that Sparton had nothing to do with the design of any shifters KPI may have manufactured, plaintiff consented to the entry of judgment for Sparton on all claims. An order dismissing all claims against Sparton with prejudice was submitted to the Court and was entered on August 10, 2011, thereby closing this litigation against Sparton.

Other

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

ITEM 4. [REMOVED AND RESERVED]

Table of Contents**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
Year Ended June 30, 2011				
High	\$ 6.09	\$ 8.37	\$ 9.00	\$ 10.22
Low	\$ 4.78	\$ 6.08	\$ 7.63	\$ 7.68
Year Ended June 30, 2010				
High	\$ 4.40	\$ 6.47	\$ 6.74	\$ 6.00
Low	\$ 2.60	\$ 4.00	\$ 5.60	\$ 4.95

Holders. As of August 31, 2011, there were 448 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. We have not paid dividends on our common stock during either fiscal 2011 or fiscal 2010. Other than in fiscal 2006, the Company has not declared or paid cash dividends on our common stock for many years. In addition, our credit facility prohibits us from declaring or paying any dividends on our capital stock without obtaining prior approval from our credit facility provider.

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 Related Stockholder Matters.

Unregistered Sales of Equity Securities and Use of Proceeds. None.

Performance Graph. The performance graph below compares the cumulative total shareholder return on our common stock for the past five 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., Analogic Corporation, API Technologies Corp., Astronics Corporation, Benchmark Electronics, Inc., CTS Corporation, Ducommun Incorporated, HEI, Inc., IEC Electronics Corp., ION Geophysical Corporation, Plexus Corp., Raven Industries, Inc., SigmaTron International, Inc., SMTc Corporation, Sypris Solutions, Inc. and Ultra Electronics Holdings. Previously, the Company used the S&P 500 Composite Index as its broad market index comparative and the Electronics Component of the NASDAQ as its more specific industry index comparative. The Company changed its comparative broad market index because it believes that the Russell 2000 Index is a more meaningful proxy for the overall marketplace than the S&P 500 Composite Index. 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 Company also believes that this peer group is a more meaningful comparative than the industry index used in the previous year.

The graph assumes that \$100.00 was invested in our common stock and in each index on June 30, 2006. 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.

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Comparison of Cumulative Total Return

Among Sparton Corporation,

Russell 2000 Index, Peer Group Index,

S&P 500 Index and NASDAQ Electronics Component Index

	06/30/06	06/30/07	06/30/08	6/30/09	06/30/10	6/30/11
Sparton Corporation	100.00	88.94	51.88	35.82	62.14	126.25
Russell 2000 Index	100.00	116.43	98.78	73.17	88.89	122.15
Peer Group	100.00	106.78	101.55	69.97	86.36	118.67
S&P 500 Index	100.00	120.59	104.77	77.30	88.46	115.61
NASDAQ Electronics Component Index	100.00	116.80	106.44	77.55	93.33	116.37

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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. (\$ in thousands, except share data)

	2011 (a)	2010	2009	2008	2007
Operating Results:					
Net sales	\$ 203,352	\$ 173,977	\$ 221,871	\$ 229,806	\$ 200,086
Cost of goods sold	170,184	147,394	205,985	218,216	194,145
Gross profit	33,168	26,583	15,886	11,590	5,941
Selling and administrative expenses	20,842	18,205	18,851	19,106	17,948
Internal research and development expenses	1,110				
Restructuring/impairment charges	75	4,076	7,008	181	
Gain on acquisition	(2,550)				
Gain on sale of property, plant and equipment	(139)	(3,119)	(10)	(977)	(89)
Impairment of intangible asset	3,663				
Impairment of goodwill	13,153				
Other operating expenses	843	1,699	1,294	483	278
Operating income (loss)	(3,829)	5,722	(11,257)	(7,203)	(12,196)
Other expense, net	(114)	(198)	(2,709)	(734)	(180)
Income (loss) before income taxes	(3,943)	5,524	(13,966)	(7,937)	(12,376)
Provision for (benefit from) income taxes	(11,404)	(1,916)	1,787	5,201	(4,607)
Net income (loss)	\$ 7,461	\$ 7,440	\$ (15,753)	\$ (13,138)	\$ (7,769)
Weighted-Average Common Shares Outstanding:					
Common stock basic	10,217,494	9,972,409	9,811,635	9,811,507	9,817,972
Common stock diluted	10,255,368	9,972,409	9,811,635	9,811,507	9,817,972
Per Share of Common Stock Income (Loss):					
Common stock basic	\$ 0.73	\$ 0.75	\$ (1.61)	\$ (1.34)	\$ (0.79)
Common stock diluted	\$ 0.73	\$ 0.75	\$ (1.61)	\$ (1.34)	\$ (0.79)
Shareholders equity Per Share	\$ 7.33	\$ 6.30	\$ 5.52	\$ 7.22	\$ 8.81
Cash Dividends Per Share	\$	\$	\$	\$	\$
Other Financial Data:					
Total assets	\$ 122,609	\$ 119,861	\$ 155,002	\$ 142,726	\$ 137,008
Working capital	\$ 51,323	\$ 37,730	\$ 32,898	\$ 41,581	\$ 52,989
Working capital ratio	2.22:1	1.82:1	1.38:1	1.74:1	2.62:1
Debt	\$ 1,796	\$ 1,917	\$ 22,959	\$ 25,588	\$ 17,011
Shareholders equity	\$ 75,047	\$ 64,269	\$ 54,895	\$ 70,860	\$ 86,480

- (a) The operating results of the Medical businesses acquired from Delphi Medical Systems, LLC and Byers Peak, Incorporated have been included in the Company's consolidated financial results since the date of acquisitions on August 6, 2010 and March 4, 2011, respectively.

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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 Annual Report on 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 is a provider of complex and sophisticated electromechanical devices with capabilities that include concept development, industrial design, design and manufacturing engineering, production, distribution, and field service. In fiscal 2009, management initiated a full evaluation of our operations, including operating structure. This evaluation resulted in changes in fiscal 2010 to our analysis of how the components of Sparton's business contribute to consolidated operating results and the overall level of desegregation of reported financial data, including the nature and number of operating segments, disclosure of segment information and the consistency of such information with internal management reports. The Company operates through three reportable business segments; Medical Device (Medical), Complex Systems (CS), formerly called Electronic Manufacturing Services (EMS), and Defense & Security Systems (DSS), which serves Defense, Security Systems, Navigation and Exploration markets. The electromechanical device end markets that Sparton, as a whole, serves are in Medical, Military & Aerospace and Industrial & Instrumentation. Effective for fiscal 2010, we report our operating results under these three reportable business segments. Prior to fiscal 2010, all of our operating units were aggregated into one line of business, EMS. The prior period presented herein reflects this change to segment reporting.

All of the Company's facilities are registered to ISO standards, including 9001 or 13485, with most having additional certifications. The Company's products and services include products for Original Equipment Manufacturers (OEM) and Emerging Technology (ET) customers that are microprocessor-based systems that 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 other free-world countries. Many of the physical and technical attributes in the production of sonobuoys are similar to those required in the production of the Company's other electrical and electromechanical products and assemblies.

The Company uses an internal management reporting system, which provides important financial data to evaluate performance and allocate the Company's resources on a market segment basis. Net sales for segments 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 (loss). A segment's operating income (loss) includes its gross profit on sales less its selling and administrative expenses, but excludes some corporate and other unallocated items such as, interest expense, interest income, other income (expense) and income tax expense (benefit). Corporate and other unallocated costs primarily represent corporate administrative expenses related to those administrative, financial and human resource activities which are not allocated to operations and 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. The accounting policies for each of the segments are the same as for the Company taken as a whole.

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Medical Segment

Medical operations are comprised of contract development, design, production and distribution of complex and sophisticated medical related electromechanical devices for customers with specialized needs, specifically in the design and manufacturing process, to assure product reliability and safety in accordance with Food and Drug Administration (FDA) guidelines and approvals. This group specializes in systems and procedures targeted to the requirements of medical OEM and ET customers primarily in the In Vitro Diagnostic and Therapeutic Device segments of the Medical Device market space.

Complex Systems Segment

Complex Systems operations provides multiple industries with complex electronics systems offering end-to-end development and manufacturing solutions focused on high expectations of quality and delivery performance through a global footprint. As a vertically integrated business unit, this segment assists in providing its customers with seamless development of circuit card assemblies for integration into electro-mechanical solutions. By focusing on maximizing efficiency and cost containment at the various steps in the design, engineering, and manufacturing process, Complex Systems acts as an intelligent source and ideal partner for development firms and OEMs. This business unit is a supplier for low to medium volume/high complexity commercial and military aerospace applications, medical devices, telecommunications, energy, and industrial controls. Its current portfolio of product line applications include: flight controls, cock pit displays, fuel system controls, secure communications, early warning detection, diagnostics systems, security systems, detection systems, lighting, satellite communications, audio, nuclear detection, inventory control, and defense.

DSS Segment

DSS operations are comprised of design, development and production of products for a number of technologically significant programs aimed at fulfilling defense and commercial needs. Specializing in the development and production of complex electromechanical equipment, Sparton designs and manufactures sonobuoys, ASW devices used by the U.S. Navy and foreign governments. This business unit also performs an engineering development function for the United States military and prime defense contractors on advanced technologies targeted as future defense products as well as replacement of current systems. The sonobuoy product line is built to the customer's demanding specifications. These products are restricted by International Tariff and Arms Regulations (ITAR), which limits opportunities for competition. Additionally, this business unit internally develops and markets commercial products based on its navigation and underwater acoustic knowledge and the intrinsic skill sets of its technical staff.

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.

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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. The February 2011 earthquake, tsunami and resultant nuclear disaster in Japan had the potential to cause availability and pricing issues relating to certain materials used within the Company's products. The Company currently does not believe that the effects of these events will have a material impact on its business. Additional trends, risks and uncertainties that have arisen recently include dependence on key personnel, the impact on the Company's pension plan and risks surrounding the Company's recent acquisitions as well as uncertainties surrounding the global economy and U.S. healthcare legislation and the effects of those uncertainties on OEM behavior, including heightened inventory management, product development cycles and outsourcing strategies. Finally, the Sarbanes-Oxley Act of 2002, 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. 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 1(a), Risk