

SPARTON CORP
Form 10-Q
February 06, 2018
Table of Contents

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

FORM 10-Q

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

For the quarterly period ended December 31, 2017

Or

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

For the transition period from _____ to _____
Commission File Number 1-1000

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

Ohio 38-1054690
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)
425 N. Martingale Road, Suite 1000, 60173-2213
Schaumburg, Illinois
(Address of principal executive offices) (Zip code)
(847) 762-5800
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

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

As of February 2, 2018, there were 9,834,723 shares of common stock, \$1.25 par value per share, outstanding.

Table of Contents

TABLE OF CONTENTS

PART I	<u>FINANCIAL INFORMATION</u>	<u>4</u>
ITEM 1.	<u>FINANCIAL STATEMENTS</u>	<u>4</u>
	<u>CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2017 (UNAUDITED) AND JULY 2, 2017</u>	<u>4</u>
	<u>CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE SECOND QUARTER AND FIRST TWO QUARTERS OF FISCAL YEARS 2018 AND 2017 (UNAUDITED)</u>	<u>5</u>
	<u>CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) FOR THE SECOND QUARTER AND FIRST TWO QUARTERS OF FISCAL YEARS 2018 AND 2017 (UNAUDITED)</u>	<u>6</u>
	<u>CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE FIRST TWO QUARTERS OF FISCAL YEARS 2018 AND 2017 (UNAUDITED)</u>	<u>7</u>
	<u>NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS</u>	<u>8</u>
ITEM 2.	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	<u>16</u>
ITEM 3.	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>22</u>
ITEM 4.	<u>CONTROLS AND PROCEDURES</u>	<u>23</u>
PART II	<u>OTHER INFORMATION</u>	<u>24</u>
ITEM 1.	<u>LEGAL PROCEEDINGS</u>	<u>24</u>
ITEM 1A.	<u>RISK FACTORS</u>	<u>24</u>
ITEM 6.	<u>EXHIBITS</u>	<u>25</u>
	<u>SIGNATURES</u>	<u>26</u>
	<u>CERTIFICATIONS</u>	

Table of Contents

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains statements about future events and expectations that are “forward-looking statements.” We may also make forward-looking statements in our other reports filed with the SEC, in materials delivered to our shareholders and in press releases. These statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. Certain of these risks, uncertainties and other factors are described in Item 1A of Part II, “Risk Factors” of our most recent Annual Report on Form 10-K. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “expects,” “intends,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “potential,” or the negative use of the 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.

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

SPARTON CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share data)

	December 31, 2017	July 2, 2017 (Unaudited)
Assets		
Current Assets:		
Cash and cash equivalents	\$ 1,104	\$988
Accounts receivable, net of allowance for doubtful accounts of \$374 and \$429, respectively	54,466	45,347
Inventories and cost of contracts in progress, net	62,767	60,248
Prepaid expenses and other current assets	4,177	3,851
Total current assets	122,514	110,434
Property, plant and equipment, net	34,484	34,455
Goodwill	12,663	12,663
Other intangible assets, net	24,629	28,445
Deferred income taxes	14,771	24,893
Other non-current assets	5,177	6,253
Total assets	\$ 214,238	\$217,143
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	\$ 38,210	\$27,672
Accrued salaries	9,293	11,453
Accrued health benefits	1,124	1,150
Performance based payments on customer contracts	—	1,749
Current portion of capital lease obligations	269	269
Other accrued expenses	10,121	11,959
Total current liabilities	59,017	54,252
Credit facility	78,900	74,500
Capital lease obligations, less current portion	32	167
Environmental remediation	5,208	5,468
Pension liability	820	888
Total liabilities	143,977	135,275
Commitments and contingencies		
Shareholders' Equity:		
Preferred stock, no par value; 200,000 shares authorized, none issued	—	—
Common stock, \$1.25 par value; 15,000,000 shares authorized, 9,834,723 and 9,860,635 shares issued and outstanding, respectively	12,293	12,326
Capital in excess of par value	18,106	17,851
Retained earnings	41,081	52,967
Accumulated other comprehensive loss	(1,219) (1,276)
Total shareholders' equity	70,261	81,868
Total liabilities and shareholders' equity	\$ 214,238	\$217,143

See Notes to unaudited consolidated financial statements.

Table of Contents

SPARTON CORPORATION AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF OPERATIONS
 (UNAUDITED)

(Dollars in thousands, except per share data)

	For the Second Quarter of Fiscal Years		For the First Two Quarters of Fiscal Years	
	2018	2017	2018	2017
Net sales	\$97,819	\$97,399	\$180,582	\$197,766
Cost of goods sold	77,390	81,501	145,565	164,583
Gross profit	20,429	15,898	35,017	33,183
Operating expense:				
Selling and administrative expenses	14,074	12,953	29,279	26,336
Internal research and development expenses	669	533	1,241	884
Amortization of intangible assets	1,893	2,191	3,816	4,410
Total operating expense	16,636	15,677	34,336	31,630
Operating income	3,793	221	681	1,553
Other income (expense)				
Interest expense, net	(1,507)	(1,067)	(2,773)	(2,252)
Other, net	13	(11)	3	9
Total other expense, net	(1,494			