

SPARTON CORP
Form 10-Q
February 03, 2015
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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, 2014

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
(State or other jurisdiction of
incorporation or organization)

38-1054690
(I.R.S. Employer
Identification No.)

425 N. Martingale Road, Suite 2050,
Schaumburg, Illinois
(Address of principal executive offices)
(847) 762-5800

60173-2213
(Zip code)

(Registrant's telephone number, including zip 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 ☐

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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 the 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 ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☐

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 January 23, 2015, there were 9,907,000 shares of common stock, \$1.25 par value per share, outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

SPARTON CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(Dollars in thousands, except per share amounts)

	December 31, 2014	June 30, 2014 (a)
Assets		
Current Assets:		
Cash and cash equivalents	\$3,236	\$8,028
Accounts receivable, net of allowance for doubtful accounts of \$90 and \$126, respectively	40,061	48,697
Inventories and cost of contracts in progress, net	56,333	53,372
Deferred income taxes	3,816	3,813
Prepaid expenses and other current assets	5,519	2,654
Total current assets	108,965	116,564
Property, plant and equipment, net	28,831	28,523
Goodwill	37,905	28,189
Other intangible assets, net	25,977	20,041
Deferred income taxes — non-current	1,150	1,192
Other non-current assets	6,278	4,471
Total assets	\$209,106	\$198,980
Liabilities and Shareholders' Equity		
Current Liabilities:		
Current portion of long-term debt	\$—	\$900
Accounts payable	16,127	16,543
Accrued salaries and wages	6,903	7,854
Accrued health benefits	1,460	1,538
Performance based payments on customer contracts	1,408	3,196
Other accrued expenses	9,696	11,090
Total current liabilities	35,594	41,121
Long-term debt — non-current portion	58,500	40,100
Environmental remediation — non-current portion	7,419	7,644
Total liabilities	101,513	88,865
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, 9,904,175 and 10,129,031 shares issued and outstanding, respectively	12,380	12,661
Capital in excess of par value	15,512	19,478
Retained earnings	80,702	78,944
Accumulated other comprehensive loss	(1,001)	(968)
Total shareholders' equity	107,593	110,115
Total liabilities and shareholders' equity	\$209,106	\$198,980

(a) Derived from the Company's audited financial statements as of June 30, 2014.

See Notes to unaudited condensed consolidated financial statements.

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SPARTON CORPORATION AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME
 (UNAUDITED)

(Dollars in thousands, except per share amounts)

	For the Three Months Ended		For the Six Months Ended	
	December 31,	December 31,	December 31,	December 31,
	2014	2013	2014	2013
Net sales	\$85,642	\$84,717	\$162,667	\$159,018
Cost of goods sold	70,471	69,585	134,682	131,589
Gross profit	15,171	15,132	27,985	27,429
Operating Expense:				
Selling and administrative expenses	10,806	8,687	21,405	16,332
Internal research and development expenses	197	402	297	791
Amortization of intangible assets	1,450	636	2,751	1,234
Restructuring charges	—	—	—	188
Other operating income, net	(14	) (5	) (29	) (8
Total operating expense, net	12,439	9,720	24,424	18,537
Operating income	2,732	5,412	3,561	8,892
Other income (expense):				
Interest expense	(357	) (202	) (1,103	) (360
Interest income	—	—	2	2
Other, net	(46	) 10	100	79
Total other expense, net	(403	) (192	) (1,001	) (279
Income before provision for income taxes	2,329	5,220	2,560	8,613
Provision for income taxes	767	1,736	802	2,843
Net income	\$1,562	\$3,484	\$1,758	\$5,770
Income per share of common stock:				
Basic	\$0.16	\$0.34	\$0.17	\$0.57
Diluted	\$0.16	\$0.34	\$0.17	\$0.57
Weighted average shares of common stock outstanding:				
Basic	9,894,526	10,115,255	9,927,672	10,093,973
Diluted	9,910,735	10,147,518	9,946,833	10,123,542

See Notes to unaudited condensed consolidated financial statements.

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

	For the Three Months Ended		For the Six Months Ended	
	December 31,	December 31,	December 31,	December 31,
	2014	2013	2014	2013
Net income	\$1,562	\$3,484	\$1,758	\$5,770
Other comprehensive income (loss), net of tax:				
Amortization of unrecognized net actuarial loss, net of tax benefit of \$3 and \$7 for the three months ended December 31, 2014 and 2013, respectively,	5	11	25	41
and net of tax benefit of \$15 and \$23 for the six months ended December 31, 2014 and 2013, respectively				
Unrecognized loss on marketable equity securities, net of tax benefit of \$34 and \$0 for the three months ended December 31, 2014 and 2013, respectively,	(58	) —	(58) —
and net of tax benefit of \$34 and \$0 for the six months ended December 31, 2014 and 2013, respectively				
Other comprehensive (loss) income, net of tax	(53) 11	(33) 41
Comprehensive income	\$1,509	\$3,495	\$1,725	\$5,811

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

	For the Six Months Ended	
	December 31, 2014	December 31, 2013
Cash Flows from Operating Activities:		
Net income	\$ 1,758	\$ 5,770
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	2,222	2,313
Amortization of intangible assets	2,824	1,327
Deferred income tax expense	58	239
Stock-based compensation expense	1,218	917
Gross profit effect of capitalized profit in inventory from acquisitions	178	108
Excess tax benefit from stock-based compensation	(974)	(496)
Other	434	44
Changes in operating assets and liabilities, net of business acquisitions:		
Accounts receivable	12,845	8,097
Inventories and cost of contracts in progress	1,467	2,441
Prepaid expenses and other assets	(2,085)	(1,702)
Performance based payments on customer contracts	(1,788)	(1,791)
Accounts payable and accrued expenses	(9,368)	(4,791)
Net cash provided by operating activities	8,789	12,476
Cash Flows from Investing Activities:		
Acquisition of businesses, net of cash acquired and post-closing adjustments	(21,745)	(30,195)
Purchase of securities available for sale	(986)	—
Purchases of property, plant and equipment	(1,828)	(1,412)
Proceeds from sale of property, plant and equipment	—	68
Net cash used in investing activities	(24,559)	(31,539)
Cash Flows from Financing Activities:		
Borrowings of long-term debt	65,724	41,000
Repayment of long-term debt	(48,224)	(26,071)
Payment of debt financing costs	(1,057)	—
Repurchase of stock	(6,451)	(1,559)
Proceeds from the exercise of stock options	12	121
Excess tax benefit from stock-based compensation	974	496
Net cash provided by financing activities	10,978	13,987
Net decrease in cash and cash equivalents	(4,792)	(5,076)
Cash and cash equivalents at beginning of period	8,028	6,085
Cash and cash equivalents at end of period	\$ 3,236	\$ 1,009
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 571	\$ 320
Cash paid for income taxes	\$ 2,395	\$ 2,963
Supplemental disclosure of non-cash investing activities:		
	\$ 1,976	\$ 393

Accounts payable recognized in relation to acquisition purchase consideration
adjustments and holdbacks
See Notes to unaudited condensed consolidated financial statements.

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

	Six Months Ended December 31, 2014				Accumulated Other Comprehensive Total Loss	
	Common Stock		Capital In Excess of Par Value	Retained Earnings		
	Shares	Amount				
Balance at June 30, 2014	10,129,031	\$ 12,661	\$ 19,478	\$ 78,944	\$ (968)	\$ 110,115
Issuance of stock	24,765	31	(31)	—	—	—
Forfeiture of restricted stock	(15,313)	(19)	19	—	—	—
Repurchase of stock	(235,708)	(295)	(6,156)	—	—	(6,451)
Exercise of stock options	1,400	2	10	—	—	12
Stock-based compensation	—	—	1,218	—	—	1,218
Excess tax benefit from stock-based compensation	—	—	974	—	—	974
Comprehensive income (loss), net of tax	—	—	—	1,758	(33)	1,725
Balance at December 31, 2014	9,904,175	\$ 12,380	\$ 15,512	\$ 80,702	\$ (1,001)	\$ 107,593
	Six Months Ended December 31, 2013				Accumulated Other Comprehensive Total Loss	
	Common Stock		Capital In Excess of Par Value	Retained Earnings		
	Shares	Amount				
Balance at June 30, 2013	10,095,716	\$ 12,619	\$ 18,751	\$ 65,957	\$ (1,255)	\$ 96,072
Issuance of stock	94,811	119	(119)	—	—	—
Forfeiture of restricted stock	(3,344)	(4)	4	—	—	—
Repurchase of stock	(76,880)	(96)	(1,463)	—	—	(1,559)
Exercise of stock options	14,119	18	103	—	—	121
Stock-based compensation	—	—	917	—	—	917
Excess tax benefit from stock-based compensation	—	—	496	—	—	496
Comprehensive income, net of tax	—	—	—	5,770	41	5,811
Balance at December 31, 2013	10,124,422	\$ 12,656	\$ 18,689	\$ 71,727	\$ (1,214)	\$ 101,858

See Notes to unaudited condensed consolidated financial statements.

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SPARTON CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) Business and Basis of Presentation

Sparton Corporation and subsidiaries (the “Company” or “Sparton”) has been in continuous existence since 1900. It was last reorganized in 1919 as an Ohio corporation. The Company is a provider of design, development and manufacturing services for complex electromechanical devices, as well as sophisticated engineered products complementary to the same electromechanical value stream. The Company serves the Medical & Biotechnology, Military & Aerospace and Industrial & Commercial markets through two reportable business segments; Manufacturing & Design Services (“MDS”) and Engineered Components & Products (“ECP”). Financial information by segment is presented in Note 14. All of the Company's facilities are certified to one or more of the ISO/AS standards, including ISO 9001, AS9100 and ISO 13485, with most having additional certifications based on the needs of the customers they serve. The Company's products and services include offerings for Original Equipment Manufacturers (“OEM”) and Emerging Technology (“ET”) customers that utilize microprocessor-based systems which include transducers, printed circuit boards and assemblies, sensors and electromechanical components, as well as development and design engineering services relating to these product sales. Sparton also develops and manufactures sonobuoys, anti-submarine warfare (“ASW”) devices used by the United States Navy as well as foreign countries friendly to the U.S. and manufactures ruggedized flat panel display systems for military panel PC workstations, air traffic control and industrial applications. Many of the physical and technical attributes in the production of these proprietary products are similar to those required in the production of the Company's other electrical and electromechanical products and assemblies.

The unaudited condensed financial statements and related footnotes have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The financial information presented herein should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2014, which includes information and disclosures not presented herein. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain reclassifications of prior period amounts have been made to conform to the current year presentation. Subsequent events have been evaluated through the date these financial statements were issued. In the opinion of management, the unaudited condensed consolidated financial statements contain all of the adjustments, consisting of normal recurring adjustments, necessary to present fairly, in summarized form, the consolidated financial position, results of operations and cash flows of the Company. The results of operations for the three months and six months ended December 31, 2014 are not necessarily indicative of the results that may be expected for the full fiscal year 2015.

(2) Acquisitions

Fiscal Year 2015

Argotec, Inc. — On December 8, 2014, the Company completed the acquisition of certain assets of Argotec, Inc. (“Argotec”), located in Longwood, FL in a \$0.4 million all cash transaction. Historical revenues of this business are not material. The acquired business, which is part of the Company's ECP segment, is engaged in developing and manufacturing sonar transducer products and components for the U.S. Navy and also provides aftermarket servicing. These products have been consolidated into the Company's DeLeon Springs, FL location. The Company is in the process of valuing certain tangible and intangible assets and expects to complete the preliminary purchase price allocation during fiscal 2015.

The Argotec acquisition has preliminarily resulted in approximately \$0.3 million of goodwill, which is expected to be deductible for tax purposes and has been assigned entirely to the Company's ECP segment. The Company believes goodwill primarily relates to strategic fit.

The Company incurred legal, professional and other costs related to this acquisition aggregating less than \$0.1 million for the three and six months ended December 31, 2014. These costs were recognized as selling and administrative expenses and reflected as non-segment corporate and other unallocated costs.

Industrial Electronic Devices, Inc. — On December 3, 2014, the Company completed the acquisition of certain assets of Industrial Electronic Devices, Inc. ("IED"), a \$3.0 million revenue business, located in Flemington, NJ in a \$3.3 million all cash transaction, of which approximately \$0.3 million remains payable in relation to a New Jersey state bulk sale holdback requirement. The transaction includes a \$0.5 million escrowed holdback which is available to fund any potential seller indemnification obligations in relation to the acquisition agreement. The acquired business, which is part of the Company's ECP segment, designs and manufactures a full line of ruggedized displays for the Industrial and Marine markets. IED's catalog spans over 600 standard, semi-custom and custom configurations, incorporating some of the most advanced flat panel displays

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and touch screen technology available. The Company is in the process of valuing certain tangible and intangible assets and expects to complete the preliminary purchase price allocation during fiscal 2015.

The IED acquisition has preliminarily resulted in approximately \$2.9 million of goodwill, which is expected to be deductible for tax purposes and has been assigned entirely to the Company's ECP segment. The Company believes goodwill primarily relates to strategic fit.

The Company incurred legal, professional and other costs related to this acquisition aggregating approximately \$0.2 million for the three and six months ended December 31, 2014. These costs were recognized as selling and administrative expenses and reflected as non-segment corporate and other unallocated costs.

Electronic Manufacturing Technology, LLC — On July 9, 2014, the Company completed the acquisition of Electronic Manufacturing Technology, LLC ("eMT"), located in Irvine, CA. The purchase price of \$21.7 million, which included \$1.5 million of acquired cash, is subject to certain post-closing adjustments and was financed through the use of borrowings under the Company's Credit Facility. The transaction includes a \$2.4 million escrowed holdback which is available to fund any potential post-closing working capital adjustment and potential seller indemnification obligations in relation to the acquisition agreement.

The acquired business, which is part of the Company's MDS segment and which is expected to add \$25 million (unaudited) in annualized revenue, is engaged in the contract services business of manufacturing electromechanical controls and electronic assemblies. Their customer profile includes international Fortune 1000 manufacturers of highly reliable industrial excimer laser products, laser eye surgery sub-assemblies, target simulators for space and aviation systems, power modules for computerized tomography products, test systems for commercial aerospace OEMs and toll road antennas and control boxes.

The Company is in the process of reviewing the preliminary valuations of certain working capital items. The following table represents the preliminary allocation of the total consideration to assets acquired and liabilities assumed in the acquisition of eMT based on Sparton's preliminary estimate of their respective fair values at the acquisition date (in thousands):

Total purchase consideration:

Cash	\$20,000
Estimated additional consideration payable for post closing working capital adjustment	1,600
Estimated additional consideration payable in relation to post closing income tax adjustment	105
Total purchase consideration	\$21,705

Assets acquired and liabilities assumed:

Cash	\$1,505
Accounts receivable, net	4,444
Inventory	4,090
Other current assets	27
Property, plant and equipment	584
Customer relationships	5,950
Non-compete agreements	2,730
Tradenames	80
Goodwill	6,594
Other long term assets	30
Accounts payable	(3,636)
Other current liabilities	(693)
Total assets acquired and liabilities assumed	\$21,705

The eMT acquisition has resulted in approximately \$6.6 million of goodwill, which is expected to be deductible for tax purposes and has been assigned entirely to the Company's MDS segment. The Company believes goodwill primarily relates to strategic fit, resulting synergies and the acquired workforce that this business brings to existing operations. The fair values of acquired identifiable intangible assets have been determined to be Level 3 under the fair value hierarchy and have been estimated based on projected future cash flows and customer attrition rates, discounted

using an estimated weighted average cost of capital. The customer relationships are being amortized using an accelerated methodology over ten years. The non-

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compete agreements are being amortized using a straight-line methodology over five years. Trade names and trademarks are being amortized using a straight-line methodology over one year.

Included in the Company's Condensed Consolidated Statements of Income for the three and six months ended December 31, 2014 are net sales of approximately \$7.0 million and \$13.1 million, respectively, and income before provision for income taxes of approximately \$1.1 million and \$1.7 million, since the July 9, 2014 acquisition of eMT. The Company incurred legal, professional and other costs related to this acquisition aggregating less than \$0.1 million and \$0.6 million for the three and six months ended December 31, 2014, respectively. These costs were recognized as selling and administrative expenses and reflected as non-segment corporate and other unallocated costs.

Fiscal Year 2014

Aubrey Group, Inc. — On March 17, 2014, the Company completed the acquisition of Aubrey Group, Inc. ("Aubrey"), located in Irvine, CA, in a \$5.0 million all-cash transaction after settlement of an approximate \$0.2 million post-closing working capital adjustment during the first quarter of fiscal 2015. Additional consideration of approximately \$0.6 million was paid at closing for cash of the business in excess of net customer deposits held by Aubrey. The transaction was financed through the use of borrowings under the Company's Credit Facility. The transaction includes an approximate \$0.5 million escrowed holdback which funded the post-closing working capital adjustment and is available to fund any potential seller indemnification obligations in relation to the acquisition agreement.

The acquired business, a design and manufacturing company, which is part of the MDS segment, develops new products for OEMs in the Medical and Biotechnological markets. Inventors, entrepreneurs and industry leading OEMs utilize Aubrey's design and engineering teams to develop innovative solutions in a timely manner, delivering its clients' new products into the marketplace faster and more cost effectively.

Beckwood Services, Inc. — On December 11, 2013, the Company completed the acquisition of Beckwood Services, Inc. ("Beckwood"), located in Plaistow, N.H., in a \$15.3 million all-cash transaction financed through the use of cash on hand and borrowings under the Company's Credit Facility. The transaction includes an approximate \$1.5 million escrowed holdback which is available to fund potential seller indemnification obligations in relation to the acquisition agreement.

The acquired business, which is part of the Company's MDS segment, develops electronic or electro-mechanical controls and electronic assemblies. Their customer profile includes international Fortune 1000 manufacturers of industrial control systems, analytical instruments, measuring and detecting equipment and military, defense and Homeland Security equipment.

Aydin Displays, Inc. — On August 30, 2013, the Company completed the acquisition of certain assets and liabilities of Aydin Displays, Inc. ("Aydin Displays" or "Aydin"), located in Birdsboro, PA, in a \$15.5 million all-cash transaction, after settlement of a \$0.5 million working capital adjustment during the third quarter of the Company's fiscal 2014 year. The transaction was financed through the use of borrowings under the Company's Credit Facility. The transaction includes an approximate \$1.2 million escrowed holdback which is available to fund potential seller indemnification obligations in relation to the acquisition agreement.

The acquired business, which is part of the Company's ECP segment, develops enhanced flat panel display and touch-screen solutions with application-critical performance criteria including ruggedization, high resolution, color accuracy, response/refresh times, sunlight readability and other criteria such as magnetic interference and emanations security for the Military & Aerospace and Civil Marine markets. These products are currently specified in the U.S. Navy P8A Poseidon ASW aircraft behind-the-cockpit control center, the command and control centers of many U.S. Navy ships, Federal Aviation Administration air traffic control systems and cockpit command centers for various civil marine applications. The acquired business will continue to operate as Aydin Displays.

Pro Forma Results — The following table summarizes, on a pro forma basis, the combined results of operations of the Company and the acquired businesses of eMT, IED and Argotec as though the acquisitions had occurred as of July 1, 2013 and Aydin, Beckwood and Aubrey as though the acquisitions had occurred as of July 1, 2012. The pro forma amounts presented are not necessarily indicative of either the actual consolidated results had the acquisition occurred

as of July 1, 2013 and 2012, respectively, or of future consolidated operating results (in thousands, except per share amounts):

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	For the Three Months Ended		For the Six Months Ended	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Net sales	\$86,883	\$98,892	\$165,481	\$189,091
Income before provision for income taxes	\$2,716	\$5,723	\$3,051	\$10,035
Net income	\$1,869	\$4,161	\$2,107	\$7,520
Net income per share — basic	\$0.19	\$0.41	\$0.21	\$0.74
Net income per share — diluted	\$0.19	\$0.41	\$0.21	\$0.74

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

(3) Inventories and Cost of Contracts in Progress

The following are the major classifications of inventory, net of interim billings, at December 31, 2014 and June 30, 2014 (in thousands):

	December 31, 2014	June 30, 2014
Raw materials	\$48,155	\$40,535
Work in process	14,368	10,609
Finished goods	4,344	10,188
Total inventory and cost of contracts in progress, gross	66,867	61,332
Inventory to which the U.S. government has title due to interim billings	(10,534	) (7,960
Total inventory and cost of contracts in progress, net	\$56,333	\$53,372

The Company recorded inventory write-downs totaling \$0.1 million and \$0.2 million for the three months ended December 31, 2014 and 2013, respectively. For the six months ended December 31, 2014 and 2013, respectively, the Company recorded inventory write-downs of \$0.2 million and \$0.2 million. These charges are included in cost of goods sold for the periods presented.

(4) Property, Plant and Equipment, Net

Property, plant and equipment, net consists of the following at December 31, 2014 and June 30, 2014 (in thousands):

	December 31, 2014	June 30, 2014
Land and land improvements	\$1,429	\$1,429
Buildings and building improvements	25,996	25,779
Machinery and equipment	31,306	29,480
Construction in progress	2,365	1,893
Total property, plant and equipment	61,096	58,581
Less accumulated depreciation	(32,265	) (30,058
Total property, plant and equipment, net	\$28,831	\$28,523

(5) Goodwill and Other Intangible Assets

Goodwill represents the excess of purchase price over the fair value of the net assets acquired in conjunction with the Company's purchases of Astro Instrumentation, LLC ("Astro") in May 2006, Byers Peak, Incorporated ("Byers Peak") in March 2011, Onyx EMS, LLC ("Onyx") in November 2012, Creonix, LLC ("Creonix") in June 2013, Aydin in August 2013,

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Beckwood in December 2013, Aubrey in March 2014, eMT in July 2014, IED in December 2014 and Argotec in December 2014. Goodwill related to Astro, Byers Peak, Onyx, Creonix, Beckwood, Aubrey and eMT are reflected within the Company's Manufacturing and Design Services operating segment. Goodwill related to Aydin, IED and Argotec are reflected within the Company's Engineered Components and Products operating segment. Changes in the carrying value of goodwill for the six months ended December 31, 2014 and year ended June 30, 2014 and the ending composition of goodwill as of December 31, 2014 and June 30, 2014 are as follows (in thousands):

	December 31, 2014		
	Manufacturing and Design Services	Engineered Components and Products	Total
Goodwill, beginning of period	\$26,008	\$2,181	\$28,189
Additions to goodwill during the period	6,594	3,122	9,716
Goodwill, end of period	\$32,602	\$5,303	\$37,905
	June 30, 2014		
	Manufacturing and Design Services	Engineered Components and Products	Total
Goodwill, beginning of period	\$14,767	\$—	\$14,767
Additions to goodwill during the period	11,241	2,181	13,422
Goodwill, end of period	\$26,008	\$2,181	\$28,189
	December 31, 2014		
	Manufacturing and Design Services	Engineered Components and Products	Total
Acquired Goodwill	\$45,755	\$5,303	\$51,058
Accumulated impairment	(13,153)	—	(13,153)
Goodwill	\$32,602	\$5,303	\$37,905
	June 30, 2014		
	Manufacturing and Design Services	Engineered Components and Products	Total
Acquired Goodwill	\$39,161	\$2,181	\$41,342
Accumulated impairment	(13,153)	—	(13,153)
Goodwill	\$26,008	\$2,181	\$28,189

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Other intangible assets represent the values assigned to customer relationships acquired in conjunction with the Company's purchases of Astro, Byers Peak, Onyx, Creonix, Aydin, Beckwood and eMT, values assigned to non-compete agreements acquired in conjunction with the Company's purchase of Beckwood, Aubrey and eMT, values assigned to trademarks and tradenames acquired in conjunction with the Company's purchase of Aydin and eMT and unpatented technology acquired with the Company's purchase of Aydin. The amortization periods, gross carrying amounts, accumulated amortization, accumulated impairments and net carrying values of intangible assets at December 31, 2014 and June 30, 2014 are as follows (in thousands):

	Amortization Period in Months December 31, 2014		Gross Carrying Amount	Accumulated Amortization	Accumulated Impairments	Net Carrying Value
Amortized intangible assets:						
Non-compete agreements	24 -	60	\$3,150	\$ (336)	\$—	\$2,814
Customer relationships	120 -	180	35,820	(9,638)	(3,663)	22,519
Trademarks/Tradenames	12 -	120	260	(57)	—	203
Unpatented Technology		84	650	(209)	—	441
			\$39,880	\$ (10,240)	\$ (3,663)	\$25,977
June 30, 2014						
Amortized intangible assets:						
Non-compete agreements	24 -	60	\$420	\$ (46)	\$—	\$374
Customer relationships	120 -	180	29,870	(7,220)	(3,663)	18,987
Trademarks/Tradenames		120	180	(15)	—	165
Unpatented Technology		84	650	(135)	—	515
			\$31,120	\$ (7,416)	\$ (3,663)	\$20,041

Sparton did not incur any significant costs to renew or alter the term of its intangible assets during the six months ended December 31, 2014. Amortization expense for the three months ended December 31, 2014 and 2013 was approximately \$1.5 million and \$0.6 million, respectively. Amortization expense for the six months ended December 31, 2014 and 2013 was approximately \$2.8 million and \$1.2 million, respectively. A portion of amortization expense is included in cost of goods sold on the condensed consolidated statements of income for fiscal years 2015 and 2014. Future amortization expense relative to existing intangible assets for the periods shown is currently estimated to be as follows (in thousands):

Fiscal Year Ending June 30,	
2015	\$2,785
2016	5,116
2017	4,505
2018	3,952
2019	3,372
Thereafter	6,247
Total	\$25,977

(6) Debt

Debt consists of the following at December 31, 2014 and June 30, 2014 (in thousands):

	December 31, 2014	June 30, 2014
Borrowings under revolving credit facilities	\$58,500	\$41,000

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Less: current portion	—	(900)
Long-term debt, net of current portion	\$58,500	\$40,100	

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Credit Facility

On September 11, 2014, the Company replaced its previous credit facility with a new \$200.0 million revolving line-of-credit facility with a group of banks (the "Credit Facility") to fund future acquisitions and to support the Company's working capital needs and other general corporate purposes. The Credit Facility expires on September 11, 2019, is secured by substantially all assets of the Company and provides for up to an additional \$100.0 million in uncommitted loans.

Outstanding borrowings under the Credit Facility will bear interest, at the Company's option, at either LIBOR, fixed for interest periods of one, two, three or six month periods, plus 1.00% to 1.75%, or at the bank's base rate, as defined, plus 0.00% to 0.75%, based upon the Company's Total Funded Debt/EBITDA Ratio, as defined. The Company is also required to pay commitment fees on unused portions of the Credit Facility ranging from 0.20% to 0.35%, based on the Company's Total Funded Debt/EBITDA Ratio, as defined. The Credit Facility includes representations, covenants and events of default that are customary for financing transactions of this nature.

As a condition of the Credit Facility, the Company is subject to certain customary covenants, which it was in compliance with at December 31, 2014. The Company had \$58.5 million of borrowings drawn against the Credit Facility at December 31, 2014 and additionally had certain letters of credit outstanding totaling \$1.0 million.

Costs incurred in connection with the Company's current Credit Facility of approximately \$1.0 million were deferred and are amortized to interest expense over the five year term of the facility. The remaining unamortized portion of the previous revolving-credit facility financing costs were amortized in full at the time the Company entered into the new facility. Approximately \$0.1 million and \$0.5 million of amortization of loan costs relating to the Credit Facility as well as the previous revolving-credit facility were recognized and reported as interest expense for the three and six months ended December 31, 2014, respectively. Approximately \$0.0 million and \$0.1 million of amortization of loan costs relating to the previous revolving-credit facility were recognized and reported as interest expense for the three and six months ended December 31, 2013, respectively.

(7) Fair Value Measurements

The fair value of the Company's Credit Facility debt at December 31, 2014 and June 30, 2014 approximated its carrying value of \$58.5 million and \$41.0 million, respectively, as the rates on these borrowings are variable in nature. In relation to the acquisitions of Aydin, Beckwood, Aubrey, eMT, IED and Argotec, the Company estimated the fair value of the assets acquired and liabilities assumed at acquisition date. See Note 2 for a further discussion of these estimated fair values. The fair value of accounts receivable and accounts payable approximated their carrying values at both December 31, 2014 and June 30, 2014.

The Company holds marketable equity securities of \$0.9 million and \$0 at December 31, 2014 and 2013, respectively, that it classifies as available-for-sale and are recorded in other non-current assets on the Condensed Consolidated Balance Sheet. These securities are carried at fair value with unrealized gains and losses reflected in Accumulated Other Comprehensive Income and are classified as Level 1 in the fair value hierarchy. The assessment for impairment of marketable equity securities as available-for-sale is based on established financial methodologies, including quoted market prices for publicly traded securities. If the Company determines that a loss in the value of the investment is other than temporary, the investment is written down to its estimated fair value. Any such losses are recorded in other expense (income), net.

(8) Income Taxes

The Company recognized a discrete income tax benefit of less than \$0.1 million for the three months ended December 31, 2014 in relation to a state audit adjustment. Excluding this discrete benefit, the Company recognized an income tax provision of approximately \$0.8 million or approximately 34.6% of income before provision for income taxes, for the three months ended December 31, 2014 compared to approximately \$1.7 million, or approximately 33.3% of income before provision for income taxes, for the three months ended December 31, 2013. The Company additionally recognized a discrete income tax benefit of \$0.1 million for the six months ended December 31, 2014 in relation to the application of a change in the Company's state apportionment factors resulting from the acquisition of eMT.

Excluding the two discrete benefit items, the Company recognized income tax provisions of approximately \$0.9 million and \$2.8 million, or approximately 34.5% and 33.0% of income before provision for income taxes, for the six months ended December 31, 2014 and 2013, respectively. The Company's effective income tax rate for the interim periods presented is based on management's estimate of the Company's effective tax rate for the applicable year and differs from the Federal statutory income tax rate primarily due to applicable permanent differences, foreign income taxes and state income taxes.

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Defined Benefit Pension Plan

As of December 31, 2014, approximately 400 employees and retirees of the Company were covered by a defined benefit pension plan. Effective April 1, 2009, participation and the accrual of benefits in this pension plan were frozen, at which time all participants became fully vested and all prior service costs were recognized. The components of net periodic pension expense are as follows for the three and six months ended December 31, 2014 and 2013 (in thousands):

	For the Three Months Ended		For the Six Months Ended	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Service cost	\$—	\$—	\$—	\$—
Interest cost	74	91	163	177
Expected return on plan assets	(149)	) (133	) (280	) (262
Amortization of prior service cost	—	—	—	—
Amortization of unrecognized net actuarial loss	8	18	40	64
Net pension income	(67	) (24	) (77	) (21
Pro rata recognition of lump-sum settlements	—	—	—	—
Total pension income	\$(67	) \$(24	) \$(77	) \$(21

The Company's policy is to fund the plan based upon legal requirements and tax regulations. During the six months ended December 31, 2014, no contribution was made to the pension plan. During the six months ended December 31, 2013, less than \$0.1 million was contributed to the pension plan. For further information on future funding projections and other pension disclosures see Part II, Item 8, Note 10 "Employee Retirement Benefit Plans" of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2014.

(10) Commitments and Contingencies

Sparton has been involved with ongoing environmental remediation since the early 1980's related to one of its former manufacturing facilities, located in Albuquerque, New Mexico ("Coors Road"). Although the Company entered into a long-term lease of the Coors Road property that was accounted for as a sale of property during fiscal 2010, it remains responsible for the remediation obligations related to its past operation of this facility. During the fourth quarter of fiscal 2014, Sparton completed a review of its remediation plan, which included remediation methods currently in use, desired outcomes, progress to date, anticipated progress over the next sixteen years and estimated costs to complete the remediation plan by fiscal 2030, following the terms of a March 2000 consent decree. The Company's minimum cost estimate is based upon existing technology and excludes certain legal costs, which are expensed as incurred. The Company's estimate includes equipment and operating and maintenance costs for onsite and offsite pump and treat containment systems, as well as continued onsite and offsite monitoring. It also includes periodic reporting requirements. During this latest review, the Company found: additional concentrations of contaminants on-site that required clean-up actions previously not included within the remediation plan; progress to date on the removal of certain other on-site contaminants was taking place slower than previously anticipated; and that certain efficiencies regarding periodic reporting were not being realized as had been previously anticipated. The discovery of additional on-site contaminants, slower than expected removal rates of other on-site contaminants and continued high periodic reporting costs added significant additional costs to the remediation project that are expected to continue for a number of years. As a result, the remaining estimated minimum future undiscounted costs of this financial liability increased to \$8.2 million at June 30, 2014, thereby requiring a \$4.2 million non-cash charge against operations in the fourth quarter of fiscal 2014. As of December 31, 2014, the remaining estimated minimum future undiscounted costs of this financial liability is \$8.0 million. This charge is net of United States Department of Energy ("DOE") reimbursements of \$1.5 million expected to take place in future years, under the fiscal 2003 agreement between the Company and the DOE, as further explained below. Of the \$8.0 million financial liability, \$0.6 million is classified as a current liability

and included on the balance sheet in other accrued expenses.

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, of which approximately \$5.5 million has been expended as of December 31, 2014 toward the \$8.4 million threshold. It is expected that the DOE reimbursements will commence in the years after fiscal 2020. At June 30, 2014, the Company recognized a \$1.5 million long-term asset in relation to these expected reimbursements and is considered collectible. The \$1.5 million DOE receivable is included in other non-current assets on the balance sheet. Uncertainties associated with environmental remediation contingencies are pervasive and often result in wide ranges of

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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 December 31, 2014, the Company estimates that it is reasonably possible, but not probable, that future environmental remediation costs associated with the Company's past operations at the Coors Road property, in excess of amounts already recorded, could be up to \$3.1 million before income taxes over the next sixteen years, with such amount expected to be offset by related reimbursement from the DOE of \$1.0 million.

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

Litigation — On September 24, 2013, L-3 Communications Corporation, doing business as L-3 Linkabit ("Linkabit") filed a complaint in the United States District Court for the Middle District of Florida, Orlando Division, against Sparton Corporation and Sparton Electronics alleging, among other things, that the Company failed to follow Linkabit drawings for the manufacture and assembly of certain products and that the Company changed its manufacturing process resulting in shipment of defective products to Linkabit. Linkabit seeks damages for breach of contract, breach of covenants, breach of warranties and negligence. In response to the Company's motion to dismiss on January 10, 2014, Linkabit filed its first amended complaint deleting the alleged negligence claims. Trial is scheduled on November 16, 2015. The Company believes that its defenses to the claims are very strong and it intends to defend this action vigorously. Given the stage of the litigation and the unresolved remaining questions of fact, no liability has been recorded as the Company cannot estimate any loss, or range of loss, with confidence at this time.

U.S. Government Audits — Federal government agencies, including the Defense Contract Audit Agency and the Defense Contract Management Agency, routinely audit and evaluate government contracts and government contractors' administrative processes and systems. These agencies review the Company's performance on contracts, pricing practices, cost structure, financial capability and compliance with applicable laws, regulations and standards. They also review the adequacy of the Company's internal control systems and policies, including the Company's purchasing, accounting, estimating, compensation and management information processes and systems. The Company works closely with these agencies to ensure compliance.

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 of which, individually or in the aggregate, is expected to have a material adverse effect on our business, financial condition or results of operations.

(11) Stock-Based Compensation

The Company has two long-term incentive plans. The Sparton Corporation Stock Incentive Plan, as amended and restated (the "2001 Plan") was approved by the Company's shareholders on October 24, 2001. The Sparton Corporation 2010 Long-Term Incentive Plan (the "2010 Plan") was approved by the Company's shareholders on October 28, 2009.

2001 Plan. Under the 2001 Plan, the Company may grant to employees and non-employee directors incentive and non-qualified stock options, stock appreciation rights, restricted stock and other stock-based awards. All of the stock

options issued to date under the 2001 Plan have either three, five or ten-year lives with either immediate vesting or vesting on an annual basis over four years beginning one year after grant date. Restricted stock awards granted to date to employees under the 2001 Plan vest annually over periods ranging from approximately 2.5 to 4.0 years, in some cases subject to achievement of certain financial performance metrics in addition to the service requirements. Unrestricted stock awards granted to date under the 2001 Plan represent annual stock grants to directors as a component of their overall compensation. The 2001 Plan's termination date with respect to the granting of new awards was October 24, 2011. The total number of shares authorized to be granted under the 2001 Plan was 970,161 shares of the Company's common stock, which equals the number of underlying awards previously made under the 2001 Plan.

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2010 Plan. Under the 2010 Plan, the Company may grant to employees, officers and directors of the Company or its subsidiaries incentive and non-qualified stock options, stock appreciation rights, restricted stock or restricted stock units, performance awards and other stock-based awards, including grants of shares. Stock options issued to date under the 2010 Plan have ten-year lives and vest annually over four years. Restricted stock and restricted stock unit awards granted to date to employees under the 2010 Plan vest annually over four years, in some cases subject to achievement of certain financial performance metrics in addition to the service requirements. Unrestricted stock awards granted to date under the 2010 Plan represent annual stock grants to directors as a component of their overall compensation. The 2010 Plan has a term of ten years. The total number of shares that may be awarded under the 2010 Plan is 1,000,000 shares of common stock, of which amount, 489,647 shares remain available for awards as of December 31, 2014.

The following table shows stock-based compensation expense by type of share-based award for the three and six months ended December 31, 2014 and 2013, respectively, included in the condensed consolidated statements of income (in thousands):

	For the Three Months Ended		For the Six Months Ended	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Fair value expense of stock option awards	\$103	\$—	\$141	\$—
Restricted stock units	209	—	285	—
Restricted and unrestricted stock	457	620	792	917
Total stock-based compensation	\$769	\$620	\$1,218	\$917

The following table shows the total remaining unrecognized compensation cost related to stock options, restricted stock units and restricted stock, as well as the weighted average remaining required service period over which such costs will be recognized as of December 31, 2014:

	Total Remaining Unrecognized Compensation Cost (in thousands)	Weighted Average Remaining Required Service Period (in years)
Fair value expense of stock option awards	\$720	2.23
Restricted stock units	1,462	2.23
Restricted stock	1,112	1.87
	\$3,294	2.12

During the six months ended December 31, 2014, the Company awarded an aggregate of 93,805 stock options to certain members of management with a weighted average exercise price of \$26.74. The fair value of each stock option is estimated at the grant date using the Black-Scholes option pricing method. The table below outlines the weighted average assumptions used for the options granted during the six months ended December 31, 2014:

	Weighted Average	
Risk free interest rate	2.06	%
Volatility	34.10	%
Dividend yield	—	%
Expected life in years	6.25	
Fair value price	\$9.99	

The risk-free interest rate was determined using the then implied yield currently available for zero-coupon U.S. government issues with a remaining term equal to the expected life of the stock options. The expected volatility assumption used in the Black-Scholes option pricing models was based on the historical volatility of the Company's common stock. The Company does not currently intend to pay cash dividends and thus has assumed a 0% dividend

yield. The Company estimates the expected life for stock options based on expected future exercise patterns. The Company did not grant any stock options during the six months ended December 31, 2013.

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The following is a summary of activity for the six months ended December 31, 2014 related to the Company's stock options granted under its long-term incentive plans:

	Number of Options	Weighted Average Exercise Price
Options outstanding at June 30, 2014	38,543	\$ 8.57
Granted	93,805	26.74
Exercised	(1,400)	) 8.57
Forfeited	(15,988)	) 8.57
Options outstanding at December 31, 2014	114,960	23.39
Exercisable at December 31, 2014	21,155	\$ 8.57

The following is a summary of options outstanding and exercisable at December 31, 2014:

Range of Exercise Prices	Options Outstanding			Aggregate Intrinsic Value (in thousands)	Options Exercisable			Aggregate Intrinsic Value (in thousands)
	Number Outstanding	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price		Number Exercisable	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	
\$8.57	21,155	0.33	\$8.57	\$418	21,155	0.33	\$8.57	\$418
\$23.85-\$26.86	93,805	9.68	26.74	—	—	—	—	—
	114,960	7.94	\$23.39	\$418	21,155	0.33	\$8.57	\$418

The intrinsic value of options exercised during the six months ended December 31, 2014 and 2013 was less than \$0.1 million and \$0.2 million, respectively.

The following is a summary of activity for the six months ended December 31, 2014 related to restricted shares, unrestricted shares and restricted stock units granted under the Company's long-term incentive plans:

	Shares	Weighted Average Grant Date Fair Value
Restricted shares at June 30, 2014	316,997	\$12.38
Granted	95,951	26.59
Vested	(170,431)	) 9.57
Forfeited	(15,313)	) 17.27
Restricted shares and restricted stock units at December 31, 2014	227,204	\$20.16

The total fair value of restricted stock vested in the six months ended December 31, 2014 and 2013 was approximately \$4.3 million and \$1.6 million, respectively.

(12) Earnings Per Share Data

The Company calculates basic net income available to common shareholders per share by dividing net income available to common shareholders by the weighted-average number of common shares and participating securities outstanding during the period. Diluted net income available to common shareholders per share takes into account the dilutive effect of additional potential common shares issued or issuable under our stock-based compensation plans and are determined using the treasury stock method. Unvested participating restricted shares, which contain

non-forfeitable rights to dividends whether paid or unpaid, are included in the number of shares outstanding for both basic and diluted earnings per share calculations. Unvested contingently issuable participating restricted shares are excluded from basic earnings per share. In the event of a net loss, all unvested participating restricted stock awards are excluded from the calculation of both basic and diluted loss per share.

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Earnings per share calculations, including net income available to common shareholders and weighted average number of shares of common stock outstanding used in calculating basic and diluted income per share, for the three and six months ended December 31, 2014 and 2013 are as follows:

	For the Three Months Ended		For the Six Months Ended	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Numerator (in thousands):				
Net income	\$1,562	\$3,484	\$1,758	\$5,770
Less net income allocated to contingently issuable participating securities	(22)	) —	(26)) —
Net income available to common shareholders	\$1,540	\$3,484	\$1,732	\$5,770
Weighted average shares outstanding – Basic	9,894,526	10,115,255	9,927,672	10,093,973
Dilutive effect of stock options	16,209	32,263	19,161	29,569
Weighted average shares outstanding – Diluted	9,910,735	10,147,518	9,946,833	10,123,542
Net income available to common shareholders per share:				
Basic	\$0.16	\$0.34	\$0.17	\$0.57
Diluted	\$0.16	\$0.34	\$0.17	\$0.57

For the three months ended December 31, 2014 and 2013, there were no unvested participating restricted shares included in determining both basic and diluted earnings per share. For the six months ended December 31, 2014 and 2013, 175,666 and 315,144, respectively, of unvested participating restricted shares were included in determining both basic and diluted earnings per share. Potential common shares excluded from the calculation of diluted net income per share because they were either contingently issuable or their inclusion would be anti-dilutive were 1,952 and 306,009 for the three and six months ended December 31, 2014. No potential shares of common stock were excluded from diluted income per share computations for the three and six months ended December 31, 2013.

(13) Stock Repurchase Plans

On October 22, 2014, the Company's Board of Directors approved a repurchase by the Company of up to \$5.0 million of shares of its common stock. The Company has been authorized to purchase shares from time to time in open market, block transactions and privately negotiated transactions. The stock repurchase program does not require the Company to repurchase any specific number of shares. Pursuant to this stock repurchase program, during the three months ended December 31, 2014, the Company purchased 167,566 shares of its common stock at an average price of \$27.54 per share for approximately \$4.6 million. Shares purchased under the plan were cancelled upon repurchase. As of December 31, 2014, approximately \$0.4 million remained available under the stock repurchase plan.

On May 1, 2013, the Company's Board of Directors approved a repurchase by the Company of up to \$3.0 million of shares of its common stock over a 12-month period. The Company has been authorized to purchase shares from time to time in open market, block transactions and privately negotiated transactions at prices deemed appropriate by management, depending on market conditions, applicable laws and other factors. The stock repurchase program does not require the Company to repurchase any specific number of shares and can be modified, extended or terminated by the Board of Directors at any time. Pursuant to this stock repurchase program, during the three months ended September 30, 2013, the Company purchased 47,119 shares of its common stock at an average price of \$18.51 per share for approximately \$0.9 million. Previously, during the year ended June 30, 2013, the Company purchased 128,158 shares of its common stock at an average price of \$16.55 per share for approximately \$2.1 million. Total shares purchased pursuant to this stock repurchase program total 175,277 at an average price of \$17.08. Shares purchased under the plan were cancelled upon repurchase. As of June 30, 2014, all authorized funds under the stock repurchase program were expended.

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(14) Business Segments

The Company is a provider of complex and sophisticated electromechanical devices with capabilities that include concept development, design and manufacturing engineering, production, distribution and field service. The Company serves the Medical & Biotechnology, Military & Aerospace and Industrial & Commercial markets through two reportable business segments; Manufacturing & Design Services and Engineered Components & Products. Reportable segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or group, in assessing performance and allocating resources. During the first quarter of fiscal 2015, the Company changed its reportable segments to align with the way it internally reports and manages the business. The prior reportable segments of Medical and Complex Systems have been combined and are referred to as Manufacturing & Design Services or "MDS". The MDS segment represents the Company's contract manufacturing and design services where the customer owns the related intellectual property. The prior DSS reportable segment remains unchanged and is now referred to as Engineered Components & Products or "ECP". The ECP segment represents the Company's manufacturing and design services where the Company owns the related intellectual property. The Company has restated the prior period to conform to the current year's presentation. The Company uses an internal management reporting system, which provides important financial data to evaluate performance and allocate the Company's resources on a segment basis. Net sales are attributed to the segment in which the product is manufactured or service is performed. A segment's performance is evaluated based upon its operating income (loss). A segment's operating income (loss) includes its gross profit on sales less its selling and administrative expenses, including allocations of certain corporate operating expenses. Certain corporate operating expenses are allocated to segment results based on the nature of the service provided. Other corporate operating expenses, including certain administrative, financial and human resource activities as well as items such as interest expense, interest income, other income (expense) and income tax expense (benefit), are not allocated to operations and are excluded from segment profit. These costs are not allocated to the segments, as management excludes such costs when assessing the performance of the segments. Inter-segment transactions are generally accounted for at amounts that approximate arm's length transactions. Identifiable assets by segments are those assets that are used in each segment's operations. The accounting policies for each of the segments are the same as for the Company taken as a whole.

Manufacturing and Design Services segment operations are comprised of contract design, manufacturing and aftermarket repair and refurbishment of sophisticated printed circuit card assemblies, sub-assemblies, full product assemblies and cable/wire harnesses for customers seeking to bring their intellectual property to market. Customers include OEM and ET customers serving the Medical & Biotechnology, Military & Aerospace and Industrial & Commercial markets. In manufacturing for its customers, this segment adheres to very strict military and aerospace specifications, Food and Drug Administration ("FDA") guidelines and approvals, in addition to product and process certifications.

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

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Operating results and certain other financial information about the Company's two reportable segments for the three and six months ended December 31, 2014 and 2013 and as of December 31, 2014 and June 30, 2014 were as follows (in thousands):

	For the Three Months Ended December 31, 2014				
	Manufacturing and Design Services	Engineered Components and Products	Corporate and Other Unallocated	Eliminations	Total
Sales	\$60,790	\$28,919	\$—	\$ (4,067)	\$85,642
Gross profit	8,208	6,963	—	—	15,171
Operating income (loss)	2,673	4,273	(4,214)	—	2,732
Selling and administrative expenses	4,133	2,445	4,228	—	10,806
Internal research and development expenses	—	197	—	—	197
Depreciation/amortization	2,115	294	179	—	2,588
Capital expenditures	347	416	52	—	815

	For the Three Months Ended December 31, 2013				
	Manufacturing and Design Services	Engineered Components and Products	Corporate and Other Unallocated	Eliminations	Total
Sales	\$62,146	\$26,078	\$—	\$ (3,507)	\$84,717
Gross profit	8,923	6,209	—	—	15,132
Operating income (loss)	4,837	3,590	(3,015)	—	5,412
Selling and administrative expenses	3,519	2,148	3,020	—	8,687
Internal research and development expenses	—	402	—	—	402