SPARTON CORP
Form DEF 14A
November 19, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 14A

(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES EXCHANGE ACT OF

1934 (AMENDMENT NO. __)

Filed by the registrant [X]

Filed by a party other than the registrant [ ]

Check the appropriate box:

[ ] Preliminary proxy statement

[ ] Confidential, for use of the Commission only (as permitted by Rule 14a-6 (e) (2)).

[X] Definitive proxy statement

[ ] Definitive additional materials

[ ] Soliciting material pursuant to Rule 14a-12

SPARTON CORPORATION

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement if Other Than the Registrant)

Payment of filing fee (check the appropriate box):

[X] No fee required

[ ] Fee computed on table below per Exchange Act Rules 14a-6(i) (1) and 0-11.

1. (a) Title of each class of securities to which transaction applies:

N/A

2. (b) Aggregate number of securities to which transactions applies:

N/A

3. (c) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

N/A

4. (d) Proposed maximum aggregate value of transaction:

N/A

(e) **Total fee paid**:

N/A

[ ] Fee paid previously with preliminary materials.

[ ] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a) (2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

5. (a) Amount Previously Paid:

N/A

6. (b) Form, Schedule or Registration Statement No.:

N/A

7. (c) Filing Party:

N/A

8. (d) Date Filed:

N/A

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NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Our Shareholders:

Notice is hereby given that the Annual Meeting of Shareholders of Sparton Corporation will be held at 425 North Martingale Road, Suite 1000, Schaumburg, Illinois 60173-2213, on December 20, 2018, at 8:00 a.m., local time, for the following purposes:

(1) To elect six directors each for a term of one year as set forth in the Proxy Statement.

(2) To ratify the appointment of independent registered public accountants by an advisory vote.

(3) To approve the Named Executive Officer compensation by an advisory vote.

(4) To transact such other business as may properly come before the meeting or at any adjournments thereof.

Only holders of common stock of record at the close of business on November 13, 2018 are entitled to notice of and to vote at the meeting.

By Order of the Board of Directors

/s/ Joseph J. Hartnett

JOSEPH J. HARTNETT
Interim President and Chief Executive Officer
Schaumburg, Illinois

November 19, 2018

IMPORTANT

ALL SHAREHOLDERS ARE CORDIALLY INVITED TO ATTEND THE MEETING. WHETHER OR NOT YOU PLAN TO ATTEND IN PERSON, YOU ARE URGED TO SIGN AND DATE THE ENCLOSED PROXY AND RETURN IT PROMPTLY IN THE ENVELOPE PROVIDED, OR USE OUR INTERNET OR TELEPHONE VOTING SYSTEM AS PROMPTLY AS POSSIBLE. THIS WILL ASSURE YOUR REPRESENTATION AND A QUORUM FOR THE TRANSACTION OF BUSINESS AT THE MEETING. IF YOU ATTEND THE MEETING IN PERSON, THE PROXY WILL NOT BE USED IF YOU SO REQUEST BY REVOKING IT AS DESCRIBED IN THIS PROXY STATEMENT.

You may obtain directions to the Annual Meeting by sending a written request to Sparton Corporation, Attention: Corporate Secretary, 425 N. Martingale Road, Suite 1000, Schaumburg, Illinois 60173-2213.

This Notice of Annual Meeting of Shareholders, Proxy Statement and our 2018 Annual Report are also available at http://www.proxyvote.com.

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Sparton Corporation

2018 Proxy Statement Summary

The following is a summary of certain information provided in the body of this Proxy Statement. This Summary does not contain all of the information contained in this Proxy Statement, and shareholders should review the entire Proxy Statement before voting on any matter proposed hereunder.

2018 Annual Meeting of Shareholders

Time and Date	**8:00 a.m. Central Standard Time, December 20, 2018**
Place	**425 North Martingale Road, Suite 1000,** **Schaumburg, Illinois 60173-2213**
Voting	**Shareholders as of the record date, November 13, 2018, are entitled to vote. Each share of common stock is entitled to one vote for each director nominee and one vote for each of the other proposals to be voted on.**

Meeting Agenda and Voting Matters	**Board Vote Recommendation**	**Page Reference (for more detail)**
Election of Six Directors	FOR each director nominee	13
Ratification of BDO USA, LLP as independent registered public accountant for fiscal year 2019 by advisory vote	FOR	18
Advisory vote on Named Executive Officer compensation	FOR	20
Transact other business that properly comes before the meeting		

Director Nominees

- Alan L. Bazaar
- James D. Fast
- Joseph J. Hartnett
- Charles R. Kummeth
- James R. Swartwout
- Frank A. Wilson

Independence

Other than Mr. Hartnett, who is the Interim President and Chief Executive Officer of Sparton Corporation, all director nominees are independent.

Attendance

Each of our director nominees attended at least 75% of all meetings of the Board of Directors and committees on which they serve (during the period served).

Independent Registered Public Accountant

Sparton Corporation is asking the shareholders to ratify the appointment of BDO USA, LLP for fiscal year 2019. The following table summarizes the fees that BDO USA, LLP billed Sparton Corporation for the fiscal years ended July 1, 2018 and July 2, 2017:

(In thousands)	Year Ended	
	July 1, 2018	July 2, 2017
Audit Fees	$ 496	$ 521
Audit-Related Fees	32	34
Tax Fees	317	356
All Other Fees		
Total	$ 845	$ 911

Executive Compensation

Sparton Corporation believes that its compensation policies and practices are effective in achieving its goals of attracting, motivating, retaining and rewarding its senior management team in order to achieve Sparton Corporation s corporate objectives and increase value for its shareholders. Please see Executive Officer and Director Compensation below at page 24 for details regarding compensation for fiscal year 2018.

2019 Annual Shareholders Meeting

Deadline for shareholder proposals to be included in the 2019 Proxy Statement: July 22, 2019.

Deadline for shareholder proposals: August 22, 2019.

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SPARTON CORPORATION

425 N. Martingale Road

Suite 1000

Schaumburg, Illinois 60173-2213

PROXY STATEMENT

For the Annual Meeting of Shareholders to be held on December 20, 2018

SOLICITATION

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors of SPARTON CORPORATION, an Ohio corporation (the Company), of proxies for use at the 2018 Annual Meeting of Shareholders of the Company (the Annual Meeting) to be held at 425 North Martingale Road, Schaumburg, Suite 1000, Illinois 60173-2213, on Thursday, December 20, 2018, at 8:00 a.m., Local Time, and at any and all adjournments thereof. The cost of solicitation will be paid by the Company. In addition to solicitation of proxies by mail, the Company will request that banks, brokers and other holders of record send proxies and proxy materials to the beneficial owners of Company common stock and secure their voting instructions. The Company has also made arrangements with Morrow Sodali LLC to assist it in soliciting proxies and has agreed to pay Morrow Sodali LLC approximately $8,500 plus reasonable expenses for these services. Officers and employees of the Company and its subsidiaries may solicit proxies personally, by facsimile or other means, without additional compensation.

At the meeting, the Company s shareholders will act upon three proposals. The first proposal is the election of six directors, each to serve for a one-year term until the annual meeting held in the year 2019 and the election and qualification of their successors. The second proposal is the ratification of the appointment of independent registered public accountants by an advisory vote. The third proposal is the approval of the compensation of the Named Executive Officers (defined below) by an advisory vote. The proposals are described in more detail in this Proxy Statement.

OUTSTANDING STOCK AND VOTING RIGHTS

In accordance with the Code of Regulations of the Company, the Board of Directors has fixed the close of business on November 13, 2018 as the record date for determination of shareholders entitled to notice of, and to vote at, the Annual Meeting. Only shareholders of record on that date will be entitled to vote. As of the record date for the Annual Meeting, the Company had outstanding 9,834,723 shares of common stock, each entitled to vote at the Annual Meeting. Votes cast at the meeting and votes submitted by proxy are counted by the inspectors of the election, who are appointed by the Company.

Voting by Proxy

If a shareholder is a corporation or partnership, the accompanying proxy card should be signed in the full corporate or partnership name by a duly authorized person. If the proxy card is signed pursuant to a power of attorney or by an executor, administrator, trustee or guardian, the signer s full title should be given and a certificate or other evidence of appointment should be furnished.

You can vote in one of four ways. You can vote by mail, you can authorize the voting of your shares over the telephone, you can authorize the voting of your shares over the Internet, or you can vote in person at the Annual Meeting. Your proxy may be solicited up to the date and time of the meeting.

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Voting by Mail

If you choose to vote by mail, you may vote by completing and signing the proxy card that accompanies this Proxy Statement and promptly mailing it in the enclosed postage-prepaid envelope. You do not need to put a stamp on the enclosed envelope if you mail it in the United States. The shares you own will be voted according to the instructions on the proxy card you mail. If you return the proxy card, but do not give any instructions on a particular matter described in this Proxy Statement, the shares you own will be voted in accordance with the recommendations of the Company s Board of Directors. If you choose to vote by mail, your duly signed proxy card must be received by 11:59 p.m., Eastern Standard Time, on December 19, 2018.

Voting by Internet

If you choose to vote over the Internet, instructions for a shareholder of record to vote by the Internet are set forth on the enclosed proxy card. The Internet voting procedures are designed to authenticate votes cast by use of a personal identification number that appears on the proxy card. These procedures allow shareholders to appoint a proxy to vote their shares and to confirm that their instructions have been properly recorded. If you vote over the Internet, you do not have to mail in your proxy card, but your vote must be received by 11:59 p.m. Eastern Standard Time on December 19, 2018.

Voting by Phone

If you choose to vote by telephone, call 1-800-690-6903. These procedures allow shareholders to appoint a proxy to vote their shares and confirm that their instructions have been properly recorded. If you vote by telephone, you do not have to mail in your proxy card, but your vote must be received by 11:59 p.m. Eastern Standard Time on December 19, 2018.

Voting 401(k) Plan Shares

If you participate in the Company s 401(k) retirement savings plan (the 401(k) Plan) and hold shares in your plan account, you may vote the number of shares credited to your account as of the record date. You should receive instructions from the 401(k) Plan trustee, Merrill, Lynch, Pierce, Fenner & Smith (Merrill Lynch) on how to vote your shares of Company common stock held in the 401(k) Plan. You must provide Merrill Lynch with instructions on how to vote your shares. Only the trustee may vote your shares. You may not vote shares held in the 401(k) Plan by returning a proxy card directly to the Company or by voting in person at the Annual Meeting. If you do not instruct the 401(k) Plan trustee, Merrill Lynch, as how to vote your shares held in the 401(k) Plan, Merrill Lynch may vote your shares in accordance with its fiduciary obligations under the Employee Retirement Income Security Act as 1974, as amended. Your voting instructions (or change or revocation in voting instructions) must be received before 11:59 p.m. Eastern Standard Time December 17, 2018.

Shares Held in Street Name

If you are not the record holder of the shares you own because they are held in street name by a bank or brokerage firm, your bank or brokerage firm is required to vote your shares according to your instructions. In order to vote your shares, you will need to follow the directions your bank or brokerage firm provides you. Many banks and brokerage firms also offer the option of voting over the Internet or by telephone, instructions for which would be provided by your bank or brokerage firm on your vote instruction form. Under the rules of The New York Stock Exchange (NYSE), if you do not give instructions to your brokerage firm, it may still be able to vote your shares with respect to certain discretionary items that are deemed by the NYSE to be routine (e.g., the ratification of the appointment of independent registered public accountants), but it will not be allowed to vote your shares with respect to certain non-discretionary items. If you do not provide voting instructions to your broker with respect to non-discretionary items such as election of directors and the advisory vote on the compensation of Named Executive Officers, your shares will not be voted for any such proposal. In such case, the shares will be treated as broker non-votes.

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Revocation and How Shares are Voted if No Instructions are Provided

Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time before it is voted. Proxies may be revoked by (i) filing a written notice of revocation with the Chairman or Secretary of the Company, at or before the Annual Meeting, (ii) duly executing a subsequent proxy relating to the same shares and delivering it to the Chairman or Secretary of the Company either signed and returned by mail or transmitted using the Internet or telephone procedures at or before the Annual Meeting subject to deadlines set forth above or (iii) attending the Annual Meeting and voting in person with adequate notification. Attending the Annual Meeting alone, without voting at the Annual Meeting, will not be sufficient to revoke your proxy. Written notice of revocation should be mailed to: Sparton Corporation, Attn: Corporate Secretary, 425 North Martingale Road, Suite 1000, Schaumburg, Illinois 60173-2213.

Unless revoked, the shares represented by the enclosed proxy will be voted at the meeting in accordance with any specification made thereon, if the proxy is returned properly executed and delivered in time for voting in accordance with the deadlines set forth above.

Unless otherwise specified, the proxy will be voted FOR the election of the six director nominees, FOR the ratification of the appointment of independent registered public accountants, and FOR approval of the compensation of the Named Executive Officers.

Quorum and Vote Required

At all meetings of shareholders, including the Annual Meeting, the holders of record of a majority of the outstanding voting shares of the Company, present in person or by proxy, constitutes a quorum for the transaction of business.

In accordance with the Company s Second Amended Articles of Incorporation, and with respect to Proposal 1, a director nominee must receive, in an uncontested election of directors, a greater number of votes cast FOR his or her election than AGAINST his or her election. Broker non-votes and abstentions are not counted for purposes of this Proposal. Under our governing documents and Ohio law, an incumbent director who is not re-elected will continue in office as a holdover director until his or her successor is elected by a subsequent shareholder vote, or his or her earlier resignation, removal from office or death. In order to address holdover terms for any incumbent directors who fail to be re-elected under our majority vote standard, our Corporate Governance Guidelines provide that if a director nominee does not receive a majority affirmative vote, he or she will promptly offer his or her resignation as a director to the Board of Directors. Within ninety (90) days, the Board of Directors will decide, after taking into account the recommendation of the Nominating and Corporate Governance Committee (in each case excluding the nominee(s) in question), whether to accept the resignation. The Nominating and Corporate Governance Committee and the Board of Directors may consider any relevant factors in deciding whether to accept a director s resignation. The Board of Directors explanation of its decision shall be promptly disclosed in a filing with the Securities and Exchange Commission (SEC).

With respect to Proposal 2, the ratification of the appointment of the independent registered public accountant requires the affirmative vote of a majority of the shares entitled to vote thereon and present in person or represented by proxy at the Annual Meeting. Broker non-votes are not counted for purposes of this Proposal. Abstentions have the same effect as a vote against this Proposal.

With respect to Proposal 3, the approval of the compensation of the Named Executive Officers requires the affirmative vote of a majority of the shares entitled to vote thereon and present in person or represented by proxy at the Annual Meeting. Broker non-votes are not counted for purposes of this Proposal. Abstentions have the same effect as a vote against this Proposal.

Proposals 2 and 3 are advisory in nature and not binding, although the Board of Directors will carefully consider the shareholder votes.

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Other Matters

Management does not intend to present, and does not know of anyone who intends to present, any matters at the meeting to be acted upon by the shareholders not referred to in the Notice and this Proxy Statement. If any other matters should properly come before the meeting, it is the intention of the persons named in the proxy to vote in accordance with their judgment on such matters.

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CORPORATE GOVERNANCE AND BOARD MATTERS

Director Independence

Independence criteria and determination

The listing requirements under Section 303A.01 of the NYSE Listed Company Manual (the Manual) provide that a majority of the members of a listed company s board of directors must be independent. The question of independence is determined with respect to each director pursuant to standards set forth in the Manual. The Manual also requires that certain committees be composed entirely of independent directors. The committees covered by this requirement are the Audit, Compensation, and Nominating and Corporate Governance Committees. Based upon the standards set forth in the Manual, as of the date of this Proxy Statement, six of the Board of Director s seven members, being more than a majority of the Board of Directors, are independent. All current members of the Audit, Compensation, and Nominating and Corporate Governance Committees are independent in that those directors do not have a material relationship with the Company directly or as a partner, shareholder or affiliate of an entity that has a relationship with the Company.

In making such determinations, the Board considered (i) whether a director had, within the last three years, any of the relationships under Section 303A.02(b) of the Manual with the Company that would disqualify a director from being considered independent, (ii) whether the director had any disclosable transaction or relationship with the Company under Item 404 of Regulation S-K of the Securities Exchange Act of 1934, as amended (Exchange Act), which relates to transactions and relationships between directors and their affiliates, on the one hand, and the Company and its affiliates (including management), on the other, and (iii) the factors suggested in the NYSE s Commentary to Section 303A.02, such as commercial, industrial, banking, consulting, legal, accounting, charitable or familial relationships, among other relationships, or other interactions with management that do not meet the absolute thresholds under Section 303A.02 or Item 404(a) but which, nonetheless, could reflect upon a director s independence from management. In considering the materiality of any transactions or relationships that do not require disqualification under Section 303A.02(b), the Board of Directors considered the materiality of the transaction or relationship to the director, the director s business organization and the Company and whether the relationship between (i) the director s business organization and the Company, (ii) the director and the Company and (iii) the director and his or her business organization interfered with the relevant director s business judgment.

Based on the foregoing, the Company has determined that the following directors are independent: Alan L. Bazaar, James D. Fast, Charles R. Kummeth, David P. Molfenter, James R. Swartwout and Frank A. Wilson.

Meetings of Independent Directors

The independent directors schedule meetings in executive sessions without the presence of the Company s management. The Chairman presides over the sessions during the year.

The independent directors met four times during fiscal year 2018.

Shareholder Communication with Independent Directors

Shareholders wishing to communicate directly with the independent directors may send correspondence addressed as follows:

Independent Directors

c/o Corporate Secretary

Sparton Corporation

425 N. Martingale Road, Suite 1000

Schaumburg, Illinois 60173-2213

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Board Leadership Structure and Board and Committee Information

Chairman

Mr. James R. Swartwout has been elected by the directors as the Chairman. The Chairman provides leadership to enhance the effectiveness of the Board of Directors, presides over meetings of the directors, and serves as a liaison between the Board of Directors and management. The Chairman is responsible for determining when to hold, and who shall preside over, executive sessions held by the independent directors. If a shareholder, employee, or third party prefers not to communicate directly with the entire Board of Directors or management, communications may be sent to the Chairman, in care of the Corporate Secretary, using the above address.

Board and Committee Structure

As of the date of this Proxy Statement, the Company s Board of Directors consists of six independent directors, including the Chairman of the Board, Mr. Swartwout, and one non-independent director, Mr. Joseph J. Hartnett, the Interim President and Chief Executive Officer of the Company. The Board of Directors has established four committees, being the Audit, Compensation, Nominating and Corporate Governance, and Process Committees, as further described below. Other than the Process Committee, each of the committees is comprised solely of independent directors, and each committee has a different chair. The Company believes that its predominantly independent Board of Directors, mixed with the experience of its non-independent director, constitutes a leadership structure that is most appropriate for the Company and its shareholders.

The Board of Directors had 19 meetings during fiscal year 2018.

Board of Directors Committee Membership

Director	Independent	Audit	Compensation	Nominating and Corporate Governance	Process
Alan L. Bazaar	Yes	x		x	x
James D. Fast	Yes			x - Chairman	
Joseph J. Hartnett	No				x
Charles R. Kummeth	Yes		x		
David P. Molfenter	Yes		x - Chairman	x	x
James R. Swartwout	Yes	x			x - Chairman
Frank A. Wilson	Yes	x - Chairman	x		

x denotes committee membership

Audit Committee

The Audit Committee met four times during fiscal year 2018 and is currently comprised of Messrs. Frank A. Wilson (Chairman), Alan L. Bazaar, and James R. Swartwout. The Audit Committee operates under a written charter and oversees auditing, financial reporting and internal control matters regarding accounting and financial controls. It also selects the firm that the Company retains as its independent registered public accountants and recommends the ratification of their selection by the shareholders. The Audit Committee consults with the independent registered public accountants and oversees their audit and other work. The Audit Committee also consults with the Chairman of the Board, President and Chief Executive Officer, and Chief Financial Officer and oversees those individuals who review the Company s internal controls and compliance with policies. Each member of the Audit Committee is independent, as defined under the NYSE listing standards.

Mr. Wilson and Mr. Bazaar, in addition to being independent, each qualify as an audit committee financial expert as defined in the SEC Regulation S-K, Item 407(d)(5)(ii). Mr. Wilson s relevant financial experience includes that he is a Certified Public Accountant and has a B.B.A, Accounting, from Baylor University. Mr. Wilson has served as the Senior Vice President and Chief Financial Officer of PerkinElmer since 2009 and

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retired in 2018. Previously, Mr. Wilson served in various financial management roles over a period of 12 years at the Danaher Corporation. Mr. Bazaar s relevant financial experience includes that he is a Certified Public Accountant and has a MBA from the Stern School of Business at New York University. Mr. Bazaar serves as the Chief Executive Officer of a full-service wealth management firm, Hollow Brook Wealth Management LLC, and he has served as a Managing Director and Portfolio Manager in public equity, in investment decision-making roles and conducting financial and other due diligence.

For additional detail, see *Director Biographies* below at page 13 describing the members of the Board of Directors and their respective experience, qualifications, attributes and skills.

The independent registered public accountants have access to the Audit Committee without any other members of management being present. The Audit Committee met with management and the independent registered public accountants before the announcement of earnings each quarter. The Audit Committee also met with the independent registered public accountants without management present on four occasions during fiscal year 2018. The Audit Committee also reviewed the annual consolidated financial statements and annual report on Form 10-K and the Audit Committee report in this Proxy Statement before each was filed with the SEC.

Compensation Committee

The Compensation Committee held three meetings during fiscal year 2018. The Compensation Committee is currently comprised of Messrs. David P. Molfenter (Chairman), Frank A. Wilson and Charles R. Kummeth. The Compensation Committee monitors the remuneration, including any restricted stock, restricted stock units and stock options, for the Company s management, including the Named Executive Officers.

The Compensation Committee may delegate its authority to subcommittees consisting of independent directors and may be assisted on compensation matters by members of the Company s staff. The Compensation Committee may, as needed, employ compensation consultants to assist the committee with its determination of the amount and/or form of executive compensation. The compensation philosophy, the compensation components, and their application as described in the Compensation Discussion and Analysis, which appears below, are generally employed by the Compensation Committee in connection with the compensation for all of the executive officers of the Company.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee, which is currently comprised of Messrs. Alan L. Bazaar (Chairman), James D. Fast, and David P. Molfenter, held three meetings during fiscal year 2018.

The Nominating and Corporate Governance Committee reviews corporate governance documents, and reviews the makeup of the existing Board of Directors and the tenure of its members, consistent with appropriate principles of corporate governance and applicable regulations, and reviews and recommends director remuneration to the full Board of Directors. The Nominating and Corporate Governance Committee also receives candidate resumes, and considers and recommends candidates for election to the Board of Directors consistent with the needs of the Company, regulatory requirements, and the qualifications of the candidates. The Nominating and Corporate Governance Committee has implemented a formal process for consideration of candidates, which is described under Director Qualifications below.

Process Committee

The Process Committee, which is comprised of Messrs. Alan L. Bazaar, Joseph J. Hartnett, David P. Molfenter, and James R. Swartwout, held eight meetings during fiscal year 2018. The Process Committee operates under a written charter approved by the Board of Directors, and was charged by the Board of Directors with exploring a range of strategic alternatives to determine the best way to enhance shareholder value. The Board retained Wells

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Fargo Securities, LLC (Wells Fargo Securities) and Raymond James & Associates, Inc. (Raymond James) as financial advisors, and Mayer Brown LLP (Mayer Brown), as legal advisor, to assist in this process. Prior to establishment of the Process Committee and when the Board of Directors had a different composition, the Board of Directors had established a Special Committee, but the Special Committee is not currently active.

On July 7, 2017 the Company, Ultra Electronics Holdings plc (Ultra), and Ultra Electronics Aneira, Inc. (Merger Sub) entered into an Agreement and Plan of Merger (the Merger Agreement) that provides for Ultra to acquire the Company by merging Merger Sub into the Company (such transaction referred to as the Merger), subject to the terms and conditions set forth in the Merger Agreement. Before entering into the Merger Agreement, the Board of Directors, the Process Committee, and the Special Committee extensively reviewed the Company s options to enhance shareholder value. The Board of Directors held 23 meetings, the Special Committee held 8 meetings and the Process Committee held 46 meetings between September 2, 2015 and July 6, 2017 at which the possibility of selling the Company was discussed. The Company s outside legal advisor, Mayer Brown, participated in portions of all but one of these meetings, and one or both of the Company s financial advisors, Wells Fargo Securities and Raymond James, participated in portions of certain of these meetings.

On October 5, 2017, at a special meeting of holders of shares of common stock of the Company, shareholders voted to adopt the Merger Agreement. Although the Merger Agreement had been adopted by the Company s shareholders, consummation of the Merger remained subject to other closing conditions, including the expiration or termination of the applicable waiting period (or any extension thereof) under the Hart-Scott-Rodino Antitrust Improvements Act (the HSR Act).

On March 5, 2018, the Company announced the termination by the Company and Ultra of the Merger Agreement as a result of the staff of the United States Department of Justice (the DOJ) informing the parties that it intended to recommend that the DOJ block the Merger. Under a Merger Termination Agreement entered into by the Company, Ultra and Merger Sub, the parties agreed to release each other from certain claims and liabilities arising out of or related to the Merger Agreement or the transactions contemplated therein or thereby, including any termination fees. The parties also agreed that certain agreements with confidentiality obligations will continue in full force and effect.

As a result of the termination of the Merger Agreement, the Company announced that it would seek to re-engage with parties that previously expressed an interest in acquiring all or a part of the Company and that are in a position to expeditiously proceed to effect such a transaction. There can be no assurance that any such process will result in the execution of a definitive agreement or the completion of a transaction.

Board Role in Risk Oversight

The Board of Directors is ultimately responsible for oversight of risk management. As part of the risk management process, the Company s management team, through its Risk Management Committee, is responsible for identifying and monitoring potential risks facing the Company. The Risk Management Committee s Chairman will rotate annually and various business departments report potential risks to the Chairman on a periodic basis. The Chairman of the Risk Management Committee reviews such potential risks with the Committee and counsel and reports its determinations to the Board of Directors. The Company believes that reviewing risk at the business department level by the Risk Management Committee, as reported to the Board of Directors, provides the Board of Directors with a comprehensive and detailed overview of enterprise risk.

The Audit Committee is charged with reviewing the adequacy and effectiveness of the accounting and financial controls, including the Company s systems to monitor, assess and manage financial, business, legal and compliance risk.

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Further, the Board of Directors believes that the roles of Chief Executive Officer and Chairman of the Board of Directors should be separated and, therefore, two different individuals serve as the Company s Chief Executive Officer and Chairman. Mr. Joseph J. Hartnett serves as the Company s Interim Chief Executive Officer and Mr. James R. Swartwout serves as the Chairman of the Company s Board of Directors.

The Company s risk structure allows the Company s independent directors to exercise effective oversight of the actions of management, led by Mr. Joseph J. Hartnett as Interim Chief Executive Officer and President, in identifying risks and implementing effective risk management policies and controls.

Corporate Governance Guidelines and Charters

The Board of Directors has adopted Corporate Governance Guidelines applicable to the Company. The Nominating and Corporate Governance Committee reviews the Guidelines annually to determine whether to recommend changes to the Board of Directors to reflect new laws, rules and regulations and developing governance practices. The Guidelines address several key areas of corporate governance, including the Company s governance philosophy, director responsibilities, Board of Directors composition, Board of Directors meetings and committees, director independence, and director compensation. The Guidelines are available on the Company s website, www.sparton.com.

In addition to the Guidelines, the Board of Directors adopted charters for the Compensation, Audit, and Nominating and Corporate Governance Committees addressing corporate governance issues. These charters address issues such as independence of the committee members, committee organization and powers, member qualifications, duties and responsibilities, and corporate governance.

As of July 1, 2018, all members of the Audit, Compensation, and Nominating and Corporate Governance Committees were independent directors. Copies of the charters for each of the Audit, Compensation, and Nominating and Corporate Governance Committees are located on the Company s website, www.sparton.com. The Company continues to develop and refine its corporate governance policies and practices and their place within the committee structure of the Board of Directors.

The Board of Directors has determined that maintaining an Executive Committee as a standing committee is not necessary, in part due to the smaller size of the Board of Directors. The Board of Directors will continue to review whether or not it is appropriate to re-establish an Executive Committee in the future.

Code of Business Conduct and Ethics

The Company s Code of Business Conduct and Ethics sets forth the Company s corporate values. The Code of Business Conduct and Ethics governs the actions and working relationships of the Company s employees, officers and directors, and sets forth the standard of conduct of the Company s business at the highest ethical level and in compliance with all applicable laws and regulations.

To the extent any waiver is granted with respect to the Code of Business Conduct and Ethics that requires disclosure under applicable SEC rules, such waiver will also be posted on the Company s website, as will any amendment that may be adopted from time to time.

Additionally, the Company has established the following statement of its Corporate Values :

We demand performance excellence in all that we do.

We demand integrity of ourselves, our products, and our services.

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We foster growth and success in an environment of teamwork, collaboration, empowerment, and accountability.

We develop long term, trusting relationships to ensure mutually profitable growth.

We will maintain a safe and environmentally sound workplace.

We will be good corporate citizens in the communities in which we reside.

Whistleblower Provisions

It is the Company s policy to encourage its employees and other persons to disclose improper activities, and to address complaints alleging acts of reprisal or intimidation resulting from disclosure of improper activities. Individuals wishing to report improper activities may call the Company s Whistleblower service at 1-800-488-1933 (from within the United States) or 1-800-4818 (from Vietnam). Activities may be reported anonymously if desired.

Director Attendance at Meetings

All directors attended at least 75% of the aggregate total number of meetings of the Board of Directors and committees on which they serve during fiscal year 2018. In addition, the directors are expected to attend the Annual Meeting. At the Company s 2017 Annual Meeting of the Shareholders, all of the directors serving at that time were in attendance. Pursuant to our Corporate Governance Guidelines our directors are encouraged to attend director education programs on an annual basis.

Director Qualifications

The Nominating and Corporate Governance Committee is responsible for reviewing with the Board of Directors, from time to time, the appropriate qualities, skills and characteristics desired for members of the Board of Directors in the context of the current make-up of the Board of Directors. This assessment includes consideration of the following summary of qualifications that the Nominating and Corporate Governance Committee believes must be met by all directors, as well as the following considerations for the composition of the Board of Directors as a whole:

Essential Qualities

- Relevant and substantial business experience, with an understanding of what is involved in leading a company.

- Sound business instincts and judgment, with the ability to make informed and strategic decisions.

- Professional and personal reputation and integrity consistent with the Company s Code of Business Conduct and Ethics.

- Strong interpersonal skills evidencing the ability to work as part of a group and express views that are both challenging to and supportive of management.

- Commitment and availability to the Company to perform necessary and desired duties, with the ability to accept accountability for their role in decisions of the Board of Directors.

- Genuine interest in the Company, its business, and its people, with a willingness to remain committed over a period of several years.

Board Composition Considerations

Strategic mix of directors allowing for diverse expertise and experience fitting the specific needs of the Company, now and anticipated in the future.

- Multiple directors possessing understanding and expertise in the area of accounting and finance.

- Multiple directors with specific experience and knowledge of the risks and challenges unique to the industries in which the Company operates.

- Visionaries with the ability to lead, manage change, and assist in the continued growth of the Company.

- Familiarity with and understanding of the media and various financial markets.

- The Board of Directors considers diversity, including cognitive and experiential diversity, of director nominees to be desirable to achieve balanced deliberation; however the Company does not have a formal written diversity policy.

These and other factors are considered by the Board of Directors in selection of director nominees.

Process for Identifying and Evaluating Director Nominees

The Board of Directors is responsible for selecting director candidates. The Board of Directors delegates the identification, recruitment and recommendation of director nominees to the Nominating and Corporate Governance Committee, with the expectation that other members of the Board of Directors and management will be requested to take part in the process as appropriate.

When it is determined by the Board of Directors that a new director or nominee is to be recruited, the Nominating and Corporate Governance Committee undertakes a candidate selection process. The Committee maintains a selection criteria document, which has been approved by the Board of Directors and which the Committee reviews regularly to ensure that it is applicable. The criteria include both general criteria that all candidates must meet and specific criteria regarding skill or background that are desirable to the Board of Directors. The Nominating and Corporate Governance Committee, with the counsel of the full Board of Directors, determines which specific background should be represented in the candidate. The criteria are then given to a professional recruiter who specializes in board placements and a search is commenced. Potential candidates known to existing directors or suggested by shareholders who are believed to meet the criteria may be suggested to the recruiting agency for inclusion in the initial pool of candidates. Once candidates have been identified, the Nominating and Corporate Governance Committee confirms that the candidates meet all of the qualifications for director nominees established by the Nominating and Corporate Governance Committee. Based on the results of an evaluation process, the Nominating and Corporate Governance Committee recommends candidates for the Board of Directors approval as director nominees for election to the Board of Directors. The Nominating and Corporate Governance Committee also recommends candidates for the Board of Directors appointments to the committees of the Board of Directors. The Nominating and Corporate Governance Committee has included in its search criteria the need for diverse candidates to be recruited and considered.

Procedure for Recommendation of Director Nominees by Shareholders

The Nominating and Corporate Governance Committee will consider director candidates who are recommended by shareholders of the Company. As required by Article I, Section 10 of the Company s Code of Regulations, to recommend a nominee, a shareholder should write to the Company s Corporate Secretary at 425 N. Martingale Road, Suite 1000, Schaumburg, Illinois 60173-2213. Under the Code of Regulations, to be considered by the Nominating and Corporate Governance Committee for nomination and inclusion in the Company s Proxy Statement for its Annual Meeting of Shareholders, a shareholder recommendation for a director must be received by the Company s Secretary no later than 120 days nor more than 240 days prior to the one year anniversary of the preceding Annual Meeting.

Any recommendation must include (i) all information relating to such nominee that is required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of

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directors pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder (including such person s written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (ii) a description of all direct and indirect compensation and other material monetary agreements, arrangements and understandings during the past three years, and any other material relationships, between or among such shareholder and beneficial owner, if any, and their respective affiliates and associates, or others acting in concert therewith, on the one hand, and each proposed nominee, and his or her respective affiliates and associates, or others acting in concert therewith, on the other hand, including without limitation all information that would be required to be disclosed pursuant to Rule 404 of Regulation S-K; (iii) a representation of the shareholder that he or she intends to appear at the annual meeting to bring such nomination or other business before the annual meeting; and (iv) such other information as may reasonably be required by the Board of Directors as described in the Company s proxy statement for the preceding year s annual meeting. The Company may require any proposed nominee to furnish such other information as may reasonably be required by the Company to determine the eligibility of such proposed nominee to serve as an independent director of the Company or that could be material to a reasonable shareholder s understanding of the independence, or lack thereof, of such nominee.

Further information regarding shareholder recommendation of director candidates is contained in the Nominating and Corporate Governance Committee Charter, which is available at the Company s website at www.sparton.com.

Assuming the appropriate information is provided for candidates submitted by shareholders, the Nominating and Corporate Governance Committee will evaluate those candidates by following the same process, and applying the same criteria, as for candidates submitted by members of the Board of Directors. All director nominees recommended for election at the Annual Meeting are current members of the Board of Directors.

Shareholder Communications Policy

Shareholders should communicate with the Board of Directors by sending a letter to the Sparton Corporation Board of Directors, c/o the Corporate Secretary, 425 N. Martingale Road, Suite 1000, Schaumburg, Illinois 60173-2213. The Corporate Secretary will receive the correspondence and forward it to the director or directors to whom the communication is directed, unless the communication is unduly hostile, threatening, harassing, illegal, not reasonably related to the Company or its business, or similarly inappropriate. The Corporate Secretary has the authority to discard or disregard any inappropriate communications (other than a proposal submitted pursuant to Rule 14a-8 under the Exchange Act, or any communication made in connection with such a proposal) or to take other appropriate actions with respect to any such inappropriate communications. In addition, the Corporate Secretary is authorized to forward communications that are clearly more appropriately addressed by other departments, such as customer service or accounting, to the appropriate department. The foregoing instructions by the directors to the Corporate Secretary are subject to change by the directors. Additionally, all communications are available to any director who wishes to review them.

Availability of Information at Company Website

The Company s website address is www.sparton.com. Information provided at the website includes, among other items, the Company s Corporate Governance Guidelines, current charters for the Audit, Compensation, and Nominating and Corporate Governance Committees of the Board of Directors, Board of Directors committees and their membership, the Company s Code of Business Conduct and Ethics, any Shareholder Letters, the Company s Annual Report, Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and news releases. The information is also available, without charge, by contacting the Shareholders Relations Department at 1-847-762-5800.

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PROPOSAL 1

ELECTION OF DIRECTORS

Director Nominees

Our Code of Regulations provides that our Board of Directors will consist of not less than seven members, but our Board of Directors is authorized to fix and change the actual number of our directors from time to time. Our Code of Regulations also provides that a person shall not be eligible for election as a director of the Corporation if at the time of such election that person has reached the age of 73. After careful consideration of the Company s governance documents, Mr. Molfenter and the Board of Directors determined he would not run given he has reached the age of 73, and the Board of Directors reduced the number of directors to six.

Messrs. Alan L. Bazaar, James D. Fast, Joseph J. Hartnett, Charles R. Kummeth, James R. Swartwout, and Frank A. Wilson, current directors whose terms of office expire at the Annual Meeting, are nominees for election to a one year term expiring in 2019 and the election and qualification of their successors. The nominations were made by the Nominating and Corporate Governance Committee and approved by the Board of Directors.

It is believed that all six nominees are, and will be at the time of the Annual Meeting, available for election; and, if elected, will serve. Each of the nominees has consented to being named a nominee in this Proxy Statement and has agreed to serve as a director, if elected at the Annual Meeting. However, in the event one or more of them is or should become unavailable, or should decline to serve, it is intended that the proxies will be voted for the balance of the nominees and for such substitute nominee or nominees as the Board of Directors may in its discretion select.

Vote Required for Approval

Each share of common stock is entitled to one vote for each of the six director positions being filled at the Annual Meeting. In order to elect a nominee as a director of the Company, he or she must receive a greater number of votes cast FOR his or her election than AGAINST his or her election. Shares not voted at the Annual Meeting, whether by abstention, broker non-vote, or otherwise, will have no effect on the election of directors. See Outstanding Stock and Voting Rights Quorum and Vote Required at page 3 for additional information.

Board Recommendations

The Board of Directors recommends a vote FOR the election of each of the six nominees, Alan L. Bazaar, James D. Fast, Joseph J. Hartnett, Charles R. Kummeth, James R. Swartwout, and Frank A. Wilson.

Unless otherwise directed by marking the accompanying proxy, the proxy holders named therein will vote FOR the election of the six nominees.

Director Biographies

The following table summarizes the specific experience, qualifications, attributes and skills that led the Nominating and Corporate Governance Committee and the Board of Directors to conclude that the following individuals should serve as directors are set forth opposite each individual s name. The Company s Board of Directors consists primarily of individuals with broad leadership and business skills, as detailed below, who have relevant experience with companies ranging in size from smaller to much larger than the Company, including individuals who have served as chief executive officers and chief financial officers of such companies. The Nominating and Corporate Governance Committee and the Board of Directors consider the skill sets both individually and as a whole in considering who to recommend as nominees. The Board of Directors believes that all of the members of the Board of Directors have the highest professional and personal ethics and values.

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Alan L. Bazaar, age 48

Director since: 2016

Independent

Mr. Bazaar serves as the Chief Executive Officer of Hollow Brook Wealth Management LLC, a full-service wealth management firm. Prior to Hollow Brook, Mr. Bazaar was a Managing Director and Portfolio Manager at Richard L. Scott Investments, LLC (RLSI). Mr. Bazaar was with RLSI for over ten years where he co-managed the public equity portfolio. He was responsible for all aspects of the investment decision-making process including all elements of due diligence.

Mr. Bazaar serves as the Chair of the Board of Directors of the NYSE-traded Wireless Telecom Group, and is a member of the Board of Directors of NASDAQ-traded Hudson Global, Inc. Mr. Bazaar was formerly a director at LoJack Corporation (Nasdaq: LOJN) where he was a member of the Special Committee and a member of the Nominating and Governance Committee. LoJack was sold to CalAmp Corp. (Nasdaq: CAMP) in March 2016. He was also on the Board of NTS Inc. (Nasdaq: NTS) where he was the Chairman of the Audit Committee until the sale of the Company to Tower Three Partners LLC in June 2014, and on the Board of Media Sciences Inc. (NYSE: MSII) where he was Chairman of the Nominating and Governance Committee, a member of the Audit Committee and a member of the Compensation Committee at different points in time during his tenure on the Board from June 2004 to April 2008. Mr. Bazaar was also on the Board of Airco Industries, Inc., a privately held manufacturer of aerospace products until the sale of the Company to AbelConn Electronics in October 2010. He also is a member of the Investment Advisory Committee of G. Scott Capital Partners, LLC, a private equity firm.

Mr. Bazaar received an undergraduate degree in History from Bucknell University and a MBA from the Stern School of Business at New York University. Mr. Bazaar is also a Certified Public Accountant.

Mr. Bazaar brings to the Board of Directors finance expertise, as well as diverse experience in mergers, acquisitions and divestitures.

James D. Fast, age 71

Director since: 2001

Independent

Retired since August 2008, formerly Chief Executive Officer, President and Director of Firstbank-West Michigan, Ionia, Michigan. Prior to joining Firstbank, Mr. Fast served as Group Vice President, Michigan National Bank-Michiana. Mr. Fast has forty years of experience in commercial banking and administration. Mr. Fast previously served as a Director of Volcor Finishing, a privately held company in Ionia, Michigan.

Mr. Fast has experience with respect to mergers and acquisitions, negotiation, compliance management and human resource oversight and supervision of financial statement preparation. His extensive skill set with respect to executive management and commercial finance provides the Board of Directors with beneficial insights with respect to business and finance matters.

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Joseph J. Hartnett, age 63

Director since: 2008

Management

Mr. Hartnett has been the Interim President and Chief Executive Officer of the Company since February 2016.

Mr. Hartnett has consulted with companies as a C-level executive since 2010. Mr. Hartnett previously served as President and Chief Executive Officer of Ingenient Technologies, Inc., a multimedia software development company located in Rolling Meadows, Illinois, from April 2008 through November 2010. He joined Ingenient as Chief Operating Officer in September 2007 and left Ingenient following the sale of the company and completion of post-sale transition activities. Prior to Ingenient, Mr. Hartnett served as President and Chief Executive Officer of U.S. Robotics Corporation, a global Internet communications product company headquartered in Schaumburg, Illinois, from May 2001 through October 2006. He was Chief Financial Officer of U.S. Robotics from June 2000 to May 2001. Prior to U.S. Robotics, Mr. Hartnett was a partner with Grant Thornton LLP where he served for over 20 years in various leadership positions at the regional, national, and international level.

Mr. Hartnett is a registered Certified Public Accountant in the State of Illinois, and holds a Bachelor of Science degree in Accounting from the University of Illinois at Chicago.

Mr. Hartnett has served as a director of Garmin Ltd. (NASDAQ: GRMN) since June 7, 2013, is current chairman of its compensation committee, and serves as a member of its audit and nominating and corporate governance committees, and is a former director of Crossroads Systems, Inc. (NASDAQ: CRDS), U.S. Robotics Corporation and Ingenient Technologies, Inc.

Mr. Hartnett brings significant industry experience in the areas of international business, operations management, executive leadership, strategic planning and finance, as well as extensive corporate governance, executive compensation and financial experience.

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Charles R. Kummeth, age 58

Director since: 2011

Independent

Mr. Kummeth has served as the Chief Executive Officer of Bio-Techne Corporation, a Minnesota corporation, since April 2013. Bio-Techne Corporation and its subsidiaries are engaged in the development, manufacture and sale of biotechnology products and hematology calibrators and controls. Mr. Kummeth served as President of the Mass Spectrometry and Chromatography division of Thermo Fisher Scientific, a Delaware corporation that provides services and products within the science industry, from April 2008 through March 2013. He previously served as President of the Medical Product Division of 3M, a Delaware corporation, beginning in 2006. From 2004 to 2006, Mr. Kummeth served as the Managing Director of 3M for the UK and Ireland.

Mr. Kummeth has served on the board of Avantor, Inc., a private global life sciences company since May 2016, and on the board of Gentherm Incorporated (NASDAQ: THRM), a public company which designs, develops and manufactures thermal management technologies, since August 2018. Mr. Kummeth served on the board of BSN Medical Inc., a private global medical device company, from March 2013 to July 2016.

Mr. Kummeth received a Bachelor of Science in Electrical Engineering from University of North Dakota in 1983, a Master of Science in Computer Science from University of St. Thomas in 1989, and a Master of Business Administration from the Carlson School of Business at the University of Minnesota in 1993.

Mr. Kummeth has significant industry experience in the areas of serving science, innovative technologies, software and laboratory operations. His extensive skill set with respect to executive management of a global company with high repute in the scientific community provides the Board of Directors with industry expertise and added business insights.

James R. Swartwout, age 72

Director since: 2008

Independent

Mr. Swartwout has been an advisor to private equity groups since 2008. From October 2006 to September 2008, he was Chief Executive Officer and member of the Board of Directors of Habasit Holding USA, the acquirer of Summa Industries, a California-based, publicly traded manufacturer of diversified plastic products for industrial and commercial markets. From October 1988 to October 2006, Mr. Swartwout held the following positions with Summa Industries (formerly NasdaqGM: SUMX): Chairman of the Board of Directors, Chief Executive Officer and Chief Financial Officer. Mr. Swartwout has served on the boards of directors of numerous public and private companies. He received a Bachelor of Science in Industrial Engineering from Lafayette College and a Master of Business Administration from the University of Southern California.

Mr. Swartwout has extensive experience in a broad array of matters relevant to the affairs of the Company, including mergers, acquisitions and divestitures; management of complex, multi-business corporations; corporate governance and other matters concerning public companies.

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Frank A. Andy Wilson, Age 60

Director since: 2015

Independent

Mr. Wilson retired in 2018 as the Senior Vice President and Chief Financial Officer at PerkinElmer, where he had served since 2009. Prior to joining PerkinElmer, Mr. Wilson held key financial and business management roles over 12 years at the Danaher Corporation, including Corporate Vice President of Investor Relations, Group Vice President of Business Development, Group Vice President of Finance for Danaher Motion Group, President of Gems Sensors, and Group Vice President of Finance for the Industrial Controls Group. Previously, Mr. Wilson worked for several years at AlliedSignal Inc., now Honeywell International, where he last served as Vice President of Finance and Chief Financial Officer for Commercial Avionics Systems. His earlier experience includes PepsiCo Inc. in financial and controllership positions of increasing responsibility, E.F. Hutton and Company, and KPMG Peat Marwick. He received a Bachelor of Business Administration, Accounting from Baylor University and is also a Certified Public Accountant. Mr. Wilson has served on the board of the Cabot Corporation (NYSE: CBT), a public specialty chemicals and performance materials company, since July 2018.

Mr. Wilson has extensive experience in a broad array of matters relevant to the affairs of the Company, including strategic planning, finance, investor relations and business development in a large public company setting, along with marquee affiliation with the Medical, Industrial and Military & Aerospace Industries.

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PROPOSAL 2

RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

Relationship with Independent Registered Public Accountants

The Audit Committee appoints the independent registered public accounting firm to serve as the Company s independent registered public accountant. BDO USA, LLP (BDO USA) is currently the independent registered public accountant for the Company. In addition to performing the audit of the Company s consolidated financial statements, BDO USA provided various other services during fiscal year 2018. The Audit Committee has considered the provision of all non-audit services performed by BDO USA during fiscal year 2018 with respect to maintaining auditor independence. The Audit Committee reviewed and pre-approved all professional services requested of, and performed by, BDO USA. The aggregate fees billed for fiscal year 2018 and 2017 for each of the following categories of services are set forth below.

Pursuant to the Pre-Approval Policy, the Audit Committee annually reviews and pre-approves the services that may be provided by the independent registered public accountant, and such services are considered approved through the next annual review. The Audit Committee revises the list of pre-approved services from time to time based on subsequent determinations. The Audit Committee may delegate pre-approval authority to its Chairman. The Chairman shall report any pre-approval decisions to the Audit Committee at its next scheduled meeting. The Pre-Approval Policy for audit and non-audit services is available on the Company s website at www.sparton.com.

Fees

The following table presents fees for services provided by BDO USA for the years ended July 1, 2018 and July 2, 2017:

(In thousands)	**Year Ended**	
	July 1, 2018	**July 2, 2017**
Audit Fees	$ 496	$ 521
Audit-Related Fees	32	34
Tax Fees	317	356
All Other Fees		
Total	$ 845	$ 911

Audit Fees

These fees relate to the audit of the consolidated financial statements, including segment work, and for other attest services.

Audit-Related Fees

These fees primarily relate to audits of employee benefit plans.

Tax Fees

These fees relate to tax compliance, tax advice and tax planning and tax consultation for contemplated transactions.

All Other Fees

These fees are for non-audit related government contract consulting services.

Auditor Independence

The Audit Committee is required to consider the independence of BDO USA when engaging the firm to perform audit-related and other services. In 2018, it was determined by the Audit Committee that audit-related and other services provided and the fees paid for those services were consistent with maintaining the independence of BDO USA.

Vote Required for Approval

On August 21, 2018, the Audit Committee of the Board of Directors agreed to recommend the appointment of the accounting firm of BDO USA as the independent registered public accountants for the Company for the fiscal year ending June 30, 2019, and, on October 31, 2018, the Board of Directors approved such appointment. The Board of Directors is asking the shareholders to ratify the appointment of BDO USA.

Each share of common stock is entitled to one vote for this Proposal. In order to be adopted, this Proposal must be ratified by the holders of a majority of the shares entitled to vote thereon present in person or represented by proxy at the Annual Meeting. Broker non-votes are not counted for purposes of this Proposal. Abstentions have the same effect as a vote against this Proposal. Because this vote is advisory, it will not be binding upon the Board of Directors. However, the Board of Directors values the opinion of its shareholders and, in the event that the shareholders do not ratify the appointment by approving this Proposal 2, the Board of Directors and the Audit Committee will consider the selection of other independent registered public accountants.

Board Recommendation

The Board of Directors recommends that shareholders vote FOR the ratification of the selection of BDO USA, LLP by an advisory vote.

Representatives of BDO USA, the Company s independent registered public accounting firm, are expected to be present at the Annual Meeting. They will have an opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

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PROPOSAL 3

ADVISORY VOTE ON NAMED EXECUTIVE OFFICER COMPENSATION

The Company has designed its executive compensation program to attract, motivate, retain and reward its senior management in order to achieve the Company s corporate objectives and increase value for our shareholders. The Company believes that its compensation policies and procedures are centered on a pay-for-performance philosophy and are aligned with the long-term interests of our shareholders.

The Company is presenting the following proposal, as required under Section 14A of the Exchange Act, which gives each shareholder the opportunity to have a voice and endorse or not endorse the Company s executive compensation paid to our Named Executive Officers by voting for or against the following resolution:

RESOLVED, that the compensation paid to the Company s Named Executive Officers, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis and related compensation tables and the narrative discussion, is hereby approved.

As discussed in the Compensation Discussion and Analysis contained in this Proxy Statement, the Compensation Committee of the Board of Directors believes that the executive compensation for fiscal year 2018 is justified by the performance of the Company in a very competitive environment, is reasonable and is the result of a carefully considered approach.

In deciding how to vote on this Proposal, the Company urges you to consider the various factors regarding compensation matters as discussed in the Compensation Discussion and Analysis. Your vote is not intended to address any specific item of compensation, but rather the overall compensation of our Named Executive Officers and the compensation policies and practices described in this Proxy Statement.

Because your vote is advisory, it will not be binding upon the Board of Directors. However, our Board of Directors values your opinion and the Board of Directors and the Compensation Committee will take into account the outcome of the vote when considering future executive compensation arrangements.

Vote Required for Approval

Approval of the proposal requires the affirmative vote of a majority of the shares of our common stock present in person or represented by proxy and entitled to be voted on the proposal at the Annual Meeting. Broker non-votes are not counted for purposes of this Proposal. Abstentions have the same effect as a vote against this Proposal.

Board Recommendation

The Board of Directors recommends a vote FOR approval of the compensation of the Company s Named Executive Officers as set forth in Proposal 3.

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STOCK OWNERSHIP AND SECTION 16 COMPLIANCE

Director and Executive Officer Beneficial Ownership

The following table shows the shares of the Company s common stock beneficially owned (except as noted) by the Named Executive Officers, the members of our Board of Directors, and all executive officers and directors of the Company as a group as of July 1, 2018. Named Executive Officers, consistent with Item 402(a) of Regulation S-K promulgated under the Exchange Act, include: (i) the Company s Chief Executive Officer and individuals acting in a similar capacity during fiscal year 2018, regardless of compensation level; (ii) all individuals serving as the Company s Chief Financial Officer or acting in a similar capacity during fiscal year 2018, regardless of compensation level; (iii) the Company s three most highly compensated executive officers other than the Chief Executive Officer and the Chief Financial Officer who were serving as executive officers at the end of fiscal year 2018; and (iv) up to two additional individuals who would have been included under (iii) above but for the fact that the applicable individual was not serving as an executive officer of the Company at the end of fiscal year 2018.

Name of Beneficial Owner	Number of Shares	Shares Underlying Options (1)	Total Number of Shares Beneficially Owned	Percent of Class (2)
Alan L. Bazaar	3,349		3,349	*
James D. Fast (3)	38,307		38,307	*
Michael A. Gaul	2,524	4,566	7,090	*
Joseph J. Hartnett	48,580		48,500	*
Charles R. Kummeth	16,197		16,197	*
David P. Molfenter	41,056		41,056	*
James R. Swartwout (4)	43,466		43,466	*
Frank A. Andy Wilson	7,972		7,972	*
Joseph G. McCormack	2,000	7,810	9,810	*
Gordon B. Madlock	18,353	9,632	27,985	*
Joseph T. Schneider (5)		5,465	5,465	*
Steven M. Korwin	30,167	7,302	37,469	*
All Directors and executive officers as a group	292,267	41,020	333,287	3.37%

* denotes a percentage of less than 1%

(1) Amounts reflect shares under options held by executive officers and directors exercisable as of August 31, 2018.

(2) Calculation is based on total shares outstanding as of July 1, 2018, being 9,834,723 shares of common stock, plus shares deemed to be beneficially owned by virtue of options to purchase those shares, if any, held by the applicable person or group for which the calculation is made.

(3) Includes 25,663 shares over which Mr. Fast s spouse shares voting and investment control.

(4) Includes 26,953 shares over which Mr. Swartwout s spouse shares voting and investment control.

(5) Mr. Schneider s employment terminated April 13, 2018 at which point all his unvested options and restricted stock units were forfeited. On July 12, 2018 (90 days after Mr. Schneider s termination) his 5,465 vested options were forfeited.

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Principal Shareholders

As of July 1, 2018, unless otherwise described in the footnotes below, the persons named in the following table were known by management to be the beneficial owners of more than 5% of the Company s outstanding common stock. Certain of the beneficial owners listed below share voting and investment power over their respective shares of Company common stock, as detailed in the footnotes below. As a result, certain of the share amounts and percentages stated below are held by multiple beneficial owners.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
BlackRock, Inc. 55 East 52nd Street New York, NY 10055	534,776(1)	5.43%
Dimensional Fund Advisors LP Building One 6300 Bee Cave Road Austin, TX 78746	680,984(2)	6.92%
GAMCO Investors, Inc., ***et al.*** One Corporate Center. Rye, New York 10580-1435	811,458(3)	8.25%
Renaissance Technologies, LLC 800 Third Ave. New York, NY 10022	555,435(4)	5.64%
The Vanguard Group 100 Vanguard Blvd. Malvern, PA 19355	701,650(5)	7.13%

(1) The shares presented are according to information included in the Form 13F filed August 9, 2018 by BlackRock, Inc. (BlackRock) for the quarter ending June 30, 2018. BlackRock, a parent holding company or control person, is deemed to have beneficial ownership of 534,776 shares of common stock, with sole voting power over 519,193 shares and sole investment power over 534,776 shares.

(2) The shares presented are according to information included in the Form 13F filed on August 10, 2018 by Dimensional Fund Advisors LP (Dimensional) for the quarter ending June 30, 2018. Dimensional, an investment adviser, is deemed to have beneficial ownership of 680,984 shares of common stock, with sole voting power over 660,597 shares and shared investment power over 680,984 shares.

(3) The shares presented are according to information in the Schedule 13D/A filed on July 13, 2018, by Mario J. Gabelli and various entities which he directly or indirectly controls or for which he acts as chief investment officer (the Reporting Persons). That Schedule 13D/A reported that the Reporting Persons beneficially own shares of common stock as follows as of such date:

Name	Number of Shares	Percent of Class
GAMCO Asset Management Inc.	202,462	2.06%
Gabelli Funds, LLC	225,748	2.30%
Gabelli & Company Investment Advisers, Inc.	190,261	1.93%
Teton Advisors, Inc.	192,987	1.96%

Mario Gabelli is deemed to have beneficial ownership of the shares owned beneficially by each of the foregoing persons. Gabelli & Company Investment Advisers, Inc. is deemed to have beneficial ownership of the shares owned beneficially by G.research, LLC. Associated Capital Group, Inc. (AC), GAMCO Investors, Inc. (GBL) and GGCP, Inc. (GGCP) are deemed to have beneficial ownership of the shares owned beneficially by each of the foregoing persons other than Mario Gabelli and the Gabelli Foundation, Inc. Each of the Reporting Persons and their executive officers and directors and other related persons has the sole power to vote or direct the vote and sole power to dispose or to direct the disposition of the shares reported for it, either for its own benefit or for the benefit of its investment clients or its partners, as the case may be, except that (i) Gabelli Funds, LLC has sole dispositive and voting power with respect to the shares of the Company held by the The Gabelli Equity Trust Inc., The Gabelli Asset Fund, The GAMCO Growth Fund, The Gabelli Convertible and Income Securities Fund Inc., The Gabelli Value 25 Fund Inc., The Gabelli Small Cap Growth Fund, The Gabelli Equity Income Fund, The Gabelli ABC

Fund, The GAMCO Global Telecommunications Fund, The Gabelli Gold Fund, Inc., The Gabelli Multimedia Trust Inc., The Gabelli Global Rising Income & Dividend Fund, The Gabelli Capital Asset Fund, The GAMCO International Growth Fund, Inc., The GAMCO Global Growth Fund, The Gabelli Utility Trust, The GAMCO Global Opportunity Fund, The Gabelli Utilities Fund, The Gabelli Dividend Growth Fund, The GAMCO Mathers Fund, The Gabelli Focus Five Fund, The Comstock Capital Value Fund, The Gabelli Dividend and Income Trust, The Gabelli Global Utility & Income Trust, The GAMCO Global Gold, Natural Resources, & Income Trust, The GAMCO Natural Resources Gold & Income Trust, The GDL Fund, Gabelli Enterprise Mergers & Acquisitions Fund, The Gabelli ESG Fund, Inc., The Gabelli Healthcare & Wellness Rx Trust, The Gabelli Global

Small and Mid Cap Value Trust, Gabelli Value Plus+ Trust, The Gabelli Go Anywhere Trust, Bancroft Fund Ltd. and Ellsworth Growth & Income Fund Ltd. (each a Fund), which are registered investment companies, so long as the aggregate voting interest of all joint filers does not exceed 25% of their total voting interest in the Company and, in that event, the Proxy Voting Committee of each Fund shall respectively vote that Fund s shares, (ii) at any time, the Proxy Voting Committee of each such Fund may take and exercise in its sole discretion the entire voting power with respect to the shares held by such fund under special circumstances such as regulatory considerations, and (iii) the power of Mario Gabelli, AC, GBL, and GGCP is indirect with respect to shares beneficially owned directly by other Reporting Persons.

(4) The shares presented are according to information included in the Form 13F/A filed on August 13, 2018 by Renaissance Technologies, LLC (Renaissance) for the quarter ending June 30, 2018. Renaissance is deemed to have beneficial ownership of 555,435 shares, with sole voting power over 555,435 shares and sole investment power over 555,435 shares.

(5) The shares presented are according to information included in the Form 13F filed on August 14, 2018 by The Vanguard Group (Vanguard) for the quarter ending June 30, 2018. Vanguard is deemed to have beneficial ownership of 701,650 shares, with sole power to vote 13,850 shares, sole investment power 687,800 shares, and shared investment power over 13,850 shares.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires the Company s directors and executive officers, and persons who own more than 10% of a registered class of the Company s equity securities, to file reports of ownership and changes in ownership with the SEC. Officers, directors and greater than 10% shareholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file. Based solely upon a review of the copies of the forms furnished to the Company, and/or written representations from certain reporting persons, the Company believes that all filing requirements applicable to its officers and directors were met during the fiscal year ended July 1, 2018, except that Christopher Ratliff, the Company s former Vice President of Information Technology, inadvertently filed a Form 4 upon his termination of employment which reported three transactions one date late.

EXECUTIVE OFFICER AND DIRECTOR COMPENSATION

Compensation Discussion and Analysis

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Executive Summary

In this section, we describe the material components of our executive compensation program for our Named Executive Officers, whose compensation is set forth in the 2018 Summary Compensation Table and other compensation tables contained in this Proxy Statement:

- Joseph J. Hartnett, Interim President and Chief Executive Officer;
- Joseph G. McCormack, Senior Vice President, Chief Financial Officer;
- Gordon B. Madlock, Senior Vice President, Operations;
- Steven M. Korwin, Senior Vice President, Quality and Engineering;
- Michael A. Gaul, Group Vice President, Manufacturing and Design Services; and
- Joseph T. Schneider, former Senior Vice President, Sales and Marketing.

Mr. Schneider resigned as Senior Vice President, Sales and Marketing of the Company effective April 13, 2018, but is included as a Named Executive Officer in this Proxy Statement pursuant to the rules of the Securities and Exchange Commission.

We also provide an overview of our executive compensation philosophy and our executive compensation program. In addition, we explain how and why the Compensation Committee of our Board of Directors (the Committee) arrives at specific compensation policies and decisions involving the Named Executive Officers.

2018 Key Compensation Highlights

- The Committee identified our 14 key peer companies based on Committee-selected criteria.
- The Committee continued alignment of short term and long term incentive plan goals with the achievement of specific annual and long term financial goals.
- The Committee completed the annual review of the Compensation Committee Charter.
- The Committee reviewed Named Executive Officer stock ownership progress.
- The Committee actively worked with management to retain and motivate employees during the process of marketing the Company for sale.
- The Committee recommended, and the Board of Directors approved, the issuance of (i) cash retention bonuses and (ii) discretionary bonuses to certain key employees.
- The Committee conducts an annual review and approval of the Company s compensation strategy, including a review of the Company s compensation-related risk profile, to ensure that compensation-related risks are not reasonably likely to have a material adverse effect on the Company.
- The Company maintains a clawback policy that provides that, in connection with any restatement of the Company s financial statements due to material non-compliance with financial reporting requirements, it is the Company s policy to require forfeiture by current and former executive officers of incentive-based compensation in accordance with applicable laws, rules and regulations.

Consideration of Last Year s Say On Pay Vote

Following our annual meeting of shareholders in November 2017, the Committee reviewed the results of the shareholder advisory vote on executive compensation that was held at the meeting with respect to the fiscal year 2017 compensation of the Named Executive Officers. 97.6 percent of the votes cast (excluding broker non-votes) were voted in support of the compensation of our Named Executive Officers set forth in the Compensation Discussion and Analysis, the 2017 Summary Compensation Table and the related compensation tables and narratives in last year s proxy statement.

After considering the results of the 2017 Say On Pay vote, which indicate that our shareholders overwhelmingly approve of our methodology for establishing compensation, as well as the other factors considered in determining executive compensation as described in this Compensation Discussion and Analysis, the Committee was encouraged to continue its practices in determining executive compensation.

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Specific Compensation and Corporate Governance Policies and Practices

Our compensation philosophy and related governance features are complemented by several specific policies and practices that are designed to align our executive compensation with long-term shareholder interests, including:

- We have stock ownership guidelines for our executive officers, including the Named Executive Officers and members of our Board of Directors, that are applicable within five years of eligibility under the LTIP for the Named Executive Officers and within five years of Board of Directors appointment for our directors. Each of the members of our Board of Directors has met his individual stock ownership level under the guidelines in effect for fiscal year 2018, except for Mr. Frank A. Wilson who joined the Board of Directors in fiscal year 2015, and Alan L. Bazaar who joined the Board of Directors in fiscal year 2016. Mr. Steven M. Korwin is the only Named Executive Officer who has met these guidelines for fiscal year 2018. Mr. Joseph J. Hartnett, as Interim President and Chief Executive Officer, is not eligible for the LTIP, Mr. Joseph G. McCormack was hired in fiscal year 2016, and Mr. Joseph T. Schneider was hired in fiscal year 2015 and resigned his position on April 13, 2018. The guidelines were revised in June of 2014, as described below. As a result of the potential sale of the Company, executive officers and the Board of Directors have been prohibited from acquiring or disposing of Company stock.

- We have a policy prohibiting all employees, including Named Executive Officers and members of our Board of Directors, from engaging in any hedging transactions with respect to our equity securities held by them.

- Under our Insider Trading Policy, certain of our employees and consultants, including executive officers and members of our Board of Directors, are prohibited from pledging shares of our capital stock without first obtaining pre-clearance of the transaction from our Compliance Officer. None of these covered individuals have pledged their stock.

- Our Executive Officers, including the Named Executive Officers, receive minimal perquisites or other personal benefits.

CEO Pay Ratio

The following information about the relationship of the annual total compensation of our employees and the annual total compensation of the CEO, Joseph Hartnett, for the fiscal year ended July 1, 2018 is set forth below as required by Section 953(b) of Dodd-Frank and the applicable rules of the SEC.

- The median of the annual total compensation of all of Sparton s employees (other than Mr. Hartnett) was $41,413.

- The annual total compensation of Mr. Hartnett as reported in the Total column of the Summary Compensation Table in this Proxy Statement which was calculated in accordance with Item 402(c) of Regulation S-K was $1,052,210.

The CEO s annual total compensation is twenty-five times or 25:1 the median annual total compensation of all employees. The methodology used to establish the median employee was to compile the data from the Sparton payroll systems. The date selected for the purpose of median employee calculations was May 25, 2018. Sparton had a total of 1,400 U.S. employees and 171 non-U.S. employees, including 155 employees in Vietnam and 16 employees in Canada as of such date. The only exclusion to the employee population in the calculation of the pay ratio was the Woodbridge Canada facility that employs a total of 16 employees who were excluded under the 5% *de minimis* exemption for non-U.S. employees. All other employees except the CEO were included in the median population. The pay ratio reported by other companies may not be comparable to the pay ratio reported by us, as other companies may have different employment and compensation practices and may utilize different methodologies, exclusions, estimates and assumptions in calculating their pay ratios.

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Key Features of Our 2018 Executive Compensation Program

What We Do

Align CEO Pay with Company Performance:

Our CEO s direct compensation is aligned with revenue growth and profitability (other than base salary and retention bonus during the potential sale of the Company).

Review Named Executive Officer Pay against Peers Executive Officer Pay:

In fiscal year 2016, a reputable executive compensation consultant, Meridian Compensation Partners, LLC, was engaged to provide the Committee with broad market-based compensation data of peer group companies based on Committee-selected criteria to permit the Committee to analyze whether the total compensation of the Name Executive Officers is competitive. In fiscal years 2017 and 2018, in light of the potential sale of the Company, the Committee did not engage Meridian, however, the committee continued to refer to data previously provided by Meridian.

Use Long-Term Incentives to Link a Significant Portion of All Current Named Executive Officer Pay to Company Performance:

Historically, 33% of annual pay for our Named Executive Officers has been linked to either our long term Valuation Index or stock options related to vesting of awards granted under our 2010 LTIP. The components and calculations of these programs correlate directly to the profitability growth of the Company. The Deferred Compensation Plan adopted in fiscal 2014, as amended, permits participants to defer certain aspects of their compensation, creating additional incentive to focus on long-term planning. In light of the potential sale of the Company, no LTIP awards were granted; rather, the Company paid retention bonuses to certain executives and key employees, including the Named Executive Officers.

Balance Short-Term and Long-Term Incentives:

The incentive programs provide an appropriate balance of annual and long-term incentives and include multiple measures of financial performance.

Cap Short Term Incentive Awards:

What We Don t Do

Determine Named Executive Officer Pay based only on External Market Compensation Data:

The Committee and Board of Directors have approved compensation for our Named Executive Officers both above and below the external market data points. These decisions are individually based upon job scope, job performance, years of related work experience, annual company performance, and our talent attraction and retention strategies.

No Hedging of Company Stock:

Our Named Executive Officers are prohibited from hedging their company stock.

No Tax Gross Ups:

We do not provide tax reimbursements unless they are provided pursuant to our standard relocation practices.

Awards under our annual Short Term Incentive Plan are capped at 200% of target.

Mitigate Excessive Risk-taking Behaviors by Named Executive Officers:

Our executive compensation program includes features that reduce the possibility of our Named Executive Officers, either individually or as a group, making excessively risky business decisions that could maximize short-term results at the expense of long-term value.

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Require Named Executive Officers to Maintain Stock Ownership:

Under our guidelines, the Chief Executive Officer of the Company must attain stock ownership equal to 300% of base salary and the other Named Executive Officers must attain stock ownership equal to 150% of base salary, in each case within 5 years of LTIP eligibility. As a result of the potential sale of the Company, executive officers have been prohibited from acquiring or disposing of Company stock. In fiscal year 2018, Mr. Madlock did not meet the stock ownership guidelines.

Authorize the Board of Directors to Recoup Executive Compensation:

In connection with any restatement of the Company s financial statements due to material noncompliance by the Company with any financial reporting requirements under applicable securities laws, it is the policy of the Board of Directors to require forfeiture by current and former executive officers of incentive based compensation in accordance with applicable laws, rules and regulations.

Discourage Pledging of Company Stock:

Under our Insider Trading Policy, certain of our employees and consultants, including executive officers, and members of our Board of Directors, are prohibited from pledging shares of our capital stock without first obtaining pre-clearance of the transaction from our Compliance Officer. None of these covered individuals have pledged their stock.

Provide Retention Bonuses to Retain Employees During the Merger Process

The Company would pay certain executives and key employees, including the Company s Principal Financial Officer and Named Executive Officers, a retention bonus, provided that the recipient remains continuously employed with the Company until the earliest of certain criteria. Retention bonuses would only be paid if a sale of the Company is not consummated.

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Compensation Philosophy and Objectives

Guiding Principles

Our compensation philosophy has the objective of fair, competitive and performance-based compensation of our management team, including the Named Executive Officers. We believe that the total compensation of management should be aligned with our performance. While the specific programs may be modified from year to year, our compensation philosophy is consistent in aligning compensation to the attainment of our corporate strategy. The Committee seeks to reward performance with cost-effective compensation that aligns employee efforts with our corporate strategy through adherence to the following compensation policies:

- Total compensation should strengthen the relationship between pay and performance by including and emphasizing variable, at-risk compensation that is dependent on achieving specific corporate, business function, and/or individual performance goals.
- An element of pay should be long-term incentives to align management interests with those of our shareholders.
- An element of pay should also be short-term incentives to reward performance in the subject fiscal year based on achievement of our annual performance goals.
- Total compensation opportunities should enhance our ability to attract, retain and develop knowledgeable and experienced executives.
- Total compensation should be competitive in the marketplace based on a review of similarly sized manufacturers and identified peer companies and the comparable compensation paid to executives of such similarly sized manufacturers and peer companies.

Our overall compensation philosophy is generally to pay our employees, including Named Executive Officers, competitively based on market data and commensurate with our performance. The market data includes information such as salary reports for the manufacturing industry generally and specifically for peer companies. The Committee and Board of Directors, with input from management, use the market data points to determine what fair and reasonable compensation would be based on our performance. The Committee also consults with management, and outside accounting and legal advisors as appropriate. The Committee and Board of Directors have approved compensation to our management both above and below the market data points. See the narrative discussion below for a detailed discussion of our long-term and short-term incentive plans.

Importance of Our Corporate Values

The Sparton Corporate Values guide us in fulfilling our responsibilities to our customers, employees, communities, and shareholders.

Sparton Corporate Values

Performance Excellence: We demand performance excellence in all that we do.
Integrity: We demand integrity of ourselves, our products, and our services.
Teamwork & Accountability: We foster growth and success in an environment of teamwork, collaboration, empowerment, and accountability.
Growth: We develop long term, trusting relationships to ensure mutually profitable growth.
Safety: We will maintain a safe and environmentally sound workplace.
Citizenship: We will be good corporate citizens in the communities in which we reside.

In assessing our Named Executive Officers contributions to Sparton s performance, the Committee not only looks to results-oriented measures of performance, but also considers how those results were achieved whether the decisions and actions leading to the results were consistent with the values embodied in our Corporate Values

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and the long-term impact of a Named Executive Officer s decisions. Corporate Values-based behavior is not something that can be precisely measured; thus, there is no formula for how Corporate Values-based behavior can, or will, impact an executive s compensation. The Committee and the CEO use their judgment and experience to evaluate whether an executive s actions were aligned with our Corporate Values.

How We Make Compensation Decisions

Role of the Compensation Committee

The Committee is comprised of three independent directors, as defined under the rules of the NYSE. The Committee is responsible for the review and approval of all aspects of our executive compensation program. Among its duties, the Committee is responsible for formulating the compensation recommendations for our CEO and non-CEO executive officers. The recommendation of the Committee must be approved, with respect to the CEO, by the independent directors of the Board of Directors, and with respect to the non-CEO executive officers, by the full Board of Directors. In addition, the Committee:

- Reviews our incentive and compensation plans and programs;
- Evaluates annually the CEO s and non-Executive Officers compensation levels and payouts against various financial and non-financial measures.

The Committee is supported in its work by our CEO and Compensation Consultants, as described below.

The Committee s charter, which sets out its duties and responsibilities and addresses other matters, can be found on our website at www.sparton.com.

Role of the Chief Executive Officer

Each year our CEO makes recommendations with respect to the compensation of our non-CEO executive officers and our Committee reviews these recommendations with the CEO and the appropriate human resources personnel. The CEO s recommendations are based upon his assessment of each executive officer s performance, the performance of the individual executive officer s respective business or function, and employee retention considerations. Our Committee reviews the CEO s recommendations, and approves any compensation changes affecting our executive officers as it determines in its sole discretion. Our CEO does not play any role with respect to any matter affecting his own compensation.

Peer Companies

Our executive compensation package is designed to be competitive in the market and commensurate with our performance. In making compensation decisions, we analyze executive compensation paid at selected peer companies. In fiscal year 2016, Meridian provided our Committee with a list of potential peer companies based on their 8 digit GICS codes, revenue, and market cap. The Committee reviewed this list and then selected the peer companies it believes are most comparable to us. The Committee then requested that Meridian provide it with compensation information, including incentive awards, from such peer companies. In fiscal year 2018, the Committee did not engage Meridian, but continued to use certain of the previously provided data and other appropriate compensation information in making compensation decisions. In reviewing such data, the Company revised the list of peer companies based on certain changes in the ownership and business focus of those companies since its prior assessment. The annual revenues of the peer companies during their most recent fiscal year ranged from $82 million to $1,462 million, with the median revenue being $377 million. Our annual revenue for fiscal year 2018 was $375 million.

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The Committee uses the data obtained from Meridian, proxy statements of peer companies, and broad-based market driven compensation surveys published from time to time by national human resources consulting firms, together with other information, to assist it in determining the compensation of the Named Executive Officers. The Committee does not target compensation to any specific percentile paid by such peer or other companies, but rather considers compensation of peer and such other companies as one of the factors in making compensation decisions. As noted, the Committee approves compensation to the Named Executive Officers both above and below market data points.

For 2018 executive compensation, our peer companies were:

AeroVironment, Inc	Kimball Electronics, Inc.
AngioDynamics Inc	Maxwell Technologies, Inc.
Astronics Corporation	Raven Industries Inc.
CTS Corporation	Sigmatron International, Inc.
Ducommun Inc.	SMTC Corporation
Integer Holdings Corporation	Sypris Solutions, Inc.
Key Tronic Corporation	Universal Electronics Inc.

Elements of Compensation

The key elements of our executive compensation program are base salary, short-term (annual) incentive and long-term (multi-year) incentive compensation. These elements are addressed separately below.

The Committee does not exclusively use mathematical formulas to determine compensation. In setting each element of compensation, the Committee considers all elements of an executive s total compensation package, including base salary, incentive compensation, and the value of benefits.

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The following table includes various elements of our executive compensation program, the primary purpose of each element, and form of compensation for each element.

Element	Primary Purpose	Form of Compensation
Base Salary	To provide base compensation for the day to day performance of job responsibilities	Cash
Short-Term Incentives	To reward performance during the current fiscal year based on the achievement of annual performance goals	Cash (STIP, described under *STIP Generally*, below)
Bonuses	To reward individual performance based on evaluation by, and in discretion of, the Committee	Cash
Retention Bonuses	To retain certain executives and key employees	Cash and stock-based compensation
Long-Term Incentives	To reward improvement in our long term performance, thereby aligning with the financial interests of our shareholders	Stock-based compensation, e.g., options, restricted stock awards and restricted stock units (2010 LTIP, described under *2010 LTIP*, below)
Other Executive Benefits	To provide a broad-based executive compensation program for executive attraction, retention, retirement and health	Retirement programs, health and welfare programs, employee benefit plans, change of control provisions, programs and arrangements generally available to all employees and limited perquisites (see below)

The following is a narrative description of each of the key elements of our executive compensation programs.

Base Salaries

A competitive base salary provides the foundation for a total compensation package required to attract, retain, and motivate executive officers and other members of management, including the Named Executive Officers, in alignment with our business strategies. The Committee reviews the proposed annual base salaries for executive officers and management (including the Named Executive Officers other than the Chief Executive Officer) with the Chief Executive Officer and the appropriate human resources personnel, and with modifications considered appropriate, provides a recommendation to the Board of Directors for its approval. The Committee independently reviews and sets base salary for the Chief Executive Officer, subject to the approval of the independent members of the Board of Directors.

Base salaries are initially premised upon the responsibilities of each Named Executive Officer and may be further adjusted based on market surveys and related data, including individual experience levels and performance judgments as to the past and expected future contributions of the applicable Named Executive Officer. The Committee reviews each Named Executive Officer s base salary annually.

Short-Term Incentives

STIP Generally

On June 26, 2009, the Board of Directors approved and adopted the Sparton Short-Term Incentive Plan (the STIP). The STIP did not require shareholder approval. On April 28, 2016, the Board of Directors approved and

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adopted the First Amendment to the STIP, which provides for pro rata payment of awards to certain employees upon a change of control, as defined in the Amendment. The purpose of the STIP is to increase shareholder value and ensure our success by motivating participants to achieve all defined financial and operating goals and strategic objectives of the business in line with our corporate strategy. The STIP is further intended to attract and retain key employees essential to the success of the business and to provide competitive compensation programs consistent with market competitive pay practices.

The Committee has been appointed by the Board of Directors to administer the STIP. The Committee, with the approval of the Board of Directors, annually selects our executive or key employees, including Named Executive Officers, to be participants in the STIP. The first annual performance period for which awards under the STIP were made was fiscal year 2010.

The Board of Directors, in its sole discretion, may amend or terminate the STIP, or any part thereof, at any time and for any reason. The amendment, suspension or termination of the STIP will not, without the consent of the participant, alter or impair any rights or obligations under any actual incentive award previously earned by such participant. No award may be granted during any period of suspension or after termination of the STIP. The STIP will remain in effect until terminated.

As discussed above, our overall compensation philosophy, including with respect to awards under the STIP, is generally to pay our employees competitively based on market data, and commensurate with our performance which is aligned to achieve our corporate strategy. Working together, the Committee along with the Chief Executive Officer and the appropriate human resources personnel, reviews the individual incentive plans and awards to be made to executives and key employees under the STIP (other than the Chief Executive Officer, whose awards are only reviewed by the Committee). The recommendations of the Committee are subject to approval of the Board of Directors.

How Awards Are Determined Under the STIP

The Committee, subject to approval by the Board of Directors, establishes an individual target award for each participant equal to a percentage of such participant s salary. The Chief Executive Officer (other than with respect to himself) and the appropriate human resources personnel, recommend, and the Committee, in its sole discretion, considers, determines and approves the performance goals and objectives applicable to any actual incentive award. The performance goals and objectives are driven by achievement of our corporate strategy and may be on the basis of any performance factors the Committee determines relevant, including individual, business unit or Company-wide performance. Failure to meet the performance goals and objectives of the annual performance period will result in the participant s failure to earn the actual incentive award, except as otherwise determined by the Committee. Actual incentive award payments will be determined, based on verified achievement levels of established performance goals and objectives for the annual performance period, by the Committee and approved by the Board of Directors.

For each annual performance period, the Committee, subject to approval by the Board of Directors, establishes an incentive award pool (the STIP Pool) based on achievement of the financial objectives. Payment of each actual incentive award is made as soon as practicable as determined by the Committee after the completion of the independent audit and filing of the Annual Report on Form 10-K for the annual performance period during which the actual performance award was earned. Unless otherwise determined by the Committee, to receive payment of an actual incentive award, a participant must be employed by the Company or any affiliate on the last day of the annual performance period, and, subject to certain exceptions in the event of a participant s death or disability, on the date of payment of the actual incentive award. Actual incentive awards are paid from the incentive award pool in cash in a single lump sum. The Committee may, in its sole discretion, grant an award for an extraordinary individual contribution which substantially benefits the Company but is not reflected in the achievement of a participant s individual goals.

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2018 STIP Awards

The Committee, with the approval of the Board of Directors, selected 87 key employees, including certain of the Named Executive Officers, to be participants in the STIP for the annual performance period ending July 1, 2018 and established target awards for that period in line with our corporate strategy based on EBITDA and Net Sales (each term as defined below) and personal objectives, the funding for which came from the STIP Pool. The individual target award percentages for these participants ranged from 10% to 45% of a participant s base salary. These components were weighted separately for each participant. Awards were payable on a graduated scale ranging from a threshold of 50% of the target award for each component up to a maximum of 200% of the target award for that component, subject to availability of funds under the STIP Pool. No award for a component was payable if performance was below the threshold. The STIP Pool for fiscal year 2018 was set at $2,971,354, assuming achievement of 100% of the target financial objective described under *Target for Objectives under the STIP*, below. In addition, the Committee, with the approval of the Board of Directors, guaranteed STIP payments at 100% of targeted award for retention purposes. For the fiscal 2018 STIP awards, the Committee, with the approval of the Board of Directors, recommended and the Company granted a minimum STIP payout to participants equal to 100% of target, with the exception of Mr. Madlock for which this target was set at $120,000 (39% of base salary). In addition, the Committee, with the approval of the Board of Directors, recommended and the Company granted Mr. Hartnett a $450,000 discretionary bonus under the STIP.

Target Awards as a Percentage of Base Salary under the STIP. The following table sets forth the target awards for each of the Named Executive Officers as a percentage of their base salaries for fiscal year 2018:

Named Executive Officer	Target Award as a Percentage of Base Salary
Joseph J. Hartnett	
Joseph G. McCormack	45%
Gordon B. Madlock	45%
Steven M. Korwin	45%
Michael A. Gaul	40%
Joseph T. Schneider (1)	45%

(1) Mr. Schneider resigned as Senior Vice President of Sales and Marketing of Sparton Corporation effective April 13, 2018 and as such, did not receive any fiscal 2018 STIP payments.

Target for Objectives under the STIP. The following table sets forth the threshold, target, maximum and actual amounts, in thousands, for each of the objectives for fiscal year 2018:

Objective	Threshold	Target	Maximum	Actual
Company EBITDA (1)	$ 25,854	$ 28,411	$ 33,241	$ 22,704
Company Net Sales (2)	$ 369,516	$ 389,169	$ 455,357	$ 374,990
Group EBITDA (3)	8,258	8,903	10,121	9,871
Group Sales (4)	108,641	114,419	133,879	114,473

(1) Company EBITDA means consolidated earnings of the Company before interest, provision for income taxes, depreciation and amortization, as adjusted for fiscal 2018.

(2) Net Sales means total net sales of the Company generated during fiscal year 2018, as adjusted.

(3) Group EBITDA means total earnings of the medical end market within the Manufacturing & Design Services Segment before interest, provision for income taxes, depreciation and amortization, as adjusted for fiscal 2018.

(4)

Group Sales means total gross sales generated by the medical end market within the Manufacturing & Design Services Segment the during fiscal year 2018, as adjusted.

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STIP Targets and Actual Awards. The following table sets forth the objectives for each Named Executive Officer under the STIP, the percentage of each objective as related to the total potential award under the STIP, and the threshold, target, maximum and actual STIP awards for each Named Executive Officer:

Named Executive Officer	Objectives	Percentage of Total Award	Threshold	Target	Maximum	Actual
Joseph J. Hartnett (1)						$ 450,000
Joseph G McCormack (2)	Company EBITDA	75%	$ 56,531	113,062	$ 226,124	150,000
	Company Net Sales	25%				