THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this Circular or the action you should take, you should immediately consult your stockbroker, bank manager, solicitor, accountant or other independent professional adviser authorised under the Financial Services and Markets Act 2000 if you are in the United Kingdom or, if not, from another appropriately authorised independent adviser.

If you have sold or otherwise transferred all of your Ultra Shares, please send this Circular, together with the accompanying Form of Proxy, at once to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected for delivery to the purchaser or transferee. However, such documents should not be forwarded, distributed or transmitted in or into any jurisdiction in which such act would constitute a violation of the relevant laws of such jurisdiction. If you have sold or otherwise transferred only part of your holding of Ultra Shares, you should retain these documents and consult the stockbroker, bank or other agent through whom the sale or transfer was effected as to the action you should take.

This Circular does not constitute or form part of any offer or invitation to purchase, otherwise acquire, subscribe for, sell, otherwise dispose of or issue, or any solicitation of any offer to sell, otherwise dispose of, issue, purchase, otherwise acquire or subscribe for, any security.

ULTRA ELECTRONICS HOLDINGS PLC

(a public limited company incorporated in England and Wales under the Companies Act 1985 with registered number 02830397)

Proposed acquisition of Sparton Corporation
Circular to Ultra Shareholders
and
Notice of General Meeting

Your attention is drawn to the letter from the Chairman of the Company which is set out in Part I (*Letter from the Chairman of Ultra*) of this Circular and which contains the unanimous recommendation of the Ultra Directors that you vote in favour of the Resolution to be proposed at the Ultra General Meeting referred to below. Please read the whole of this Circular and, in particular, the risks and other factors that should be considered which are set out in Part II (*Risk Factors*) of this Circular. You should not rely solely on the information summarised in this Circular.

Notice of the Ultra General Meeting to be held at 417 Bridport Road, Greenford, Middlesex UB6 8UA at 10:00 a.m. on 29 August 2017 is set out at the end of this Circular. A Form of Proxy for use at the Ultra General Meeting is enclosed. Whether or not you intend to attend the Ultra General Meeting in person, you are requested to complete, sign and return the Form of Proxy in accordance with the instructions printed on it so as to be received by Ultra's Registrars, Equiniti Limited, at Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA as soon as possible but, in any event, so as to arrive no later than 10:00 a.m. on 24 August 2017. Completion and return of a Form of Proxy will not prevent members from attending and voting in person should they wish to do so.

If you hold Ultra Shares in CREST, you may appoint a proxy by completing and transmitting a CREST Proxy Instruction to Ultra's Registrars, Equiniti Limited, under CREST participant ID number RA19, so that it is received by no later than 10:00 a.m. on 24 August 2017.

Investec Bank plc ("**Investec**") and RBC Europe Limited ("**RBC**") are authorised by the Prudential Regulatory Authority and regulated in the United Kingdom by the Prudential Regulation Authority and the Financial Conduct Authority and are acting exclusively for Ultra and no one else in connection with the Acquisition. Investec and RBC will not regard any other person (whether or not a recipient of this Circular) as a client in relation to the Acquisition, the content of this Circular and other matters described in this Circular and will not be responsible to any other person for providing the protections afforded to clients of Investec or RBC (as applicable) or for providing advice to any other person in relation to the Acquisition, the content of this Circular or any other matters referred to in this Circular.

Guggenheim Securities, LLC ("**Guggenheim Securities**"), a broker dealer registered with the United States Securities and Exchange Commission and a member of the U.S. Financial Industry Regulatory Authority, has been engaged by Ultra as its financial advisor in connection with the Acquisition. Guggenheim Securities is acting exclusively for Ultra and no one else in connection with the Acquisition or any other matter described in this Circular. Guggenheim Securities will not regard any person other than Ultra as its client in relation to the Acquisition or any other matter described in this Circular and will not be responsible for providing advice or any of the protections afforded to its clients to any person other than Ultra in relation to the Acquisition or any other matter described in this Circular.

This Circular is dated 10 August 2017.

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PRESENTATION OF INFORMATION

Presentation of financial information

Exchange rates

Throughout this Circular, unless otherwise stated, the USD to GBP exchange rate used in this Circular is as derived from Bloomberg on the Last Practicable Date, being $1.2967 to £1.00. In Part VIII (*Additional Information*) of this Circular, the OMR to GBP exchange rate used is as derived from Bloomberg on the Last Practicable Date, being OMR 0.4992 to £1.00. The information presented in Part V (*Unaudited Reconciliation of Sparton Group Financial Information to IFRS as applied by Ultra Group*) of this Circular has been prepared on the basis of the notes set out therein.

Pro forma financial information

In this Circular, any reference to 'pro forma' financial information is to information which has been extracted without material adjustment from the unaudited pro forma financial information contained in Part VI (*Section A: Unaudited Pro Forma Financial Information*) of this Circular.

The unaudited pro forma financial information has been prepared for illustrative purposes only. Due to its nature, the pro forma financial information addresses a hypothetical situation and, therefore, does not represent the actual financial position of Ultra, Sparton or the Combined Group.

Future results of operations may differ materially from those presented in the pro forma information due to various factors.

Rounding

Percentages and certain amounts included in this Circular have been rounded for ease of presentation. Accordingly, figures shown as totals in certain tables may not be the precise sum of the figures that precede them.

Currencies

Unless otherwise indicated in this Circular, all references to "**£**", "**GBP**", "**pounds**", ''**pound sterling**'', **sterling**'', "**p**", "**penny**" or ''**pence**'' are to the lawful currency of the UK.

Unless otherwise indicated in this Circular, all references to "**$**", "**US$**", "**USD**", "**US Dollars**", "**US dollar**" or "**cents**" are to the lawful currency of the United States.

Unless otherwise indicated in this Circular, all references to "**OMR**" are to the lawful currency of Oman.

Forward-looking statements

Certain statements contained in this Circular, including those in Part I (*Letter from the Chairman of Ultra*), Part II (*Risk Factors*) and Part III (*Summary of the Merger Agreement*), constitute "forward-looking statements" with respect to the financial condition, strategies, objectives, results of operations and business of the Ultra Group, the Sparton Group and the Combined Group.

All statements other than statements of historical facts included in this Circular are, or may be deemed to be, forward-looking statements. Without limitation, any statements preceded or followed by or that include the words ''targets'', ''plans'', ''believes'', ''expects'', ''aims'', ''intends'', ''anticipates'', ''estimates'', ''projects'', ''will'', ''may'', "would", "could" or "should", or words or terms of similar substance or the negative thereof, are forward-looking statements. Forward-looking statements include statements relating to the following: (i) future capital expenditures, expenses, revenues, earnings, synergies, economic performance, indebtedness, financial condition, dividend policy, losses and future prospects; (ii) business and management strategies and the expansion and growth of the Ultra Group's, the Sparton Group's or the Combined Group's operations and potential synergies resulting from the Acquisition; and (iii) the effects of government regulation on Ultra's or Sparton's business.

Such forward-looking statements involve risks and uncertainties that could significantly affect expected results and are based on certain key assumptions. Many factors could cause actual results, performance or achievements to differ materially from those projected or implied in any forward-looking statements. The important factors that could cause the Ultra Group's, the Sparton Group's or the Combined Group's actual results, performance or achievements to differ materially from those in

the forward-looking statements include, among others, economic and business cycles, the terms and conditions of the Ultra Group's, the Sparton Group's or the Combined Group's financing arrangements, foreign currency rate fluctuations, competition in the Ultra Group's, the Sparton Group's or the Combined Group's principal markets, acquisitions or disposals of businesses or assets and trends in the Ultra Group's, the Sparton Group's and/or the Combined Group's principal industries. Due to such uncertainties and risks, readers are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date hereof.

The statements above relating to forward-looking statements should not be construed as a qualification on the opinion as to working capital of the Combined Group set out in paragraph 12 (*Working Capital*) of Part VIII (*Additional Information*) of this Circular.

Ultra Shareholders are advised to read, in particular, the following parts of this Circular for a more complete discussion of the factors that could affect the Ultra Group's, the Sparton Group's or the Combined Group's future performance and the industry in which the Ultra Group and the Sparton Group operate or the Combined Group would operate: Part I (*Letter from the Chairman of Ultra*), Part II (*Risk Factors*), Part III (*Summary of the Merger Agreement*), Part IV (Financial Information on the Sparton Group) and Part VI (*Unaudited Pro Forma Statement of Net Assets for the Combined Group*). In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements in this Circular may not occur.

The forward-looking statements contained in this Circular speak only as of the date of this Circular. Ultra, the Directors and the Sponsor expressly disclaim any obligation or undertaking to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, unless required to do so by applicable law or regulation, the Prospectus Rules, the Listing Rules, the DTRs, the rules of the London Stock Exchange or the FCA.

No profit forecasts or estimates

Unless otherwise stated, no statement in this Circular is intended as a profit forecast or estimate for any period and no statement in this Circular should be interpreted to mean that earnings, earnings per share or income, cash flow from operations or free cash flow for the Ultra Group, the Sparton Group or the Combined Group, as appropriate, for the current or future financial years would necessarily match or exceed the historical published earnings, earnings per share or income, cash flow from operations or free cash flow for the Ultra Group, the Sparton Group or the Combined Group, as appropriate.

Incorporation by reference

Certain information in relation to the Ultra Group is incorporated by reference in this Circular, as set out in paragraph 16 (*Incorporation by reference*) of Part VIII (*Additional Information*). To the extent that any document or information incorporated by reference into this Circular itself incorporates any information by reference, either expressly or impliedly, such information will not form part of this Circular, except where such information is stated within this Circular as specifically being incorporated by reference or where this Circular is specifically defined as including such information.

No incorporation of website information

Information on or accessible through Ultra's website (www.ultra-electronics.com) and Sparton's website (http://sparton.com) or any other website referred to in this Circular (including any hyperlinks accessible from those websites) do not form part of, and are not incorporated into, this Circular.

Defined terms

Certain terms used in this Circular are defined and certain technical and other terms used in this Circular are set out in Part IX (*Definitions*) of this Circular.

All references to legislation in this Circular are to the legislation of England and Wales unless the contrary is indicated. Any reference to any provision of any legislation or regulation shall include any amendment, modification, re-enactment or extension thereof.

Words importing the singular shall include the plural and vice versa, and words importing the masculine gender shall include the feminine or neutral gender.

U.S. considerations

Ultra is incorporated under the laws of England and Wales. Since a significant proportion of directly owned assets of Ultra are outside of the U.S. any judgment obtained in the United States against it may not be collectible within the U.S.. There is doubt as to the enforceability of certain civil liabilities under U.S. federal securities laws in original actions in English courts, and, subject to certain exceptions and time limitations, English courts will treat a final and conclusive judgment of a U.S. court for a liquidated amount as a debt enforceable by fresh proceedings in the English courts.

No offer or solicitation

This Circular is not a prospectus and it does not constitute or form part of any offer or invitation to purchase, acquire, subscribe for, sell, dispose of or issue, or any solicitation of any offer to sell, dispose of, purchase, acquire or subscribe for, any security.

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

The dates and times given in the table below in connection with the Acquisition are indicative only and are based on Ultra's current expectations and may be subject to change.

If any of the times and/or dates below change, the revised times and/or dates will be notified by Ultra to Ultra Shareholders by announcement through a Regulatory Information Service.

All times shown in this Circular are London times unless otherwise stated.

Event	Time and/or date
Announcement of the Acquisition	7 July 2017
Publication of this Circular	10 August 2017
Last time and date for receipt of Forms of Proxy for the Ultra General Meeting	10:00 a.m. on 24 August 2017
Ultra General Meeting to approve the Acquisition	10:00 a.m. on 29 August 2017
Sparton Shareholder Meeting to approve the Acquisition	expected during the 4th quarter of 2017
Targeted date of Completion	by 1 January 2018

PART I

LETTER FROM THE CHAIRMAN OF ULTRA

(incorporated in England and Wales under the Companies Act 1985 with registered number 02830397)

Directors	*Registered Office*
Douglas Caster (Chairman)	417 Bridport Road
Rakesh Sharma (Chief Executive)	Greenford
Amitabh Sharma (Group Finance Director)	Middlesex
Martin Broadhurst (Non-executive Director)	UB6 8UA
Geeta Gopalan (Non-executive Director)	
John Hirst (Non-executive Director)	
Victoria Hull (Non-executive Director)	
Sir Robert Walmsley (Non-executive Director)	

10 August 2017

To the Ultra Shareholders and, for information purposes only, to persons with information rights

Dear Ultra Shareholder,

PROPOSED ACQUISITION OF SPARTON CORPORATION ("SPARTON")

1. Introduction

On 7 July 2017, Ultra announced that it had entered into the Merger Agreement, which sets out the terms and conditions for the acquisition of Sparton by Ultra (the "**Acquisition**"). Sparton is a provider of design, development and manufacturing services for complex electromechanical devices, as well as sophisticated engineered products. Sparton operates through two business segments: Engineered Components & Products ("**ECP**") and Manufacturing & Design Services ("**MDS**"). Under the terms of the Acquisition, Sparton Shareholders will receive $23.50 in cash for each Sparton Share, valuing the total equity of Sparton at approximately $234.8m (£181.1m) and Ultra will assume and repay Sparton's net debt at Completion. The Acquisition is to be implemented by way of a merger, on the terms and subject to the conditions of the Merger Agreement, the principal terms of which are described in more detail in paragraph 6 (*Principal terms of the Acquisition*) of this letter and Part III (*Summary of the Merger Agreement*) of this Circular. Ultra's intention is to dispose of the MDS division of Sparton by the end of Q1 2018 as it considers it to be non-core to the Combined Group going forward.

The Acquisition, because of its size in relation to the Company, constitutes a "Class 1 transaction" for Ultra under the Listing Rules and is therefore conditional upon, among other things, the approval of Ultra Shareholders. Accordingly, the Ultra General Meeting is to be held at 417 Bridport Road, Greenford, Middlesex UB6 8UA at 10:00 a.m. on 29 August 2017 for the purpose of seeking such approval. A notice convening the Ultra General Meeting, at which the Resolution will be proposed, is set out at the end of this Circular.

I am writing to you today: (i) to explain the background to and reasons for the Acquisition; (ii) to provide you with information about Sparton; (iii) to explain why the Ultra Directors unanimously consider the Acquisition to be in the best interests of Ultra Shareholders as a whole; and (iv) to recommend that you vote in favour of the Resolution to be proposed at the Ultra General Meeting.

2. Background to and reasons for the Acquisition

2.1 *Background to sonobuoys*

Sonobuoys, amongst other technologies, are a long established element of underwater warfare within the world defence market and are a critical part of the Anti-Submarine Warfare ("**ASW**") mission for the US Navy and foreign militaries. A sonobuoy is an expendable device that is used to detect, identify, localise and track objects of interest that operate underwater, typically submarines. ASW may be performed covertly by using passive sonobuoys that listen for the sounds emanating from the submarine (propellers, pumps, hydraulic and electrical machinery) or more overtly by using sonobuoys

that actively transmit acoustic signals into the water known as active sonar “pings”. The returned echoes from these “pings” enable ASW personnel to localise the submarine’s position. Sonobuoys are typically air-launched from ASW aircraft and helicopters and can be deployed to different water depths. Once activated, the sonobuoy continuously uplinks its information to the ASW platform where detailed analysis occurs enabling an estimate of submarine position, speed, direction of advance, depth and type to be determined.

The capability of modern submarines in the hands of traditional and emerging adversaries poses a formidable and growing worldwide threat. The US Navy’s sonobuoy budget has steadily increased over the past several years. This growth is forecast by the US DoD’s five-year plan to continue into the future. The recently released US Navy budget request reflects a compound annual growth rate of 3.4% over the government fiscal years 2018-2022. Most US allied nations prefer to use US sonobuoys. These international sales have historically been approximately 25% of US domestic sonobuoy revenues and are forecast to increase over the next five years.

Ultra is a frontrunner in the sonobuoy business and has held a leading position in the UK, US and Canadian sonobuoy segment for decades. Ultra has grown its presence in the sonobuoy business both organically and by acquisition. Sonobuoys represent one of the Ultra Group’s largest capabilities and sit within the Underwater Warfare segment, which accounted for 25% of the Ultra Group’s 2016 revenue.

Ultra has had a long-standing interest (held through a wholly-owned subsidiary) in a 50/50 joint venture with ECP, known as ERAPSCO. This US Navy-encouraged business relationship was originally formed in 1987 with Ultra subsequently acquiring its original interest in the ERAPSCO joint venture from Raytheon in 1998. Since that time, the business of ERAPSCO has expanded and today ERAPSCO develops, manufactures and supports all current production sonobuoys supplied to the US DoD.

Sonobuoys are complex electro-mechanical devices that are required to deploy and function reliably in harsh maritime operating environments after being launched from an ASW platform at altitude and speed. As they are expendable devices, there is considerable focus on delivering the necessary capabilities at the lowest unit cost. The Ultra Directors believe its USSI operation is pre-eminent in knowing how to build the various sonobuoy products and at a low unit cost. Ultra and Sparton produce tens of thousands of sonobuoys each year and they are two of the very few defence manufacturers of these large volume, high tech products. This has required a culture of working together with the co-operation of the US Navy to value engineer sonobuoy designs, a relationship not easily replicated. Current production sonobuoys are expected to be supplied by ERAPSCO for the next six years. In the future, the US Navy is likely to choose for any new devices to be supplied by more than just ERAPSCO. Nevertheless, the Ultra Directors believe new entrants will require a period of time to design and produce sonobuoys under the rigorous performance standards of the customer. Sonobuoys are typically purchased pursuant to multi-year contract awards. A new entrant will likely have to wait for the next contracting cycle to compete for an award.

Ultra’s existing US sonobuoy activities have delivered material annual revenue growth over the three years to 31 December 2016 driven primarily by an increase in the US government’s sonobuoy budget and robust international sales.

2.2 ***Reasons for the acquisition of ECP***

- ***Excellent strategic fit with Ultra’s existing activities in a segment in which the Ultra Group has extensive experience and well established customers:*** Ultra is a frontrunner in the sonobuoy segment. The designing, manufacturing and selling of sonobuoys is a core capability of the Ultra Group and the acquisition of ECP will enhance this core capability. Through the ERAPSCO joint venture, Ultra knows ECP’s business very well and given this long-standing working relationship and the similarity of Ultra’s and ECP’s operations, the Ultra Board is confident in the Ultra Group’s ability to integrate ECP’s business. ECP’s sonobuoy manufacturing sites will remain in place, to ensure security of supply for the US Navy. It is expected that new product development will be consolidated into one location creating a centre of design excellence following the Acquisition.

- ***Enhances Ultra’s continuing relationship with a major customer:*** Ultra’s participation in the ERAPSCO joint venture has brought extensive knowledge, experience and proven performance to a major customer, the US DoD. A US Congressman has expressed concerns that the long-

running Sparton sale process could impact the continued supply of sonobuoys to the US fleet and require the US DoD to rely on a non-allied nation for the continuing supply of sonobuoys. Ultra is in a unique position to preserve the relationship with a major customer, with the Acquisition "preserving the status quo" for the US Navy and helping to ensure that the delivery of critical assets is not interrupted. The Ultra Board therefore expects the Acquisition not only to maintain ERAPSCO's long standing position as a leading provider of sonobuoy systems to the US Navy, but also to enhance Ultra's continuing relationship with the US DoD. Since the announcement of the Acquisition, Ultra has been in discussions with the US DoD.

- ***Increases exposure to the growing sonobuoy segment:*** Internationally there is growing demand for sonobuoys as advanced ASW capabilities are required to address rising global tensions, notably in the Asia Pacific region. The US Navy P-8 Maritime Patrol Aircraft is being sold in increasing numbers to US allies, and is only compatible with US Navy high altitude sonobuoys. While some international suppliers, such as those based in Japan and South Korea, have shown interest in supplying to their domestic sonobuoy segment, they lack the economies of scale, US Navy qualification, proven quality track record, and compatibility with US Navy platforms to be able to supply to the US. These factors present significant barriers to entry.

  The US Navy sonobuoy requirement represents more than 50% of the total world sonobuoy budget and the latest budget released by the US President forecasts steady increases in US Navy sonobuoy acquisitions. Ultra's current US operations (i.e. excluding Sparton) have an addressable budget that is estimated at approximately $80m which has shown steady and consistent growth in recent years, and is expected to grow modestly each year over the period 2018 – 2022.

- ***Attractive financial returns for Ultra:*** The Acquisition is expected to be earnings enhancing and to deliver returns in excess of Ultra's cost of capital in a timely manner.

- ***Allows Ultra to secure an important revenue and earnings stream:*** The revenue and earnings that Ultra generates from the ERAPSCO joint venture are an important part of the Ultra Group's financial performance. Acquiring Sparton secures this existing revenue and earnings and helps support Ultra's position in the underwater warfare segment.

2.3 *The integration of ECP*

Following Completion, Ultra would report ECP's results as part of the Maritime & Land Division, under the leadership of its Divisional President. Ultra's Maritime & Land Division's external revenues would increase from 41% to approximately 48% of the Ultra Group total (based on the audited 2016 results of Ultra and ECP).

In June 2015, Ultra announced the acquisition of the Electronics Products Division (formerly Herley Industries Inc.) of Kratos Defense & Security Solutions ("**Herley**"). Herley's results are now reported under Ultra's C2ISR segment in the Communications and Security Division, under the leadership of its Divisional President. The cost savings included in the Herley acquisition case are currently running ahead of schedule and the Ultra Group has the management capacity for integrating ECP.

2.4 *The proposed disposal of MDS*

Sparton's business comprises two divisions — ECP and MDS. MDS, which specialises in the manufacturing and refurbishing of printed circuit card assemblies and integration of medical devices, is considered non-core to Ultra. If the Acquisition Completes, Ultra intends to sell MDS by the end of Q1 2018, leaving Ultra with ECP only. Ultra is in advanced discussions with several interested parties in relation to this disposal.

Discussions regarding a sale of MDS have been continuing for some time. Sparton had considered a sale of MDS when exploring a range of strategic alternatives, whilst Ultra has undertaken a number of rounds of a process to dispose of MDS.

2.5 *Equity funding through the Placing*

In conjunction with its announcement of the Acquisition, Ultra also announced the launch of a placing with institutional investors of 7,047,168 new ordinary shares, representing approximately 9.9% of Ultra's existing issued share capital (the "**Placing**"). Closing of the Placing and admission of the Placing Shares to the premium listing segment of the Official List and to trading on the main market

for listed securities of the London Stock Exchange took place on 11 July 2017. Pursuant to the Placing, Ultra raised approximately £137.4m (gross) (approximately £133.7m net). The Acquisition will be part-funded by utilising the entire net proceeds of the Placing (approximately £133.7m), with the remaining Acquisition consideration being funded through drawdown under the Ultra Group's existing bank facilities.

The Ultra Directors intend to maintain a prudent funding structure for the Ultra Group and have a medium-term target range for a net debt to EBITDA ratio of below 1.5 times.

The Acquisition and the disposal of MDS are not expected to alter Ultra's objective of returning to a through-cycle target of 85% cash conversion in the medium term.

Had the Acquisition been financed entirely by debt and completed as at 31 December 2016, the Ultra Group's net debt to EBITDA ratio would have been 3.2 times.

The Ultra Directors consider it was therefore appropriate to issue equity to part fund the proposed Acquisition and to raise equity funding at the time of the announcement of the Acquisition in order to provide certainty of that equity funding.

In the event that the Acquisition does not Complete, the Ultra Directors would consider, in light of circumstances at the time, the appropriate use of the funds raised, including the extent to which they should be retained for general purposes or used in relation to other capital investments and the extent to which return of them to Ultra Shareholders would be appropriate.

3. Information on Sparton

3.1 *Overview of Sparton*

Listed for many years on the New York Stock Exchange and adhering to the SEC's disclosure requirements, Sparton is a company with a market capitalisation of approximately $227.0m, as at the Last Practicable Date and $180.9m, as at 23 June 2017, being the date immediately prior to the initial announcement of Ultra's potential interest in Sparton. Sparton has two reportable business segments, ECP and MDS.

On 16 March 2016, Sparton announced that the Sparton Board had been exploring a range of strategic alternatives and on 27 April 2016 announced it had authorised Wells Fargo Securities LLC to conduct a process to identify parties interested in acquiring Sparton. That sale process has continued since then and Ultra has participated in the process.

In the year-ended 3 July 2016, Sparton had revenues of $419m, operating income (before $64m impairment of goodwill) of $12m, profit before tax (before $64m impairment of goodwill) of $9m and as at 3 July 2016, gross assets were $246m. At 3 July 2016, Sparton employed 1,853 people, including 156 contractors.

3.2 *ECP and ERAPSCO*

ECP develops, designs and manufactures proprietary defence and security products in three core business areas: Undersea Warfare Solutions; Rugged Electronics; Precision Sensing and Measurement. It serves the US DoD and allied foreign militaries, civil government agencies, prime contractors and Tier 1 suppliers with key customers including the US Navy, the US Naval AWC, NUWC, Raytheon, DARPA, General Dynamics, SNC, L3, DRS, BAESYSTEMS, Northrop Grumman, Boeing and Rockwell Collins. Sales to the US Navy accounted for 61% of ECP's fiscal 2016 revenues. In 2014, ERAPSCO was awarded an IDIQ contract by the US Navy which runs until 2019. $644m of purchase orders have been received in the first four years and a further $160m of purchase orders are expected to be added in FY18. ECP operates three facilities located across eastern North America and employs approximately 600 people across the division. ECP's revenues in the last three audited years ended 3 July 2016 were $109.1m, $136.3m and $154.6m while operating income (prior to allocation of corporate overheads) was $19.9m, $25.0m and $25.9m. Its long-term contracts provide ECP with good forecast visibility and continuing revenue streams supported by a backlog of $124.4m as at 2 April 2017. ECP has good order cover for its domestic sonobuoys with 94% coverage of revenue for the year-ending June 2018.

ECP is Ultra's 50/50 partner in ERAPSCO which develops, manufactures and supports all current US production sonobuoys supplied to the US DoD. In concept and in practice, ERAPSCO serves as a pass-through entity maintaining no funds or assets. While ERAPSCO provides the opportunity to

maximise efficiencies in the design and development of sonobuoys, both of the joint venture partners function independently as subcontractors; therefore there is no separate entity to be accounted for or consolidated. In response to any customer RFP that ERAPSCO will bid on, the board of directors of ERAPSCO approves both the composition of a response to the RFP and the corresponding bid to be submitted to the customer. The board of directors of ERAPSCO strives to divide the aggregate contract awards at a 50/50 ratio between the joint venture partners, in accordance with their respective technological expertise. Each joint venture partner is responsible to ERAPSCO for the successful execution of its respective scope of work under its subcontract and each joint venture partner is individually accountable for the profit or losses sustained in the execution of that subcontract. Historically, the agreed-upon products included under the joint venture were generally developmental sonobuoys. In 2007, ERAPSCO expanded to include all future sonobuoy development and substantially all US derivative sonobuoy products for customers outside of the United States. ERAPSCO was further expanded three years later to include all sonobuoy products for the US Navy, beginning with the US Navy's 2010 fiscal year contracts.

3.3 ***MDS***

MDS comprises contract design, manufacturing and aftermarket repair and refurbishment of sophisticated printed circuit card assemblies, sub-assemblies, full product assemblies and cable/wire harnesses for customers seeking to bring their intellectual property to market. Additionally, MDS is a developer of embedded software quality assurance services in connection with medical devices and diagnostic equipment. Customers of MDS include original equipment manufacturers and emerging technology customers serving the medical & biotechnology market, the military & aerospace market and industrial & commercial markets. MDS operates nine sites across the US and a facility in Vietnam. MDS Division revenues in the last three audited years ended 3 July 2016 were $246.1m, $263.9m and $282.1m; operating income (prior to allocation of corporate overheads) was $17.0m, $9.5m and $2.4m (before $64m impairment of goodwill). Ultra's intention is to dispose of the MDS Division by the end of Q1 2018 as it considers it to be non-core to the Combined Group going forward.

3.4 ***Sparton financial information***

Summary of certain financial statements from 30 June 2014 to 2 April 2017 ($m)

Summarised financial statements	Year ended 30-Jun-14	Year ended 30-Jun-15	Year ended 03-Jul-16	9 months ended 02-Apr-17
Net Sales	336.5	382.1	419.4	293.2
Adjusted EBITDA	35.0	34.3	33.5	17.0
Adjusted Operating income	25.0	21.8	16.3	11.7
Profit Before Tax	19.6	15.0	–55.5	–0.2
Total assets	199.0	337.6	246.0	227.5
Net debt	33.0	139.6	97.1	86.6

Note: The above figures are taken from Sparton's US GAAP SEC filings for the relevant periods and so are presented under Sparton's US GAAP accounting policies. Please refer to Part V (*Unaudited Reconciliation of Sparton Group Financial Information to IFRS as applied by Ultra Group*) for a presentation of this information on a basis which is consistent in all material respects with the Company's accounting policies.

4. Financial effects of the Acquisition

Ultra has entered into the Merger Agreement to acquire Sparton for $23.50 per Sparton Share in cash, valuing Sparton's total equity at approximately $234.8m (£181.1m). As part of the Acquisition Ultra will assume and repay Sparton's net debt at Completion. The Acquisition will be part-funded by the proceeds of the Placing, with the remaining Acquisition consideration being funded through drawdown under the Ultra Group's existing bank facilities.

Cost savings and integration

The Ultra Directors believe there is the potential to achieve cost savings within Sparton of $6m in the year-ending 31 December 2018 and recurring annual cost savings of $9m with effect from the year-ending 31 December 2019.

Ultra has, together with its advisers, conducted due diligence on the Sparton Group, including, inter alia, certain site visits and discussions with senior management, all of which has supplemented Ultra's existing knowledge of ECP, obtained through Ultra's involvement in the ERAPSCO joint venture. This diligence process, coupled with Ultra's prior knowledge of ECP, has enabled Ultra's executive team to prepare an integration plan for the two companies which will be implemented once the Acquisition Completes. The Ultra Directors believe that the cost savings identified below will be delivered through the implementation of this integration plan. Over time, there may be the potential to further optimise the cost structure of ECP by including it within Ultra's standardisation and shared services programme and achieve other cost savings.

The Ultra Directors believe that these cost savings out of unallocated overheads will be achieved in the following broad areas:

($m)	**Year-ending 31-Dec-19**
Headcount	3.4
Legal/professional fees	2.3
Facilities	0.8
Board related costs	0.5
Other costs	2.0
Total	**9.0**

Note: This assumes Ultra disposes of MDS by the end of Q1 2018. Should the disposal of MDS not occur, or take materially longer than expected, the level of anticipated costs savings will be approximately half the originally anticipated levels of cost savings for the year-ending 31 December 2018 and the year-ending 31 December 2019. The date of disposal of MDS is not expected to reduce the level of earnings accretion. The Ultra Directors expect that cost savings in the year-ending 31 December 2018 will be achieved in the same areas and in the same proportions as are outlined above.

There will be a one-off cost to achieving these cost savings of approximately $4m in the year-ending 31 December 2018. These cost savings enable the Ultra Directors to target an operating margin for ECP in 2019 that is above the Ultra Group's average. ECP's 2016 pro forma operating margin was below Ultra's USSI equivalent. These estimated financial benefits set out above are contingent on the Acquisition and could not be achieved independently. Such estimated financial benefits reflect both the beneficial elements and relevant costs.

Earnings per share and ROIC vs WACC

The Ultra Directors expect the combined impact of the Acquisition and subsequent disposal of MDS to be accretive to underlying earnings per share in the year-ending 31 December 2018. If MDS is not disposed of in a timely manner, the Acquisition is still expected to be accretive to underlying earnings per share in the year-ending 31 December 2018. Prior to the estimated Completion of the Acquisition on 1 January 2018, and pending their utilisation to part fund the Acquisition, the net proceeds of the Placing will be used to repay part of Ultra's current indebtedness; therefore, during that period, the additional shares issued in the Placing will be slightly dilutive to earnings per share.

The Ultra Directors expect the Acquisition (regardless of whether the disposal of MDS completes) to generate a post-tax return on invested capital in excess of Ultra's weighted average cost of capital in the year-ending 31 December 2019.

Following Completion and prior to the disposal of the MDS Division and assuming the Placing had completed, the pro forma leverage as at 31 December 2016 for the Combined Group would have been 2.4x. The Ultra Directors are targeting a net debt to EBITDA ratio of approximately 1.5x by the end of 2018 following Completion and prior to the disposal of the MDS Division.

Ultra's next results after the Completion will include the estimated net assets at the date of Completion at their provisional fair value and will be subject to the finalisation of the fair value exercise. Ultra's total transaction costs are expected to be approximately £15m.

Other financial information

The Ultra Directors are targeting revenue growth in ECP of approximately 3% p.a. for the medium term. Additionally, the Ultra Directors consider that in the event of further increased geo-political tensions there is potential for sonobuoy revenue growth of approximately 10% p.a. for a period of time.

In the nine-month period through to the end of March 2017, Sparton's intra quarter month end average net debt was approximately $10m higher than at the 3 July 2016 period end date. The Ultra Directors believe that ECP had a 52%:48% H1/H2 revenue split and a 60%:40% H1/H2 operating profit split (prior to allocation of central overheads) in calendar year 2016.

For the year-ending 31 December 2018 and assuming the Acquisition and disposal of MDS complete as expected, the increases in Ultra's capital expenditure, depreciation, research & development, and finance charge are anticipated to be £2m, £2m, £2m and £1m, respectively. The Combined Group's effective tax rate is expected to increase from 21.5% to 22.8% given the increased proportion of US earnings.

The Ultra Directors believe that, on average, Sparton has been cash generative in recent years. Sparton entered into an Amendment Agreement with the Sparton Lenders on 30 June 2017 which, among other things, increased permitted leverage for the fiscal quarters-ended June 2017, September 2017 and December 2017. Under the terms of the Amendment Agreement, the Sparton Lenders have also waived any event of default that may have occurred solely as a result of Sparton's failure to comply with the unamended Leverage Covenants for the test period ending on the last day of Sparton's fiscal quarter June 2017. The Acquisition of Sparton and the disposal of MDS, if completed, are not expected to alter Ultra's objective of returning to a through-cycle target of 85% cash conversion in the medium term.

Dividend policy

Following Completion and subject to the Combined Group's trading prospects being satisfactory, the Ultra Board will continue Ultra's policy whereby dividends are covered by between 2.5 to 3.0 times underlying earnings and paid in an approximate one third (interim dividend) and two thirds (final dividend) split.

Debt Financing

Ultra is party to (i) a £100m multi-currency revolving credit facility (as further described in paragraph 8.4(B) (*2012 Revolving Facility Agreement*) of Part VIII (*Additional Information*)); and (ii) a £200m multi-currency revolving credit facility (as further described in paragraph 8.4(C) (*2014 Revolving Facility Agreement*) of Part VIII (*Additional Information*)), each with a syndicate of lenders. In accordance with the terms of these facilities, neither of which prohibits Ultra from drawing down funds to finance the Acquisition, Ultra will finance the Acquisition in part by drawing down under these facilities. Furthermore, on 7 July 2017, the Ultra Group entered into a $250m foreign exchange forward contract with a maturity date of 31 October 2017. Assuming the Acquisition has not completed prior to the date of maturity, this forward contract will be extended as the Completion date of the Acquisition becomes clearer. If the Acquisition does not Complete, the forward contract could be used to repay part of Ultra's dollar-denominated borrowings or, to the extent amounts acquired under the forward contract are required or preferred to be converted back to sterling, closed out.

5. Trading information

5.1 ***Ultra***

On 7 August 2017, Ultra released its interim results for the six months ended 30 June 2017. The performance of Ultra for the relevant period was described as follows:

Financial Highlights

	Six months to 30 June 2017	**Six months to 1 July 2016**	**Change**
Revenue	**£366.4m**	£366.6m	**–0.1%**
Underlying operating profit[1]	**£ 57.6m**	£ 57.7m	**–0.2%**
Underlying profit before tax[2]	**£ 52.3m**	£ 52.4m	**–0.2%**
IFRS profit before tax	**£ 30.9m**	£ 32.6m	**–5.2%**
Underlying earnings per share[2]	**58.3p**	58.1p	**+0.3%**
Interim dividend per share	**14.6p**	14.2p	**+2.8%**

(1) before Oman contract termination related costs, amortisation of intangibles arising on acquisitions, impairment charges, the S3 programme and adjustments to contingent consideration net of acquisition and disposal related costs. IFRS operating profit was £25.4m (2016: £38.8m).

(2) before Oman contract termination related costs, amortisation of intangibles arising on acquisitions, impairment charges, the S3 programme, fair value movements on derivatives, unwinding of discount on provisions, defined benefit pension curtailment gain and interest charges and adjustments to contingent consideration net of acquisition and disposal related costs and, in the case of underlying earnings per share, before related taxation. Basic EPS 37.6p (2016: 38.4p).

The update on outlook was as follows

"As previously indicated, 2017 will be more heavily weighted to the second half than normal and this is reflected in these interim results. Market conditions remain largely unchanged since our preliminary announcement in March. The US Federal budget was not approved until May and this, together with the recent UK General Election, has affected the progress of some contract awards. Nevertheless, following the strong order intake in the final part of the period, which has continued through July, we are pleased with our current order position.

Ultra enters the second half of the year with an order cover of 82% (2016: 84%). We anticipate the momentum in contract awards to continue as the year progresses. Furthermore, some additional export opportunities, such as the recently announced Indian defence systems contract, are edging closer to being secured. Our S3 initiative continues to drive efficiencies and investment in a further three ERP systems is to be implemented in 2017/18. The through-cycle cash conversion guidance is unchanged at above 85%. Based on the same £/US$ assumptions made in March, the Board remains confident of making further progress in 2017 and our expectations for the full year remain unchanged."

Ultra's trading remains in line with the contents of that announcement.

The Ultra Directors believe the Ultra Group has a good record of taking out costs both within its existing operations and in an acquired business. This continued focus on delivery of cost efficiencies within its businesses has assisted the Ultra Group in achieving profitability targets even when market conditions and/or order delays have impacted near term revenues.

5.2 ***Sparton***

Sparton published its third quarter results on 9 May 2017. The following three paragraphs are derived from that announcement.

Sparton commented that for MDS, while its Medical facilities continued to perform well in the quarter ended 2 April 2017, certain Mil/Aero and industrial facilities experienced delays in a couple of customer programs. Conversely, ECP's performance during the same period improved significantly over the prior quarter.

Trading in the ECP division in the third quarter saw the margin benefits of increased foreign sonobuoy sales offset by a weaker performance in rugged electronics. Production of the Q53G sonobuoy has recovered following delays experienced in the second quarter of the current financial year and remains the key driver for forecast revenue growth in the short term. The MDS division is forecast to partly mitigate the impact of certain customer losses affecting both the Milpitas and Frederick facilities with increased revenues driven by new Medical customer contracts.

As of 9 May 2017, Sparton expected revenues for the fourth quarter of fiscal 2017 of between $97m and $101m at a gross margin of approximately 18%.[1]

Sparton expects revenue growth in 2018 at the ECP Division and the MDS Division is expected to remain relatively flat on revenues.

6. Principal terms of the Acquisition

6.1 Summary of the Acquisition

On 7 July 2017, Ultra, Ultra Aneira and Sparton entered into the Merger Agreement in respect of the Acquisition, pursuant to which Ultra has agreed, on the terms and subject to the conditions of the Merger Agreement, to acquire Sparton. The Acquisition will be implemented by way of a merger, in accordance with the relevant laws of the State of Ohio, whereby Ultra Aneira will merge with and into

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(1) This statement constitutes a profit estimate for the purposes of the Listing Rules. Further detail about the basis for this profit estimate is set out in paragraph 15 (*Sparton profit estimate*) of Part VIII (*Additional Information*).

Sparton, with Sparton continuing as the surviving company and becoming an indirect wholly-owned subsidiary of Ultra.

Under the terms of the Merger Agreement, which is governed by the laws of the State of Ohio, Sparton Shareholders will receive, subject to the Conditions and the other terms contained in the Merger Agreement, $23.50 in cash for each Sparton Share held.

6.2 Conditions to Completion

Completion is conditional upon, among other things:

- approval of the Acquisition as a "Class 1 transaction" for the purposes of the Listing Rules by a simple majority of Ultra Shareholders (the "**Ultra Shareholder Approval**");
- a vote to adopt the Merger Agreement by at least two-thirds of Sparton Shareholders (the "**Sparton Shareholder Approval**");
- competition clearances from relevant anti-trust authorities, including the U.S. anti-trust authorities in accordance with the requirements of the HSR Act. Relevant filings were made with the U.S. anti-trust authorities under the HSR Act on 21 July 2017 and processes to enable filings in other relevant jurisdictions are underway;
- completion of the CFIUS, DSS and Investment Canada Act review processes. Filings with relevant authorities are expected to be submitted shortly; and
- expiry or waiver of any applicable prior notice period under ITAR relating to the Acquisition. Relevant notices were submitted to the DDTC on 11 July 2017.

If the Conditions to Completion have not been satisfied (or, where applicable, waived) on or before 31 January 2018 (the "**Initial Long Stop Date**"), either Ultra or Sparton may terminate the Merger Agreement. The Initial Long Stop Date may, however, be extended by either party in certain circumstances until 31 March 2018 (and further extended by Ultra until 31 July 2018) in the event that the Conditions summarised above (other than the Ultra Shareholder Approval and Sparton Shareholder Approval Conditions) have not been satisfied by the Initial Long Stop Date (or by 31 March 2018 if either party has elected to extend the Initial Long Stop Date) (the Initial Long Stop Date, if and as extended, being the "**Long Stop Date**").

Under the terms of the Merger Agreement, Ultra and Sparton are obliged to co-operate and use reasonable best efforts to Complete the Acquisition as soon as practicable. No member of the Ultra Group is, however, required to make divestments or to take any action that limits the freedom of, or alters or restricts the commercial practices of, members of the Combined Group, save that Ultra has agreed that, if requested by a governmental authority or regulator in order to obtain relevant anti-trust or regulatory consents, Ultra will agree to dispose of MDS or assets of the Sparton Group that (i) do not relate to the sonobuoy business of the Sparton Group and (ii) are not material (individually or in aggregate) in any respect to the Sparton Group. Further, while Ultra retains the right to defend any proceedings brought by governmental authorities, courts or tribunals in connection with Completion, it is not obliged to defend (or initiate) those proceedings.

6.3 Termination fees

The Merger Agreement contains certain termination rights and associated fees.

Upon termination of the Merger Agreement, in certain circumstances Sparton will be required to pay Ultra a fee of $7.5m where:

- Sparton terminates the Merger Agreement prior to obtaining the Sparton Shareholder Approval in order to accept, and enter into an acquisition agreement with respect to a Superior Proposal; or
- The following conditions are satisfied:
  - prior to the Sparton Shareholder Meeting, a third party publicly announces or discloses (and does not withdraw) an Enhanced Acquisition Proposal;
  - subsequently, either Sparton or Ultra terminates the Merger Agreement on account of the Sparton Shareholder Approval having been sought and not obtained; and

    - either: (i) within 12 months of such termination, Sparton enters into an agreement with respect to an Enhanced Acquisition Proposal which is subsequently completed; or (ii) an Enhanced Acquisition Proposal is otherwise completed within 12 months of such termination; or

- The following conditions are satisfied:
    - prior to the Long Stop Date, an Enhanced Acquisition Proposal is publicly announced or disclosed to the Sparton Board (and not withdrawn) and, at the Long Stop Date, Ultra would have been entitled to terminate the Merger Agreement on account of Sparton's breach of its terms;
    - either Sparton or Ultra terminates the Merger Agreement on account of the Acquisition not having Completed on or before the Long Stop Date; and
    - either: (i) within 12 months of such termination, Sparton enters into an agreement with respect to an Enhanced Acquisition Proposal which is subsequently completed; or (ii) an Acquisition Proposal is otherwise completed within 12 months of such termination; or
- Ultra terminates the Merger Agreement in circumstances where either:
    - the Sparton Board has (i) withdrawn, failed to make or modified (in a manner adverse to Ultra) its recommendation in favour of the Acquisition; or (ii) approved, adopted or recommended any Acquisition Proposal, unless, at the relevant time, the Sparton Shareholder Approval has been obtained; or
    - the Sparton Group or its representatives have breached the No-Shop Restriction in any material respect unless, at the relevant time, the Sparton Shareholder Approval has been obtained.

Separately, upon termination of the Merger Agreement, in certain circumstances Ultra will be required to pay Sparton a fee of $7.5m where:

- the Merger Agreement is terminated by either party because the Ultra Shareholders have voted upon, but have not approved, the Acquisition; or
- Sparton terminates the Merger Agreement in circumstances where either:
    - the Ultra Board has withdrawn, failed to make or modified (in a manner adverse to Sparton) its recommendation in favour of the Acquisition, unless, at the relevant time, the Ultra Shareholder Approval has been obtained; or
    - prior to 24 January 2018, the Ultra General Meeting has not been held or the Ultra General Meeting has been held but the Ultra Shareholders have not voted upon the Resolution, and in either scenario the Ultra Board has not withdrawn, failed to make or modified (in a manner adverse to Sparton) its recommendation in favour of the Acquisition prior to that date.

6.4 "No-Shop" provision

The Merger Agreement prohibits members of the Sparton Group and their representatives from, subject to certain exceptions, soliciting any Acquisition Proposal, engaging in discussions or providing non-public information in connection with an Acquisition Proposal, or entering into any agreement relating to an Acquisition Proposal.

If, prior to obtaining the Sparton Shareholder Approval, Sparton receives an unsolicited Acquisition Proposal which the Sparton Board determines to be a Superior Proposal, Sparton may either (i) withdraw, fail to make or modify its recommendation of the Acquisition or approve, adopt or recommend the Superior Proposal, or (ii) terminate the Merger Agreement in order to enter into an agreement with respect to that Superior Proposal, provided that, before doing so: (a) Sparton notifies Ultra and gives Ultra at least four Business Days to propose amendments to the terms and conditions of the Acquisition and (b) taking account of any amendments proposed by Ultra, the Sparton Board determines that the Acquisition Proposal remains a Superior Proposal and that a failure to take such action would be inconsistent with its fiduciary duties.

Further details of the Merger Agreement are set out in Part III (*Summary of the Merger Agreement*) of this Circular.

7. Ultra General Meeting

The Acquisition is conditional upon, among other things, Ultra Shareholders passing the Resolution at the Ultra General Meeting. Accordingly, you will find set out at the end of this Circular a Notice of General Meeting convening the Ultra General Meeting to be held at 417 Bridport Road, Greenford, Middlesex UB6 8UA at 10:00 a.m. on 29 August 2017 at which the Resolution will be proposed to approve the Acquisition.

The Resolution, which will be proposed as an ordinary resolution, proposes that the Acquisition be approved as a Class 1 transaction under the Listing Rules and that the Ultra Directors be authorised to implement the Acquisition.

8. Further information

Ultra Shareholders should read the whole of this Circular and not just rely on the summarised information, including the summarised financial information, contained in this Part I (*Letter from the Chairman of Ultra*). In particular, your attention is drawn to the Risk Factors set out in Part II (*Risk Factors*) of this Circular.

9. Action to be taken

You will find enclosed with this Circular a Form of Proxy for use at the Ultra General Meeting. Whether or not you intend to be present at the Ultra General Meeting, you are requested to complete the Form of Proxy in accordance with the instructions printed on it and return it to Ultra's Registrars, Equiniti Limited, at Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA, so as to arrive as soon as possible, but in any event no later than 10:00 a.m. on 24 August 2017.

If you hold Ultra Shares in CREST, you may appoint a proxy by completing and transmitting a CREST proxy instruction form to Equiniti Limited (under CREST participant ID RA19) so that it is received as soon as possible, but in any event by no later than 10:00 a.m. on 24 August 2017. The time of receipt will be taken to be the time from which Equiniti Limited is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

The completion and return of a Form of Proxy or completion and transmission of a CREST proxy instruction will not prevent you from attending the Ultra General Meeting and voting in person if you wish to do so (and are so entitled).

10. Recommendation

The Ultra Board has received financial advice from Guggenheim Securities, Investec and RBC in relation to the Acquisition. In providing their financial advice to the Ultra Board, Guggenheim Securities, Investec and RBC have taken into account the Ultra Board's commercial assessment of the Acquisition.

The Ultra Board considers the Acquisition to be in the best interests of Ultra and the Ultra Shareholders taken as a whole. Accordingly, the Ultra Board unanimously recommends you to vote in favour of the Resolution to be proposed at the Ultra General Meeting, as the Ultra Directors intend to do (or seek to procure to be done) in respect of their own beneficial holdings of 351,823 Ultra Shares, representing, in aggregate, approximately 0.453% of the total issued share capital of Ultra as at the Last Practicable Date.

Yours faithfully

Douglas Caster
Chairman

PART II

RISK FACTORS

Prior to making any decision to vote in favour of the proposed Resolution at the Ultra General Meeting, Ultra Shareholders should carefully consider the factors and risks associated with the Acquisition and, in the case of the Combined Group, the business and the industry in which it will operate, together with all other information contained in this Circular including, in particular, the specific factors and risks described below. The risks disclosed below are those which: (i) are material risks relating to the Acquisition; (ii) will be material new risks to the Ultra Group or the Sparton Group as a result of the Acquisition; or (iii) are existing material risks for the Ultra Group or the Sparton Group which will be impacted by the Acquisition.

The following is not an exhaustive list or explanation of all the risks which may affect the Ultra Shares, the Ultra Group, the Sparton Group and/or the Combined Group. Additional risks and uncertainties relating to the Ultra Shares, the Ultra Group, the Sparton Group and/or the Combined Group, that are not currently known to the Ultra Directors, or that the Ultra Directors currently deem to be immaterial, may, individually or cumulatively, also have a material adverse effect on the business, financial condition, results of operations or future prospects of the Ultra Group, the Sparton Group and/or the Combined Group and, if any such risk should materialise, the price of Ultra Shares may decline and investors could lose all or part of their investment.

The order in which the following risk factors are presented does not necessarily reflect the likelihood of their occurrence or the relative magnitude of their potential material adverse effect on the Ultra Group's, the Sparton Group's and/or the Combined Group's, business, financial condition, results of operations and/or future prospects or the market price of the Ultra Shares.

The information given is as of the date of this Circular and, except as required by the FCA, the LSE, the Listing Rules, the DTRs or any other law or regulation, will not be updated.

PART A: MATERIAL RISKS RELATING TO THE ACQUISTION

Completion is subject to a number of Conditions which may not be satisfied or waived and may result in Completion of the Acquisition being delayed or in the Acquisition not Completing

The implementation of the Acquisition is subject to the satisfaction (or waiver, if applicable) of the Conditions, including, among others:

- approval of the transactions contemplated by the Merger Agreement by Ultra Shareholders at the Ultra General Meeting;
- adoption of the Merger Agreement by Sparton Shareholders at the Sparton Shareholder Meeting;
- applicable antitrust clearances and approvals having been obtained, including from the US authorities in accordance with the requirements of the HSR Act;
- completion of the CFIUS, DSS and Investment Canada Act review processes; and
- expiry or waiver of any applicable prior notice period under ITAR relating to the Acquisition.

There is no guarantee that the Conditions will be satisfied in the necessary time frame (or waived, if applicable) and the Acquisition may, therefore, be delayed or not Complete. Delay in Completing the Acquisition will prolong the period of uncertainty for the Ultra Group and the Sparton Group and both delay and failure to Complete may result in the accrual of additional costs to their businesses (for example, there may be an increase in costs in relation to the preparation and issue of documentation or other elements of the planning and implementation of the Acquisition and/or, in the event of a failure to Complete the Acquisition, the Ultra Group may be exposed to adverse foreign exchange fluctuations to the extent US Dollar-denominated amounts acquired in order to settle the Acquisition consideration are subsequently required to be converted back to pound sterling) without any of the potential benefits of the Acquisition having been achieved. In addition, Ultra's and Sparton's management would have spent time in connection with the Acquisition, which could otherwise have been spent more productively in connection with the other activities of the Ultra Group and the Sparton Group, as applicable. Therefore, the aggregate consequences of a material delay in Completing or failure to Complete the Acquisition may have a material adverse effect on the business, results of operations and financial condition of the Ultra Group, the Sparton Group and, in the case of

a material delay only, the Combined Group. Ultra would also, to the extent that a Break Fee Trigger occurs, be required to disburse a termination fee of $7.5m to Sparton.

Furthermore, if any of the Conditions are not satisfied and Completion does not occur or is delayed, Ultra's ability to improve shareholder value and to implement the Ultra Board's strategic objectives may be adversely affected and this may, in turn, have an adverse impact on Ultra's prospects. In particular, if the Acquisition fails to Complete:

- one or more third parties may acquire control of Sparton or acquire the Sparton Group's existing interest in the ERAPSCO joint venture (in respect of which Ultra is the sole co-joint venture party). ERAPSCO is a leading provider of sonobuoy systems to the US Navy and the revenue and earnings that Ultra generates from the ERAPSCO joint venture are an important part of the Ultra Group's financial performance. If one or more third parties acquires control of Sparton or acquires the Sparton Group's existing interest in the ERAPSCO joint venture, there is no guarantee that ERAPSCO's position as a leading provider of sonobuoy systems to the US Navy will continue, and this may have a material adverse effect on the business, financial condition and/or results of operations of the Ultra Group. It is also possible that, if a third party were to acquire the Sparton Group's interest in ERAPSCO, Ultra or the relevant third party may consider invoking its termination rights under the ERAPSCO JVA. Any such termination may also have a material adverse effect on the business, financial condition and/or results of operations of the Ultra Group; and
- the ability of the Ultra Group to utilise amounts raised pursuant to the Placing (the "Placing Proceeds") may not be unrestricted. This is because, among other things, 3,523,584 Placing Shares, representing 4.9% of the existing issued ordinary share capital of Ultra immediately prior to completion of the Placing, were issued by Ultra as part of the Placing on a non pre-emptive basis pursuant to a power granted to the Ultra Board at the most recent annual general meeting of Ultra. The terms of that power provide that any such issuance of new Ultra Shares must be made only for the purposes of financing a transaction which the Ultra Board determines to be an acquisition or other permitted capital investment. Accordingly, if the Acquisition fails to Complete, the Ultra Directors will be required to consider, in light of the circumstances at the time, the appropriate use of the Placing Proceeds, including the extent to which they should be retained for general purposes or used in relation to other capital investments and the extent to which return of them to Ultra Shareholders would be appropriate. To the extent the Placing Proceeds are retained by the Ultra Group but their utilisation is restricted, this could introduce capital inefficiency into the Ultra Group, potentially impacting metrics such as earnings per share and, by extension, the market price of Ultra Shares.

The Ultra Group must obtain governmental, antitrust and regulatory consents, including from US authorities, to complete the Acquisition which, if delayed, not granted or granted on terms not satisfactory to Ultra, may jeopardise the Acquisition, result in additional expenditures of money and resources and/or reduce the anticipated benefits of the Acquisition

The Acquisition is conditional upon, among other things, the receipt of governmental, antitrust and regulatory clearances from authorities with jurisdiction over the operations of the Ultra Group and/or the Sparton Group, including the U.S. anti-trust authorities, CFIUS and the DSS. The authorities from which Ultra is seeking these clearances have discretion in administering the governing statutes and regulations. As a condition to their clearance of the transactions contemplated by the Acquisition, these authorities may propose requirements, limitations, require divestitures or compulsory licensing of tangible or intangible assets or place other restrictions on the conduct of the Combined Group's business. Any such requirements, limitations, divestitures, licences or restrictions could jeopardise or delay Completion or may reduce the anticipated benefits of the Acquisition.

Under the terms of the Merger Agreement, Ultra and Sparton are obliged to co-operate and use reasonable best efforts to Complete the Acquisition as soon as practicable. No member of the Ultra Group is, however, required to make divestments or to take any action that limits the freedom of, or alters or restricts the commercial practices of, members of the Combined Group, save that Ultra has agreed that, if requested by a governmental authority or regulator in order to obtain relevant anti-trust or regulatory consents, Ultra will agree to dispose of MDS or assets of the Sparton Group that (i) do not relate to the sonobuoy business of the Sparton Group and (ii) are not material (individually or in aggregate) in any respect to the Sparton Group. Further, while Ultra retains the right to defend any

proceedings brought by governmental authorities, courts or tribunals in connection with Completion, it is not obliged to defend (or initiate) those proceedings.

The outcome of the various governmental, antitrust and regulatory consent applications is not yet known and is not within the control of the Ultra Group or the Sparton Group. As a result, there can be no assurance that the corresponding Conditions will be satisfied or, if applicable, waived or that any termination rights will not be exercised, and therefore there can be no assurance that the Acquisition will be Completed as contemplated or at all. Potential risks arising from a failure to Complete are set out in the immediately preceding risk factor (*Completion is subject to a number of Conditions which may not be satisfied or waived and may result in Completion of the Acquisition being delayed or in the Acquisition not Completing*).

Ultra or Sparton may waive one or more of the Conditions without resoliciting shareholder approval for the Acquisition

Certain Conditions may be waived, in whole or in part, to the extent legally allowed, either unilaterally or by agreement of Ultra and Sparton. In the event that any such waiver does not require resolicitation of shareholders, the parties will have the discretion to Complete the Acquisition without seeking further shareholder approval. Those Conditions requiring Sparton Shareholder and/or Ultra Shareholder approval cannot be waived.

Appraisal Rights under Ohio law

Under Ohio law, Sparton Shareholders who do not vote in favour of adopting the Merger Agreement will have the right to seek appraisal of the fair value of their shares if they have submitted a written demand for appraisal prior to the vote being taken at the Sparton Shareholder Meeting. The appraised value could be more than, the same as, or less than the consideration under the Merger Agreement of $23.50 per Sparton Share. Should a material number of Sparton Shareholders exercise appraisal rights and should it be determined that the fair value of each Sparton Share as to which appraisal rights have been exercised is materially greater than the Acquisition consideration of US$23.50 per Sparton Share, it could have a material adverse effect on the financial condition and results of operations of the Combined Group.

Strategic benefits and financial returns achieved from the Acquisition may differ from those anticipated

There is no assurance that the Acquisition will achieve the strategic benefits (including, through the enhancement of Ultra's continuing relationship with a major customer, the securing of an important revenue and earnings stream for the Ultra Group and increased exposure to the growing sonobuoy segment) and/or financial returns (including through potential cost savings within the Sparton Group) that Ultra anticipates. Ultra believes that the consideration for the Acquisition is justified in part by the strategic benefits and financial returns it expects to achieve by acquiring Sparton. However, these expected strategic benefits and financial returns may not develop and other assumptions upon which Ultra determined to pursue the Acquisition may prove to be incorrect. In particular, the statements contained in this Circular relating to the expected enhancement of Ultra's continuing relationship with a major customer, increased exposure to the growing sonobuoy segment, securing an important revenue and earnings stream and potential cost savings within the Sparton Group relate to future actions and circumstances which, by their nature, involve assumptions, uncertainties and contingencies. As a result, these anticipated benefits may not be achieved, or those achieved could be materially different from those anticipated.

While the Ultra Directors believe that the benefits of the Acquisition have been reasonably estimated, unanticipated events, liabilities, tax impacts or unknown pre-existing issues may arise or become apparent which could result in the costs of the Acquisition being higher and the realisable benefits being lower than expected, resulting in a material adverse effect on the business, financial condition and results of operations of the Combined Group. No assurance can be given that the Acquisition will deliver all or substantially all of the anticipated benefits.

Ultra and Sparton may not successfully integrate

If the Acquisition Completes, achieving the anticipated benefits of the Acquisition will depend in part upon whether Ultra and Sparton integrate their businesses in an effective and efficient manner. While

the Ultra Board is confident in its ability to integrate ECP's business (given the long-standing working relationship between the Ultra Group and the Sparton Group through ERAPSCO and the similarity of Ultra's and ECP's operations), there is nevertheless a material risk that Ultra and Sparton may not be able to accomplish this integration process successfully, either in full or in part, which could have a material adverse effect on the Combined Group's results of operations, financial condition and/or prospects. The integration of businesses is complex and time-consuming. The difficulties that could be encountered include the following:

- integrating personnel, operations and systems, while maintaining focus on selling and promoting existing and newly acquired or produced products;
- co-ordinating a greater number of geographically dispersed organisations;
- distraction of management and employees from operations, including, in the case of Ultra, from the implementation of its standardisation and shared services programme;
- changes or conflicts in corporate culture;
- management's inability to manage a significant increase in the number of employees;
- management's inability to train and integrate personnel, who may have limited experience with the respective companies' business lines and products;
- retaining existing customers and attracting new customers;
- retaining existing employees and attracting new employees;
- maintaining business relationships; and
- inefficiencies associated with the integration and management of the operations of the Combined Group.

In addition, there will be integration costs and non-recurring transaction costs (such as fees paid to legal, financial, accounting and other advisers and other fees paid in connection with the Acquisition and the proposed disposal of MDS), including costs associated with combining the operations of the Ultra Group and the Sparton Group and achieving the potential cost savings within the Sparton Group that have been identified by Ultra, and such costs may be significant.

An inability to realise the full extent of the anticipated benefits of the Acquisition, including potential cost savings within the Sparton Group that have been identified by Ultra, as well as any delays encountered in the integration process and realising such benefits, could have an adverse effect upon the revenues, level of expenses and operating results of the Combined Group, which may materially adversely affect the value of the Ultra Shares after Completion.

Certain of the Sparton Group agreements contain change of control provisions which, if not waived and the Acquisition Completes, could have material adverse effects on the Combined Group

Members of the Sparton Group are party to various agreements with third parties, including the ERAPSCO JVA, the Sparton Credit Facility, certain commercial agreements and employee arrangements that contain change of control provisions that may be triggered upon Completion. Agreements with change of control provisions typically provide for or permit the termination of the agreement upon the occurrence of a change of control of one of the parties which can be waived by the relevant counterparties. In the event that Ultra determines that there is such a contract or arrangement requiring a consent or waiver in relation to the Acquisition, there can be no assurance that such consent will be obtained at all or on favourable terms. The inability to obtain waivers from one or more relevant counterparties could, if the Acquisition Completes, have a material adverse effect on the Combined Group.

Employment arrangements with change of control provisions may provide for the vesting of outstanding awards and/or change of control payments upon the occurrence of a change of control. If the Acquisition would constitute a change of control of Sparton, any such employment arrangements could require Sparton and, by extension (following Completion), the Combined Group to commit significant financial resources to satisfying the liabilities arising as a result of the Acquisition.

Ultra will incur additional indebtedness in connection with the Acquisition, which may decrease its ability to fund expansionary initiatives. All of Ultra's debt obligations will have priority over the Ultra Shares with respect to payment in the event of a liquidation

Ultra is party to a £100,000,000 revolving credit facility and a £200,000,000 revolving credit facility which it is proposed be drawn down in order to finance (in part) the Acquisition.

While the Ultra Board still expects to be able to invest in targeted acquisitions following Completion to further strengthen its portfolio, the Combined Group's increased indebtedness following Completion could reduce funds available to fund expansionary initiatives, including for currently uncommitted capital expenditure and future acquisitions and may create competitive disadvantages for the Combined Group relative to other companies with lower indebtedness levels.

In any liquidation, dissolution or winding-up of Ultra, Ultra Shares would rank behind all debt claims against Ultra or any of its subsidiaries. In addition, any convertible or exchangeable securities or other equity securities that Ultra may issue in the future may have rights, preferences and privileges more favourable than those of Ultra Shares. As a result, holders of Ultra Shares will not be entitled to receive any payment or other distribution of assets upon any liquidation or dissolution until after Ultra's obligations to its debt holders and holders of equity securities which rank senior to the Ultra Shares have been satisfied.

This risk factor is not intended to qualify the working capital statement set out in paragraph 12 (*Working capital*) of Part VIII (*Additional Information*) of this Circular.

Representations and warranties contained in the Merger Agreement may provide limited protection for Ultra

The Merger Agreement contains warranties and representations on the part of Sparton, which, as is usual in such a transaction, cannot be enforced after Completion. Accordingly, Ultra may not have an effective ability to recover damages or compensation in the event of an undisclosed liability of Sparton arising after Completion. Limitations in the ability of Ultra to enforce the representations and warranties in the Merger Agreement could result in Ultra assuming undisclosed liabilities as a result of the Acquisition and/or realising a lower value from the Acquisition than anticipated.

Lawsuits may be filed against, among others, Ultra and/or Sparton challenging the Acquisition, and an adverse ruling in any such lawsuit may delay or prevent Completion or result in an award of damages against Ultra or Sparton

Lawsuits arising out of or relating to the Merger Agreement or the Acquisition may be filed in the future. The results of complex legal proceedings are difficult to predict and could delay or prevent Completion. The existence of litigation relating to the Acquisition could impact the likelihood of obtaining the shareholder approvals from either Ultra or Sparton. Moreover, any future litigation could be time-consuming and expensive and could divert Ultra's and Sparton's respective management's attention away from their regular business.

One of the Conditions to Completion is the absence of any law or judgment issued by any court or tribunal of competent jurisdiction that restrains, enjoins or otherwise prohibits Completion. Accordingly, if a plaintiff is successful in obtaining a judgment prohibiting Completion, then such judgment may prevent Completion, or Completion within the expected time frame.

The market price of Ultra Shares may decline as a result of the Acquisition

The market price of Ultra Shares may decline as a result of the Acquisition if, among other reasons:

- Ultra is unable to dispose of MDS (either at all or on terms which are commercially beneficial to the Combined Group);
- Completion is delayed or does not occur on the terms and subject to the Conditions envisaged in the Merger Agreement;
- the integration of Sparton's ECP Division is delayed or unsuccessful;
- Ultra does not achieve the expected benefits of the Acquisition as rapidly or to the extent it anticipates or to the extent anticipated by analysts and/or investors;

- the effect of the Acquisition on the Ultra Group's financial results is not consistent with Ultra's expectations or the expectations of analysts and/or investors; or
- Ultra Shareholders sell a significant number of Ultra Shares following Completion.

In addition, these factors could also make it more difficult for the Combined Group to raise funds through future offerings of Ultra Shares.

PART B: MATERIAL NEW RISKS TO THE ULTRA GROUP OR THE SPARTON GROUP AS A RESULT OF THE ACQUISITION

The MDS spin-off arrangements

As at the date of this Circular, the Ultra Group has not entered into a binding agreement to dispose of MDS and no assurance can be given that a suitable buyer will be found within a reasonable time-period, at an acceptable price or on acceptable terms to Ultra, or at all. Any disposal of MDS, if agreed, may also be subject to the satisfaction or (if applicable) waiver of a number of conditions. No assurance can be given that any such conditions would be satisfied or waived within any applicable time-frame, in which case any such disposal may be delayed or may not complete. A delay in the completion of any such disposal may also divert management attention away from focusing on normal business operations. Although Ultra does not currently expect that there will be a tax liability on a disposal of MDS, the tax consequences of a disposal of MDS are not yet known. The Ultra Board believes the disposal of MDS to be in the best interests of the Ultra Shareholders because the business in which MDS specialises (manufacturing and refurbishing of printed circuit card assemblies and integration of medical devices) is considered non-core to the business of Ultra. If the Ultra Group is unable to dispose of MDS, the Ultra Group's ability to deliver shareholder value, to deliver value for MDS or to implement the Ultra Group's stated strategy may be prejudiced. In particular, should the disposal of MDS not occur, or take materially longer than expected (Ultra's intention being to dispose of MDS by the end of Q1 2018), the level of anticipated costs savings described in paragraph 4 (*Financial effects of the Acquisition*) of Part I (*Letter from the Chairman of Ultra*) will be lower in the year-ending 31 December 2018.

Any agreement to dispose of MDS may be expected to contain certain representations, warranties and/or indemnities given by Ultra in favour of the buyer of MDS under such agreement. If Ultra is required in the future to make payments under any of these representations, warranties and/or indemnities this could have an adverse effect on the Combined Group's cash flow and financial condition.

If a disposal of MDS does not proceed, the Ultra Group's management and employees may be affected and key management or employees may choose to leave MDS as a result of the uncertainty that would be caused were such a disposal to fail to complete. This may have a negative effect on the performance of MDS under the Ultra Group's ownership. To maintain shareholder value, the Ultra Group's management would be required to continue to allocate time and cost to the ongoing supervision and to the development of MDS. It would also be appropriate to determine the ongoing investment plans and undertake a review of MDS's cost structure. MDS currently has a certain amount of excess property capacity, which may require a provision to be taken in the future.

Sparton may not perform in line with expectations

If the results and cash flows generated by the combination of the operations of the Sparton Group with those of the Ultra Group are not in line with the Ultra Directors' expectations, a write-down may be required against the carrying value of the Ultra Group's investment in Sparton. Such a write-down may reduce the Combined Group's ability to generate distributable reserves and consequently affect its ability to pay dividends or return capital to Ultra Shareholders.

The Sparton Group is and, if the Acquisition Completes, the Combined Group will be liable for remediation costs to address known contamination at a former site of the Sparton Group

The Sparton Group is liable for certain remediation costs in respect of hazardous waste generated at an electronics manufacturing facility previously used by the Sparton Group and based in New Mexico, United States. The Sparton Group believes that remediation work at the site will be substantially complete by 2030 and in its most recent audited consolidated financial statements booked a liability of approximately $6.7m in respect of certain remediation costs that may be incurred as a result of

contamination at the site. While the Sparton Group may be able to recover certain amounts in respect of eligible site-related remediation costs from the US Department of Energy (the "**DoE**"), in the event the final amount of the remediation costs exceeds the amount of the relevant liability and/or the DoE does not provide reimbursement (in part or at all), such costs could have a material adverse effect on the business, financial condition and results of operations of the Sparton Group and, if the Acquisition Completes, the Combined Group.

The Sparton Group may default under its existing credit facility agreement prior to Completion

The Sparton Group is party to the Sparton Credit Facility, which includes representations, covenants and events of default that are customary for financings of this nature. The Sparton Credit Facility is secured against substantially all of the assets of Sparton and relevant members of the Sparton Group (the "**Security**"). Under the terms of the Sparton Credit Facility, in the event that any of the financial covenants contained therein are breached, a default under the terms of the Sparton Credit Facility could be triggered.

In light of a potential failure of Sparton to comply with financial covenants in the Sparton Credit Facility concerning the total funded debt to EBITDA ratio of relevant members of the Sparton Group (the "**Leverage Covenants**"), on 30 June 2017 Sparton entered into an amendment agreement in respect of the Sparton Credit Facility (the "**Amendment Agreement**") with the syndicate of lenders that are party to the Sparton Credit Facility (the "**Sparton Lenders**"), pursuant to which, among other things, the Sparton Lenders have agreed amendments to the Leverage Covenants which increase permitted leverage for the fiscal quarters-ended June 2017, September 2017 and December 2017 and have waived any event of default that may have occurred solely as a result of Sparton's failure to comply with the unamended Leverage Covenants for the test period ending on the last day of Sparton's fiscal quarter June 2017.

Notwithstanding the Amendment Agreement, if during the period prior to Completion Sparton breaches financial covenants (including any of the Leverage Covenants) contained in the Sparton Credit Facility, this could trigger a default under the terms of the facility, which would permit the Sparton Lenders to restrict Sparton's (and relevant members of the Sparton Group's) ability to borrow under the Sparton Credit Facility, cause all of the Sparton Group's outstanding obligations to the Sparton Lenders to become immediately due and repayable and permit the Sparton Lenders to enforce the Security. Cross-default provisions of other agreements of the Sparton Group could also be triggered as a result of this. In such circumstances, Ultra may nevertheless remain obliged to Complete the Acquisition, unless the underlying circumstances gave rise to a right to terminate the Merger Agreement or to invoke a Condition under the Merger Agreement. If a default were to occur under the Sparton Credit Facility prior to Completion, then during the period prior to Completion the Sparton Lenders could elect (among other things) to restrict or reduce the funding available to the Sparton Group (either by restricting the ability of members of the Sparton Group to incur new borrowings under the Sparton Credit Facility or by demanding repayment of existing borrowings under that facility), to increase the Sparton Group's costs of borrowing under the Sparton Credit Facility and/or to enforce the Security (including by foreclosing and selling assets granted by way of Security), any or all of which could result in a material adverse effect on the business, financial condition, results of operations and/or prospects of the Sparton Group. In circumstances where Ultra nevertheless completed the Acquisition but the business, financial condition, results of operations and/or prospects of the Sparton Group were materially worse than currently expected, this could result in the anticipated benefits of the Acquisition being materially less than those currently anticipated by the Ultra Directors. In order to maintain shareholder value and deliver (to the extent possible) the anticipated benefits of the Acquisition, the Ultra Group's management would therefore be required to allocate additional time to the supervision of the Sparton Group following Completion and the Ultra Group could be required to incur greater costs than those anticipated in order to address materially worsened business performance of the Sparton Group. In the event results and cash flows of the Sparton Group could not be improved to a level which was in line with the Ultra Directors' current expectations, a write-down may ultimately be required in the carrying value of the Ultra Group's investment in Sparton. Any or all of the foregoing could result in a material adverse effect on the business, financial condition, results of operations and/or prospects of the Combined Group.

PART C: EXISTING MATERIAL RISKS TO THE ULTRA GROUP OR THE SPARTON GROUP WHICH WILL BE IMPACTED BY THE ACQUISITION

Future operating results are dependent on the growth in customers' businesses and/or capabilities

The Ultra Group has a strategic objective to maintain year-on-year growth. The continued growth of the Ultra Group and the Sparton Group is, and if the Acquisition Completes, the Combined Group's growth will be, dependent (in part) on the growth in the sales of its customers' products and on the expansion of their capabilities as well as the development by its customers of new products and/or capabilities. If the Ultra Group, the Sparton Group and, if the Acquisition Completes, the Combined Group fail to respond to changing market dynamics (including changes in technology), win new business, anticipate changes in their customers' businesses and their changing product needs, their results of operations and financial position could be negatively impacted. It is not certain that the markets that the Ultra Group and the Sparton Group serve and, if the Acquisition Completes, the Combined Group will serve will grow in the future, that their existing and new products will meet the requirements of these markets or that they can maintain adequate gross margins or profits in these markets. A decline in demand in one or several of their end-user markets could have a material adverse impact on the demand for their products and have a material adverse effect on business, results of operations and financial condition of the Ultra Group, the Sparton Group and, if the Acquisition completes, the Combined Group.

Delivering change within the Combined Group's business

As part of the Ultra Group's ongoing business and operations, major change programmes are being implemented in order to enhance the Ultra Group's operational performance. In particular, Ultra management is currently focused on streamlining the Ultra Group's finance, information technology, human resources, sourcing and property functions into a single global business services function as part of a major change programme, known as the standardisation and shared services programme. The effective delivery of these major change programmes relies upon, among other things, the focus, oversight and input of Ultra's management. Completion, delivery and implementation of the Acquisition could, however, for a number of reasons (including the challenges presented by the integration of Ultra's and Sparton's respective businesses and the enhanced scale of the Combined Group), result in the management and employees of the Combined Group being unable to devote sufficient focus, oversight and input to these major change programmes. If major change programmes are not successfully delivered, the anticipated benefits of those programmes may not be realised, the costs of those programmes may increase and the Combined Group's business performance may be adversely impacted, potentially resulting in a material adverse effect on the business, results of operations and financial condition of the Ultra Group and, if the Acquisition Completes, the Combined Group.

Reliance on, and potential inability to attract, retain and develop highly skilled personnel

The success of the Ultra Group, the Sparton Group and, if the Acquisition Completes, the Combined Group's strategy is and will be dependent on their ability to attract, develop and retain talented and skilled employees, including a qualified team of engineers and employees in managerial, technical, marketing and information technology support positions. Competition for such key personnel is intense, and the Ultra Group, the Sparton Group and, if the Acquisition Completes, the Combined Group cannot be assured of their ability to successfully attract and retain such employees. Employee retention may be particularly challenging following mergers or divestures, such as the Acquisition, as the Combined Group must continue to motivate employees (of both the Ultra Group and the Sparton Group) and keep them focused on its strategies and goals, which may be particularly difficult due to potential distractions related to integrating the Sparton Group. Failure to retain or loss of all the skills necessary to execute on growth plans and deliver key customer programmes is likely to result in reduced customer confidence and the Combined Group's business, results of operations and financial condition could be materially adversely affected.

Risks associated with information technology systems

The Ultra Group and the Sparton Group rely and, if the Acquisition Completes, the Combined Group will rely on their information technology ("**IT**") systems which are an integral part of their businesses. A serious disruption to the IT systems could significantly limit the Ultra Group's, the Sparton Group's and, if the Acquisition Completes, the Combined Group's ability to manage and operate their

businesses efficiently, which in turn could have a material adverse effect on their businesses, results of operations and financial condition.

The Ultra Group and the Sparton Group also face and, if the Acquisition Completes, the Combined Group will face various cyber security threats, including cyber security attacks to IT infrastructure and attempts to gain access to proprietary or sensitive information. Although various procedures and controls are utilised to monitor these threats and mitigate exposure to such threats, there can be no assurance that these procedures and controls will be sufficient to prevent cyber security threats from materialising. If any of these threats were to materialise, the operations may be disrupted and the Ultra Group, the Sparton Group and, if the Acquisition Completes, the Combined Group may experience a loss in sales or increased costs arising from the implementation of additional security measures. A cyber security breach may also result in legal claims or proceedings and could damage the Ultra Group, the Sparton Group and, following Completion of the Acquisition, the Combined Group's reputation.

Reliance on subcontractors and key suppliers

The Ultra Group and the Sparton Group rely upon and, if the Acquisition Completes, the Combined Group will rely upon subcontractors to deliver upon their customer commitments. This reliance on subcontractors involves significant risks, including lack of control over capacity allocation, delivery schedules, the resolution of technical difficulties and the development of new processes. Disputes regarding the ownership of or rights in certain third-party intellectual property may preclude subcontractors from fulfilling the Ultra Group's, the Sparton Group's and, if the Acquisition Completes, the Combined Group's requirements at a reasonable cost or, in some cases, at all. A shortage of raw materials or production capacity could lead any subcontractors to allocate available capacity to other customers, or to internal uses.

If these subcontractors fail to perform their obligations in a timely manner or at satisfactory quality and cost levels, the Combined Group's ability to bring products to market and its reputation could suffer, its costs could increase and, where such failure causes the Combined Group to be in breach of any of its obligations to its end customer, it could result in the Combined Group incurring liability. For example, during a market upturn, contract manufacturers may be unable to meet demand requirements, which may preclude the Ultra Group, the Sparton Group and, following Completion of the Acquisition, the Combined Group from fulfilling customers' orders on a timely basis, which could lead to a loss in sales and/or liability for breach of contract. The ability of these subcontractors to perform is largely outside of the control of Ultra and Sparton.

The Ultra Group and the Sparton Group also purchase and, if the Acquisition Completes, the Combined Group will purchase various types of raw materials and component parts from suppliers, and may be materially and adversely affected by the failure of those suppliers to perform as expected. This non-performance may consist of delivery delays or failures caused by production issues or delivery of non-conforming products. The risk of non-performance may also result from the insolvency or bankruptcy of one or more suppliers. Further, the Ultra Group, the Sparton Group and, if the Acquisition Completes, the Combined Group, may occasionally seek to engage new suppliers with which they have little or no experience; this can pose technical, quality and other risks. Efforts to protect against and to minimise these risks may not always be effective.

The Ultra Group and the Sparton Group have, and if the Acquisition Completes, the Combined Group will have, a complex supply chain. There may be reputational challenges faced by customers and other stakeholders if the Ultra Group, the Sparton Group or, if the Acquisition Completes, the Combined Group is unable to sufficiently verify the origins for minerals originating from the conflict zones of the Democratic Republic of Congo and adjoining countries used in their products. The Ultra Group, the Sparton Group, and if the Acquisition Completes, the Combined Group may also encounter challenges satisfying those customers who require that all of the components of their products are certified as conflict free and, if so, customers may choose to disqualify them as a supplier.

Failure to comply with laws, regulations and restrictions

The Ultra Group and the Sparton Group operate and, if the Acquisition Completes, the Combined Group, will operate in a highly regulated environment and are and will be subject to the laws, regulations and restrictions of many jurisdictions, including those of the US, the UK and other countries. These include anti-bribery provisions, import and export controls, and government contracting rules. Sanctions for failure by the Ultra Group, the Sparton Group or, if the Acquisition

Completes, the Combined Group, or their sales intermediaries, or others acting on their behalf, to comply with these laws, regulations and restrictions could include fines, penalties, legal claims, suspension or debarment from future government contracts for a period of time, as well as having an impact on reputation. Such sanctions could have an impact on the Ultra Group, the Sparton Group and, if the Acquisition Completes, the Combined Group's businesses, financial position and future operations and prospects. New legislation, changes in existing legislation and/or regulatory or enforcement policies may also result in delays or additional costs or restrictions. The risks described in this paragraph are particularly relevant in the US, where a significant proportion of the Sparton Group's revenues derive, and in the UK, where Ultra is incorporated. Following completion of the Acquisition, the Combined Group's exposure to such risks is likely to be higher than that of the current Ultra Group or the current Sparton Group in isolation. For example, if the Acquisition Completes there is a greater risk that the activities of the Sparton Group will come within the territorial scope of the UK Bribery Act 2010, thus increasing the Combined Group's exposure to that legislation. Ultra has and, if the Acquisition Completes, the Combined Group will have policies and procedures in place, which are regularly reviewed and audited, including procedures related to the use of sales and marketing representatives, anti-bribery and anti-corruption, gifts and hospitality, whistleblowing and investigation of ethics and compliance concerns. Mandatory training is and will be also undertaken on a variety of compliance related subjects, including anti-bribery and anti-corruption.

In addition to the foregoing, the Ultra Group and the Sparton Group are and, if the Acquisition Completes, the Combined Group will be subject to a significant number and growing range of laws and regulations including, amongst others, those relating to data protection (including, in the future, the European Union's General Data Protection Regulation ("**GDPR**")). Data protection laws impact the records held by the Ultra Group on its employees and personnel. Ultra requires that all members of the Ultra Group are compliant with data protection laws in respect of such records. Accordingly, if the Acquisition Completes, the increased scale of the Combined Group will mean the relevant data protection laws and regulations to which the Combined Group will be subject, and with which it will be obliged to comply, will increase. A failure to comply with any such laws or regulations could have a material adverse effect on the business, results of operations and financial condition of the Ultra Group, the Sparton Group and, if the Acquisition Completes, the Combined Group, on account of, among other things, the imposition of substantial fines and/or other penalties, exposure to regulatory investigations, litigation and/or reputational damage.

Increased scale of the business and exposure to the United States

If the Acquisition completes, the scale of the Combined Group will be increased. The greater scale of the Combined Group may present different or enhanced challenges to those currently faced by the Ultra Group, including greater exposure to market volatility in the US particularly in light of the recent change in administration which may lead to greater political, economic and operational risks.

In particular, if the Acquisition completes, the Combined Group will have a significantly expanded presence in, and exposure to, the US, as a significant portion of the Sparton Group's revenue is derived from operations in that country. As a result, the risks highlighted above will be particularly significant for the Combined Group in the US. The regulatory landscape in the US is undergoing certain changes under the new administration, particularly in the defence sector. In addition, whilst the US Navy's sonobuoy budget is currently forecast to continue to grow under the US DoD five year plan, there can be no guarantee that such growth will continue. Therefore, to a greater extent than for the Ultra Group's current operations, the US business of the Combined Group may be adversely affected by changes to US laws and regulations (including those related to trade restrictions, defence and foreign investment) and changes to defence budgets of the US DoD and US Navy, particularly to the extent changes in such laws and/or budgets affect sonobuoys or any other products of the Combined Group.

Risks associated with the Combined Group's US operations also include changes in economic conditions (including potential slowdowns in the US economy, wage and cost inflation, currency exchange rates, consumer spending and employment levels), changes in tax rates, potential tariffs, duties and other trade barriers and increased competitive promotional activity. Moreover, the Combined Group's success in the US depends on its ability to predict, identify, interpret and react to changes in US government policy in respect of the sector in which the Combined Group will operate and the products it trades in.

If the Combined Group cannot effectively manage exposure to these challenges, this could have a material adverse effect on the Combined Group's business, financial condition, results of operations and prospects.

Deterioration in the macroeconomic environment and cyclicality of end user markets

The Ultra Group's and the Sparton Group's revenue is and, if the Acquisition Completes, the Combined Group's revenue will be derived from global defence and security and commercial sectors. The level and type of spending in such sectors is dependent on a complex mix of macroeconomic, fiscal and strategic defence and security imperatives. Changes in government spending could lead to programme terminations or delays, or changes in sector growth. Deterioration in demand affecting short cycle business or a fundamental shift in how customers procure products or services could also have an adverse effect on the Combined Group's future results.

In addition, many of the sectors that the Combined Group will serve, including defence, have historically been cyclical and have experienced periodic downturns. The factors leading to and the severity and length of a downturn are difficult to predict and there can be no assurance that the Combined Group will appropriately anticipate changes in these underlying end-markets, or that any increased levels of business activity would continue as a trend into the future. If the Combined Group does not anticipate changes in the end-market in which it serves, its business, results of operations and financial condition could be materially adversely affected.

Risks associated with products and services provided by the Combined Group

The Ultra Group and the Sparton Group design, develop and deliver and, if the Acquisition Completes, the Combined Group will design, develop and deliver, products and services that are often customised, utilising complex technologies, under fixed price contracts that are sometimes long term in nature. This gives rise to the risks of failure to execute the contract profitably, the supply of a defective or delayed product, the incurrence of other contractually related liabilities, or damage to reputation and commercial relationships.

In addition, the future success of the Combined Group is dependent on the timely development and introduction of competitive new products at acceptable margins; this carries design and operational risks. Delays in commencing or maintaining volume shipments of new products, the discovery of product, process, software, or programming defects or failures and any related product returns could each have a material adverse effect on the business, financial condition and results of operation of the Combined Group.

Failure to execute or deliver a contract gives rise to increased programme costs, contract penalties, litigation and other financial liabilities, reduced future profitability and reputational risk. The Combined Group may not be able to anticipate all of the possible performance or reliability problems that could arise with its new or existing products, which could result in significant product liability or warranty claims. Any defects found in the products could result in a loss of sales or market share, failure to achieve market acceptance, damage to reputation, indemnification claims, litigation, increased insurance costs and increased service costs, any of which could also discourage customers from purchasing its products. Occurrence of any of the foregoing could have an adverse effect on the Ultra Group's, the Sparton Group's and, if the Acquisition Completes, the Combined Group's business, financial condition, results of operations and prospects.

The Ultra Group and the Sparton Group operate in a highly competitive industry, and inability to successfully compete could result in loss of market share and decline in revenues

The Ultra Group and the Sparton Group operate and, if the Acquisition Completes, the Combined Group will operate in a highly competitive industry. Current and prospective customers for their products evaluate their capabilities against the merits of direct competitors. The Ultra Group and the Sparton Group compete and, following Completion of the Acquisition, the Combined Group will compete, primarily on the basis of technology and performance. For certain products, they also compete on price. There can be no assurance that the Ultra Group, the Sparton Group and, if the Acquisition Completes, the Combined Group will be able to maintain their current market share with respect to any of their products. A loss of market share to competitors could have a material adverse effect on the business, results of operations and financial condition of the Ultra Group, the Sparton Group and, if the Acquisition Completes, the Combined Group.

Exchange rate fluctuations could negatively impact the Combined Group

Ultra's reporting currency is in pound sterling and its principal foreign currency exposure relates to movements in the US dollar/pound sterling exchange rate, due to its US operations, and US dollar-denominated costs in the UK. This exposure can adversely affect profits, cash flows and balance sheet positions, such as net debt. Ultra implements policies to manage these exposures on an ongoing basis. The Acquisition will increase the amount of Ultra's (and therefore the Combined Group's) US Dollar earnings, cash flows and balance sheet values. The primary impact of fluctuations in exchange rates for the Combined Group is expected to be translational (i.e. the translation of foreign earnings and assets and liabilities into pounds sterling for reporting purposes). An appreciation of pounds sterling against the US dollar (or other currencies) could result in a significant negative translational impact on the Combined Group's results of operations, as the contribution of its overseas operations, and the value of overseas earnings and assets, when translated into pounds sterling, would decline. The Combined Group will continue to be exposed to transactional currency risk, which arises when commercial transactions or recognised assets or liabilities are denominated in a currency that is not the functional currency of the relevant member of the Combined Group. While policies will be adjusted to take account of these increased exposures in the Combined Group, there can be no assurance that the financial performance and condition of the Combined Group will not be adversely affected by movements in the US dollar/pound sterling exchange rate or other exchange rates.

The pound sterling experienced sharp depreciation following the United Kingdom's referendum on 23 June 2016 (the "**Referendum**"), falling to its lowest levels since the 1980s, with one pound sterling equal to $1.29 as at 6 July 2016 (as derived from Bloomberg), compared to $1.48 as at 23 June 2016 (before the result of the Referendum was known). Although the pound sterling exchange rate has stabilised in recent months, its movements continue to be influenced by political as well as economic factors, including, but not limited to, the results of the general election in the United Kingdom on 8 June 2017, and there can be no assurance that pound sterling will not experience further significant volatility against other major currencies.

As a result of all of the above, adverse movements in currency exchange rates, if not effectively managed by the Combined Group, could adversely affect its reported results of operations and financial condition.

Long term contract exposures to inflation, interest rate changes, the availability of capital markets and commodity pricing fluctuations

The Ultra Group and the Sparton Group are, and if the Acquisition Completes, the Combined Group will be, dependent on managing macro financial risks, including inflation, interest rate changes, the availability of capital markets and commodity prices. Failure to manage financial risks can impact operating profit through higher costs or lower revenue and result in the Ultra Group, the Sparton Group and, if the Acquisition Completes, the Combined Group failing to meet their forecasted financial results.

Significant business interruptions

The Ultra Group's, the Sparton Group's and, if the Acquisition Completes, the Combined Group's businesses could be impacted by numerous inherent risks, particularly unplanned events such as inclement weather, explosions, fires, terrorist acts and other accidents. While insurance coverage could offset losses relating to some of these types of events, the Ultra Group, the Sparton Group and, following Completion of the Acquisition, the Combined Group's business, results of operations and financial condition could be materially adversely affected to the extent that any such losses are not covered by insurance.

Reliance on sales to federal government

The Ultra Group and the Sparton Group derive a significant portion of their revenues from contracts with agencies of the US federal government or contractors or subcontractors of the federal government. The loss or significant curtailment of any government contracts or subcontracts, or failure to exercise renewal options or enter into new contracts or subcontracts, could have a material adverse effect on the Ultra Group, the Sparton Group and, if the Acquisition Completes, the Combined Group's business, results of operations and financial condition.

Continuation and the exercise of renewal options on existing government contracts and subcontracts and new government contracts and subcontracts are, among other things, contingent upon the availability of adequate funding for the various federal government agencies with which the Sparton Group and Ultra Group and prime government contractors do business. Changes in federal government spending could directly affect the financial performance of the Ultra Group, the Sparton Group and, if the Acquisition Completes, the Combined Group.

The federal government can terminate or modify any of its contracts either for its convenience or for a default by the Ultra Group, the Sparton Group or, if the Acquisition Completes, the Combined Group, as applicable, under the terms of the contract. A termination for convenience could adversely affect the Combined Group's revenues and results of operations.

A termination arising from default could expose the Combined Group to liability and have a material adverse effect on its reputation and ability to compete for future contracts and subcontracts, which could materially and adversely affect its business and results of operations. Failure to replace sales generated from terminated or modified contracts would result in lower sales and could adversely affect revenue, which could have a material and adverse effect on its business, results of operations and financial condition.

In addition, ERAPSCO is currently contracted to provide all of the sonobuoys required by the US Navy. There is a possibility that at some point in the future, the US DoD will choose to support a new provider. Such a decision could have a material and adverse effect on the business, results of operations and financial condition of ERAPSCO and therefore, after Completion, the Combined Group.

U.S. government audits and investigations

Federal government agencies, including the Defense Contract Audit Agency and the Defense Contract Management Agency, routinely audit and evaluate government contracts and government contractors' administrative processes and systems. These agencies review the Ultra Group's and the Sparton Group's and, if the Acquisition Completes, will review the Combined Group's performance on contracts, pricing practices, cost structure, financial capability and compliance with applicable laws, regulations and standards. They also review the adequacy of the Ultra Group's and the Sparton Group's and, if the Acquisition Completes, will review the Combined Group's internal control systems and policies, including their purchasing, accounting, estimating, compensation and management information processes and systems.

If such an audit, evaluation or review were to uncover improper or illegal activities, then the Ultra Group and the Sparton Group and, if the Acquisition Completes, the Combined Group could be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines and suspension or prohibition from doing business with the U.S. government. In addition, responding to governmental audits or investigations may involve significant expenses and divert management attention away from focussing on normal business operations. If any of the foregoing were to occur, it could have a material adverse effect on the business, results of operations and financial condition of the Ultra Group, the Sparton Group and, if the Acquisition Completes, the Combined Group.

Protection of intellectual property rights

The Ultra Group and the Sparton Group rely and, if the Acquisition Completes, the Combined Group will rely on patents, trademarks, copyrights, trade secrets, and proprietary know-how and concepts. The Combined Group will attempt to protect its intellectual property rights, in the UK, the US and elsewhere, through a combination of patent, trademark, copyrights and trade secret laws, as well as confidentiality agreements. Failure to obtain or maintain adequate protection of intellectual property rights for any reason could have a material adverse effect on the business, results of operations and financial condition of the Ultra Group, the Sparton Group and, if the Acquisition Completes, the Combined Group.

While the protection afforded by patent, trademark, copyright and trade secret laws may provide some advantages, the competitive position of participants in their industry is principally determined by such factors as the technical and creative skills of personnel, the frequency of their new product developments and ability to anticipate and rapidly respond to evolving market requirements. To the extent that a competitor effectively uses its intellectual property portfolio, including patents, to prevent

the Ultra Group, the Sparton Group and, if the Acquisition Completes, the Combined Group from selling products that allegedly infringe such competitor's products, its results of operations could be materially adversely affected.

The Ultra Group and the Sparton Group also rely and, if the Acquisition completes, the Combined Group will rely on unpatented proprietary technology. It is possible that others will independently develop the same or similar technology or otherwise obtain access to such unpatented technology. To protect trade secrets and other proprietary information, employees, consultants, advisors and collaborators are required to enter into confidentiality agreements. It cannot be assured that these agreements will provide meaningful protection for trade secrets, know-how or other proprietary information in the event of any unauthorised use, misappropriation or disclosure of such trade secrets, know-how or other proprietary information. If the Ultra Group, the Sparton Group and, if the Acquisition Completes, the Combined Group are unable to maintain the proprietary nature of their technologies, their sales could decrease and this could have a material adverse effect on its business, results of operations and financial condition.

PART III

SUMMARY OF THE MERGER AGREEMENT

1. Merger Agreement

1.1 Introduction

On 7 July 2017, Ultra, Ultra Aneira (an indirect wholly-owned subsidiary of Ultra) and Sparton entered into the Merger Agreement in respect of the Acquisition, pursuant to which Ultra has agreed, on the terms and subject to the conditions of the Merger Agreement, to acquire Sparton. The Acquisition will be implemented by way of a merger, in accordance with the relevant laws of the State of Ohio, whereby Ultra Aneira will merge with and into Sparton, with Sparton continuing as the surviving company and becoming an indirect wholly-owned subsidiary of Ultra.

The Merger Agreement is governed by the laws of the State of Ohio. The following is a summary of the principal terms of the Merger Agreement.

1.2 Consideration

At Completion, on the terms and subject to the conditions set out in the Merger Agreement, each Sparton Share outstanding immediately prior to Completion (other than: (i) Sparton Shares owned by Ultra, Ultra Aneira or any other wholly-owned subsidiary of Ultra; (ii) Sparton Shares owned by Sparton or any wholly-owned subsidiary of Sparton; and (iii) Sparton Shares held by any record holder who demands payment of the fair cash value of such Sparton Shares as a dissenting shareholder in accordance with the relevant laws of the State of Ohio) will be converted into a right to receive $23.50 in cash, without interest (the "**Acquisition Consideration**").

Outstanding Sparton equity awards immediately prior to Completion will generally be subject to the following treatment:

(A) each Sparton Share that is subject to any vesting, forfeiture, repurchase or other lapse restriction under a Sparton equity award plan and which is outstanding immediately prior to Completion will vest in full and be converted into the right to receive the Acquisition Consideration;

(B) each restricted stock unit award (an "**RSU**") in respect of Sparton Shares granted under a Sparton equity award plan and which is outstanding immediately prior to Completion will vest in full, be cancelled and be converted into the right to receive, as soon as reasonably practicable after Completion, an amount in cash (without interest) equal to the Acquisition Consideration in respect of each Sparton Share underlying the RSU; and

(C) each option award in respect of Sparton Shares granted under a Sparton equity award plan and which is outstanding immediately prior to Completion and has an exercise price that is less than the Acquisition Consideration (whether vested or unvested) will vest in full, be cancelled and be converted into the right to receive, as soon as reasonably practicable after Completion, an amount in cash (without interest) equal to the product of the number of Sparton Shares subject to the option award and the excess of the Acquisition Consideration over the exercise price per Sparton Share of such option award.

1.3 Conditions to Completion

Under the Merger Agreement, Completion of the Acquisition is subject to the satisfaction (or wavier, if applicable) of the Conditions, including, among others:

(A) approval of the Acquisition by a simple majority of Ultra Shareholders at the Ultra General Meeting ("**Ultra Shareholder Approval**");

(B) adoption of the Merger Agreement by at least two-thirds of Sparton Shareholders at the Sparton Shareholder Meeting ("**Sparton Shareholder Approval**");

(C) no law, order, ruling or injunction restraining or otherwise prohibiting the Completion of the Acquisition;

(D) competition clearances from relevant anti-trust authorities, including the US anti-trust authorities in accordance with the requirements of the HSR Act;

(E) completion of the CFIUS, DSS and Investment Canada Act review processes; and

(F) expiry or waiver of any applicable prior notice period under ITAR relating to the Acquisition,

(the Conditions summarised in paragraphs 1.3(C) to 1.3(F) (inclusive) being the "**Regulatory Conditions**").

Each party's obligation to Complete the Acquisition is subject to certain other Conditions, including: (A) in the case of Ultra and Ultra Aneira: (i) the accuracy of Sparton's representations and warranties contained in the Merger Agreement (subject to certain qualifications relating to materiality); and (ii) Sparton's performance in all material respects of its obligations under the Merger Agreement; and (B) in the case of Sparton, equivalent requirements with respect to representations, warranties and obligations of Ultra and Ultra Aneira (together the "**Compliance Conditions**"). The Merger Agreement does not include a financing condition to Completion.

Under the terms of the Merger Agreement, Ultra and Sparton are obliged to co-operate and use reasonable best efforts to Complete the Acquisition as soon as practicable. No member of the Ultra Group is, however, required to make divestments or to take any action that limits the freedom of, or alters or restricts the commercial practices of, members of the Combined Group, save that Ultra has agreed that, if requested by a governmental authority or regulator in order to obtain relevant anti-trust or regulatory consents, Ultra will agree to dispose of MDS or assets of the Sparton Group that (i) do not relate to the sonobuoy business of the Sparton Group and (ii) are not material (individually or in aggregate) in any respect to the Sparton Group. Further, while Ultra retains the right to defend any proceedings brought by governmental authorities, courts or tribunals in connection with Completion of the Acquisition, it is not obliged to defend (or initiate) those proceedings.

1.4 Representations, warranties and covenants

Sparton, Ultra and Ultra Aneira have each provided certain representations and warranties in the Merger Agreement. These representations and warranties are customary for a US acquisition of the size and nature of the Acquisition. The representations and warranties from Sparton to Ultra and Ultra Aneira relate to, among other things: the organisation and power of Sparton and members of the Sparton Group; due and valid execution of the Merger Agreement by Sparton; capitalisation and ownership of the stock of members of the Sparton Group; no conflicts or violations; third party consents; financial information concerning the Sparton Group and the absence of undisclosed liabilities; litigation; material contracts of the Sparton Group; compliance with laws and possession of permits; employee-related and employee benefit matters; tax-related matters; environmental matters; insurance; real estate; intellectual property; privacy and data protection; brokers; affiliate transactions; anti-corruption, sanctions and export controls; government contracts; and customers and suppliers. The representations and warranties from Ultra and Ultra Aneira to Sparton relate to, among other things: the organisation and power of Ultra and Ultra Aneira; the due and valid execution of the Merger Agreement; no conflicts or violations; third party consents; litigation; ownership of Ultra Aneira; availability of funds; sanctions; and reliance by Ultra and Ultra Aneira on their own investigations.

The representations and warranties are subject to certain qualifications and limitations customary for a US acquisition of the size and nature of the Acquisition. Each representation and warranty, for instance, will not survive Completion.

Sparton has also entered into certain customary covenants regarding the conduct of the business of the Sparton Group prior to Completion. In addition, each of Ultra and Sparton is subject to covenants concerning their respective obligations to call and hold (in the case of Ultra) the Ultra General Meeting for the purposes of obtaining the Ultra Shareholder Approval and (in the case of Sparton) the Sparton Shareholder Meeting for the purposes of obtaining the Sparton Shareholder Approval.

The parties have also agreed to co-operate with one another to arrange for the sale of MDS after Completion in a tax-efficient manner. In this context, the Sparton Group is obliged, among other things and subject to certain exceptions, to provide Ultra, and prospective purchasers of MDS approved by Ultra, reasonable access to members of the Sparton Group and their MDS-related information; to make employees of the Sparton Group readily available to provide additional information; to facilitate customary pre-signing calls between a prospective purchaser and material customers and suppliers of MDS; and to take such further actions as Ultra may reasonably request in connection with the sale of MDS.

1.5 "No-Shop" provision

The Merger Agreement contains a "No-Shop" provision which prohibits members of the Sparton Group and their respective officers, directors, employees, investment bankers, attorneys, accountants and other advisers and representatives ("**Representatives**") engaged in connection with the Acquisition from, among other customary restrictions and subject to certain exceptions: (i) soliciting any Acquisition Proposal (as defined below); (ii) participating in discussions or negotiations or providing non-public information in connection with an Acquisition Proposal; or (iii) entering into any agreement (whether or not legally binding) relating to an Acquisition Proposal (the "**No-Shop Restriction**").

If, prior to obtaining the Sparton Shareholder Approval, any member of the Sparton Group or their respective Representatives receives an unsolicited, written Acquisition Proposal that did not result from a breach of (among other things) the No-Shop Restriction and that the Sparton Board determines in good faith, and after consultation with its financial advisers and outside legal counsel, is, or is reasonably likely to lead to, a Superior Proposal (as described below) then Sparton may (i) engage in negotiations and discussions with any person making such Acquisition Proposal, and (ii) provide such person (after execution of a confidentiality agreement meeting certain requirements) with non-public information relating to the Sparton Group. In such event, Sparton is required to promptly (but in all events within 48 hours) notify Ultra of the receipt of any such Acquisition Proposal, identify the party making the Acquisition Proposal, summarise the material terms and conditions of the Acquisition Proposal and keep Ultra informed on a reasonably current basis of any material developments.

If, prior to obtaining the Sparton Shareholder Approval, the Sparton Board determines in good faith, and after consultation with its financial advisers and outside legal counsel, that any such Acquisition Proposal is a Superior Proposal (as defined below), Sparton may either:

(A) withdraw or modify its recommendation of the Acquisition or approve, adopt or recommend the Superior Proposal; or

(B) terminate the Merger Agreement in order to enter into an agreement with respect to that Superior Proposal,

if the Sparton Board determines, after consultation with its financial advisers and outside legal counsel, that a failure to take such action would be inconsistent with the Sparton Board's fiduciary duties under applicable law. However, before taking any such action, Sparton is obliged to provide Ultra with at least four Business Days' notice of the Sparton Board's intention to take such action and, during that period, to negotiate with Ultra in good faith in respect of any revisions which Ultra may propose to the terms of the Merger Agreement and, at the end of such period, to consider in good faith any irrevocable written binding offer proposed by Ultra to amend the terms of the Merger Agreement. An "**Acquisition Proposal**" is defined in the Merger Agreement as an inquiry, proposal or offer from any person (other than a member of the Ultra Group) relating to: (i) an acquisition of MDS; (ii) an acquisition of any business constituting more than 15% of the net revenues, net income or net assets of the Sparton Group or more than 15% of the Sparton Shares; (iii) any tender or exchange offer that would result in such a person beneficially owning more than 15% of the Sparton Shares; or (iv) any merger, share exchange, business combination, joint venture, partnership, dissolution, reorganisation or similar transaction involving Sparton (or one or more members of the Sparton Group whose business constitutes more than 15% of the net revenues, net income or net assets of the Sparton Group). A "**Superior Proposal**" is defined in the Merger Agreement as an unsolicited, written Acquisition Proposal relating to an acquisition of: (i) assets generating more than 50% of consolidated total revenues or operating income of the Sparton Group; (ii) assets constituting more than 50% of the consolidated total assets of the Sparton Group; or (iii) more than 50% of the voting securities of Sparton, that did not result from a breach of the "No-Shop Restriction" and that the Sparton Board determines in good faith, taking into account all legal, financial and regulatory aspects of the proposal and the identity of the third party proposer, is reasonably likely to be consummated and, if consummated, would be more favourable to Sparton Shareholders from a financial point of view than the Acquisition, taking into account any proposal made by Ultra during the period referred to above. An Acquisition Proposal with respect to MDS does not constitute a Superior Proposal.

1.6 Intervening events

If, prior to Completion, a material event, circumstance, change, development or condition occurs (other than an Acquisition Proposal or anything arising out of the MDS disposal) that was not known to the Sparton Board (or, if known, the consequences of which were not known) at the date of the

Merger Agreement and the Sparton Board determines, in good faith after considering advice from its financial advisers and outside legal counsel, that a failure to withdraw or modify its recommendation in favour of, or the making of a recommendation in favour of, the Acquisition would be inconsistent with its fiduciary duties, the Sparton Board may withdraw, fail to make or modify its recommendation of the Acquisition. However, before taking any such action, Sparton is obliged to provide Ultra with at least four Business Days' notice of the Sparton Board's intention to take such action and, during that period, to negotiate with Ultra in good faith in respect of any revisions which Ultra may propose to the terms of the Merger Agreement and, at the end of such period, to consider in good faith , in consultation with its financial advisors and outside legal counsel, any irrevocable written binding offer proposed by Ultra to amend the terms of the Merger Agreement.

1.7 Termination rights

The Merger Agreement contains provisions giving Ultra and/or Sparton the right to terminate the Merger Agreement in certain circumstances. Among others, the Merger Agreement may be terminated:

(A) by either Ultra or Sparton:

(i) if the Acquisition has not been Completed on or before 31 January 2018 (the "**Initial Long Stop Date**"). The Initial Long Stop Date may, however, be extended by either party in certain circumstances until 31 March 2018 (and further extended by Ultra until 31 July 2018) in the event that the Regulatory Conditions have not been satisfied by the Initial Long Stop Date (or by 31 March 2018 if either party has elected to extend the Initial Long Stop Date) (the Initial Long Stop Date, if and as extended, being the "**Long Stop Date**");

(ii) following a failure to obtain the Ultra Shareholder Approval or the Sparton Shareholder Approval, in each case, having held the requisite meeting; or

(iii) if any law, order, ruling or injunction permanently restraining or otherwise prohibiting Completion becomes final and non-appealable, provided that a party may not terminate the Merger Agreement if it has not complied in all material respects with its obligation to satisfy the Regulatory Conditions (as summarised at paragraph 1.3 (*Conditions to Completion*) above);

(B) by Sparton:

(i) at any time prior to the obtaining the Sparton Shareholder Approval and subject to Sparton being in compliance with the "No-Shop" provision summarised at paragraph 1.5 (*"No-shop" provision*) above, in order to accept a Superior Proposal;

(ii) if the Ultra Board has changed, withdrawn or failed to make its recommendation in favour of the Acquisition (unless, at the relevant time, the Ultra Shareholder Approval has been obtained);

(iii) if, prior to 24 January 2018, the Ultra General Meeting has not been held or the Ultra General Meeting has been held but Ultra Shareholders have not voted upon the Resolution, and in either scenario the Ultra Board has not withdrawn, failed to make or changed its recommendation in favour of the Acquisition, prior to that date; or

(iv) if Ultra or Ultra Aneira are in breach of their respective representations or warranties or have failed to perform their respective obligations under the Merger Agreement and such breach or failure to perform (subject to a cure period and other terms set out in the Merger Agreement) would give rise to failure of a Compliance Condition; or

(C) by Ultra:

(i) if the Sparton Board has (i) changed, withdrawn or failed to make its recommendation in favour of the Acquisition or (ii) approved, adopted or recommended an Acquisition Proposal (unless, at the relevant time, the Sparton Shareholder Approval has been obtained);

(ii) if members of the Sparton Group or their representatives have breached the No-Shop Restriction in any material respect (unless, at the relevant time, the Sparton Shareholder Approval has been obtained);

(iii) if Sparton is in breach of its representations or warranties or has failed to perform its obligations under the Merger Agreement and such breach or failure to perform (subject to a cure period and other terms set out in the Merger Agreement) would give rise to failure of a Compliance Condition; or

(iv) in its sole discretion if any Governmental Entity shall institute any suit, action, investigation or other legal, arbitral, administrative or other proceeding, challenging the validity or legality, or seeking to restrain the Completion of, the transactions contemplated by the Merger Agreement.

1.8 Termination fees

Sparton termination fees

Upon termination of the Merger Agreement, in certain circumstances Sparton will be required to pay Ultra a fee of $7.5m where:

(A) Sparton has terminated the Merger Agreement on the basis summarised at paragraph 1.7(B)(i) of this Part III (*Summary of the Merger Agreement*);

(B) either Ultra or Sparton has terminated the Merger Agreement in circumstances where:

(i) prior to the Sparton Shareholder Meeting, a third party publicly announces or discloses (and does not withdraw) an Acquisition Proposal in respect of more than 50% of Sparton's net revenues, net income, net assets or shares (other than by way of an acquisition of MDS) (an "**Enhanced Acquisition Proposal**");

(ii) subsequently, either Sparton or Ultra terminates the Merger Agreement on account of the Sparton Shareholder Approval having been sought and not obtained; and

(iii) either: (i) within 12 months of such termination, Sparton enters into an agreement with respect to an Enhanced Acquisition Proposal which is subsequently completed; or (ii) an Enhanced Acquisition Proposal is otherwise completed within 12 months of such termination;

(C) either Ultra or Sparton has terminated the Merger Agreement in circumstances where:

(i) prior to the Long Stop Date, an Enhanced Acquisition Proposal is publicly announced or disclosed to the Sparton Board (and not withdrawn) and, at the Long Stop Date, Ultra would have been entitled to terminate the Merger Agreement on account of Sparton's breach of its terms;

(ii) either Sparton or Ultra terminates the Merger Agreement on account of the Acquisition not having Completed on or before the Long Stop Date; and

(iii) either: (i) within 12 months of such termination, Sparton enters into an agreement with respect to an Enhanced Acquisition Proposal which is subsequently completed; or (ii) an Enhanced Acquisition Proposal is otherwise completed within 12 months of such termination; or

(D) Ultra has terminated the Merger Agreement on the basis summarised at paragraph 1.7(C)(i) or paragraph 1.7(C)(ii) of this Part III (*Summary of the Merger Agreement*).

Ultra termination fees

Separately, upon termination of the Merger Agreement, in certain circumstances Ultra will be required to pay Sparton a fee of $7.5m where:

(A) the Merger Agreement is terminated by Ultra or Sparton on the basis summarised at paragraph 1.7(A)(ii) of this Part III (*Summary of the Merger Agreement*) in circumstances where the Ultra Shareholder Approval has not been obtained; or

(B) Sparton terminates the Merger Agreement on the basis summarised at paragraph 1.7(B)(ii) or paragraph 1.7(B)(iii) of this Part III (*Summary of the Merger Agreement*).

PART IV

FINANCIAL INFORMATION ON THE SPARTON GROUP

SECTION A — CONSOLIDATED FINANCIAL INFORMATION ON SPARTON

This Section A of this Part IV contains consolidated financial information for the Sparton Group for the three years ended 30 June 2014, 30 June 2015 and 3 July 2016 and the 9 months ended 2 April 2017.

The information contained in paragraph 1 of this Section A of this Part IV has been extracted without material adjustment from the consolidated audited financial statements of the Sparton Group as published in the Form 10-K for the year ended 3 July 2016, save that in the audited consolidated balance sheets, consolidated statements of operations, consolidated statements of cash flows and balance sheet, statements of operations and statements of cash flows related notes the financial information for the year ended 30 June 2014 has been extracted without material adjustment from the audited consolidated financial statements of the Sparton Group as published in the Form 10-K for the year ended 30 June 2015.

The information contained in paragraph 2 of this Section A of this Part IV has been extracted without material adjustment from the unaudited condensed consolidated financial information of the Sparton Group as published in the Form 10-Q for the nine months ended 2 April 2017. This also includes information about the financial results and cash flows of the Sparton Group for the first three quarters of fiscal year 2017.

In this Section A of this Part IV, the "**Company**" means Sparton and subsidiaries.

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

	July 3, 2016	June 30, 2015	June 30, 2014
Assets			
Current Assets:			
Cash and cash equivalents	$ 132	$ 14,914	$ 8,028
Accounts receivable, net of allowance for doubtful accounts of $407, $173 and $126, respectively	46,759	70,974	48,697
Inventories and cost of contracts in progress, net	77,871	79,503	53,372
Prepaid expenses and other current assets	5,844	5,488	2,654
Total current assets	130,606	170,879	112,751
Property, plant and equipment, net	33,320	32,608	28,523
Goodwill	12,663	74,175	28,189
Other intangible assets, net	36,933	45,825	20,041
Deferred income taxes	25,784	6,913	5,005
Pension asset	—	—	44
Other non-current assets	6,692	7,151	4,427
Total assets	$245,998	$337,551	$198,980
Liabilities and Shareholders' Equity			
Current Liabilities:			
Current portion of long-term debt	$ —	$ —	$ 900
Accounts payable	$ 38,290	$ 29,948	$ 16,543
Accrued salaries and wages	10,609	9,089	7,854
Accrued health benefits	903	1,510	1,538
Performance based payments on customer contracts	—	1,756	3,196
Current portion of capital lease obligations	217	—	—
Other accrued expenses	12,420	16,328	11,090
Total current liabilities	62,439	58,631	41,121
Credit facility	97,206	154,500	40,100
Capital lease obligations, less current portion	332	—	—
Environmental remediation	6,117	7,117	7,644
Pension liability	1,276	424	—
Total liabilities	167,370	220,672	88,865
Commitments and contingencies			
Shareholders' Equity:			
Preferred stock, no par value; 200,000 shares authorized; none issued	—	—	—
Common stock, $1.25 par value; 15,000,000 shares authorized, 9,845,469, 9,886,618 and 10,129,031 shares issued and outstanding, respectively	12,307	12,358	12,661
Capital in excess of par value	16,407	16,045	19,478
Retained earnings	51,650	89,933	78,944
Accumulated other comprehensive loss	(1,736)	(1,457)	(968)
Total shareholders' equity	78,628	116,879	110,115
Total liabilities and shareholders' equity	$245,998	$337,551	$198,980

See Notes to consolidated financial statements.

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

	For fiscal years		
	2016	**2015**	**2014**
Net sales	$ 419,362	$ 382,125	$ 336,501
Cost of goods sold	339,214	307,311	271,686
Gross profit	80,148	74,814	64,815
Operating expense:			
Selling and administrative expenses	55,151	46,969	35,698
Internal research and development expenses	2,344	1,502	1,169
Amortization of intangible assets	9,592	6,591	3,287
Restructuring charges	2,206	—	188
Reversal of accrued contingent consideration	(1,530)	—	—
Impairment of goodwill	64,174	—	—
Legal settlement	—	2,500	—
Environmental remediation	—	—	4,238
Total operating expense	131,937	57,562	44,564
Operating (loss) income	(51,789)	17,252	20,251
Other income (expense):			
Interest expense	(3,803)	(2,456)	(838)
Other, net	93	159	189
Total other expense, net	(3,710)	(2,297)	(649)
(Loss) income before income taxes	(55,499)	14,955	19,602
Income taxes	(17,216)	3,966	6,615
Net (loss) income	$ (38,283)	$ 10,989	$ 12,987
(Loss) income per share of common stock:			
Basic	$ (3.91)	$ 1.10	$ 1.28
Diluted	$ (3.91)	$ 1.10	$ 1.28
Weighted average shares of common stock outstanding:			
Basic	9,786,315	9,874,441	10,109,915
Diluted	9,786,315	9,885,961	10,141,395

See Notes to consolidated financial statements.

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

	For fiscal years		
	2016	**2015**	**2014**
Net (loss) income	$(38,283)	$10,989	$12,987
Other comprehensive (loss) income, net:			
Pension experience (loss) gain, net of tax benefit	100	(458)	152
Pension amortization of unrecognized net actuarial loss, net of tax	(682)	54	81
Pension pro rata recognition of lump-sum settlements, net of tax	218	—	54
Unrecognized gain (loss) on marketable equity securities, net of tax	85	(85)	—
Other comprehensive (loss) income, net	(279)	(489)	287
Comprehensive (loss) income	$(38,562)	$10,500	$13,274

See Notes to consolidated financial statements.

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

	For fiscal years		
	2016	2015	2014
Cash Flows from Operating Activities:			
Net (loss) income	$ (38,283)	$ 10,989	$ 12,987
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation	6,083	4,645	4,700
Amortization of intangible assets	9,592	6,591	3,422
Deferred income taxes	(18,562)	(873)	(976)
Stock-based compensation expense	289	1,885	1,662
Loss on sale of property, plant and equipment, net	56	—	—
Loss on sale of securities available for sale	129	—	—
Impairment of goodwill	64,174	—	—
Reversal of accrued contingent consideration	(1,530)	—	—
Excess tax benefit from stock-based compensation	(162)	(1,044)	(522)
Amortization of deferred financing costs	298	1,169	203
Legal settlement	—	2,500	—
Environmental remediation	—	—	4,238
Gross profit effect of capitalized profit in inventory from acquisition	—	299	337
Changes in operating assets and liabilities, net of business acquisitions:			
Accounts receivable	23,829	(7,040)	4,886
Inventories and cost of contracts in progress	(3,419)	501	1,484
Prepaid expenses and other assets	(609)	(2,319)	463
Performance based payments on customer contracts	(1,756)	(1,440)	(17,706)
Accounts payable and accrued expenses	8,003	(11,326)	(2,728)
Net cash provided by operating activities	48,132	4,537	12,451
Cash Flows from Investing Activities:			
Acquisition of businesses, net of cash acquired	178	(97,319)	(35,560)
Proceeds from sale of securities available for sale	857	—	—
Purchases of property, plant and equipment	(6,098)	(5,802)	(3,501)
Proceeds from sale of property, plant and equipment	221	—	69
Purchase of securities available for sale	—	(986)	—
Net cash used in investing activities	(4,842)	(104,107)	(38,992)
Cash Flows from Financing Activities:			
Borrowings from credit facility	128,050	215,835	70,000
Repayments against credit facility	(185,344)	(102,335)	(40,623)
Payment of debt financing costs	(692)	(1,423)	—
Repurchase of stock	(140)	(6,830)	(1,559)
Payments under capital lease agreements	(108)	—	—
Excess tax benefit from stock-based compensation	162	1,044	522
Proceeds from the exercise of stock options	—	165	144
Net cash (used in) provided by financing activities	(58,072)	106,456	28,484
Net (decrease) increase in cash and cash equivalents	(14,782)	6,886	1,943
Cash and cash equivalents at beginning of year	14,914	8,028	6,085
Cash and cash equivalents at end of year	$ 132	$ 14,914	$ 8,028
Supplemental disclosure of cash flow information:			
Cash paid for interest	$ 3,506	$ 1,747	$ 631
Cash paid for income taxes	766	7,190	7,065
Machinery and equipment financed under capital leases	656	—	—
Supplemental disclosure of non-cash investing activities:			
Adjustments to acquired companies' opening balance sheets	3,412	603	252

See Notes to consolidated financial statements.

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

	Common Stock		Capital In Excess of Par	Retained	Accumulated Other Comprehensive	Total Shareholders'
	Shares	Amount	Value	Earnings	Loss	Equity
Balance at June 30, 2013	10,095,716	$12,619	$18,751	$ 65,957	$(1,255)	$ 96,072
Issuance of stock	96,664	121	(121)	—	—	—
Forfeiture of restricted stock	(3,344)	(4)	4	—	—	—
Repurchase of stock	(76,880)	(96)	(1,463)	—	—	(1,559)
Exercise of stock options	16,875	21	123	—	—	144
Stock-based compensation	—	—	1,662	—	—	1,662
Excess tax benefit from stock-based compensation	—	—	522	—	—	522
Comprehensive income, net of tax	—	—	—	12,987	287	13,274
Balance at June 30, 2014	10,129,031	12,661	19,478	78,944	(968)	110,115
Issuance of stock	26,793	34	(34)	—	—	—
Forfeiture of restricted stock	(39,031)	(49)	49	—	—	—
Repurchase of stock	(249,420)	(312)	(6,518)	—	—	(6,830)
Exercise of stock options	19,245	24	141	—	—	165
Stock-based compensation	—	—	1,885	—	—	1,885
Excess tax benefit from stock-based compensation	—	—	1,044	—	—	1,044
Comprehensive income, net of tax	—	—	—	10,989	(489)	10,500
Balance at June 30, 2015	9,886,618	12,358	16,045	89,933	(1,457)	116,879
Issuance of stock	17,245	22	(22)	—	—	—
Forfeiture of restricted stock	(52,303)	(65)	65	—	—	—
Repurchase of stock	(6,091)	(8)	(132)	—	—	(140)
Stock-based compensation	—	—	289	—	—	289
Excess tax benefit from stock-based compensation	—	—	162	—	—	162
Comprehensive income, net of tax	—	—	—	(38,283)	(279)	(38,562)
Balance at July 3, 2016	9,845,469	$12,307	$16,407	$ 51,650	$(1,736)	$ 78,628

See Notes to consolidated financial statements

1. Business

Sparton Corporation and subsidiaries (the "**Company**" or "**Sparton**") has been in continuous existence since 1900. It was last reorganized in 1919 as an Ohio corporation. The Company is a provider of design, development and manufacturing services for complex electromechanical devices, as well as sophisticated engineered products complementary to the same electromechanical value stream. The Company serves the Medical & Biotechnology, Military & Aerospace and Industrial & Commercial markets through two reportable business segments: Manufacturing & Design Services ("**MDS**") and Engineered Components & Products ("**ECP**"). Prior to fiscal 2015, the Company reported under three reportable business segments: Medical Device ("**Medical**"), Complex Systems ("**CS**") and Defense & Security Systems ("**DSS**"). The prior periods herein reflect this change in segment reporting. See Note 16, Business Segments, of the "Notes to Consolidated Financial Statements" in this form 10-K for a further discussion of business segments. All of the Company's facilities are certified to one or more of the ISO/AS standards, including ISO 9001, AS9100 and ISO 13485, with most having additional certifications based on the needs of the customers they serve. The majority of the Company's customers are in highly regulated industries where strict adherence to regulations such as the International Tariff and Arms Regulations ("**ITAR**") is necessary. The Company's products and services include offerings for Original Equipment Manufacturers ("**OEM**") and Emerging Technology ("**ET**") customers that utilize microprocessor-based systems which include transducers, printed circuit boards and assemblies, sensors and electromechanical components, as well as development and design engineering services relating to these product sales. Sparton also develops and manufactures sonobuoys, anti-submarine warfare ("**ASW**") devices used by the United States Navy and foreign governments that meet Department of State licensing requirements. Additionally, Sparton manufactures rugged flat panel display systems for military panel PC workstations, air traffic control and industrial applications as well as high performance industrial grade computer systems and peripherals. Many of the physical and technical attributes in the production of these proprietary products are similar to those required in the production of the Company's other electrical and electromechanical products and assemblies.

For fiscal year 2016, the Company has changed from a calendar year to a 52-53 week year (5-4-4 basis) ending on the Sunday closest to June 30. Therefore, the financial results of certain fiscal years and the associated 14 week quarters, will not be exactly comparable to the prior and subsequent 52 week fiscal years and the associated quarters having only 13 weeks. The change was not deemed a change in fiscal year for purposes of reporting subject to Rule 13a-10 or 15d-10; hence, no transition reports are required. The Company has made the change in fiscal years on a prospective basis and thus the change will not impact the Company's financial statements as of and for fiscal year 2016 or any interim period therein. The Company believes the change in fiscal years will provide numerous benefits, including more consistency between reported periods and to better align its reporting periods with the Company's peer group.

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

2. Summary of Significant Accounting Policies

Basis of presentation and principles of consolidation — The consolidated financial statements include the accounts of Sparton Corporation and subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States of America ("**GAAP**"). All significant intercompany accounts and transactions have been eliminated in consolidation. Certain reclassifications of prior year amounts have been made to conform to the current year presentation.

Use of estimates — Management of the Company has made a number of estimates, judgments and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent liabilities at the dates of the consolidated balance sheets and revenue and expense during the reporting periods

to prepare these consolidated financial statements in conformity with GAAP. Actual results could differ from those estimates.

Cash and cash equivalents — Cash and cash equivalents include cash on hand, demand deposits and money market funds with original maturities of three months or less. Cash equivalents are stated at cost which approximates fair value.

Accounts receivable, credit practices and allowances for doubtful accounts—Accounts receivable are customer obligations generally due under normal trade terms for the industry. Credit terms are granted and periodically revised based on evaluations of the customers' financial condition. The Company performs ongoing credit evaluations of its customers and although the Company does not generally require collateral, letters of credit or cash advances may be required from customers in order to support accounts receivable in certain circumstances. The Company maintains an allowance for doubtful accounts on receivables for estimated losses resulting from the inability of its customers to make required payments. The allowance is estimated primarily based on information known about specific customers with respect to their ability to make payments and future expectations of conditions that might impact the collectability of accounts. When management determines that it is probable that an account will not be collected, all or a portion of the amount is charged against the allowance for doubtful accounts.

Inventories and costs of contracts in progress — Inventories are valued at the lower of cost (first-in, first-out basis) or market and include costs related to long-term contracts as disclosed below. Inventories, other than contract costs, are principally raw materials and supplies. Certain United States government contracts allow Sparton to submit performance based billings, which are then applied against inventories purchased and manufacturing costs incurred by the Company throughout its performance under these contracts. Inventories were reduced by performance based payments from the U.S. government for costs incurred related to long-term contracts, thereby establishing inventory to which the U.S. government then has title, of $8,963, $7,456 and $7,960, respectively, at July 3, 2016, June 30, 2015 and June 30, 2014. At July 3, 2016, June 30, 2015 and June 30, 2014, current liabilities include performance based payments of $0, $1,756 and $3,196, respectively, on government contracts. As these payments were in excess of cost, there is no inventory to which the government would claim title and, therefore, no offset to inventory has been made.

Customer orders are based upon forecasted quantities of product manufactured for shipment over defined periods. Raw material inventories are purchased to fulfill these customer requirements. Within these arrangements, customer demands for products frequently change, sometimes creating excess and obsolete inventories. The Company regularly reviews raw material inventories by customer for both excess and obsolete quantities. Wherever possible, the Company attempts to recover its full cost of excess and obsolete inventories from customers or, in some cases, through other markets. When it is determined that the Company's carrying cost of such excess and obsolete inventories cannot be recovered in full, a charge is taken against income for the difference between the carrying cost and the estimated realizable amount. These cost adjustments for excess and obsolete inventory create a new cost basis for the inventory. The Company recorded inventory write-downs totaling $1,653, $927 and $468 for fiscal years 2016, 2015 and 2014, respectively. These charges are included in cost of goods sold for the periods presented. If inventory that has previously been impaired is subsequently sold, the amount of reduced cost basis is reflected as cost of goods sold. The Company experienced minimal subsequent sales of excess and obsolete inventory during fiscal years 2016, 2015 and 2014 that resulted in higher gross margins due to previous write-downs. Such sales and the impact of those sales on gross margin were not material to the years presented.

Property, plant and equipment, net — Property, plant and equipment are stated at cost less accumulated depreciation. Major improvements and upgrades are capitalized while ordinary repair and maintenance costs are expensed as incurred. Depreciation is provided over estimated useful lives on both straight-line and accelerated methods. Estimated useful lives generally range from twelve to thirty-nine years for buildings and improvements, twelve years for machinery and equipment and five years for test equipment.

Goodwill — Goodwill resulting from business combinations represents the excess of purchase price over the fair value of the net assets of the businesses acquired. Goodwill is not amortized, but rather tested for impairment annually, as well as whenever there are events or changes in circumstances (triggering events) which suggest that the carrying value of goodwill may not be recoverable. The Company performs its annual goodwill impairment testing in the fourth quarter based on its historical

financial results through the third quarter end. The goodwill impairment test is performed at the reporting unit level, which is the lowest level at which goodwill is evaluated for management purposes. The Company has identified reporting units to be its two reportable business segments—MDS and ECP for fiscal years 2016 and 2015. In fiscal year 2014 the Company had three reportable business segments determined to be its identified reporting units — Medical, Complex Systems and DSS.

The Company may elect to perform a qualitative assessment for its annual goodwill impairment test. If the qualitative assessment indicates that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, or if Sparton elects to not perform a qualitative assessment, then the Company would be required to perform a quantitative impairment test for goodwill.

The quantitative impairment analysis is a two-step process. First, the Company determines the fair value of the reporting unit and compares it to its carrying value. The fair value of reporting units is determined based on a weighting of both projected discounted future results and comparative market multiples. The projected discounted future results (discounted cash flow approach) is based on assumptions that are consistent with the Company's estimates of future growth and the strategic plan used to manage the underlying business. Factors requiring significant judgment include assumptions related to future revenue growth rates, operating margins, terminal growth rates and discount factors, amongst other considerations. If the carrying value of the reporting unit exceeds the fair value in the first step, a second step is performed to measure the amount of an impairment loss. In the second step, an impairment loss is recognized for any excess of the carrying value of the reporting unit's goodwill over its implied fair value. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit using a residual fair value allocation. The residual fair value allocated to goodwill is the implied fair value of the reporting unit's goodwill. The Company's fair value estimates related to its goodwill impairment analyses are based on Level 3 inputs within the fair value hierarchy as described below in this note under "Fair value measurements". Determining the fair value of any reporting unit and intangible asset is judgmental in nature and involves the use of significant estimates and assumptions. The Company bases its fair value estimates on assumptions believed to be reasonable, but which are unpredictable and inherently uncertain. Actual future results may differ from those estimates. Circumstances that may lead to future impairment of goodwill include, but are not limited to, unforeseen decreases in future performance or industry demand, a further loss of a significant customer, or the inability to achieve sufficient organic revenue growth to offset fluctuations in customer demand.

The Company's fiscal year 2014 quantitative annual tests of goodwill (Step 1) related to the Medical, Complex Systems and DSS reporting units resulted in fair values in excess of the related carrying values of the assets and as such did not indicate that the related goodwill was impaired. The Company determined at that time that the fair value of the three reporting units substantially exceeded their carrying values, by 70%, 33% and over 1,100%, respectively. In fiscal 2015, the Company elected to perform the optional qualitative assessment of goodwill and concluded that it was more likely than not that the fair value of goodwill in its reporting units was in excess of its respective carrying amount and therefore, no further testing was required. In fiscal 2016, the Step 1 impairment testing of goodwill was performed and resulted in the carrying values of its MDS reporting unit in excess of its fair value indicating potential impairment. The decline in value in the MDS reporting unit was a result of the underperformance of the Company's most recent acquisition (Hunter Technology Corporation), and the inability to achieve sufficient organic revenue growth to offset the loss of a large customer due to insourcing, as well as revenue declines due to fluctuations in customer demand across the MDS reporting unit. The Company performed the Step 2 analysis of goodwill impairment for this reporting unit and based on the valuation of the reporting unit as well as the fair value of the reporting unit's individual tangible and intangible assets, it was determined that goodwill within this reporting unit was fully impaired. As such, the Company recorded an impairment of goodwill charge of $64,174. Prior to the fourth quarter of fiscal 2016, no triggering events or other facts and circumstances were identified that indicated that it was more likely than not that the fair value of the MDS segment was less than its carrying value. The impairment recognized in the fourth quarter of fiscal 2016 was a result of the continued underperformance of the acquired Hunter Technology Corporation operations and the inability of the Company to achieve sufficient organic revenue growth to offset fluctuations in customer demands. The fair value of the Company's ECP reporting unit was in excess of its carrying value and, as such, indicated no impairment of goodwill.

Other Intangible Assets — The Company's intangible assets other than goodwill represent the values assigned to acquired customer relationships, acquired non-compete agreements, acquired

trademarks/trade names and acquired unpatented technology. At July 3, 2016, customer relationships and non-compete agreements totaling $27,650 and $1,998, respectively, are included in the MDS segment, while customer relationships, non-compete agreements, trademarks/trade names and unpatented technology totaling $4,975, $195, $1,382 and $733, respectively, are included in the ECP segment. The impairment test for these intangible assets is conducted when impairment indicators are present. The Company continually evaluates whether events or circumstances have occurred that would indicate the remaining estimated useful lives of its intangible assets warrant revision or that the remaining balance of such assets may not be recoverable. The Company uses an estimate of the related undiscounted cash flows over the remaining life of the asset in measuring whether the asset is recoverable. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge would be recognized for the amount that the carrying amount of the asset exceeds the fair value of the asset. The Company's fair value estimates related to its intangible assets impairment analyses are based on Level 3 inputs within the fair value hierarchy as described below in this note under "Fair value measurements". The Company had a third-party valuation of the recoverability of intangible assets performed in the fourth quarter of fiscal 2016 and it was determined that the assets were fully recoverable and no write-down of such assets was necessary.

Acquired customer relationships are being amortized using an accelerated methodology over periods of seven to fifteen years. Acquired non-compete agreements are being amortized on a straight-line basis over periods of two to five years as the ratable decline in value over time is most consistent with the contractual nature of these assets. Acquired trademarks/trade names are being amortized on a straight-line basis over periods of one to ten years and acquired unpatented technology is being amortized using an accelerated methodology over seven years.

Impairment of long-lived assets — The Company reviews other long-lived assets that are not held for sale (including intangibles other than goodwill) for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is determined by comparing the carrying value of the assets to their estimated future undiscounted cash flows. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset group exceeds the fair value of the asset group. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell and are reviewed at least quarterly.

Stock-based compensation — The Company measures the cost of employee and director services received in exchange for an award of equity-based securities using the fair value of the award on the date of the grant. The Company recognizes that cost on a straight-line basis over the period that the award recipient is required to provide service to the Company in exchange for the award and, for certain awards, subject to the probability that related performance targets will be met. See Note 12, Stock-Based Compensation, of the "Notes to Consolidated Financial Statements" in this Form 10-K for a further discussion of stock-based compensation.

(Loss) earnings per share — Basic (loss) earnings per share is based on the weighted average number of common shares and participating securities outstanding during the period. Diluted earnings or loss per share include the dilutive effect of additional potential common shares issuable under our stock-based compensation plans and are determined using the treasury stock method. Unvested restricted stock awards, which contain non-forfeitable rights to dividends whether paid or unpaid, are included in the number of shares outstanding for both basic and diluted earnings or loss per share calculations. Unvested contingently issuable participating restricted shares are excluded from basic (loss) earnings per share. In the event of a net loss, unvested restricted stock awards are excluded from the calculation of both basic and diluted loss per share. See Note 13, (Loss) Earnings Per Share Data, of the "Notes to Consolidated Financial Statements" in this Form 10-K for a further discussion.

Income taxes — Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement amounts of assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in future years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rate is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced through the establishment of a valuation allowance at the time, based upon available evidence, it becomes more likely than not that the deferred tax assets will not be realized.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. Management also assesses whether uncertain tax positions, as filed, could result in the recognition of a liability for possible interest and penalties. The Company's policy is to include interest and penalties related to unrecognized tax benefits as a component of income tax expense.

ERAPSCO Agreement — Sparton is a 50/50 joint venture ("**JV**") partner with UnderSea Sensor Systems, Inc. ("**USSI**"), the only other major producer of U.S. derivative sonobuoys. USSI's parent company is Ultra Electronics Holdings PLC, based in the United Kingdom. The JV operates under the name ERAPSCO and allows Sparton and USSI to combine their own unique and complementary backgrounds to jointly develop and produce U.S. derivative sonobuoy designs for the U.S. Navy as well as foreign governments that meet Department of State licensing requirements. ERAPSCO maintains the DBA Sonobuoy TechSystems through which it conducts business directly with foreign governments. In concept, and in practice, ERAPSCO serves as a pass-through entity maintaining no funds or assets. While the JV provides the opportunity to maximize efficiencies in the design and development of the related sonobuoys, both of the joint venture partners function independently as subcontractors; therefore, there is no separate entity to be accounted for or consolidated. The Board of Directors of ERAPSCO has the responsibility for the overall management and operation of the JV. The six member board consists of equal representation (full time employees) from both JV partners for three year terms. Personnel necessary for the operation of ERAPSCO, specifically a president, vice president, general manager, contract administrator and financial manager, are similarly assigned by the JV partners for rotating three year terms and the costs of these assigned individuals are borne by the party assigning the personnel. In response to a customer request for proposal ("**RFP**") that ERAPSCO will bid on, the Board of Directors of ERAPSCO approves both the composition of a response to the RFP and the composite bid to be submitted to the customer. The Board of Directors strives to divide the aggregate contract awards at a 50/50 share ratio. Each JV partner bears the costs it incurs associated with the preparation and submission of proposals. Each JV partner submits to ERAPSCO a proposal for the estimated price of performing that portion of the RFP applicable to it. Upon award of a contract to the JV, separate subcontracts are generated between ERAPSCO and each of the JV partners defining the responsibilities and compensation. These subcontracts contain terms and conditions consistent with the prime contract. Each JV partner is responsible to ERAPSCO for the successful execution of its respective scope of work under its subcontract and each JV partner is individually accountable for the profit or losses sustained in the execution of the subcontract against its respective bid. In some instances, either Sparton or USSI handles the complete production and delivery of sonobuoys to ERAPSCO's customer. In other instances, either Sparton or USSI starts the production and ship completed subassemblies to the other party for additional processing before being delivered to the customers. Under ERAPSCO, individual contract risk exposures are reduced, while the likelihood of achieving U.S. Navy and other ASW objectives is enhanced. ERAPSCO has been in existence since 1987 and historically, the agreed upon products included under the JV were generally developmental sonobuoys. In 2007, the JV expanded to include all future sonobuoy development and substantially all U.S. derivative sonobuoy products for customers outside of the United States. The JV was further expanded three years later to include all sonobuoy products for the U.S. Navy beginning with U.S. Navy's 2010 fiscal year contracts.

Revenue recognition — The Company's net sales are comprised primarily of product sales, with supplementary revenues earned from engineering and design services. Standard contract terms are FOB shipping point. Revenue from product sales is generally recognized upon shipment of the goods; service revenue is recognized as the service is performed or under the percentage of completion method, depending on the nature of the arrangement. Long-term contracts related to ECP sonobuoy sales to the U.S. Navy and foreign government customers that require lot acceptance testing recognize revenue under the units-of-production percentage of completion method. The Company additionally has certain other long-term contracts that are accounted for under the units shipped percentage-of-completion method. Certain upfront engineering costs in relation to certain of these long-term contracts are capitalized and recognized over the life of the contract. At July 3, 2016, June 30, 2015 and June 30, 2014, current liabilities include payments in excess of costs of $0, $1,756 and $3,196, respectively, on government contracts. As noted above, sales related to these billings are recognized based upon units completed and are not recognized at the time of billings. A provision for

the entire amount of a loss on a contract is charged to operations as soon as the loss is identified and the amount is reasonably determinable. Shipping and handling costs are included in cost of goods sold.

Advertising Costs — The Company expenses advertising costs as they are incurred. Advertising expense was $106, $160 and $191 for fiscal years 2016, 2015 and 2014, respectively.

Research and development expenditures — Internal research and development expenses reflect costs incurred for the internal development of technologies for use in undersea warfare, navigation, hand held targeting applications as wells as rugged computer and display devices. These costs include salaries and related expenses, contract labor and consulting costs, materials and the cost of certain research and development specific equipment. The Company incurred $2,344, $1,502 and $1,169 of internally funded research and development expenses during fiscal years 2016, 2015 and 2014, respectively. Customer funded research and development costs, which are usually part of a larger production agreement, totaled $16,736, $9,944 and $9,708 for the fiscal years 2016, 2015 and 2014, respectively.

Fair value measurements — Fair value estimates and assumptions and methods used to estimate the fair value of the Company's assets and liabilities are made in accordance with the requirements of the Financial Accounting Standards Board (the "**FASB**"), Accounting Standards Codification ("**ASC**") Topic 820, "Fair Value Measurements and Disclosures" ("**ASC 820**").

ASC 820 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, ASC 820 establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows: Level 1 are observable inputs such as quoted prices in active markets; Level 2 are inputs other than the quoted prices in active markets that are observable either directly or indirectly; and Level 3 are unobservable inputs in which there is little or no market data, which require the Company to develop its own assumptions. This hierarchy requires the Company to use observable market data when available and to minimize the use of unobservable inputs when determining fair value. As of July 3, 2016, the Company had no assets or liabilities which it measures and carries on its balance sheet at fair value on a recurring basis.

The fair value of the Company's Credit Facility (as defined below) debt at July 3, 2016 approximated its carrying value of $97,206, as the rates on these borrowings are variable in nature. In the event of an acquisition, the Company estimates the fair value of the assets acquired and liabilities assumed at acquisition date. See Note 3, Acquisitions, of the "Notes to Consolidated Financial Statements" in this form 10-K for a further discussion of these estimated fair values. The fair value of accounts receivable and accounts payable approximated their carrying values at July 3, 2016, June 30, 2015 and June 30, 2014.

The Company held marketable equity securities of $0, $847 and $0 at the end of fiscal years 2016, 2015 and 2014, respectively. At the end of fiscal year 2015, the securities were classified as available-for-sale and recorded in other non-current assets on the Consolidated Balance Sheets. These securities were carried at estimated fair value with unrealized gains and losses reflected in Accumulated Other Comprehensive Income and were classified as Level 1 in the fair value hierarchy. The assessment for impairment of marketable equity securities as available-for-sale is based on established financial methodologies, including quoted market prices for publicly traded securities. If the Company had determined that a loss in the value of the investment was other than temporary, any such losses would have been recorded in other expense (income), net.

The table below presents a reconciliation for liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for fiscal years 2016, 2015 and 2014.

	June 30, 2014	Purchase or additions	June 30, 2015	Write-down	July 3, 2016
Liabilities:					
Contingent consideration	$—	$1,530	$1,530	$(1,530)	$—

Market risk exposure — The Company manufactures its products in the United States, Canada and Vietnam. Sales of the Company's products are in the U.S. and foreign markets. The Company is subject to foreign currency exchange rate risk relating to intercompany activity and balances and to

receipts from customers and payments to suppliers in foreign currencies. Adjustments related to the remeasurement of the Company's Canadian and Vietnamese financial statements into U.S. dollars are included in current earnings. As a result, the Company's financial results could be affected by factors such as changes in foreign currency exchange rates or economic conditions in the domestic and foreign markets in which the Company operates. However, minimal third party receivables and payables are denominated in foreign currency and the related market risk exposure is considered to be immaterial.

The Company's revolving credit line, when drawn upon, is subject to future interest rate fluctuations which could potentially have a negative impact on cash flows of the Company. The Company had $97,206 outstanding under its credit facility at July 3, 2016. A prospective increase of 100 basis points in the interest rate applicable to the Company's outstanding borrowings under its Credit Facility would result in an increase of $972 in its annual interest expense. The Company is not party to any currency exchange or interest rate protection agreements as of July 3, 2016. See Note 8, Debt, of the "Notes to Consolidated Financial Statements" in this form 10-K for a further description on Sparton's debt.

New accounting standards — In May 2014, the FASB issued Accounting Standards Update No. 2014-09 ("**ASU 2014-09**"), *Revenue from Contracts with Customers*, which amends guidance for revenue recognition. Under the new standard, revenue will be recognized when control of the promised goods or services is transferred to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods and services. The standard creates a five-step model that will generally require companies to use more judgment and make more estimates than under current guidance when considering the terms of contracts along with all relevant facts and circumstances. These include the identification of customer contracts and separating performance obligations, the determination of transaction price that potentially includes an estimate of variable consideration, allocating the transaction price to each separate performance obligation, and recognizing revenue in line with the pattern of transfer. In August 2015, the FASB issued an amendment to defer the effective date for all entities by one year. The new standard will become effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted as of annual reporting periods beginning after December 15, 2016. Companies have the option of using either a full or modified retrospective approach in applying this standard. During fiscal 2016, the FASB issued three additional updates which further clarify the guidance provided in ASU 2014-09. The Company is currently in the process of evaluating the impact of adoption on its consolidated financial statements.

In April 2015, the FASB issued Accounting Standards Update No. 2015-03 ("**ASU 2015-03**"), Interest — Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 changes the presentation of debt issuance costs for term debt in the balance sheet by requiring the debt issuance costs to be presented as a direct deduction from the related debt liability, rather than recorded as an asset. In August 2015, the FASB issued clarification to the guidance in ASU 2015-03 regarding presentation and subsequent measurement of debt issuance costs related to line-of-credit arrangements. The new standard provides clarification regarding costs to secure revolving lines of credit and indicates that the SEC staff would not object to an entity deferring and presenting costs associated with line-of-credit arrangements as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. The provisions of this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2015, although early adoption is permitted. When adopted, this guidance must be applied on a retrospective basis. The adoption of this guidance is not expected to have a significant impact on the Company's consolidated financial statements.

In April 2015, the FASB issued Accounting Standards Update No. 2015-04 ("**ASU 2015-04**"), Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets. ASU 2015-04 provides a practical expedient that permits the entity to measure defined benefit plan assets and obligations using the month-end that is closest to the entity's fiscal year-end when an entity's fiscal year-end does not coincide with a month-end. ASU 2015-04 will be effective for fiscal years and interim periods beginning after December 15, 2015. ASU 2015-04 is required to be applied prospectively and early adoption is permitted. The Company adopted this guidance in fiscal year 2016. The adoption of this guidance did not have a significant impact on the Company's consolidated financial statements.

In July 2015, the FASB issued Accounting Standards Update No. 2015-11 ("**ASU 2015-11**"), *Simplifying the Measurement of Inventory*. ASU 2015-11 clarifies that inventory should be held at the lower of cost or net realizable value. Net realizable value is defined as the estimated selling price, less the estimated costs to complete, dispose and transport such inventory. ASU 2015-11 will be effective for fiscal years and interim periods beginning after December 15, 2016. ASU 2015-11 is required to be applied prospectively and early adoption is permitted. The Company is currently in the process of evaluating the impact of adoption on its consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*, which requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as non-current in the balance sheet. As a result, each jurisdiction will now only have one net non-current deferred tax asset or liability. However, the new guidance does not change the existing requirement that only permits offsetting within a jurisdiction. Companies are still prohibited from offsetting deferred tax liabilities from one jurisdiction against deferred tax assets of another jurisdiction. The amendments in this accounting standard are effective for public companies for interim and annual reporting periods beginning after December 15, 2016, with early application permitted. The Company has applied the change in accounting as of July 3, 2016. As such, the amounts previously reported as current deferred tax assets and non-current deferred tax liabilities were decreased by $4,714 and $0, respectively, and amounts previously reported as non-current deferred tax assets were increased by $4,714 in the Consolidated Balance Sheet as of June 30, 2015. The change in accounting principle did not have an impact on the Company's results of operations, cash flows or stockholders' equity.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02 ("**ASU 2016-02**"), *Leases (Topic 842)*. ASU 2016-02 establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for capital leases and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently in the process of evaluating the impact of adoption on its consolidated financial statements.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09 ("**ASU 2016-09**"), Compensation — Stock *Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. ASU 2016-09 will directly impact the tax administration of equity plans. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted and any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company is currently in the process of evaluating the impact of adoption on its consolidated financial statements.

In June 2016, the FASB issued Accounting Standards Update No. 2016-13 ("**ASU 2016-13**"), *Financial Instruments — Credit Losses (Topic 326)*. ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019 and early adoption is permitted. The Company is currently in the process of evaluating the impact of adoption on its consolidated financial statements.

In August 2016, the FASB issued Accounting Standards Update No. 2016-15 ("**ASU 2016-15**"), *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 will make eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017. The new standard will require adoption on a retrospective basis unless it is impracticable to apply, in which case it would be required to apply the amendments prospectively as of the earliest date practicable. The Company is currently in the process of evaluating the impact of adoption on its consolidated financial statements.

3. Acquisitions

Fiscal Year 2015

The following table represents the allocation of the total consideration to assets acquired and liabilities assumed in the 2015 acquisitions based on Sparton's estimate of their respective fair values at the acquisition date:

	Hunter	Stealth	KEP Marine	RTEmd	Argotec	IED	eMT
Total purchase consideration:							
Cash	$ 55,194	$12,558	$4,300	$2,332	$350	$3,000	$20,000
Common stock	673	—	—	—	—	—	
Section 338 gross-up payable	572	—	—	—	—	—	—
Working capital adjustment	—	—	(147)	103	75	292	1,600
Income tax adjustment	—	—	—	—	—	(271)	469
Total purchase consideration	$ 56,439	$12,558	$4,153	$2,435	$425	$3,021	$22,069
Assets acquired and liabilities assumed:							
Cash	$ 687	$ —	$ —	$ 206	$ —	$ —	$ 1,505
Accounts receivable	10,455	360	—	273	—	—	4,444
Inventories	15,683	562	1,203	134	55	450	4,090
Other current assets	419	—	—	6	—	—	26
Property, plant and equipment	3,195	—	—	7	118	—	584
Customer relationships	15,400	3,375	1,200	800	—	—	5,950
Non-compete agreements	420	94	—	—	—	700	2,730
Tradenames and trademarks	—	1,256	180	—	20	180	80
Unpatented technology	—	690	—	—	—	—	—
Goodwill	29,277	6,718	1,570	1,930	232	1,962	6,959
Deferred income taxes — non-current	—	—	—	(279)	—	(271)	—
Other long-term assets	263	—	—	4	—	—	30
Accounts payable	(15,756)	(425)	—	(14)	—	—	(3,636)
Other current liabilities	(3,604)	(72)	—	(632)	—	—	(693)
Total assets acquired and liabilities assumed	$ 56,439	$12,558	$4,153	$2,435	$425	$3,021	$22,069

Hunter Technology Corporation — On April 14, 2015, the Company acquired Hunter Technology Corporation ("**Hunter**"), with operations located in Milpitas, CA and Lawrenceville, GA, for $55,000. Hunter, which is part of the Company's MDS segment, provides electronic contract manufacturing in military and aerospace applications. Hunter provides engineering design, new product introduction and full-rate production manufacturing solutions working with major defense and aerospace companies, test and measurement suppliers, secure networking solution providers, medical device manufacturers and a wide variety of industrial customers.

Included in the Company's Consolidated Statements of Income for fiscal year 2015 are net sales of $14,288 and net loss before income taxes of $656, since the April 14, 2015 acquisition of Hunter.

Stealth.com — On March 16, 2015, the Company acquired substantially all of the assets of Stealth.com ("**Stealth**"), located in Woodbridge, ON, Canada, for $16,000 CAD ($12,558 USD). The acquired business, which is part of the Company's ECP segment, is a supplier of high performance rugged industrial grade computer systems and peripherals that include Mini PC/Small Form Factor Computers, Rackmount Server PCs, Rugged Industrial LCD Monitors, Rugged Portable PCs, Industrial Grade Keyboards and Rugged Trackballs and Mice.

Included in the Company's Consolidated Statements of Income for fiscal year 2015 are net sales of $2,541 and income before income taxes of $384, since the March 16, 2015 acquisition of Stealth.

KEP Marine — On January 21, 2015, the Company acquired certain assets of KEP Marine, a division of Kessler-Ellis Products, located in Eatontown, NJ, for $4,300. The acquired business, which is part of the Company's ECP segment, designs and manufactures industrial displays, industrial computers

and HMI software for the Marine market. These product lines have been consolidated into the Aydin Displays facility, located in Birdsboro, PA.

Real-Time Enterprises, Inc. — On January 20, 2015, the Company acquired Real-Time Enterprises, Inc. ("**RTEmd**"), located in Pittsford, NY, for $2,332. RTEmd will continue to service its current and future customers out of its Pittsford, NY location. The acquired business, which is part of the Company's MDS segment, is a developer of embedded software to operate medical devices and diagnostic equipment through a disciplined approach to product development and quality/regulatory services with specific product experience such as patient monitoring, medical imaging, in-vitro diagnostics, electro-medical systems, surgical applications, ophthalmology, nephrology, infusion pumps and medical imaging.

Included in the Company's Consolidated Statements of Income for fiscal year 2015 are net sales of $1,173 and loss before income taxes of $182, since the July 9, 2014 acquisition of eMT.

Argotec, Inc. — On December 8, 2014, the Company acquired certain assets of Argotec, Inc. ("**Argotec**"), located in Longwood, FL, for $350. The acquired business, which is part of the Company's ECP segment, is engaged in developing and manufacturing sonar transducer products and components for the U.S. Navy and also provides aftermarket servicing. These products have been consolidated into the Company's DeLeon Springs, FL location.

Industrial Electronic Devices, Inc. — On December 3, 2014, the Company acquired certain assets of Industrial Electronic Devices, Inc. ("**IED**"), located in Flemington, NJ, for $3,292. The acquired business, which is part of the Company's ECP segment, designs and manufactures a full line of rugged displays for the Industrial and Marine markets. IED's catalog spans over 600 standard, semi-custom and custom configurations, incorporating some of the most advanced flat panel displays and touch screen technology available. These product lines have been consolidated into the Aydin Displays facility, located in Birdsboro, PA.

Electronic Manufacturing Technology, LLC. — On July 9, 2014, the Company acquired Electronic Manufacturing Technology, LLC. ("**eMT**"), located in Irvine, CA, for $22,069, which included $1,505 of acquired cash. The acquired business, which is part of the Company's MDS segment, is engaged in the contract services business of manufacturing electromechanical controls and electronic assemblies. Their customer profile includes international Fortune 1000 manufacturers of highly reliable industrial excimer laser products, laser eye surgery sub-assemblies, target simulators for space and aviation systems, power modules for computerized tomography products, test systems for commercial aerospace OEMs and toll road antennas and control boxes.

Included in the Company's Consolidated Statements of Income for fiscal year 2015 are net sales of $23,503 and income before income taxes of $2,452, since the July 9, 2014 acquisition of eMT.

Fiscal Year 2014

The following table represents the allocation of the total consideration to assets acquired and liabilities assumed in the 2014 acquisitions based on Sparton's estimate of their respective fair values at the acquisition date:

	Aubrey	Beckwood	Aydin
Total purchase consideration:			
Cash	$ 5,300	$15,300	$15,000
Cash consideration paid for excess cash	573	—	—
Working capital adjustment	(252)	46	502
Total purchase consideration	$ 5,621	$15,346	$15,502
Assets acquired and liabilities assumed:			
Cash	$ 1,056	$ —	$ —
Accounts receivable	680	1,157	2,279
Inventories	184	2,075	6,601
Deferred income taxes	4	108	—
Other current assets	22	122	895
Property, plant and equipment	221	83	582
Customer relationships	—	10,000	1,500
Non-compete agreements	140	280	—
Tradenames and trademarks	—	—	180
Unpatented technology	—	—	650
Goodwill	4,510	6,731	2,181
Deferred income taxes — non-current	290	(3,761)	—
Other long-term assets	—	8	2,292
Accounts payable	(173)	(866)	(1,215)
Other current liabilities	(1,313)	(591)	(443)
Total assets acquired and liabilities assumed	$ 5,621	$15,346	$15,502

Aubrey Group, Inc. — On March 17, 2014, the Company acquired Aubrey Group, Inc. ("**Aubrey**"), located in Irvine, CA, for $5,048. The acquired business, a design and manufacturing company, which is part of the MDS segment, develops new products for OEMs in the Medical and Biotechnological markets. Inventors, entrepreneurs and industry leading OEMs utilize Aubrey's design and engineering teams to develop innovative solutions in a timely manner, delivering its clients' new products into the marketplace faster and more cost effectively.

Beckwood Services, Inc. — On December 11, 2013, the Company acquired Beckwood Services, Inc. ("**Beckwood**"), located in Plaistow, N.H., for $15,346. The acquired business, which is part of the Company's MDS segment, develops electronic or electro-mechanical controls and electronic assemblies. Their customer profile includes international Fortune 1000 manufacturers of industrial control systems, analytical instruments, measuring and detecting equipment and military, defense and Homeland Security equipment.

Aydin Displays, Inc. — On August 30, 2013, the Company acquired certain assets and liabilities of Aydin Displays, Inc. ("**Aydin Displays**" or "**Aydin**"), located in Birdsboro, PA, for $15,502. The acquired business, which is part of the Company's ECP segment, develops enhanced flat panel display and touch-screen solutions with application-critical performance criteria including ruggedization, high resolution, color accuracy, response/refresh times, sunlight readability and other criteria such as magnetic interference and emanations security for the Military & Aerospace and Civil Marine markets. These products are currently specified in the U.S. Navy P8A Poseidon ASW aircraft behind-the-cockpit control center, the command and control centers of many U.S. Navy ships, Federal Aviation Administration air traffic control systems and cockpit command centers for various civil marine applications. The acquired business will continue to operate as Aydin Displays.

The following table summarizes, on a pro forma basis, the combined results of operations of the Company and the acquired businesses of Hunter, Stealth, KEP, RTEmd, Argotec, IED and eMT, as though the acquisitions had occurred as of July 1, 2013 and Aubrey, Beckwood and Aydin as though the acquisitions had occurred as of July 1, 2012. The pro forma amounts presented are not

necessarily indicative of either the actual consolidated results had the acquisitions occurred as of July 1, 2013 and 2012, respectively, or of future consolidated operating results (unaudited):

	For fiscal years	
	2015	2014
Net sales	$461,734	$465,229
Income before income taxes	19,345	33,654
Net income	15,219	27,296
Net income per share — basic	1.54	2.70
Net income per share — diluted	1.54	2.69

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

During fiscal 2016, the Company elected to adopt Accounting Standards Update No. 2015-16, *Business Combinations (Topic 805) Simplifying the Accounting for Measurement-Period Adjustment*. As a result, during fiscal year 2016, the Company recorded adjustments to the opening balance sheets of Hunter and RTEmd as follows:

Changes to goodwill:	
Inventory	$5,052
Accounts receivable	386
Property, plant and equipment	(974)
Intangible assets — customer relationships	(700)
Other assets and liabilities, net	(352)
Non-cash adjustments	3,412
Adjustment to purchase consideration	(750)
Total	$2,662

For fiscal year 2016, the Company recorded depreciation expense of $362 in cost of goods sold and amortization of intangible assets of $26 that would have otherwise been recorded in prior periods.

Certain of the acquisitions included escrow accounts based on final working capital adjustments and other performance criteria. During fiscal year 2016, the Company received $750 in adjustments to the purchase price under the terms of an acquisition agreement, as reflected in the table above.

During fiscal year 2016, the Company recorded an adjustment to Goodwill of $428 which reduced certain tax liabilities related to the Company's purchase of Hunter.

4. Inventories and Cost of Contracts in Progress, net

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

	July 3, 2016	June 30, 2015	June 30, 2014
Raw materials	$40,914	$60,668	$40,535
Work in process	23,626	19,047	10,609
Finished goods	22,294	7,244	10,188
Total inventory and cost of contracts in progress, gross	86,834	86,959	61,332
Inventory to which the U.S. government has title due to interim billings	(8,963)	(7,456)	(7,960)
Total inventory and cost of contracts in progress, net	$77,871	$79,503	$53,372

5. Property, Plant and Equipment, net

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

	July 3, 2016	June 30, 2015	June 30, 2014
Land and land improvements	$ 1,429	$ 1,429	$ 1,429
Buildings and building improvements	27,660	27,482	25,779
Machinery and equipment	43,134	36,923	29,480
Construction in progress	1,372	2,278	1,893
Total property, plant and equipment	73,595	68,112	58,581
Less accumulated depreciation	(40,275)	(35,504)	(30,058)
Property, plant and equipment, net	$ 33,320	$ 32,608	$ 28,523

6. Other Non-current Assets

Other non-current assets consist of the following:

	July 3, 2016	June 30, 2015	June 30, 2014
Deferred engineering and design costs — non-current	$2,263	$2,089	$1,700
Environmental remediation — indemnification asset	1,606	1,832	1,509
Favorable lease, net	256	374	492
Deferred financing fees, net	1,563	1,169	375
Investment in securities available for sale	—	847	—
Other	1,004	840	351
Total other non-current assets	$6,692	$7,151	$4,427

Engineering and design costs on long-term contracts not otherwise immediately reimbursed are deferred and recognized ratably over related revenue streams. For fiscal years 2016, 2015 and 2014, respectively, deferred engineering and design costs totaled $3,263, $3,238 and $2,435 of which $1,000, $1,149 and $735 were reflected in prepaid expenses and other current assets.

See Note 11, Commitments and Contingencies, of the "Notes to Consolidated Financial Statements" in this Form 10-K for a discussion of the Company's environmental remediation — indemnification asset.

The Company acquired a favorable leasehold in relation to its acquisition of Aydin Displays. The favorable leasehold is being amortized on a straight-line basis over the five year life of the lease and related amortization is reflected primarily within cost of goods sold on the consolidated statement of operations.

Costs incurred in connection with the Company's current Credit Facility of $2,047 were deferred and amortized to interest expense over the five year term of the facility on a straight-line basis. Amortization of $298, $631 and $119 for these loan costs, as well as the previous revolving-credit facility's loan costs, were recognized and reported as interest expense for fiscal years 2016, 2015 and 2014, respectively.

The investment in securities available for sale was sold during fiscal year 2016 at a loss of $129.

7. Goodwill and Other Intangible Assets

Changes in the carrying value of goodwill and ending composition of goodwill are as follows:

	July 3, 2016		
	Manufacturing & Design Services	Engineered Components & Products	Total
Goodwill, beginning of period	$ 61,512	$12,663	$ 74,175
Additions to goodwill	2,662	—	2,662
Impairment of goodwill	(64,174)	—	(64,174)
Goodwill, end of period	$ —	$12,663	$ 12,663

	June 30, 2015		
	Manufacturing & Design Services	Engineered Components & Products	Total
Goodwill, beginning of period	$26,008	2,181	$28,189
Additions to goodwill	35,504	10,482	45,986
Goodwill, end of period	$61,512	$12,663	$74,175

	June 30, 2014		
	Manufacturing & Design Services	Engineered Components & Products	Total
Goodwill, beginning of period	$14,767	$ —	$14,767
Additions to goodwill	11,241	2,181	13,422
Goodwill, end of period	$26,008	$2,181	$28,189

	July 3, 2016		
	Manufacturing & Design Services	Engineered Components & Products	Total
Acquired goodwill	$ 77,327	$12,663	$ 89,990
Accumulated impairment	(77,327)	—	(77,327)
Goodwill	$ —	$12,663	$ 12,663

	June 30, 2015		
	Manufacturing & Design Services	Engineered Components & Products	Total
Acquired goodwill	$ 74,665	$12,663	$ 87,328
Accumulated impairment	(13,153)	—	(13,153)
Goodwill	$ 61,512	$12,663	$ 74,175

	June 30, 2014		
	Manufacturing & Design Services	Engineered Components & Products	Total
Acquired goodwill	$ 39,161	$2,181	$ 41,342
Accumulated impairment	(13,153)	—	(13,153)
Goodwill	$ 26,008	$2,181	$ 28,189

The amortization periods, gross carrying amounts, accumulated amortization, accumulated impairments and net carrying values of intangible assets are as follows:

	July 3, 2016				
	Original Amortization Period in Months	Gross Carrying Amount	Accumulated Amortization	Accumulated Impairments	Net Carrying Value
Amortized intangible assets:					
Non-compete agreements	24 – 60	$ 4,229	$ (2,036)	$ —	$ 2,193
Customer relationships	84 – 180	57,295	(21,007)	(3,663)	32,625
Trademarks/tradenames	12 – 120	1,696	(314)	—	1,382
Unpatented technology	84	1,341	(608)	—	733
		$64,561	$(23,965)	$(3,663)	$36,933

	June 30, 2015				
	Original Amortization Period in Months	Gross Carrying Amount	Accumulated Amortization	Accumulated Impairments	Net Carrying Value
Amortized intangible assets:					
Non-compete agreements	24 – 60	$ 4,229	$ (1,100)	$ —	$ 3,129
Customer relationships	84 – 180	56,595	(12,806)	(3,663)	40,126
Trademarks/tradenames	12 – 120	1,696	(145)	—	1,551
Unpatented technology	84	1,341	(322)	—	1,019
		$63,861	$(14,373)	$(3,663)	$45,825

	June 30, 2014				
	Original Amortization Period in Months	Gross Carrying Amount	Accumulated Amortization	Accumulated Impairments	Net Carrying Value
Amortized intangible assets:					
Non-compete agreements	24 – 60	$ 420	$ (46)	$ —	$ 374
Customer relationships	84 – 180	29,870	(7,220)	(3,663)	18,987
Trademarks/tradenames	12 – 120	180	(15)	—	165
Unpatented technology	84	650	(135)	—	515
		$31,120	$(7,416)	$(3,663)	$20,041

The Company did not incur any significant costs to renew or alter the terms of its intangible assets during fiscal year 2016. Amortization expense for fiscal years 2016, 2015 and 2014 were $9,592, $6,591 and $3,422, respectively. Aggregate amortization expense relative to existing intangible assets for the periods shown is currently estimated to be as follows:

For fiscal years	
2017	$ 8,496
2018	7,334
2019	6,302
2020	4,774
2021	3,729
2022 and thereafter	6,298
Total	$36,933

8. Debt

The Company had $97,206, $154,500 and $40,100 borrowed against its Credit Facility at July 3, 2016, June 30, 2015 and June 30, 2014, respectively, which is classified as long-term on the Company's Consolidated Balance Sheets.

On September 11, 2014, the Company replaced its previous credit facility with a new $200,000 revolving line-of-credit facility with a group of banks (the "**Credit Facility**") to fund future acquisitions and to support the Company's working capital needs and other general corporate purposes. The Company expensed the remaining $413 of deferred financing costs relating to the previous credit facility in the first quarter of fiscal year 2015. On April 13, 2015, the Company amended the Credit Facility to increase the size of the revolving line-of-credit facility by $75,000 to $275,000, reload uncommitted loans under the agreement and to make other sublimit and definitional changes. The Company has the right to request an increase of the facility in an amount of up to $100,000. The facility is secured by substantially all assets of the Company and its subsidiaries and expires on September 11, 2019.

On June 27, 2016, the Company entered into Amendment No. 3 ("**Amendment 3**") to the Credit Facility. As a result of Amendment 3, the Company reduced the revolving credit facility from $275,000 to $175,000, reduced the optional increase in the Credit Facility from $100,000 to $50,000, increased the permitted total funded debt to EBITDA ratio through the fiscal quarter ending September 2017, and provided for certain restrictions on business acquisitions, dividends and stock repurchases.

Payments of $692 related to Amendment 3 were recorded as deferred financing costs in other long-term assets.

Outstanding borrowings under the Credit Facility will bear interest, at the Company's option, at either LIBOR, fixed for interest periods of one, two, three or six month periods, plus 1.00% to 3.00%, or at the bank's base rate, as defined, plus 0.00% to 2.00%, based upon the Company's Total Funded Debt/EBITDA Ratio, as defined. The Company is also required to pay commitment fees on unused portions of the Credit Facility ranging from 0.20% to 0.50%, based on the Company's Total Funded Debt/EBITDA Ratio, as defined. The Credit Facility includes representations, covenants and events of default that are customary for financing transactions of this nature. The effective interest rate on outstanding borrowings under the Credit Facility was 3.50% at July 3, 2016.

As a condition of the Credit Facility, the Company is subject to certain customary covenants, with which it was in compliance at July 3, 2016.

As of July 3, 2016, the Company had $76,939 available under its $175,000 credit facility, reflecting borrowings of $97,206 and certain letters of credit outstanding of $855. Additionally, the Company had available cash and cash equivalents of $132.

The Company entered into capital leases in the third quarter of fiscal year 2016 with a total value of $656. The outstanding balance at the end of fiscal year 2016 totaled $549.

9. Income Taxes

(Loss) income before income taxes by country consists of the following amounts:

	For fiscal years		
	2016	2015	2014
United States	$(56,184)	$14,533	$18,915
Vietnam	364	38	691
Canada	321	384	(4)
	$(55,499)	$14,955	$19,602

Income taxes consists of the following components:

	For fiscal years		
	2016	2015	2014
Current:			
United States	$ 544	$ 4,317	$6,913
Vietnam	130	6	134
Canada	—	15	—
State and local	672	501	544
	1,346	4,839	7,591
Deferred:			
United States	(16,133)	465	(852)
Vietnam	(8)	—	7
Canada	141	(1,055)	—
State and local	(2,562)	(283)	(131)
	(18,562)	(873)	(976)
	$(17,216)	$ 3,966	$6,615

The consolidated effective income tax rate differs from the statutory U.S. federal tax rate for the following reasons and by the following percentages:

	For fiscal years		
	2016	2015	2014
Statutory U.S. federal income tax rate	35.0%	35.0%	35.0%
Significant increases (reductions) resulting from:			
Changes in valuation allowance	—	(7.5)	—
Domestic production activities deduction	0.3	(2.7)	(2.7)
Goodwill impairment	(8.3)	—	—
Foreign tax rate differences	0.2	(0.2)	(0.7)
State and local income taxes, net of federal benefit	2.7	2.7	2.3
Research and development tax credit	1.4	—	—
Audits	(0.3)	—	—
Other	—	(0.8)	(0.2)
Effective income tax rate	31.0%	26.5%	33.7%

Significant components of deferred income tax assets and liabilities are as follows:

	July 3, 2016	June 30, 2015	June 30, 2014
Deferred tax assets:			
Goodwill	$17,258	$ (5)	$ 906
Environmental remediation	1,953	2,254	2,458
Inventories	4,553	3,298	2,694
Employment and compensation accruals	1,595	1,341	1,090
Capital loss carryover	263	263	263
State tax carryovers	213	373	236
Canadian tax benefits	—	—	2,063
Canadian tax carryovers	933	1,164	—
Pension asset	450	148	—
Intangible assets	2,042	—	—
Other	1,866	2,463	1,303
Deferred tax assets	31,126	11,299	11,013
Less valuation allowance	(263)	(393)	(2,456)
Deferred tax assets, net	30,863	10,906	8,557
Deferred tax liabilities:			
Property, plant and equipment	(2,935)	(1,430)	(1,296)
Intangible assets	—	(237)	(1,397)
Pension asset	—	—	(16)
Other	(2,144)	(2,326)	(843)
Deferred tax liabilities	(5,079)	(3,993)	(3,552)
Net deferred tax assets	$25,784	$ 6,913	$ 5,005

In preparing the Company's consolidated financial statements, management has assessed the likelihood that its deferred income tax assets will be realized from future taxable income. In evaluating the ability to recover its deferred income tax assets, management considers all available evidence, positive and negative, including the Company's operating results, ongoing tax planning and forecasts of future taxable income on a jurisdiction by jurisdiction basis. A valuation allowance is established if it is determined that it is more likely than not that some portion or all of the net deferred income tax assets will not be realized. Management exercises significant judgment in determining the Company's income tax expense, its deferred income tax assets and liabilities and its future taxable income for purposes of assessing its ability to utilize any future tax benefit from its deferred income tax assets.

Although management believes that its tax estimates are reasonable, the ultimate tax determination involves significant judgments that could become subject to audit by tax authorities in the ordinary course of business. As of each reporting date management considers new evidence, both positive and negative, that could impact management's view with regards to future realization of deferred tax assets.

The Company has deferred tax assets of $213 and $933 related to state net operating losses and Canadian net operating losses which will expire beginning in 2029 and 2019 respectively. For financial reporting purposes, valuation allowances related to capital loss carryovers and state income tax carryovers were $263, $393 and $2,456 as of July 3, 2016, June 30, 2015, and June 30, 2014 with expiration beginning in 2017 and 2029, respectively.

Included in the balance of unrecognized tax benefits as of July 3, 2016 are $71 of tax benefits that, if recognized, would affect the effective tax rate. There are no unrecognized tax benefits as of June 30, 2015 or June 30, 2014 that, if recognized, would result in an adjustment to other tax accounts, primarily deferred taxes.

The Company recognizes interest accrued related to unrecognized tax benefits and penalties as income tax expense. Related to the unrecognized tax benefits noted above, the Company accrued penalties and interest of $0 during fiscal year 2016.

The Company's income tax returns are subject to audit by federal, state and local governments. These returns could be subject to material adjustments or differing interpretations of the tax laws. Fiscal years 2012 through 2016 remain open to examination by various tax authorities. The Company is currently undergoing an examination by the Internal Revenue Service, with any proposed adjustments not being anticipated to be material at this time. The Company is being audited by the Florida Department of Revenue and has accrued $270.

A portion of our operating income is earned outside of the United States. Earnings in Vietnam are deemed to be indefinitely reinvested in foreign jurisdictions while earnings in Canada are not deemed to be indefinitely reinvested. We currently do not intend or foresee a need to repatriate these funds from jurisdictions for which we assert indefinite reinvestment. We expect existing domestic cash and short-term investments and cash flows of operations to continue to be sufficient to fund our domestic operating activities and cash commitments for investing and financing activities, such as dividends, debt repayment, capital expenditures, for at least the next 12 months and thereafter for the foreseeable future.

10. Employee Retirement Benefit Plans

Defined Benefit Pension Plan

As of July 3, 2016, 316 employees and retirees of the Company were covered by a defined benefit pension plan. Effective April 1, 2009, participation and the accrual of benefits in this pension plan were frozen, at which time all participants became fully vested and all remaining prior service costs were recognized. The components of net periodic pension expense were as follows:

	For fiscal years		
	2016	**2015**	**2014**
Interest cost	336	326	355
Expected return on plan assets	(524)	(560)	(524)
Amortization of unrecognized net actuarial loss	153	81	128
Net periodic income cost	(35)	(153)	(41)
Pro rata recognition of lump-sum settlements	333	—	85
Total periodic pension expense (income)	$ 298	$(153)	$ 44

Lump sum settlements in 2016 and 2014 were higher than certain statutory thresholds, thereby requiring portions of those settlements to be recognized in expense for those years.

The weighted average assumptions used to determine benefit obligations and net periodic benefit cost were as follows:

	Benefit Obligation			Benefit Cost		
	2016	**2015**	**2014**	**2016**	**2015**	**2014**
Discount rate	3.70%	4.45%	4.35%	4.45%	4.35%	4.75%
Rate of compensation increase	N/A	N/A	N/A	—	—	—
Expected long-term rate on plan assets	N/A	7.50%	7.50%	7.50%	7.50%	7.50%

The Company determines its assumption for the discount rate using market information as of the measurement date such as the Citigroup Pension Liability Index and Composite Corporate Bond

Rates. The rate of compensation increase for calculation of the benefit obligation does not apply due to the freezing of the plan as of April 1, 2009. The expected long-term rate of return for plan assets is based on the Company's expectation of future experience for trust asset returns and future market conditions, reflecting the plan trust's current and expected future asset allocation.

At July 3, 2016 and June 30, 2015, as a result of the fiscal year 2009 plan curtailment, the accumulated benefit obligation is equal to the projected benefit obligation. The following tables summarize the changes in benefit obligations, plan assets and funded status of the plan:

	July 3, 2016	June 30, 2015	June 30, 2014
Change in prepaid benefit cost:			
Prepaid benefit cost at beginning of fiscal year	$ 1,711	$1,643	$1,543
Net periodic benefit (cost) income for fiscal year	(298)	68	41
Employer contributions to plan	—	—	59
Prepaid benefit cost at end of fiscal year	$ 1,413	$1,711	$1,643
Change in projected benefit obligation:			
Projected benefit obligation at beginning of fiscal year	$ 8,350	$8,107	$8,166
Interest cost	336	326	355
Actuarial experience and changes in assumptions	554	549	389
Benefits paid	(360)	(632)	(803)
Settlements	(977)	—	—
Projected benefit obligation at end of fiscal year	$ 7,903	$8,350	$8,107
Change in plan assets:			
Fair value of plan assets at beginning of fiscal year	$ 7,926	$8,151	$7,748
Employer contributions	—	—	59
Actual return on plan assets	38	407	1,147
Benefits paid	(360)	(632)	(803)
Settlements	(977)	—	—
Fair value of plan assets at end of fiscal year	$ 6,627	$7,926	$8,151
Amounts recognized in the Consolidated Balance Sheets:			
Pension asset	$ —	$ —	$ 44
Pension liability—non-current portion	(1,276)	(424)	—
Funded status—total balance sheet liability	$(1,276)	$ (424)	$ 44

Plan participants receive retiree benefits from the plan through regular annuity payments (benefits paid) or through one-time, lump-sum distributions (settlements).

The Company's policy is to fund the plan based upon legal requirements and tax regulations. For fiscal year 2016 and 2015, no cash contributions were required or made to the plan. Based upon current actuarial calculations and assumptions, no cash contributions are anticipated for fiscal year 2017. Anticipated contributions, if any, are reflected as a current portion of the pension liability. During the fiscal year 2014, $59 was contributed to the pension plan.

Pension related amounts recognized in other comprehensive income (loss), excluding tax effects were as follows:

	For fiscal years		
	2016	2015	2014
Amortization of unrecognized net actuarial loss	$ 153	$ 81	$128
Pro rata recognition of lump-sum settlements	333	—	85
Net actuarial (loss) gain	(1,040)	(702)	234
Total recognized in other comprehensive income (loss)	$ (554)	$(621)	$447

The amounts in accumulated other comprehensive loss on the consolidated balance sheets, excluding tax effects, that have not yet been recognized as components of net periodic benefit cost were as follows:

	July 3, 2016	June 30, 2015	June 30, 2014
Accumulated other comprehensive loss:			
Net actuarial loss	$2,689	2,134	1,513
Total	$2,689	$2,134	$1,513

The estimated amount that will be amortized from accumulated other comprehensive loss, pre-tax, into net periodic pension cost in fiscal year 2017 is expected to total $208, consisting of amortization of unrecognized actuarial loss as well as lump sum settlement charges.

Expected benefit payments for the defined benefit pension plan for the next ten fiscal years are as follows:

For fiscal years	
2017	$ 745
2018	664
2019	585
2020	587
2021	539
2022 – 2026	2,406
Total	$5,526

The Company's investment policy related to pension plan assets is based on a review of the actuarial and funding characteristics of the plan. Capital market risk and return opportunities are also considered. The investment policy's primary objective is to achieve a long-term rate of return consistent with the actuarially determined requirements of the plan, as well as maintaining an asset level sufficient to meet the plan's benefit obligations. A target allocation range between asset categories has been established to enable flexibility in investment, allowing for a better alignment between the long-term nature of pension plan liabilities, invested assets and current and anticipated market returns on those assets.

Below is a summary of pension plan asset allocations by asset category:

	Weighted average allocation for fiscal years			
	Target	2016	2015	2014
Equity securities	40% – 70%	59%	60%	61%
Fixed income (debt) securities	30% – 60%	38%	37%	37%
Cash and cash equivalents	0% – 10%	3%	3%	2%
		100%	100%	100%

The fair value of all the defined benefit pension plan assets is based on quoted prices in active markets for identical assets which are considered Level 1 inputs within the fair value hierarchy described in Note 2, Summary of Significant Accounting Policies, of the "Notes to Consolidated

Financial Statements" in this form 10-K. The total estimated fair value of plan assets by asset class were as follows:

	July 3, 2016	June 30, 2015	June 30, 2014
Asset Class:			
Equity securities:			
Directly held corporate stock—Large Cap	$2,408	$2,394	$2,152
Registered investment companies—Large Cap	1,139	1,079	1,336
Registered investment companies—Mid-Cap Growth	—	287	343
Registered investment companies—Small-Cap	151	359	318
Registered investment companies—International	205	646	873
Fixed income (debt) securities:			
Registered investment companies—Intermediate Bond	2,520	2,896	2,990
Cash and cash equivalents	204	265	139
Total assets measured at fair value	$6,627	$7,926	$8,151

During the fourth quarter of fiscal year 2016, the Company adopted Accounting Standards Update No. 2015-04 ("**ASU 2015-04**"), Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets. As a result, for pension reporting as of July 3, 2016, the Company was able to calculate the pension plan assets and obligations using information as of June 30, 2016 without the additional expense of adjusting the June 30, 2016 information for activity that occurred between June 30, 2016 and July 3, 2016.

Defined Contribution Plans

Substantially all of the Company's U.S. employees are eligible to participate in the Company's 401(k) defined contribution plan. The plan allows employees to contribute up to 100% of their eligible compensation up to a maximum amount allowed by law and provides that the Company may, at its discretion, make matching contributions, profit sharing contributions or qualified non-elective contributions. During each of the fiscal years 2016, 2015 and 2014, the Company matched 50% of participants' contributions up to 6% of their eligible compensation.

Under the plan, at the election of the participant, both employee and employer contributions may be invested in any of the available investment options, which include Sparton common stock. As of July 3, 2016, approximately 103,000 shares of Sparton common stock were held in the 401(k) plan. Amounts expensed related to the Company's matching contributions and administrative expenses for the plan were $1,475, $1,233 and $1,156 for fiscal years 2016, 2015 and 2014, respectively.

11. Commitments and Contingencies

Operating Leases—The Company is obligated under operating lease agreements for certain manufacturing and administrative facilities and a portion of its production machinery and data processing equipment. Such leases, some of which are non-cancelable and in many cases include purchase or renewal options, expire at various dates and typically provide for monthly payments over a fixed term in equal amounts. Some of these leases provide for escalating minimum monthly base rental payments. Generally, the Company is responsible for maintenance, insurance and property taxes relating to these leased assets. At July 3, 2016, the future minimum annual lease payments under these agreements are as follows:

For fiscal years	
2017	$2,529
2018	2,041
2019	1,485
2020	1,340
2021	744
Thereafter	1,638
Total	$9,777

Rent expense was $3,573, $2,480 and $1,520 for fiscal years 2016, 2015 and 2014, respectively. Included in rent expense for fiscal years 2016, 2015 and 2014 was $250, $493 and $315, respectively,

of contingent rent expense primarily relating to the Company's corporate headquarters in Schaumburg, Illinois and its Frederick, Colorado facility. During the third quarter of fiscal year 2016, the Company entered into sublease agreements totaling $1.0m related to its Lawrenceville, GA manufacturing facility and its Irvine, CA design center, the largest of which extends through May of 2018.

Environmental Remediation—Environmental Remediation—Sparton has been involved with ongoing environmental remediation since the early 1980's related to one of its former manufacturing facilities, located in Albuquerque, New Mexico ("**Coors Road**"). Although the Company entered into a long-term lease of the Coors Road property that was accounted for as a sale of property during fiscal year 2010, it remains responsible for the remediation obligations related to its past operation of this facility. During the fourth quarter of each fiscal year, Sparton performs a review of its remediation plan, which includes remediation methods currently in use, desired outcomes, progress to date, anticipated progress and estimated costs to complete the remediation plan by fiscal year 2030, following the terms of a March 2000 Consent Decree. The Company's minimum cost estimate is based upon existing technology and excludes certain legal costs, which are expensed as incurred. The Company's estimate includes equipment and operating and maintenance costs for onsite and offsite pump and treat containment systems, as well as continued onsite and offsite monitoring. It also includes periodic reporting requirements. The reviews performed in the fourth quarters of fiscal years 2016 and 2015 did not result in changes to the related liability. During the 2014 review, the Company found: additional concentrations of contaminants on-site that required clean-up actions previously not included within the remediation plan; progress to date on the removal of certain other on-site contaminants was taking place slower than previously anticipated; and that certain efficiencies regarding periodic reporting were not being realized as had been previously anticipated. The discovery of additional on-site contaminants, slower than expected removal rates of other on-site contaminants and continued high periodic reporting costs added significant additional costs to the remediation project that are expected to continue for a number of years. As a result, the remaining estimated minimum future undiscounted costs of this financial liability increased to $8,228 at June 30, 2014, thereby requiring a $4,238 non-cash charge against operations in the fourth quarter of fiscal year 2014. As of July 3, 2016, June 30, 2015 and June 30, 2014, Sparton has accrued $6,701, $7,792 and $6,380, respectively, as its estimate of the remaining minimum future undiscounted financial liability with respect to this matter, of which $584, $675 and $555, respectively, are classified as a current liability and included on the balance sheet in other accrued expenses.

In fiscal year 2003, Sparton reached an agreement with the United States Department of Energy ("**DOE**") and others to recover certain remediation costs. Under the settlement terms, Sparton received cash and obtained some degree of risk protection as the DOE agreed to reimburse Sparton for 37.5% of certain future environmental expenses in excess of $8,400 incurred from the date of settlement, of which $6,548 has been expended as of July 3, 2016 toward the $8,400 threshold. It is expected that the DOE reimbursements will commence in the years after fiscal year 2019. At July 3, 2016, June 30, 2015 and June 30, 2014, the Company recognized $1,606, $1,832 and $1,509 in long-term assets in relation to these expected reimbursements and is considered collectible. The DOE receivables of $1,606 at July 3, 2016, $1,832 at June 30, 2015 and $1,509 at June 30, 2014 are included in other non-current assets on the balance sheet. Uncertainties associated with environmental remediation contingencies are pervasive and often result in wide ranges of reasonably possible outcomes. Estimates developed in the early stages of remediation can vary significantly. Normally a finite estimate of cost does not become fixed and determinable at a specific point in time. Rather, the costs associated with environmental remediation become estimable over a continuum of events and activities that help to frame and define a liability. Factors which cause uncertainties for the Company include, but are not limited to, the effectiveness of the current work plans in achieving targeted results and proposals of regulatory agencies for desired methods and outcomes. It is possible that cash flows and results of operations could be materially affected by the impact of changes associated with the ultimate resolution of this contingency. At July 3, 2016, the Company estimates that it is reasonably possible, but not probable, that future environmental remediation costs associated with the Company's past operations at the Coors Road property, in excess of amounts already recorded, could be up to $2,690 before income taxes over the next fourteen years, with this amount expected to be offset by related reimbursement from the DOE for a net amount of $1,009.

The Company and its subsidiaries are also involved in certain existing compliance issues with the EPA and various state agencies, including being named as a potentially responsible party at several sites.

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

Litigation—On September 24, 2013, L-3 Communications Corporation, doing business as L-3 Linkabit ("**L-3**"), filed a complaint in the United States District Court for the Middle District of Florida, Orlando Division, against Sparton Corporation and Sparton Electronics. On August 24, 2015, Sparton and L-3 signed a mutual accord resolving the dispute. The agreement required Sparton to pay L-3 $2,500, which the Company paid as per the agreement on October 1, 2015, in consideration for dismissal of the litigation. Neither party admitted to any mistakes, damage or fault.

In addition to the foregoing, from time to time, the Company is involved in various legal proceedings relating to claims arising in the ordinary course of business. The Company is not currently a party to any other such legal proceedings, the adverse outcome of which, individually or in the aggregate, is expected to have a material adverse effect on our business, financial condition or results of operations.

U.S. Government Audits—Federal government agencies, including the Defense Contract Audit Agency and the Defense Contract Management Agency, routinely audit and evaluate government contracts and government contractors' administrative processes and systems. These agencies review the Company's performance on contracts, pricing practices, cost structure, financial capability and compliance with applicable laws, regulations and standards. They also review the adequacy of the Company's internal control systems and policies, including the Company's purchasing, accounting, estimating, compensation and management information processes and systems. The Company works closely with these agencies to ensure compliance. The Company is not currently aware of any issues of noncompliance that would have a material impact on the Company's financial position or results of operations.

12. Stock-Based Compensation

The Company has a long-term incentive plan. The Sparton Corporation 2010 Long-Term Incentive Plan (the "**2010 Plan**") was approved by the Company's shareholders on October 28, 2009. Under the 2010 Plan, the Company may grant to employees, officers and directors of the Company or its subsidiaries incentive and non-qualified stock options, stock appreciation rights, restricted stock or restricted stock units, performance awards and other stock-based awards, including grants of shares. Restricted stock awards granted to date to employees under the 2010 Plan vest annually over four years, subject to achievement of certain financial performance metrics in addition to the service requirements. Unrestricted stock awards granted to date under the 2010 Plan represent annual stock grants to directors as a component of their overall compensation. The 2010 Plan has a term of ten years. The total number of shares that may be awarded under the 2010 Plan is 1,000,000 shares of common stock, of which amount, 546,395 shares remain available for awards as of July 3, 2016.

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

	For fiscal years		
	2016	2015	2014
Fair value expense of stock option awards	$ 286	$ 352	$ —
Restricted stock units	273	518	—
Restricted stock	(270)	1,015	1,662
Total stock-based compensation	$ 289	$1,885	$1,662

Restricted stock-based compensation reflects a reduction in expense in fiscal year 2016 as a result of the separation of certain executives from the Company.

The following table shows the total remaining unrecognized compensation cost related to restricted stock grants, restricted stock units grants and the fair value expense of stock option awards, as well

as the weighted average remaining required service period over which such costs will be recognized as of July 3, 2016:

	Total Remaining Unrecognized Compensation Cost	Weighted Average Remaining Required Service Period (in years)
Fair value expense of stock option awards	$ 404	1.97
Restricted stock units	925	1.90
Restricted stock	94	1.17
	$1,423	1.89

During fiscal year 2016, the Company awarded an aggregate of 129,800 stock options to certain members of management with a weighted average exercise price of $23.02. The fair value of each stock option is estimated at the grant date using the Black-Scholes option pricing method. The table below outlines the weighted average assumptions used for the options granted during fiscal year 2016:

	Weighted Average
Risk free interest rate	1.79%
Volatility	34.00%
Dividend yield	—
Expected life in years	6.25
Fair value	$8.45

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

Stock Options

The following is a summary of activity for fiscal years 2016, 2015 and 2014 related to stock options granted under the Company's 2010 plan:

	Number of Options	Weighted Average Exercise price
Options outstanding as of June 30, 2013	55,418	$ 8.56
Granted	—	—
Exercised	(16,875)	8.54
Forfeited	—	—
Options outstanding as of June 30, 2014	38,543	8.57
Granted	123,684	26.58
Exercised	(19,247)	8.57
Forfeited	(35,396)	16.89
Options outstanding as of June 30, 2015	107,584	26.54
Granted	129,800	23.02
Vested	(25,650)	26.64
Forfeited	(110,137)	24.68
Options outstanding as of July 3, 2016	101,597	$24.11

The stock options outstanding at July 3, 2016 have exercise prices ranging from $22.09 to $26.86, a weighted average exercise price of $24.11 and a weighted average remaining contractual life of 8.82 years. Of the outstanding stock options, 13,818 of these options were exercisable at a weighted average exercise price of $26.45 and a weighted average remaining contractual life of 8.45 years.

Restricted Stock Units

The following is a summary of activity for fiscal years 2016, 2015 and 2014 related to restricted stock units granted under the Company's 2010 plan:

	Shares	Weighted Average Fair Value
Restricted stock units at June 30, 2013	—	$ —
Granted	—	—
Forfeited	—	—
Restricted stock units at June 30, 2014	—	—
Granted	75,045	26.70
Forfeited	(12,217)	26.35
Restricted stock units at June 30, 2015	62,828	26.77
Granted	96,754	23.02
Forfeited	(80,308)	24.74
Restricted stock units at July 3, 2016	79,274	$24.25

Restricted Stock

The following is a summary of activity for fiscal years 2016, 2015 and 2014 related to restricted stock granted under the Company's 2010 plan:

	Shares	Weighted Average Fair Value
Restricted stock at June 30, 2013	311,253	$ 8.34
Granted	96,664	21.99
Vested	(87,576)	8.54
Forfeited	(3,344)	14.39
Restricted stock at June 30, 2014	316,997	12.38
Granted	26,793	25.86
Vested	(172,459)	11.16
Forfeited	(39,032)	19.56
Restricted stock at June 30, 2015	132,299	14.58
Vested	(27,346)	7.88
Forfeited	(52,302)	15.92
Restricted stock at July 3, 2016	52,651	16.72

The total fair value of restricted stock vested in fiscal years 2016, 2015 and 2014 was $630, $4,315 and $1,638, respectively.

13. (Loss) Earnings Per Share Data

(Loss) earnings per share calculations, including weighted average number of shares of common stock outstanding used in calculating basic and diluted (loss) income per share are as follows:

	For fiscal years		
	2016	2015	2014
Net (loss) income	$ (38,283)	$ 10,989	$ 12,987
Less net (loss) income allocated to contingently issuable participating securities	—	(126)	—
Net (loss) income available to common shareholders	$ (38,283)	$ 10,863	$ 12,987
Weighted average shares outstanding—Basic	9,786,315	9,874,441	10,109,915
Dilutive effect of stock options	—	11,520	31,480
Weighted average shares outstanding—Diluted	9,786,315	9,885,961	10,141,395
Net (loss) income available to common shareholders per share:			
Basic	$ (3.91)	$ 1.10	$ 1.28
Diluted	$ (3.91)	$ 1.10	$ 1.28

No adjustment for net loss available to common shareholders was required for fiscal year 2016 as 52,651 unvested restricted shares did not participate in the net loss for the year. For fiscal years 2015 and 2014, net income available to common shareholders was reduced by allocated earnings associated with unvested restricted shares of 132,299 and 316,997, respectively. There were 101,597 potential shares of common stock issuable upon exercise of stock options excluded from diluted income or loss per share computations for fiscal 2016, as they were anti-dilutive due to the net loss. No potential shares of common stock issuable upon exercise of stock options were excluded from diluted income per share computations for fiscal years 2015 and 2014, because none would have been anti-dilutive.

14. Stock Repurchase Plan

On October 22, 2014, the Company's Board of Directors approved a repurchase by the Company of up to $5,000 of shares of its common stock. The Company was authorized to purchase shares from time to time in open market, block and privately negotiated transactions. The stock repurchase program did not require the Company to repurchase any specific number of shares. Pursuant to this stock repurchase program, during fiscal year 2015, the Company purchased 181,278 shares of its common stock at an average price of $27.55 per share for approximately $5,000.

Shares purchased under the plan were cancelled upon repurchase. As of July 3, 2016, all authorized funds under the stock repurchase program have been expended.

15. Restructuring Activities

In conjunction with the fiscal 2013 Creonix acquisition, the Company consolidated the Creonix operations into the Company's Brooksville, Florida facility. These integration activities consisted primarily of approximately $0.2m of workforce severance and retention costs, less than $0.1m of production transfer costs and less than $0.1m of facility closing costs. Inception to date restructuring charges recognized within the Complex Systems segment of approximately $0.2m were incurred as of September 30, 2013 related to these acquisition related restructuring activities. The Company does not expect to recognize any additional costs related to these restructuring activities. All cash expenditures related to these activities have been made as of June 30, 2014.

During the second quarter of fiscal year 2016, the Company announced the closing of its Lawrenceville, GA manufacturing operations and the consolidation of the Irvine, CA design center into the Irvine, CA manufacturing operations to optimize the Company's manufacturing and design facility footprint and realize synergies from the Company's acquisitions. These restructuring activities are substantially complete as of the end of the fourth quarter of fiscal year 2016. Manufacturing activities have been transferred and the facilities are occupied by subtenants. The remaining reserve

balances represent amounts for manufacturing transition at the new facilities, lease payments net of sublease income and severance payments.

	Termination Benefits	Exit / Other Costs	Total
Restructuring reserve as of June 30, 2013	$ 44	$ —	$ 44
Provision	111	77	188
Payments	(155)	(77)	(232)
Costs adjustments	—	—	—
Restructuring reserve as of June 30, 2014	—	—	—
Provision	—	—	—
Payments	—	—	—
Cost adjustments	—	—	—
Restructuring reserve as of June 30, 2015	—	—	—
Provision	820	1,540	2,360
Payments	(408)	(1,677)	(2,085)
Costs adjustments	(353)	199	(154)
Restructuring reserve as of July 3, 2016	$ 59	$ 62	$ 121

16. Business Segments

The Company is a provider of design, development and manufacturing services for complex electromechanical devices, as well as sophisticated engineered products complementary to the same electromechanical value stream. The Company serves the Medical & Biotechnology, Military & Aerospace and Industrial & Commercial markets through two reportable business segments; Manufacturing & Design Services and Engineered Components & Products. Reportable segments are defined as components of an enterprise for which separate financial information is available and is evaluated regularly by the chief operating decision maker ("**CODM**") in assessing performance and allocating resources. The Company's CODM is its Senior Vice President of Operations. During the first quarter of fiscal year 2015, the Company changed the way it internally reports, manages and the CODM evaluates the business and subsequently revised its reportable segments. The prior reportable segments of Medical and Complex Systems have been combined and are referred to as Manufacturing and Design Services ("**MDS**"). The Company's Medical customers (former Medical segment) and Military & Aerospace customers (former Complex Systems segment) have been combined as the economics of the underlying customer base, the nature of the products and services and the production process are significantly similar. As a result of this change in the reporting of segments, the CODM's assessment of the performance of medical customers separately from Military & Aerospace customers is no longer meaningful in assessing performance and allocating resources. In the MDS segment, the Company performs contract manufacturing and design services utilizing customer-owned intellectual property. The prior Defense and Security Systems reportable segment is now referred to as Engineered Components and Products ("**ECP**"). In the ECP segment, the Company performs manufacturing and design services using the Company's intellectual property. The Company has restated the prior periods to conform to the current year's presentation.

The Company uses an internal management reporting system, which provides important financial data to evaluate performance and allocate the Company's resources on a segment basis. Net sales are attributed to the segment in which the product is manufactured or service is performed. A segment's performance is evaluated based upon its operating income, contribution margin, gross margin and a variety of other factors. A segment's operating income includes its gross profit on sales less its selling and administrative expenses, including allocations of certain corporate operating expenses. Certain corporate operating expenses are allocated to segment results based on the nature of the service provided. Other corporate operating expenses, including certain administrative, financial and human resource activities as well as items such as interest expense, interest income, other income (expense) and income taxes are not allocated to operations and are excluded from segment profit. These costs are not allocated to the segments, as management excludes such costs when assessing the performance of the segments. Inter-segment transactions are generally accounted for at amounts that approximate arm's length transactions. Identifiable assets by segments are those assets that are used in each segment's operations. The accounting policies for each of the segments are the same as for the Company taken as a whole.

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

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

Operating results and certain other financial information about the Company's two reportable segments were as follows:

	Fiscal year 2016				
	Manufacturing & Design Services	**Engineered Components & Products**	**Unallocated**	**Eliminations**	**Total**
Net sales	$282,076	$154,559	$ —	$(17,273)	$419,362
Gross profit	34,788	45,360	—	—	80,148
Selling and administrative expenses (incl. depreciation)	23,813	15,482	15,856	—	55,151
Internal research and development expenses	—	2,344	—	—	2,344
Restructuring charges	2,206	—	—	—	2,206
Impairment of goodwill	64,174	—	—	—	64,174
Depreciation and amortization	11,826	2,573	1,276	—	15,675
Operating (loss) income	(61,813)	25,880	(15,856)	—	(51,789)
Capital expenditures	2,182	1,244	2,672	—	6,098
Total assets at July 3, 2016	$167,277	$ 69,627	$ 9,094	$ —	$245,998

	Fiscal year 2015				
	Manufacturing & Design Services	Engineered Components & Products	Unallocated	Eliminations	Total
Net sales	$263,940	$136,315	$ —	$(18,130)	$382,125
Gross profit	36,461	38,353	—	—	74,814
Selling and administrative expenses (incl. depreciation)	18,615	11,038	17,316	—	46,969
Internal research and development expenses	—	1,502	—	—	1,502
Depreciation and amortization	8,875	1,648	713	—	11,236
Operating income	9,535	25,033	(17,316)	—	17,252
Capital expenditures	1,599	1,294	2,909	—	5,802
Total assets at June 30, 2015	$238,777	$ 64,880	$ 33,894	$ —	$337,551

	Fiscal year 2014				
	Manufacturing & Design Services	Engineered Components & Products	Unallocated	Eliminations	Total
Net sales	$246,129	$109,134	$ —	$(18,762)	$336,501
Gross profit	34,782	30,033	—	—	64,815
Selling and administrative expenses (incl. depreciation)	14,449	8,750	12,499	—	35,698
Internal research and development expenses	—	1,169	—	—	1,169
Restructuring charges	188	—	—	—	188
Depreciation and amortization	6,576	1,149	398	—	8,123
Operating income	17,029	19,943	(16,721)	—	20,251
Capital expenditures	1,412	1,090	999	—	3,501
Total assets at June 30, 2014	144,991	35,033	18,956	—	198,980

17. Business, Geographic and Sales Concentration

Sales to individual customers in excess of 10% of total net sales were as follows:

	For fiscal years		
	2016	2015	2014
U.S. Navy	22%	25%	19%
Fenwal Blood Technologies	N/A	10%	14%

Sales to the United States Navy, including those made through the Company's ERAPSCO joint venture, are included in the results of the Company's ECP segment. Sales to Fenwal Blood Technologies are included in the results of the Company's MDS segment.

Net sales were made to customers located in the following countries:

	For fiscal years		
	2016	2015	2014
United States	$369,127	$345,643	$296,328
Other foreign countries	50,235	36,482	40,173
Consolidated total	$419,362	$382,125	$336,501

No other single country or currency zone accounted for 10% or more of export sales in the fiscal years 2016, 2015, or 2014.

ASW devices and related engineering contract services to the U.S. government and foreign countries contributed $119,291, (28%), $110,201, (29%) and $92,840, (28%), respectively, to total net sales for fiscal years 2016, 2015 and 2014.

The Company's investment in property, plant and equipment, which are located in the United States, Canada and Vietnam, are summarized, net of accumulated depreciation, as follows:

	July 3, 2016	June 30, 2015	June 30, 2014
United States	$29,867	$30,205	$26,092
Canada	23	—	—
Vietnam	3,430	2,403	2,431
Consolidated total	33,320	32,608	28,523

18. Quarterly Results of Operations (Unaudited):

	Quarter			
	1st	2nd	3rd	4th
Fiscal year 2016				
Net sales	$106,691	$103,529	$102,175	$106,967
Gross profit	21,138	18,521	19,067	21,422
Net Income (loss)	2,394	268	1,136	(42,081)
Income (loss) per share—Basic	0.24	0.03	0.12	(4.30)
Income (loss) per share—Diluted	0.24	0.03	0.12	(4.30)
Fiscal year 2015				
Net sales	$ 77,025	$ 85,642	$ 93,065	$126,393
Gross profit	12,853	15,206	18,665	28,090
Net Income	196	1,562	4,133	5,098
Income per share—Basic	0.02	0.16	0.42	0.52
Income per share—Diluted	0.02	0.16	0.42	0.51
Fiscal year 2014				
Net sales	$ 74,301	$ 84,717	$ 83,983	$ 93,500
Gross profit	12,297	15,132	16,478	20,908
Net Income	2,286	3,484	4,246	2,971
Income per share—Basic	0.23	0.34	0.42	0.29
Income per share—Diluted	0.23	0.34	0.42	0.29

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS
(In thousands)
Fiscal Years

	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Allowance for Losses Acquired	Write-Offs/ Dispositions	Balance at End of Period
2016					
Allowance for losses on accounts receivable	$173	$583	$—	$(349)	$407
2015					
Allowance for losses on accounts receivable	$126	$ 47	$97	$ (97)	$173
2014					
Allowance for losses on accounts receivable	$ 61	$ 87	$57	$ (79)	$126

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

	April 2, 2017	July 3, 2016
	(Unaudited)	
Assets		
Current Assets:		
Cash and cash equivalents	$ 1,032	$ 132
Accounts receivable, net of allowance for doubtful accounts of $271 and $407, respectively	48,092	46,759
Inventories and cost of contracts in progress, net	64,966	77,871
Prepaid expenses and other current assets	4,933	5,844
Total current assets	119,023	130,606
Property, plant and equipment, net	33,819	33,320
Goodwill	12,663	12,663
Other intangible assets, net	30,434	36,933
Deferred income taxes	25,752	25,784
Other non-current assets	5,794	6,692
Total assets	$227,485	$245,998
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	$ 35,366	$ 38,290
Accrued salaries and benefits	9,058	11,512
Current portion of capital lease obligations	268	217
Other accrued expenses	8,927	12,420
Total current liabilities	53,619	62,439
Credit facility	87,622	97,206
Capital lease obligations, less current portion	234	332
Environmental remediation	5,614	6,117
Pension liability	1,168	1,276
Total liabilities	148,257	167,370
Commitments and contingencies		
Shareholders' Equity:		
Preferred stock, no par value; 200,000 shares authorized, none issued	—	—
Common stock, $1.25 par value; 15,000,000 shares authorized, 9,860,635 and 9,845,469 shares issued and outstanding, respectively	12,326	12,307
Capital in excess of par value	17,213	16,407
Retained earnings	51,280	51,650
Accumulated other comprehensive loss	(1,591)	(1,736)
Total shareholders' equity	79,228	78,628
Total liabilities and shareholders' equity	$227,485	$245,998

See Notes to unaudited consolidated financial statements.

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

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

See Notes to unaudited consolidated financial statements.

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

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

See Notes to unaudited consolidated financial statements.

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

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

See Notes to unaudited consolidated financial statements.

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

1. Business and Basis of Presentation

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

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

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

2. Inventories and Cost of Contracts in Progress, net

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

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

3. Property, Plant and Equipment, net

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

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

4. Other Intangible Assets

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

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

5. Debt

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

Outstanding borrowings under the Credit Facility will bear interest, at the Company's option, at either LIBOR, fixed for interest periods of one, two, three or six month periods, plus 1.00% to 3.00%, or at the bank's base rate, as defined, plus 0.00% to 2.00%, based upon the Company's Total Funded Debt/EBITDA Ratio, as defined. The Company is also required to pay commitment fees on unused portions of the Credit Facility ranging from 0.20% to 0.50%, based on the Company's Total Funded Debt/EBITDA Ratio, as defined. The Credit Facility includes representations, covenants and events of default that are customary for financing transactions of this nature. The effective interest rate on outstanding borrowings under the Credit Facility was 3.65% at April 2, 2017. As a condition of the Credit Facility, the Company is subject to certain customary covenants, with which it was in compliance at April 2, 2017.

6. Income Taxes

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

7. Defined Benefit Pension Plan

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

8. Commitments and Contingencies

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

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

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

The Company is subject to audits by certain federal government agencies, including the Defense Contract Audit Agency and the Defense Contract Management Agency. The agencies audit and evaluate government contracts and government contractors' administrative processes and systems. These agencies review the Company's performance on contracts, pricing practices, cost structure, financial capability and compliance with applicable laws, regulations and standards. They also review the adequacy of the Company's internal control systems and policies, including the Company's purchasing, accounting, estimating, compensation and management information processes and systems. The Company works closely with these agencies to ensure compliance. From time to time, the Company is notified of claims related to noncompliance arising from the audits performed by agencies. Such claims have historically been subject to actions of remediation and/or financial claims that are typically subject to negotiated settlements. The Company believes that it has appropriate reserves established for outstanding issues and is not aware of any other issues of noncompliance that would have a material effect on the Company's financial position or results of operations.

9. Stock-Based Compensation

The Company has a long-term incentive plan to offer incentive and non-qualified stock options, stock appreciation rights, restricted stock or restricted stock units, performance awards and other stock-based awards, including grants of shares under the Sparton Corporation 2010 Long-Term Incentive Plan (the "**2010 Plan**").

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

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

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

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

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

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

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

10. Earnings Per Share Data

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

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

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

11. Business Segments

The Company has identified two reportable segments; Manufacturing & Design Services ("**MDS**") and Engineered Components & Products ("**ECP**"). The Company uses an internal management reporting system, which provides important financial data to evaluate performance and allocate the Company's resources on a segment basis. The Company's Chief Operating Decision Maker assesses segment performance and allocates resources to each segment individually.

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

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

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

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

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

12. New Accounting Standards

In May 2014, the Financial Accounting Standards ("**FASB**") issued Accounting Standards Update ("**ASU**") No. 2014-09 ("**ASU 2014-09**"), *Revenue from Contracts with Customers*, which amends guidance for revenue recognition. Under the new standard, revenue will be recognized when control of the promised goods or services is transferred to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods and

services. The standard creates a five-step model that will generally require companies to use more judgment and make more estimates than under current guidance when considering the terms of contracts along with all relevant facts and circumstances. These include the identification of customer contracts and separating performance obligations, the determination of transaction price that potentially includes an estimate of variable consideration, allocating the transaction price to each separate performance obligation, and recognizing revenue in line with the pattern of transfer. In August 2015, the FASB issued an amendment to defer the effective date for all entities by one year. The new standard will become effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted as of annual reporting periods beginning after December 15, 2016. Companies have the option of using either a full or modified retrospective approach in applying this standard. During fiscal 2016 and 2017, the FASB issued four additional updates which further clarify the guidance provided in ASU 2014-09. The Company is currently in the process of evaluating the impact of adoption on its consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11 ("**ASU 2015-11**"), *Simplifying the Measurement of Inventory*. ASU 2015-11 clarifies that inventory should be held at the lower of cost or net realizable value. Net realizable value is defined as the estimated selling price, less the estimated costs to complete, dispose and transport such inventory. ASU 2015-11 will be effective for fiscal years and interim periods beginning after December 15, 2016. ASU 2015-11 is required to be applied prospectively and early adoption is permitted. The Company is currently in the process of evaluating the impact of adoption on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02 ("**ASU 2016-02**"), *Leases (Topic 842)*. ASU 2016-02 establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for capital leases and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently in the process of evaluating the impact of adoption on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09 ("**ASU 2016-09**"), *Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. ASU 2016-09 will directly impact the tax administration of equity plans. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted and any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company has elected to early adopt ASU 2016-09 as of July 4, 2016 on a prospective basis. There was no impact on the Company's financial statements as a result of early adoption in the first quarter of fiscal year 2017.

In June 2016, the FASB issued ASU No. 2016-13 ("**ASU 2016-13**"), *Financial Instruments—Credit Losses (Topic 326)*. ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019 and early adoption is permitted. The Company is currently in the process of evaluating the impact of adoption on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15 ("**ASU 2016-15**"), *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 will make eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017. The new standard will require adoption on a retrospective basis unless it is impracticable to apply, in which case it would be required to apply the amendments prospectively as of the earliest date practicable. The Company is currently in the process of evaluating the impact of adoption on its consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16 ("**ASU 2016-16**"), *Income Taxes—Intra-Entity Transfers of Assets Other Than Inventory*, which requires entities to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs.

ASU 2016-16 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted as of the beginning of a fiscal year. ASU 2016-16 must be adopted using a modified retrospective transition method which is a cumulative-effective adjustment to retained earnings as of the beginning of the first effective reporting period. The Company is currently in the process of evaluating the impact of adoption on its consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18 ("**ASU 2016-18**"), *Restricted Cash*, which addresses classification and presentation of changes in restricted cash on the statement of cash flows. ASU 2016-18 requires an entity's reconciliation of the beginning-of-period and end-of-period total amounts shown on the statement of cash flows to include in cash and cash equivalents amounts generally described as restricted cash and restricted cash equivalents. ASU 2016-18 does not define restricted cash or restricted cash equivalents, but an entity will need to disclose the nature of the restrictions. ASU 2016-18 is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, adjustments should be reflected at the beginning of the fiscal year that includes that interim period. Entities should apply this ASU using a retrospective transition method to each period presented. The Company is currently in the process of evaluating the impact of adoption on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04 ("**ASU 2017-04**"), *Simplifying the Test for Goodwill Impairmen*t. ASU 2017-04 eliminates step 2 from the goodwill impairment test. As amended, the goodwill impairment test will consist of one step comparing the fair value of a reporting unit with its carrying amount. An entity should recognize a goodwill impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. An entity may still perform the optional qualitative assessment for a reporting unit to determine if it is more likely than not that goodwill is impaired. ASU 2017-04 will be effective for fiscal years and interim periods beginning after December 15, 2019. ASU 2017-04 is required to be applied prospectively and early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently in the process of evaluating the impact of adoption on its consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07, ("**ASU 2017-07**"), *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. ASU 2017-07 requires that the service cost component be disaggregated from the other components of net benefit cost and provides guidance for separate presentation in the income statement. ASU 2017-07 also changes the rules for capitalization of costs such that only the service cost component of net benefit cost may be capitalized rather than total net benefit cost. ASU 2017-07 will be effective for fiscal years and interim periods beginning after December 15, 2017. ASU 2017-07 is required to be applied retrospectively for the income statement presentation and prospectively for the capitalization of the service cost component of net periodic pension cost. The Company is currently in the process of evaluating the impact of adoption on its consolidated financial statements.

PART V

UNAUDITED RECONCILIATION OF SPARTON GROUP FINANCIAL INFORMATION TO IFRS AS APPLIED BY ULTRA GROUP

SECTION A: UNAUDITED RECONCILIATION OF FINANCIAL INFORMATION

The financial information of Sparton Group has been prepared in accordance with generally accepted accounting principles in the United States ("**US GAAP**"), which differs in certain material respects from the International Financial Reporting Standards ("**IFRS**") accounting policies applied by Ultra Group in the preparation of its financial statements for the three fiscal years ended 3 July 2016 and interim period ended 2 April 2017.

Sparton Group has not previously prepared financial statements under IFRS as issued by the International Accounting Standards Board and as adopted by the European Union ("**EU**"), and accordingly in preparing the reconciliation from US GAAP to IFRS, the principles of IFRS 1 (2008), First-time Adoption of International Financial Reporting Standards, ("**IFRS 1**") have been applied with a date of transition of 1 July 2013 (the "**Transition Date**"). IFRS 1 generally requires that first-time adopters consistently apply all effective IFRS standards retrospectively from the date of transition.

IFRS 1 provides for certain optional exemptions and mandatory exceptions to this general principle. The following optional exemptions under IFRS 1 have been applied to the Sparton Group:

- **Business combinations**—Elected not to apply IFRS 3 (2008), Business Combinations, retrospectively to business combinations that occurred prior to the Transition Date. Consequently, business combinations that were recognised before the Transition Date have not been restated. Any goodwill arising on such business combinations before the Transition Date was not adjusted from the carrying value previously determined under US GAAP as a result of applying this exemption.
- **Share-based payments**—Elected not to apply IFRS 2, Share-based payments, retrospectively to equity settled share-based payments granted and vested before the Transition Date. Consequently, share-based payments that were granted and vested before the Transition Date have not been restated.

The estimates previously made by the Sparton Group under US GAAP were not revised on transition to IFRS except where necessary to reflect any difference in accounting policies.

The impact on net income and equity of the differences between US GAAP and the IFRS accounting policies applied by the Ultra Group are quantified and described below.

	Q3 2017	2016	2015	2014
	$'m	$'m	$'m	$'m
Net (loss) income under US GAAP	(0.4)	(38.3)	11.0	13.0
Adjustments				
A Provisions	(0.2)	(0.5)	(0.4)	1.3
B Share-based payments	0.1	0.2	0.3	—
C Pensions	0.1	0.2	0.1	0.1
Tax effect of above adjustments	0.1	0.1	0.1	(0.6)
Net (loss) income under IFRS	(0.3)	(38.3)	11.1	13.8

	Q3 2017	2016	2015	2014
	$'m	$'m	$'m	$'m
Total equity under US GAAP	79.2	78.7	116.9	110.1
Adjustments				
A Provisions	1.6	1.8	2.3	2.7
B Share-based payments	(0.5)	(0.4)	0.2	1.2
C Pensions	—	—	—	—
Tax effect of above adjustments	(0.5)	(0.7)	(0.8)	(1.0)
Total equity under IFRS	79.8	79.4	118.6	113.0

A. Provisions

i. Discounting of environmental remediation liabilities

Under US GAAP, Sparton Group does not discount provisions as the aggregate amount of, and timings of cash payments for, the liability are not fixed.

Under IFRS, Ultra Group discounts provisions when the time-value of money is material.

On transition, an undiscounted environmental remediation provision of $3.2m was recognised on the balance sheet under US GAAP. As a result of application of IFRS, at the Transition Date, the amount of environmental remediation provision has been reduced to $1.8m subject to the discounting requirements of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The subsequent environmental remediation provisions of $8.2m, $7.8m and $6.7m at the 2014, 2015 and 2016 year ends under USGAAP are reduced to $4.6m, $4.6m and $4.0m respectively under IFRS. Accordingly the environmental remediation provision has been reduced by $2.7m in the pro forma statement of net assets for the combined group as at 31 December 2016.

In addition, as of the 2014, 2015 and 2016 year ends, Sparton Group recognised an undiscounted receivable from the United States Department of Energy ("**DOE**") of $1.5m, $1.8m and $1.6m respectively on the balance sheet for partial reimbursement of the environmental remediation costs which are also subject to the discounting on application of IFRS. After applying discounting, the receivable is reduced to $0.7m, $0.9m and $0.7m at the 2014, 2015 and 2016 year ends respectively. Accordingly the DOE receivable has been reduced by $0.9m to other non-current assets in the pro forma statement of net assets for the combined group as at 31 December 2016.

Consequently, the net (loss)/income under US GAAP has also been adjusted for the impact of the discounting to the environmental remediation provision and DOE receivable, including the unwinding of such discounts each period. The net amounts of $1.3m in 2014, $(0.4)m in 2015, and $(0.5)m in 2016, have been credited (debited) to the income statement upon application of IFRS.

In respect of the interim period ended 3 April 2017, a similar adjustment has been made resulting in an increase in the net loss by $0.2m, and increase in total equity by $1.6m.

B. Share-based payments

i. Tax deduction for share-based payment arrangements

Under US GAAP, a deferred tax asset is recognized for the amount of tax benefit corresponding to compensation expense recognised for financial reporting purposes, subject to certain limitations. Therefore, changes in an entity's share price do not affect the deferred tax asset recorded on the entity's financial statements. If the ultimate actual tax deduction exceeds cumulative compensation expense, the excess benefit (known as a "windfall tax benefit") is credited directly to shareholders' equity. If the tax deduction is less than the deferred tax asset recorded as the book compensation cost is recorded, the shortfall is recorded as a direct charge to shareholders' equity to the extent of the available windfall pool, and as a charge to income tax expense thereafter.

Under IFRS, the deferred tax asset related to share-based payments is measured based upon the expected future deduction. If that deduction is based on the intrinsic value of the award at exercise date, then the deferred tax asset is measured using the intrinsic value at the balance sheet date related to the compensation earned to date. If the estimated deduction from taxable profits related to equity—settled share-based compensation is less than or equal to the cumulative share-based compensation expense, the recognition of the deferred taxes arising is recorded in the income statement. If the estimated deduction from taxable profits exceeds the cumulative expense, the excess tax benefits received should be recognized directly in equity. The estimated deduction from taxable profits is remeasured at each reporting date.

Additional deferred tax assets of $0.7m at transition, $1.4m in 2014, $0.4m in 2015, and $(0.3)m in 2016, have been recorded on the balance sheet upon application of IFRS, and credits recognised to the income statement of $nil in 2014, $0.1m in 2015 and $0.1m in 2016. Accordingly the deferred income tax has been reduced by $0.3m in the pro forma statement of net assets for the combined group as at 31 December 2016. This amount, together with the $0.7m tax effect of the adjustments in the total equity table above, total a decrease of $1.0m, which has been included as an adjustment to deferred income taxes in the pro forma statement of net assets for the combined group as at 31 December 2016.

ii. Payroll taxes

Under US GAAP, Sparton Group recognises payroll taxes associated with share-based payment awards when they become due following the exercise of an award.

Under IFRS, Ultra Group recognises payroll taxes associated with share-based payment awards in line with the expense of the share-based payment to the income statement, which occurs on a straight-line basis over the vesting period.

The transition to IFRS from US GAAP advances the timing of the payroll tax expense, which results in an additional payroll tax liability of $0.1m at transition, an increase to the payroll liability of $0.2m, $0.2m and $0.1m at the 2014, 2015 and 2016 year ends respectively, and a credit to the income statement of $nil, $0.2m and $0.1m for the 2014, 2015 and 2016 years respectively. Accordingly the payroll tax liability has been increased by $0.1m in the pro forma statement of net assets for the combined group as at 31 December 2016.

In respect of the interim period ended 3 April 2017, a similar adjustment has been made resulting in a decrease in the net loss by $nil, and a decrease in total equity by $0.2m.

C. Pensions

i. Treatment of actuarial gains and losses and past service costs

Under US GAAP, Sparton Group recognises all actuarial gains and losses in other comprehensive income ("**OCI**") and the cumulative balance is amortised through the income statement over future periods under the corridor method.

Under IFRS, Ultra Group recognises all actuarial gains and losses and past service costs in full in the period in which they occur in OCI. Such amounts are not recycled through to the income statement in future periods.

The amortisation of actuarial gains and losses through the income statement, which resulted in a net loss of $0.1m in 2014, $0.1m in 2015 and $0.2m in 2016, are reversed on application of IFRS. There is no impact to total equity as a result of this adjustment.

In respect of the interim period ended 3 April 2017, a similar adjustment has been made resulting in a decrease in the net loss by $0.1m with no impact on total equity.

SECTION B: ACCOUNTANT'S OPINION ON THE RECONCILIATION OF SPARTON GROUP FINANCIAL INFORMATION TO IFRS AS APPLIED BY ULTRA GROUP

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RG1 3BD

The Board of Directors
on behalf of Ultra Electronics Holdings plc
417 Bridport Road
Greenford
Middlesex
UB6 8UA

Investec Bank plc
2 Gresham Street
London
EC2V 7QP

10 August 2017

Dear Sirs

Ultra Electronics Holdings plc (the "Company"): proposed acquisition of Sparton Corporation (the "Target")

We report on the unaudited reconciliation of the net (loss/income) for each of the years in the three fiscal-year period ended 3 July 2016 and of total equity as at 3 July 2016, 30 June 2015 and 30 June 2014, together the "**Financial Information**", as previously reported in the financial statements of the Target prepared under United States Generally Accepted Accounting Principles, showing the adjustments necessary to restate it on the basis of the Company's accounting policies used in preparing the Company's last annual financial statements (the "**Reconciliation**"), set out in Part V of the Class 1 circular of the Company dated 10 August 2017 (the "**Circular**").

This report is required by Listing Rules 13.5.27R(2)(b) and 13.5.30R(2) of the United Kingdom Listing Authority and by Commission Regulation (EC) No. 211/2007 as applied by the UKLA in relation to the acquisition and is given for the purpose of complying with those Rules and Regulations and for no other purpose.

Responsibilities

It is the responsibility of the directors of the Company (the "**Directors**") to prepare the Reconciliation in accordance with Listing Rules 13.5.27R(2)(a) and 13.5.30R(2).

It is our responsibility to form an opinion, as required by Listing Rules 13.5.27R2(b) and 13.5.30R(2), as to whether:

(a) the Reconciliation has been properly compiled on the basis stated; and

(b) the adjustments are appropriate for the purpose of presenting the Financial Information (as adjusted) on a basis consistent in all material respects with the Company's accounting policies,

and to report that opinion to you.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to Ordinary Shareholders as a result of the inclusion of this report in the Circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in accordance with this report or our statement, required by and given solely for the purposes of complying with Listing Rule 13.4.1R(6), consenting to its inclusion in the Circular.

The Reconciliation is based on the audited balance sheets as at 3 July 2016, 30 June 2015 and 30 June 2014 and income statements for each of the fiscal years then ended of the Target which were the responsibility of the directors of the Target and were audited by another firm of accountants. We do not accept any responsibility for any of the historical financial statements of the Target, nor do we express any opinion on those financial statements.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying Financial Information, consisted primarily of checking whether the unadjusted Financial Information of the Target has been accurately extracted from an appropriate source, assessing whether all adjustments necessary for the purpose of presenting the Financial Information on a basis consistent in all material respects with the Company's accounting policies have been made, examination of evidence supporting the adjustments in the Reconciliation and checking the arithmetical accuracy of the calculations within the Reconciliation.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Reconciliation has been properly compiled on the basis stated and that the adjustments are appropriate for the purpose of presenting the Financial Information (as adjusted) on a basis consistent in all material respects with the Company's accounting policies.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted outside the United Kingdom, including the United States of America and accordingly should not be relied upon as if it has been carried out in accordance with those standards and practices.

Opinion

In our opinion:

(a) the Reconciliation has been properly compiled on the basis stated; and

(b) the adjustments are appropriate for the purpose of presenting the Financial Information (as adjusted) on a basis consistent in all material respects with the Company's accounting policies.

Yours faithfully

Deloitte LLP

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PART VI

UNAUDITED PRO FORMA STATEMENT OF NET ASSETS FOR THE COMBINED GROUP

SECTION A: UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following unaudited pro forma statement of net assets and the related notes set out in this Section A of this Part VI (the "**Unaudited Pro Forma Financial Information**") have been prepared to illustrate the effect of the Acquisition and placing on the consolidated net assets of the Ultra Group as at 31 December 2016, as if the Acquisition had taken place on that date.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and, in accordance with Annex II of the Prospectus Directive Regulation, should be read in conjunction with the notes set out below. Due to its nature, the Unaudited Pro Forma Financial Information addresses a hypothetical situation and, therefore, does not represent the Combined Group's actual financial position or results. The Pro Forma Financial Information does include the placing of 7,047,168 new Ultra Shares by Ultra Group on 11 July 2017, representing approximately 9.9 per cent of Ultra Group's existing ordinary share capital at a price of £19.50 per share, which will be used to fund the Acquisition.

For the purpose of the preparation of the Unaudited Pro Forma Financial Information, the Company has attributed the excess of the purchase price paid over the book value of Sparton's net assets entirely to goodwill. On apportionment of the purchase price, fair values ascribed to intangible assets, in-process research and development, property, plant & equipment, inventory and any other assets acquired or liabilities assumed, may result in material changes to the goodwill and the net asset position as recorded in this Unaudited Pro Forma Financial Information for the Combined Group.

	Ultra Group as at 31 December 2016 (Note 1)	Placing (Note 2)	Sparton Group as at 3 July 2016 (Note 3)	Acquisition adjustment (Note 4)	Pro forma Combined Group
	£'m	£'m	£'m	£'m	£'m
Non-current assets					
Goodwill	415.6		10.3	116.0	541.9
Other intangible assets	173.6		30.0		203.6
Property, plant and equipment	66.2		27.1		93.3
Deferred tax asset	21.4		24.3		45.7
Derivative financial instruments	—		—		—
Trade and other receivables	16.4		3.4		19.8
	693.2		95.1	116.0	904.3
Current assets					
Inventories	78.2		70.6		148.8
Trade and other receivables	215.7		42.8		258.5
Tax assets	9.4		—		9.4
Cash and cash equivalents	74.6	133.9	0.1	(192.1)	16.5
Derivative financial instruments	0.3		—		0.3
	378.2	133.9	113.5	(192.1)	433.5
Total assets	1,071.4	133.9	208.6	(76.1)	1,337.8
Current liabilities					
Trade and other payables	(193.2)		(57.5)		(250.7)
Tax liabilities	(7.3)		—		(7.3)
Derivative financial instruments	(12.5)		—		(12.5)
Current portion of capital lease obligations	—		(0.2)		(0.2)
Short-term provisions	(16.6)		(0.5)		(17.1)
	(229.7)		(58.2)		(287.8)
Non-current liabilities					
Retirement benefit obligations	(113.2)		(1.1)		(114.3)
Other payables	(10.0)		—		(10.0)
Deferred tax liabilities	(6.6)		(4.1)		(10.7)
Derivative financial instruments	(11.6)		—		(11.6)
Borrowings	(331.3)		(77.7)		(409.0)
Capital lease obligations, less current portion	—		(0.2)		(0.2)
Long term provisions	(5.5)		(2.8)		(8.3)
	(478.1)	—	(85.9)		(564.1)
Total liabilities	(707.8)	—	(144.1)		(851.9)
Net assets	363.6	133.9	64.5	(76.1)	485.9

Notes:

Note 1: The Ultra Group's financial information as at 31 December 2016 has been extracted, without material adjustment, from the Ultra Group published financial information for the year ended 31 December 2016.

Note 2: On 11 July 2017, Ultra Group completed a placing of 7,047,168 new Ultra shares, representing approximately 9.9 per cent of Ultra Group's existing ordinary share capital at a price of £19.50 per share. The adjustment represents the £133.9 million of net proceeds (£137.4 million of gross proceeds net of £3.5 million of costs) which will be used to fund the Acquisition.

Note 3: The Sparton Group's net assets are based on the consolidated balance sheet of Sparton at 3 July 2016 and has been extracted, without material adjustment, from the Sparton Group published financial information for the year ended 3 July 2016,

as adjusted to Ultra's accounting policies and presentation. A reconciliation of Sparton's consolidated balance sheet to Ultra's accounting policies and presentation is presented below:

	Sparton Group as at 3 July 2016 (note a)	Ultra's balance sheet line items	Sparton balance sheet as at 3 July 2016 under Ultra's balance sheet presentation (note b)	IFRS adjustments and reclassifications (note c)	Sparton balance sheet as at 3 July 2016 under Ultra's balance sheet presentation and after IFRS adjustments	Translated into Ultra's reporting currency (note d)
	$'m	$'m	$'m	$'m	$'m	£'m
Current assets						
Cash and cash equivalents	0.1	—	0.1	—	0.1	0.1
Accounts receivable	46.8	5.8	52.6	—	52.6	42.8
Inventories and cost of contracts in progress	77.9	9.0	86.9	—	86.9	70.6
Prepaid expenses and other current assets	5.8	(5.8)	—		—	—
	130.6	9.0	139.6	—	139.6	113.5
Non-current assets						
Property, plant and equipment, net	33.3	—	33.3	—	33.3	27.1
Goodwill	12.7	—	12.7	—	12.7	10.3
Other intangible assets	36.9	—	36.9	—	36.9	30.0
Deferred income taxes	25.8	5.1	30.9	(1.0)	29.9	24.3
Other non-current assets	6.7	(1.6)	5.1	(0.9)	4.2	3.4
	115.4	3.5	118.9	(1.9)	117.0	95.1
Total assets	246.0	12.5	258.5	(1.9)	256.6	208.6
Current liabilities						
Accounts payable	(38.3)	(32.3)	(70.6)	(0.1)	(70.7)	(57.5)
Accrued salaries and wages	(10.6)	10.6	—	—	—	—
Accrued health benefits	(0.9)	0.9	—	—	—	—
Performance based payments on customer contracts	—	—	—	—	—	—
Current portion of capital lease obligations	(0.2)	—	(0.2)	—	(0.2)	(0.2)
Other accrued expenses	(12.4)	(12.4)	—	—	—	—
Short-term provisions	—	(0.6)	(0.6)	—	(0.6)	(0.5)
	(62.4)	(9.0)	(71.4)	(0.1)	(71.5)	(58.2)
Non-current liabilities						
Credit facility	(97.2)	1.6	(95.6)	—	(95.6)	(77.7)
Capital lease obligations, less current portion	(0.3)	—	(0.3)	—	(0.3)	(0.2)
Environmental remediation	(6.1)	—	(6.1)	2.7	(3.4)	(2.8)
Pension liability	(1.3)	—	(1.3)	—	(1.3)	(1.1)
Deferred income taxes	—	(5.1)	(5.1)	—	(5.1)	(4.1)
	(104.9)	(3.5)	(108.4)	(2.7)	(105.8)	(85.9)
Total liabilities	(167.3)	(12.5)	(179.8)	(2.6)	(177.2)	(144.1)
Net Assets	78.7	—	78.7	0.7	79.4	64.5

(a) The Sparton Group's balance sheet line items are directly extracted without adjustment from the Sparton Group's consolidated balance sheet at 3 July 2016.

(b) This reflects the Sparton Group's consolidated balance sheet as at 3 July 2016 represented to conform to Ultra's line item presentation format.

(c) Certain IFRS adjustments and reclassifications were made to reflect the difference in accounting policy and presentation under the Company's IFRS accounting policies, as opposed to U.S. GAAP. These adjustments have been set out in Part V "Unaudited Reconciliation of Sparton Group Financial Information to IFRS as applied by Ultra Group" and are consistent with the adjustments contained within Part V 'Unaudited reconciliation of Sparton Group financial information to IFRS as applied by Ultra Group'.

(d) The Sparton Group financial information has been converted from $ to £ using the closing exchange rate of $1.2303 to £1 at 31 December 2016.

Note 4: The adjustments arising as a result of the Acquisition are set out below:

(a) The Unaudited Pro Forma Financial Information has been prepared on the basis that the Group will apply acquisition accounting. The unaudited pro forma statement of net assets does not reflect the fair value adjustments to the acquired assets and liabilities as the purchase price allocation exercise will not be finalised until after completion. Upon completion of the purchase price allocation exercise, Ultra expects that the fair value adjustments will be recognised in respect of certain assets and liabilities. For the purposes of the unaudited pro forma statement of net assets, the excess purchase consideration over the carrying amount of the net liabilities acquired has been attributed to the line item goodwill. The fair value adjustments, when finalised following completion, may be material. The pro forma goodwill arising has been calculated as follows:

	£m
Consideration for shares (9,990,138 shares at $23.50 each)	180.6
Less: Sparton Group net assets acquired	64.6
Pro forma goodwill	**116.0**

Cash consideration is calculated as $23.50 per share on the 9,990,138 shares of common stock of Sparton outstanding at the last practicable date prior to the Announcement of the Acquisition on 7 July 2017, and has been translated to GBP using the USD to GBP exchange rate applicable at that date of $1.30 to £1.00. The final number of shares to be used for calculating the consideration will be determined at Completion.

(b) The adjustment to cash and cash equivalents of £192.1m comprises:

	£m
Consideration for shares (9,990,138 shares at $23.50 each)	180.6
Other cash outflow(1)	11.5
Cash outflow	**192.1**

(1) Other cash outflow comprises estimated transaction costs of £11.5m incurred by the Combined Group.

SECTION B: ACCOUNTANT'S REPORT ON PRO FORMA FINANCIAL INFORMATION

Deloitte.

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Abbey Street
Reading
RG1 3BD

on behalf of Ultra Electronics Holdings plc
417 Bridport Road
Greenford
Middlesex
UB6 8UA

Investec Bank plc
2 Gresham Street
London
EC2V 7QP

10 August 2017

Dear Sirs,

Ultra Electronics Holdings plc (the "Company")

We report on the unaudited pro forma financial information (the "**Pro Forma Financial Information**") set out in Section A of Part VI of the Class 1 circular dated 10 August 2017 (the "**Circular**"), which has been prepared on the basis described in the notes 1 to 4, for illustrative purposes only, to provide information about how the proposed acquisition of Sparton Corporation might have affected the financial information presented on the basis of the accounting policies adopted by the Company in preparing the financial statements for the period ended 31 December 2016. This report is required by the Commission Regulation (EC) No 809/2004 (the "**Prospectus Directive Regulation**") as applied by Listing Rule 13.3.3R and is given for the purpose of complying with that requirement and for no other purpose.

Responsibilities

It is the responsibility of the directors of the Company (the "**Directors**") to prepare the Pro Forma Financial Information in accordance with Annex II items 1 to 6 of the Prospectus Directive Regulation as applied by Listing Rule 13.3.3R.

It is our responsibility to form an opinion, as to the proper compilation of the Pro Forma Financial Information and to report that opinion to you in accordance with Annex II item 7 of the Prospectus Directive Regulation as applied by Listing Rule 13.3.3R.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to Ordinary shareholders as a result of the inclusion of this report in the Circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Listing Rule 13.4.1R (6), consenting to its inclusion in the Circular.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro Forma Financial Information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial

information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the Directors.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro Forma Financial Information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in jurisdictions outside the United Kingdom, including the United States of America, and accordingly should not be relied upon as if it had been carried out in accordance with those standards or practices.

Opinion

In our opinion:

(a) the Pro Forma Financial Information has been properly compiled on the basis stated; and

(b) such basis is consistent with the accounting policies of the Company.

Yours faithfully

Deloitte LLP

Chartered Accountants

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PART VII

SPARTON FINANCIAL PROJECTIONS

1. Background

Sparton does not as a matter of course make public projections as to future performance, revenues, earnings or other financial results due to, among other reasons, the inherent uncertainty and unpredictability of the underlying assumptions and estimates. Sparton was, however, required to include in the Proxy Statement certain unaudited prospective financial information that was prepared by Sparton management and used by the Sparton Board in connection with its evaluation of the Acquisition and which was also provided to and used by the financial advisers to Sparton for the purposes of their financial advice to the Sparton Board in relation to the Acquisition. Such unaudited prospective financial information was therefore prepared for the purpose of privately informing the analysis of the Sparton Board and Sparton's financial advisers and was not prepared with a view to public disclosure, nor with any intention of guiding Sparton Shareholders or Ultra Shareholders as to the future performance of either Sparton or the Combined Group. Sparton has stated that the inclusion of such information in its Proxy Statement should not be regarded as an indication that any of Sparton, Ultra, Ultra Aneria or their respective financial advisers considered, or now considers, it necessarily to be predictive of actual or possible future results, or that it should be construed as financial guidance, and it should not be relied on as such.

Furthermore, Sparton noted in the Proxy Statement that the unaudited prospective financial information contained in the Proxy Statement does not take into account the possible financial and other effects on Sparton of the Acquisition, nor does the unaudited prospective financial information give effect to the impact of the Acquisition.

The unaudited prospective financial information with respect to Sparton for each of the financial years ending 2 July 2017 up to and including the financial year ending 3 July 2022 and the calendar years ending 31 December 2017 and 31 December 2018, to the extent that such projections may be considered to be profit forecasts for the purposes of the Listing Rules, has been extracted from the Proxy Statement and is set out in the table below (together with the relevant notes, to the extent that such notes relate to such projections) (the "**Proxy Projections**").

	FY 2017E[(1)(2)]	FY 2018P	FY 2019P	FY 2020P	FY 2021P	FY 2022P	CY 2017E[(1)]	CY 2018P
	(in thousands, except per share data)							
EBITDA[(3)]								
MDS	$ 11,493	$ 11,558	$ 13,209	$ 13,703	$ 14,438	$ 15,242	$ 9,974	$ 14,044
ECP	23,125	27,947	29,043	30,580	32,082	33,614	25,721	29,155
Corporate	(11,803)	(10,831)	(10,885)	(10,951)	(11,031)	(11,122)	(10,672)	(10,858)
Consolidated	22,827	28,674	31,367	33,332	35,490	37,735	25,024	32,342
Adjusted EBITDA[(4)]								
MDS	12,946	13,014	14,680	15,189	15,939	16,758	11,612	15,507
ECP	23,848	28,417	29,518	31,060	32,567	34,104	26,350	29,628
Corporate	(3,863)	(2,509)	(2,480)	(2,462)	(2,457)	(2,462)	(3,529)	(2,494)
Consolidated	32,942	38,922	41,718	43,786	46,048	48,399	34,433	42,641
Management EBITDA[(5)]								
MDS	11,816	12,519	14,180	14,684	15,429	16,243	10,693	15,010
ECP	23,204	28,266	29,365	30,905	32,411	33,946	25,960	29,476
Corporate	(8,616)	(6,067)	(6,074)	(6,092)	(6,123)	(6,165)	(6,476)	(6,070)
Consolidated	26,416	34,718	37,471	39,497	41,717	44,024	30,177	38,415
Unlevered, after-tax free cash flow[(6)]	18,949	10,947	24,731	20,225	21,221	22,348	—	—

(1) Represents the sum of Sparton's actual results through April 3, 2017 and forecasted amounts through July 2, 2017, in the case of FY 2017E, and December 31, 2017, in the case of CY 2017E.

(2) Due to the timing of this Acquisition and of the analyses and presentations of Sparton's financial advisors, the financial information for FY 2017E is the same as the financial information for the last twelve months ended June 30, 2017 ("**LTM 2017**"). Raymond James & Associates, Inc., in its presentation to the Sparton Board, used the terminology "trailing twelve months" or "TTM" to refer to the LTM 2017 information.

(3) EBITDA consists of earnings before deduction of interest, taxes, depreciation and amortization.

(4) Adjusted EBITDA consists of EBITDA, plus one-time non-recurring adjustments, restructuring expenses, incremental run-rate adjustments, expenses associated with being a public company and stock-based compensation expenses.

(5) Management EBITDA consists of Adjusted EBITDA, less stock-based compensation expenses and incremental run-rate adjustments for MDS and ECP and, in the case of corporate and consolidated numbers, expenses associated with being a public company.

(6) Defined as earnings before interest, after taxes, plus depreciation, plus amortization, less capital expenditures, +/– investment in working capital.

2. Proxy Projections are no longer valid and Ultra Shareholders should not rely on Proxy Projections when deciding how to vote

The Ultra Directors consider that the Proxy Projections are no longer valid for the following reasons:

2.1 Although some of the Proxy Projections were provided to Ultra prior to signing the Merger Agreement, the Proxy Projections do not reflect the Ultra Directors' view of the expected financial performance of Sparton under Ultra's ownership. Ultra expects the actual results of Sparton for each of the financial years ending 2 July 2018 up to and including the financial year ending 3 July 2022 and for the calendar year ending 31 December 2018 to differ from the respective year within the Proxy Projections and believes that the Proxy Projections will cease to be valid under Ultra's ownership. Certain matters that are expected to affect the financial results of Sparton in those periods, once Sparton is under Ultra's ownership, are set out at paragraph 2.5 below.

2.2 As referred to in paragraph 1 (*Background*) of this Part VII (*Sparton Financial Projections*), Sparton does not as a matter of course make public projections as to future performance, revenues, earnings or other financial results due to, among other reasons, the inherent uncertainty and unpredictability of the underlying assumptions and estimates. Accordingly, the Proxy Projections were not prepared by Sparton in order to be externally disclosed due to the inherent uncertainty and unpredictability of the underlying assumptions and estimates.

2.3 The Proxy Projections were not prepared by Sparton with a view toward public disclosure, nor, as stated by Sparton, were they prepared with a view toward compliance with accounting principles generally accepted in the US, published guidelines of the SEC or the guidelines established by the American Institute of Certified Public Accountants for preparation and presentation of prospective financial information. Neither Sparton's independent registered public accounting firm, nor any other independent accountants, have compiled, examined or performed any procedures with respect to the Proxy Projections, nor have they expressed any opinion or any other form of assurance on such information or its achievability.

2.4 Although Ultra received some of the Proxy Projections during its due diligence of Sparton, the Ultra Directors have relied on their own investigations, views and assessment of Sparton's results of operations, financial and operating condition and future prospects in considering and evaluating the Acquisition and determining the price of the Acquisition.

2.5 As referred to in paragraph 2.1 above, the principal changes expected to affect the financial results of Sparton for each of the financial years ending 2 July 2018 up to and including the financial year ending 3 July 2022 and for the calendar years ending 31 December 2017 and 31 December 2018, whether or not such results would be consistent with the Proxy Projections (for which Ultra and the Ultra Directors do not accept any responsibility), are summarised below:

Cost savings and costs to achieve cost savings

(A) As described in paragraph 4 (*Financial effects of the Acquisition*) of Part I (*Letter from the Chairman of Ultra*) of this Circular, the Ultra Directors believe that there is the potential to achieve cost savings within Sparton of $6m in the year-ending 31 December 2018 and recurring annual cost savings of $9m with effect from the year-ending 31 December 2019. There will be a one-off cost to achieving these cost savings of approximately $4m in the year-ending 31 December 2018. Assuming the Acquisition and disposal of MDS complete as expected, these cost savings are expected to have an impact on the business and financial results of Sparton in each of the financial years ending 2 July 2018 up to and including the financial year ending 3 July 2022 and in the calendar year ending 31 December 2018.

(B) The cost savings referred to above are expected to be achieved in the following broad areas: (i) headcount; (ii) legal / professional fees; (iii) facilities; (iv) Sparton Board-related costs; and

(v) certain other areas. These costs savings are therefore expected to affect Sparton's operating margin and EBITDA margin in each of the financial years ending 2 July 2018 up to and including the financial year ending 3 July 2022 and in the calendar year ending 31 December 2018, with the consequential effect that Proxy Projections relating to the EBITDA, Adjusted EBITDA and Management EBITDA are likely to differ from those set out above in paragraph 1.

(C) The reduction in headcount, legal /professional fees, facilities and Sparton Board-related costs referred to above will also result in certain one-off costs being incurred by the Combined Group rather than Sparton as a stand-alone entity. These costs will include, inter alia, severance, IT and compliance related expenses. They will be costs borne by the Combined Group during 2018 and therefore are expected to have an impact on the EBITDA during the financial year ending 2 July 2018 and in the calendar year ending 31 December 2018.

Disposal of MDS

(D) As described in paragraph 2.4 (*The proposed disposal of MDS*) of Part I (*Letter from the Chairman of Ultra*) of this Circular, MDS is considered to be non-core to Ultra. Consequently, if the Acquisition Completes, Ultra intends to sell MDS by the end of Q1 2018.

(E) The intended sale of MDS is not reflected in the Proxy Projections. The sale of MDS will result in the financial performance of MDS no longer being attributable to Sparton. Accordingly, depending on when and if the sale of MDS completes, the EBITDA, Adjusted EBITDA and Management EBITDA of MDS included in the Proxy Projections (to the extent attributable to Sparton) is expected either to be extinguished or reduced in each of the financial years ending 2 July 2018 up to and including the financial year ending 3 July 2022 and for the calendar year ending 31 December 2018 (and potentially in the calendar year ending 31 December 2017 were completion of the MDS sale to occur in advance of 31 December 2017). Furthermore, depending on when the sale of MDS completes, the consolidated EBITDA, consolidated Adjusted EBITDA and consolidated Management EBITDA of Sparton is expected to be reduced in each of the financial years ending 2 July 2018 up to and including the financial year ending 3 July 2022 and for the calendar year ending 31 December 2018 (and potentially in the calendar year ending 31 December 2017 were Completion to occur in advance of 31 December 2017).

Repayment of Sparton net debt

(F) As noted in paragraph 1 (*Introduction*) of Part I (*Letter from the Chairman of Ultra*) of this Circular, Ultra will assume and repay Sparton's net debt at Completion

(G) The repayment of Sparton's net debt is not reflected in the Proxy Projections. Depending on when Completion occurs (and the net debt of Sparton is therefore repaid), repayment of Sparton's net debt is expected to have an impact on the EBITDA, Adjusted EBITDA and Management EBITDA of Sparton in each of in each of the financial years ending 2 July 2018 up to and including the financial year ending 3 July 2022 and in the calendar years ending 31 December 2018 (and potentially in the calendar year ending 31 December 2017 were Completion to occur in advance of 31 December 2017).

3. Further statements by Ultra in relation to the Proxy Projections

The Ultra Directors do not consider the Proxy Projections to represent information necessary for Ultra Shareholders to make an informed decision as to how to vote at the Ultra General Meeting as, given the reasons set out above, it would not be possible to accurately predict future performance of the Sparton Group business within the Combined Group. **The Ultra Directors therefore consider that the Proxy Projections are no longer valid in the context of the Acquisition. Consequently, the Ultra Directors believe that the reassessment of these projections for the purposes of the Listing Rules is not necessary. Ultra Shareholders should not rely upon the Proxy Projections in deciding whether or not to approve the Acquisition.**

None of Ultra, the Ultra Directors or their respective advisers accept responsibility for the accuracy, reasonableness, validity or completeness of the Proxy Projections or the estimates and assumptions that underlie them.

PART VIII

ADDITIONAL INFORMATION

1. Responsibility

The Company and the Ultra Directors, whose names are set out in paragraph 3 below, accept responsibility for the information contained in this Circular. To the best of the knowledge and belief of the Company and the Ultra Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. Ultra Electronics Holdings plc

2.1 Ultra was incorporated and registered in England and Wales on 25 June 1993 with registered number 02830397 as a private company limited by shares with the name OVAL (886) LIMITED. On 27 August 1993, the Company changed its name to Ultra Electronics Holdings Limited by special resolution passed that same day. On 30 August 1996, the Company changed its name to Ultra Electronics Holdings plc and the Company was re-registered as a public company by special resolutions passed that day.

2.2 The Company has its registered office at 417 Bridport Road, Greenford, Middlesex UB6 8UA and its telephone number is +44 (0) 20 8813 4321.

2.3 The principal legislation under which Ultra operates is the Companies Act.

3. Ultra Directors

The following table sets out information relating to each of the Ultra Directors as of the date of this Circular:

Name	Current position
Douglas Caster	Chairman
Rakesh Sharma	Chief Executive
Amitabh Sharma	Group Finance Director
Martin Broadhurst	Non-Executive Director
Geeta Gopalan	Non-Executive Director
John Hirst	Non-Executive Director
Victoria Hull	Non-Executive Director
Sir Robert Walmsley	Non-Executive Director

all of whose business address is at 417 Bridport Road, Greenford, Middlesex UB6 8UA

4. Ultra Directors' shareholdings share awards and share options

4.1 The direct and indirect interests (all of which, unless otherwise stated, are beneficial) of the Ultra Directors in the Ultra Shares as of the Last Practicable Date, are set out in the following table:

	Interests in Ultra Shares as at Last Practicable Date	
Director	Number of voting rights in respect of Ultra Shares	Percentage of issued share capital
Douglas Caster	**300,000**	**0.386**%
Rakesh Sharma	**41,797**	**0.054**%
Amitabh Sharma	**5,026**	**0.006**%
Martin Broadhurst	**1,000**	**0.001**%
John Hirst	**2,000**	**0.003**%
Sir Robert Walmsley	**2,000**	**0.003**%

4.2 Taken together, the combined percentage interest of the Ultra Directors in the voting rights in respect of the issued ordinary share capital of Ultra at the Last Practicable Date was approximately 0.453%.

4.3 The Ultra Directors have no interests in the shares of Ultra's subsidiaries.

4.4 The details of conditional share awards granted under the "*Ultra Electronics Long Term Incentive Plan 2007*" and held by the Ultra Directors as at the Last Practicable Date are set out below. They are not included in the interests of Directors shown in the table in paragraph 4.1:

Director	Date of grant of award	Number of Ultra Shares under award	Share price of Ultra Shares at date of grant (£)	Vesting date
Rakesh Sharma	**18 March 2015**	**37,379**	**17.456**	**18 March 2018**
	14 March 2016	**36,793**	**17.734**	**14 March 2019**

4.5 The details of conditional share awards granted under the "*Ultra Electronics Long Term Incentive Plan 2017*" and held by the Ultra Directors as at the Last Practicable Date are set out below. They are not included in the interests of Directors shown in the table in paragraph 4.1:

Director	Date of grant of award	Number of Ultra Shares under award	Share price of Ultra Shares at date of grant (£)	Vesting date
Rakesh Sharma	**9 May 2017**	**39,097**	**21.101**	**9 May 2020**
Amitabh Sharma	**9 May 2017**	**18,956**	**21.101**	**9 May 2020**

4.6 The awards described in paragraphs 4.4 and 4.5 above vest on the third anniversary of the grant date, subject to continued employment and (in the case of awards granted under the 2007 Plan) the satisfaction of a performance condition based on the total shareholder return and (in the case of awards granted under the 2017 Plan) satisfaction of up to four performance measures determined prior to the date of grant of the relevant award. Awards granted in 2016 onwards are subject to a further two-year holding period following vesting during which the Ultra Shares may not be disposed of. Ultra Directors are required to retain at least 50% of the post-tax shares received upon vesting until shareholding guidelines are met. Malus and clawback provisions apply. No dividend equivalents have been paid in respect of any vested awards under these plans. No consideration was payable in respect of the grant of any of these awards.

4.7 The details of shares purchased under the "*All-Employee Share Ownership Plan Rules*" and held by the Ultra Directors as at the Last Practicable Date in the Share Ownership Plan Trust are set out below. They are not included in the interests of Directors shown in the table in paragraph 4.1:

Director	Number of Ultra Shares purchased and held in the Share Ownership Plan Trust
Rakesh Sharma	**3,209**
Amitabh Sharma	**110**

4.8 The details of options granted under the "*Ultra Electronics Savings Related Share Option Scheme 2007*" and held by the Ultra Directors as at the Last Practicable Date are set out below. They are not included in the interests of Directors shown in the table in paragraph 4.1:

Director	Date of grant of option	Number of Ultra Shares under option	Option Price (£)	Exercise Date
Rakesh Sharma	**1 October 2012**	**433**	**13.85**	**1 December 2017**
	26 September 2016	**397**	**15.10**	**1 December 2021**
Amitabh Sharma	**26 September 2016**	**794**	**15.10**	**1 December 2021**

4.9 The vesting period of the options granted under the Ultra Electronics Savings Related Share Option Scheme 2007 is five years. The exercise price of these options is equal to the daily average market price of the day before grant, less 10%. Under the Ultra Electronics Savings Related Share Option Scheme 2007, employees are entitled to save from post-tax pay for the purchase of Ultra Shares at a discount of up to 20%.

4.10 Rakesh Sharma's wife, Mrs K Sharma, indirectly holds 10,840 Ultra Shares; his daughter, Amy Nisha Sharma indirectly holds 5,995 Ultra Shares; and his son, Krishan Sharma, indirectly holds 17,504 Ultra Shares.

4.11 Save as disclosed in this paragraph 4, none of the Ultra Directors, nor their immediate families, or connected persons (within the meaning of section 252 of the Companies Act) have any interests (beneficial or non-beneficial) in the share capital of Ultra or its subsidiaries.

5. Ultra Directors' service contracts

5.1 Executive Directors

Chief Executive Officer

Rakesh Sharma's service contract commenced on 21 April 2011, and contains a 12-month notice period. Ultra may terminate the employment at any time with immediate effect by making a payment in lieu of notice of an amount equal to basic salary for the relevant period. Ultra may, at its discretion, make such payment in lieu of notice by either a lump sum or by monthly instalments. There is no fixed term to the contract. Rakesh Sharma's base salary, effective from 1 April 2017, is £550,000.

Chief Financial Officer

Amitabh Sharma's service contract commenced on 4 May 2016, and contains a 12-month notice period. Ultra may terminate the employment at any time with immediate effect by making a payment in lieu of notice of an amount equal to basic salary for the relevant period. Ultra may, at its discretion, make such payment in lieu of notice by either a lump sum or by monthly instalments. There is no fixed term to the contract. Amitabh Sharma's base salary, effective from 1 April 2017 is £320,000.

5.2 Chairman and Non-Executive Directors

Director	Date of appointment	Present expiry date	Total fees[(2)] (£)
Douglas Caster *Chairman*	9 October 1993	21 April 2018	202,000
Martin Broadhurst	2 July 2012	2 July 2018	57,900
Geeta Gopalan	28 April 2017	27 April 2018	52,900
John Hirst	1 January 2015	1 January 2018	57,900
Victoria Hull	28 April 2017	27 April 2018	52,900
Sir Robert Walmsley	22 January 2009	31 January 2018	57,900

5.3 The Ultra non-executive directors' letters of appointment stipulate a term of 12 months, with the possibility of renewal by mutual agreement between the non-executive director and Ultra. This is subject to the non-executive directors being individually elected at the next Ultra annual general meeting following their appointment and subsequent annual re-election. Either Ultra, or the non-executive director, may terminate the letter of appointment with immediate effect by written notice.

5.4 Non-executive directors are expected to devote such time to their appointment at Ultra as is necessary for the proper performance of their duties. Non-executive directors are expected to attend, and to have prepared for, both the regular meetings of the Ultra Board, the Ultra annual general meeting and any required ad hoc meetings.

5.5 Save as disclosed in paragraph 5.1 above, there are no existing service contracts between any Ultra Director and any member of the Ultra Group which provide for benefits upon termination of employment.

6. Major shareholders

6.1 As at the Last Practicable Date, insofar as it is known to Ultra as a result of notifications made to the Company pursuant to DTR 5 ("**Notifiable Interests**"), the following persons are interested

[(2)] Being the aggregate of each Ultra Director's annual fee and applicable committee fees. Non-executive directors are also entitled to be reimbursed for reasonable expenses incurred in attending or returning from meetings of the Ultra Board or any committee. The non-executive directors do not receive any tax benefits from Ultra.

directly or indirectly in 3% or more of the voting rights in respect of the issued ordinary share capital of Ultra:

Name	As at the Last Practicable Date	
	Number of Ultra Shares	**Percentage of issued Ultra Shares**
FIL Investment International	8,116,814	10.45%
Fidelity Management & Research	6,172,237	7.94%
Baillie Gifford & Co	3,796,666	4.89%
Mondrian Investment Partners Limited	3,643,051	4.69%
Legal & General Investment Management	2,590,465	3.33%
J O Hambro Capital Management Limited	2,373,539	3.05%
Heronbridge Investment Management	2,352,102	3.03%

6.2 Save as disclosed above, Ultra is not aware of any other Notifiable Interests.

7. Related party transactions

Save as disclosed in note 33 to the financial statements of Ultra for the financial year ended 31 December 2014, note 33 to the financial statements of Ultra for the financial year ended 31 December 2015 and note 33 to the financial statements of Ultra for the financial year ended 31 December 2016, each of which are incorporated by reference into this Circular, Ultra has not entered into any related party transaction during the period from 1 January 2014 up to the date of this Circular.

8. Ultra material contracts

No contracts have been entered into (other than contracts entered into in the ordinary course of business) by any member of the Ultra Group, either (i) within the two years immediately preceding the date of this Circular which are, or may be, material to the Ultra Group; or (ii) at any time, which contain any provision under which any member of the Ultra Group has any obligation or entitlement which is, or may be, material to the Ultra Group as at the date of this Circular, save as disclosed below:

8.1 ***Merger Agreement***

A summary of the material terms of the Merger Agreement is set out in Part III (*Summary of the Merger Agreement*) of this Circular.

8.2 ***Placing Agreement***

On 7 July 2017, Ultra entered into a placing agreement (the "**Placing Agreement**") with Investec, pursuant to which 7,047,168 new Ultra Shares (the "**Placing Shares**"), representing approximately 9.9% of the existing issued ordinary share capital of Ultra immediately prior to completion of the Placing, were placed by Investec at a price of 1,950 pence per Placing Share. Closing of the Placing and admission of the Placing Shares to the official list of the FCA and to trading on the main market of the London Stock Exchange took place on 11 July 2017. The purpose of the Placing was to finance the Acquisition in part.

In consideration for the services provided by Investec in connection with the Placing, Ultra paid Investec a commission agreed between Ultra and Investec. The Placing Agreement contains certain warranties, undertakings and indemnities given by Ultra in favour of Investec that are customary in an agreement of this kind.

8.3 ***ERAPSCO Joint Venture Agreement***

On 31 January 2007, USSI, a wholly-owned subsidiary of Ultra, entered into the ERAPSCO JVA with SDS, a wholly-owned subsidiary of Sparton. The ERAPSCO JVA, which since 31 January 2007 has been amended and restated on ten separate occasions (most recently as at 25 May 2016), superseded the previous agreement which had governed the relationship between the parties prior to the date of the ERAPSCO JVA.

Under the terms of the ERAPSCO JVA, which is governed by the laws and regulations of the State of Indiana:

(A) the name of the ERAPSCO joint venture is prescribed to be ERAPSCO for the purposes of undertaking sales to the US DoD and Sonobuoy Tech Systems for sales to all other customers (for simplicity, the joint venture is referred to in this summary as "**ERAPSCO**");

(B) the purpose and scope of ERAPSCO is limited to the design, development, qualification, testing and support of floating, expendable ASW devices for customers and undertaking such efforts as are required to comply with the needs or requirements of customers' ASW businesses. This scope of work includes the production of certain active and passive sonobuoys. Activities beyond this scope are subject to agreement by USSI and SDS;

(C) the ERAPSCO board of directors comprises six directors, three of whom are designated by USSI and three of whom are designated by SDS. The voting and quorum requirements for ERAPSCO board decisions are designed to ensure control of ERAPSCO's affairs is shared equally between USSI and SDS, with no single party (or its appointees) being entitled to exercise unilateral control;

(D) ERAPSCO management is responsible for responding to RFPs on behalf of ERAPSCO, with any contract awarded to ERAPSCO being sub-contracted to USSI and SDS with the intention that contract awards to ERAPSCO (and associated margin) are, in the aggregate, divided equally between USSI and SDS (via entry into sub-contracts);

(E) USSI and SDS are not required to make cash contributions to ERAPSCO (save in limited, agreed circumstances) and ERAPSCO is not entitled to incur borrowings or make investments in equity or debt securities;

(F) there are certain pre-emptive restrictions on the direct or indirect transfer of the parties' interests in ERAPSCO to third parties outside of the Ultra Group or the Sparton Group (as applicable) (the "**ERAPSCO Transfer Provisions**");

(G) either USSI or SDS may terminate the ERAPSCO JVA on 18 months' notice, subject to fulfilment of any existing obligations under any contract or subcontract; and

(H) the joint venture between USSI and SDS constitutes an Indiana general partnership entity which is formed, recognised and existing under Indiana law.

During the Sparton sale process (summarised in paragraph 3 (*Information on Sparton*) in Part I (*Letter from the Chairman of Ultra*) of this Circular), representatives of Ultra and Sparton had a series of interactions concerning the applicability of the ERAPSCO Transfer Provisions to that sale process. As part of those interactions in respect of the sale process, Ultra notified Sparton that it was reserving its rights under the ERAPSCO JVA (including its rights under the ERAPSCO Transfer Provisions) and noted that, were a specified bidder for Sparton (with whom Ultra had met) to acquire Sparton or its interest in the ERAPSCO JVA, Ultra would be prepared to exercise its right to terminate the ERAPSCO JVA for convenience.

8.4 ***Ultra Financing Agreements***

(A) *Private Shelf Agreement*

On 5 July 2011, Ultra entered into a private shelf agreement with Prudential Investment Management, Inc. ("**Prudential**") and certain affiliates of Prudential (the "**Private Shelf Agreement**"). Pursuant to the Private Shelf Agreement, Ultra may issue up to $150,000,000 of senior promissory notes ("**Notes**") to Prudential or its affiliates. The performance of Ultra's payment obligations in respect of Notes issued under the Private Shelf Agreement is guaranteed by UEL, UEMS, UEC and UET. As at the Last Practicable Date, there were: (i) 4.09% Series A Senior Notes due 14 July 2018 with an aggregate principal amount of $10,000,000 outstanding; and (ii) 3.52% Series B Senior Notes due 25 January 2019 with an aggregate principal amount of $60,000,000 outstanding.

The Private Shelf Agreement contains representations, warranties, covenants (including financial covenants) and events of default consistent with Ultra's other existing corporate borrowings (as more fully described below).

The Private Shelf Agreement, and any non-contractual obligations arising out of or in connection with it, are governed by English law.

(B) *2012 Revolving Facility Agreement*

On 20 December 2012, Ultra entered into an agreement in relation to a £100,000,000 multi-currency revolving credit facility with ANZ, BAML, Barclays, Lloyds and RBS as lenders (the "**2012 Revolving Facility**"). The agreement was amended and restated on 30 July 2015 (such amended and restated agreement being the "**2012 Revolving Facility Agreement**").

Ultra is the borrower under the 2012 Revolving Facility Agreement and, together with UEL, UEMS, UEC, UET and UEFT is also a guarantor of Ultra's payment obligations under the 2012 Revolving Facility Agreement (Ultra, as borrower and as a guarantor, together with the other guarantors under the 2012 Revolving Facility Agreement, being the "**Obligors**"). As at the Last Practicable Date, Ultra had utilised £0.00 of the 2012 Revolving Facility.

The 2012 Revolving Facility may be applied towards financing the general corporate purposes of Ultra and its subsidiaries. The final maturity date for the 2012 Revolving Facility is 1 August 2019.

The 2012 Revolving Facility Agreement includes customary representations and warranties, covenants and events of default, including requirements that Ultra must ensure that: (i) consolidated total net borrowings of Ultra and its subsidiaries (the "**Group**") do not, at the end of each period of 12 months ending on the last day of a financial year or financial half-year of Ultra (a "**Measurement Period**"), exceed three times the consolidated EBITDA of the Group (the "**Consolidated EBITDA**") for that Measurement Period; and (ii) the ratio of Consolidated EBITA to all interest and other financing charges incurred by the Group (excluding operating lease payments) is not, at the end of each Measurement Period, less than 3 to 1.

The 2012 Revolving Facility Agreement restricts, subject to certain exceptions, Ultra's ability to incur additional financial indebtedness, grant security over its assets or provide loans/grant credit. Furthermore, any lender may require mandatory prepayment of its participation if any person or group of persons "acting in concert" (which has the meaning given in the City Code on Takeovers and Mergers) gains the power to direct the management and policies of Ultra, whether through the ownership of voting capital by contract or otherwise.

Events of default under the 2012 Revolving Facility Agreement include, subject to customary grace periods and materiality thresholds: (i) non-payment of any amounts due under certain designated documents relating to the 2012 Revolving Facility Agreement (the "**Finance Documents**"); (ii) failure to satisfy any financial covenants contained in the 2012 Revolving Facility Agreement; (iii) misrepresentation in any of the Finance Documents; (iv) failure to pay, or certain other defaults, under other financial indebtedness; (v) certain insolvency events or proceedings; (vi) material adverse changes in the business or financial conditions of the Obligors as a whole; (vii) if it becomes unlawful for any Obligor to perform any of its obligations under the Finance Documents; (viii) if an Obligor repudiates a Finance Document or evidences an intention to repudiate a Finance Document; or (ix) if an Obligor (other than Ultra) is not or ceases to be a direct or indirect wholly-owned subsidiary of Ultra, among others.

The 2012 Revolving Facility Agreement, and any non-contractual obligations arising out of or in connection with it, are governed by English law.

(C) *2014 Revolving Facility Agreement*

On 1 August 2014, Ultra entered into an agreement in relation to a £200,000,000 multi-currency revolving credit facility (the "**2014 Revolving Facility**") with Abbey National Treasury Services plc, ANZ, BAML, Barclays, Lloyds, the Royal Bank of Canada and RBS as lenders (the "**2014 Revolving Facility Agreement**").

Ultra is the borrower under the 2014 Revolving Facility Agreement and, together with UEL, UEMS, UEC, UET and UEFT, is also a guarantor of Ultra's payment obligations under the 2014 Revolving Facility Agreement. As at the Last Practicable Date, Ultra had utilised £0.00 of the 2014 Revolving Facility.

The 2014 Revolving Facility may be applied towards financing the general corporate purposes of Ultra and its subsidiaries. The final maturity date for the 2014 Revolving Facility is 1 August 2019.

The 2014 Revolving Facility Agreement includes equivalent representations and warranties, covenants and events of default to those contained in the 2012 Revolving Facility Agreement, as summarised above.

The 2014 Revolving Facility Agreement, and any non-contractual obligations arising out of or in connection with it, are governed by English law.

(D) *2015 Credit Facility Agreement*

On 31 May 2015, Ultra entered into an agreement in relation to a $225,000,000 credit facility (the "**2015 Credit Facility**") with BAML, Barclays, Lloyds and RBS as lenders (the "**2015 Credit Facility Agreement**").

Ultra is the borrower under the 2015 Credit Facility Agreement and, together with UEL, UEMS, UEC, UET and UEFT, is also a guarantor of Ultra's payment obligations under the 2015 Credit Facility Agreement. As at the Last Practicable Date, $225,000,000 of the 2015 Credit Facility remained outstanding.

The 2015 Credit Facility Agreement was entered into in connection with a previous acquisition by Ultra and amounts drawn under the 2015 Credit Facility cannot be applied in connection with any other purpose. The final maturity date of the 2015 Credit Facility is 1 August 2019.

The 2015 Credit Facility Agreement includes equivalent representations and warranties, covenants and events of default to those contained in the 2012 Revolving Facility Agreement, as summarised above.

The 2015 Credit Facility Agreement, and any non-contractual obligations arising out of or in connection with it, are governed by English law.

(E) *Revolving Facilities and the Acquisition*

In this paragraph 8.4(E), the 2014 Revolving Facility Agreement and the 2012 Revolving Facility Agreement are together referred to as the "**Revolving Facility Agreements**" and the 2014 Revolving Facility and the 2012 Revolving Facility are together referred to as the "**Revolving Facilities**".

The Acquisition will be financed in part by Ultra drawing down under the Revolving Facilities. Neither of the Revolving Facility Agreements prohibit Ultra drawing down funds to finance the Acquisition, and the period during which Ultra may draw down under each of the Revolving Facilities does not expire until 1 July 2019.

The Revolving Facility Agreements contain customary conditions precedent to any drawdown of the Revolving Facilities (including any drawdown to finance the Acquisition). For example, it is a condition precedent to the drawdown of any loan under either Revolving Facility that, on the request date for any such loan and on the date on which any such loan is advanced, the repeating representations to be given under the Revolving Facility Agreements remain correct in all material respects.

(F) *Foreign Exchange Forward Contract*

In connection with the Acquisition, UEL entered into a forward currency forward contract on 7 July 2017 in respect of circa. £192.5 m, at a GBP to USD exchange rate of £1.00 to $1.2985 and with a maturity date of 31 October 2017.

9. Sparton material contracts

No contracts have been entered into (other than contracts entered into in the ordinary course of business) by any member of the Sparton Group, either (i) within the two years immediately preceding the date of this Circular which are, or may be, material to the Sparton Group; or (ii) at any time, which contain any provision under which any member of the Sparton Group has any obligation or entitlement which is, or may be, material to the Sparton Group as at the date of this Circular, save as disclosed below:

9.1 ***Merger Agreement***

A summary of the material terms of the Merger Agreement is set out in Part III (*Summary of the Merger Agreement*) of this Circular.

9.2 ***ERAPSCO Joint Venture Agreement***

A summary of the material terms of the ERAPSCO JVA is set out in paragraph 8.3 of this Part VII (*Additional Information*) of this Circular.

9.3 ***2014 credit facility agreement of the Sparton Group***

On 11 September 2014, Sparton entered into an Amended and Restated Credit and Guaranty Agreement dated as of September 11, 2014 (the "**Sparton Credit Facility**"), among Sparton and the Sparton Subsidiaries, BMO Harris Bank N.A., US Bank National Association, Bank of America, N.A., Suntrust Bank and Fifth Third Bank, Associated Bank, N.A., Keybank National Association, Wintrust Bank, and the financial institutions from time to time party thereto (the "**Lenders**") and BMO Harris Bank, N.A., as agent for the Lenders (in such capacity, the "**Administrative Agent**"). The "**Sparton Subsidiaries**" include the following wholly-owned subsidiaries of Sparton, Spartronics, Inc., Sparton Technology, Inc., Sparton DeLeon Springs, LLC, Sparton Medical Systems, Inc., Sparton Medical Systems Colorado, LLC, Sparton BP Medical Denver, LLC, Sparton Onyx Holdings, LLC, Sparton Onyx, LLC, Resonant Power Technology, Inc., Sparton Aubrey Group, Inc., Sparton Brooksville, LLC, Sparton Aydin, LLC, Sparton Beckwood, LLC, Beckwood Services, Inc., Sparton eMT, LLC and Sparton Irvine, LLC.

The Sparton Credit Facility replaces Sparton's then-existing credit facility by providing an up to $200m revolving line-of-credit to fund future acquisitions and to support Sparton's working capital needs and other general corporate purposes. Sparton has the right to request an increase of the Sparton Credit Facility in an amount of up to $100m.

The Sparton Credit Facility is secured by substantially all assets of both Sparton and of all of the Sparton Subsidiaries (the "**Collateral**").

The Sparton Credit Facility has a term of 5 years and expires on September 11, 2019. At Sparton's option, each loan under the Sparton Credit Facility will bear interest at either the Base Rate or the LIBOR based rate, plus an applicable margin based on a pricing grid. The initial applicable margin is equal to .25% for a Base Rate loan and 1.25% for a LIBOR based loan and commencing with the quarter ending on September 30, 2014 will be adjusted based on Sparton's total funded debt to EBITDA ratio.

The "**Base Rate**" is a fluctuating rate per annum equal to the highest of the Administrative Agent's publicly announced prime commercial rate, the US federal funds rate plus half of 1%, and the reserve adjusted one-month LIBOR plus 1%. The LIBOR based rate is the reserve adjusted LIBOR fixed for interest periods of one, two, three or six months, as selected by Sparton. Sparton is also required to pay a facility fee on the unused commitment. The initial facility fee is set at .25%, and commencing with the quarter ending on September 30, 2014 will be adjusted based on Sparton's total funded debt to EBITDA ratio.

The Sparton Credit Facility includes representations, covenants and events of default that are customary for financing transactions of this nature. The financial covenants contained in the Sparton Credit Facility include a total funded debt to EBITDA ratio of not less than 3.00 to 1.00 (provided that if at the end of any fiscal quarter the ratio is greater, and Sparton has entered into a permitted acquisition in the quarter in excess of $20m, the ratio may be up to 3.50 to 1.00) and a fixed charge coverage ratio as of the last day of each fiscal quarter of not less than 1.50 to 1.00. A violation of any of these provisions could result in a default under the Sparton Credit

Facility, which would permit the Lenders to restrict Sparton's and the Sparton Subsidiaries' ability to borrow under the Sparton Credit Facility, cause all of Sparton's and the Sparton Subsidiaries' outstanding obligations to the Lenders to become immediately due and payable, and foreclose on the Collateral. Also, if Sparton and the Sparton Subsidiaries do not pay the principal or interest on their outstanding obligations to the Lenders, or if any other event of default occurs, such obligations would bear interest at an increased rate.

On 16 March 2015, Sparton entered into Amendment No. 1 to the Sparton Credit Facility, among Sparton, the Sparton Subsidiaries, the Lenders and the Administrative Agent to exclude certain of Sparton's dormant and inactive Sparton Subsidiaries from obligations under the Sparton Credit Facility.

On 13 April 2015, Sparton entered into Amendment No. 2 to the Sparton Credit Facility, among Sparton, the Sparton Subsidiaries, the Lenders and the Administrative Agent. The amendment augmented the Sparton Credit Facility agreement by increasing the revolving line-of-credit facility by $75,000,000 to $275,000,000, and adding a $50,000,000 multicurrency sublimit to support Sparton's future acquisitions, working capital needs and other general corporate purposes. The amendment also amended the Sparton Credit Facility agreement to allow certain add backs to EBITDA, to permit the payment of certain earn out obligations, and to expand the definition of permitted acquisitions. The amendment reset the Sparton Credit Facility agreement's accordion feature, allowing Sparton to request an increase of the facility in an amount of up to $100m.

On 27 June 2016, Sparton entered into Amendment No. 3 to the Sparton Credit Facility, among Sparton, the Sparton Subsidiaries, the Lenders and the Administrative Agent. The amendment: (a) reduced the revolving credit facility amount from $275,000,000 to $175,000,000; (b) reduced the available optional increase in the revolving credit facility from $100,000,000 to $50,000,000 and provided that the optional increase cannot be exercised until after the financial reporting for the fiscal quarter ending September 2017 (demonstrating compliance with the financial covenants) has been delivered; (c) increased the permitted total funded debt to EBITDA ratio until the fiscal quarter ending September 2017; (d) increased the applicable margin where total funded debt to EBITDA is 2.50 or higher; (e) prohibited acquisitions until after the financial reporting for the fiscal quarter ending June 2017 (demonstrating compliance with the financial covenants) has been delivered and thereafter reduces the total consideration permitted to be paid in connection with any permitted acquisitions; (f) provided that for any acquisition prior to the end of the fiscal quarter ending September 2017, the total funded debt to EBITDA ratio on a pro forma basis cannot exceed 2.75 to 1.00; (g) prohibited dividends, distributions, and stock repurchases except for payments made in accordance with certain existing stock option plans and other equity compensation plans for employees (subject to a cap) until the end of the fiscal quarter ending September 2017, and thereafter reduces the aggregate amount of dividends, distributions and stock repurchases permitted in any fiscal year; (h) updated the Sparton Credit Facility agreement to reflect Sparton's change to a 52-53 week fiscal year ending on the Sunday which is nearest to the last day of June in each year; and (i) added provisions to implement a sweep to loan cash management system.

On 30 June 2017, Sparton entered into Amendment No. 4 to the Credit Facility among Sparton, the Sparton Subsidiaries, the Lenders and the Administrative Agent. The amendment: (a) reduced the revolving credit facility amount from $175,000,000 to $125,000,000; (b) eliminated the existing $50,000,000 optional increase in the revolving credit facility; (c) increased the applicable margin where Total Funded Debt/EBITDA is 3.75 or higher; (d) prohibited acquisitions on and after the date of the amendment; (e) required monthly financial reporting commencing July 2017; (f) reduced the amount of permitted indebtedness of foreign subsidiaries at any time outstanding from $10,000,000 to $5,000,000; (g) reduced the limit on investments which are not otherwise permitted from $2,000,000 to $1,000,000; (h) reduced the permitted amount of any sale, transfer, lease or other disposition of any property of Sparton or any subsidiary of Sparton from $3,000,000 to $1,500,000 during any fiscal year; (i) prohibited dividends, distributions and stock repurchases, except for payments made in accordance with certain existing stock option plans and other equity compensation plans for employees (subject to a cap); (j) increased the permitted Total Funded Debt/EBITDA Ratio (the "**Leverage Covenants**") until (but not including) the fiscal quarter ending March 2018; and (k) required that Sparton and the Sparton Subsidiaries maintain minimum trailing 4 quarter EBITDA of $22,500,000 for the fiscal quarter ending June 2017, $20,000,000 for the fiscal quarter ending September 2017 and $22,000,000 for the fiscal quarter ending

December 2017. In addition, the Lenders have waived any event of default that may have occurred solely as a result of Sparton's and the Sparton Subsidiaries' failure to comply with the unamended Leverage Covenants for the test period ending on the last day of Sparton's fiscal quarter June 2017.

10. Litigation affecting the Ultra Group

10.1 Save as disclosed below, there are no, nor have there been any, governmental, legal or arbitration proceedings (nor is Ultra aware of any such proceedings being pending or threatened) which may have, or have had during the 12 months immediately prior to the date of this Circular, a significant effect on the Ultra Group's financial position or profitability.

10.2 ***Arbitration concerning an Omani joint venture company***

In August 2011, Ultra and a joint venture partner, Oman Investment Corporation SAOC ("**OIC**"), incorporated an Omani company named Ultra Electronics Airport Systems (Middle East) LLC (subsequently renamed Ultra Electronics in Collaboration with Oman Investment Corporation LLC in February 2012) (known as "**Ithra**"), for the purposes of acting as contractor under a contract for the provision of IT systems, IT networks and security systems in relation to the Muscat and Salalah International Airports development in Oman (the "**IT Infrastructure Contract**"). In accordance with Omani licensing law, Ithra was 70% owned by Ultra and 30% owned by OIC.

In July 2011, the Government of the Sultanate of Oman represented by the Ministry of Transport and Communications, Directorate General of Safety and Aviation Services (the "**MOTC**") awarded the IT Infrastructure Contract to Ithra and subsequently, in April 2012, signed the IT Infrastructure Contract.

In February 2015, the MOTC purported to terminate the IT Infrastructure Contract. Ithra disputed, and continues to dispute, the purported termination. In March 2015, Ithra was required to be put into liquidation and Hamad Al Sharji, Peter Mansour & Co, an Omani law firm, was appointed as the liquidator. The liquidator is pursuing claims on behalf of Ithra against the MOTC in arbitration proceedings brought under the rules of the International Court of Arbitration of the International Chamber of Commerce, including claims for payment for works completed and damages for breaches of contract in an aggregate amount of at least OMR 49.4m (approximately £99.0m). The MOTC has denied all claims and has brought counterclaims against Ithra in the proceedings which remain largely unparticularised and unquantified at this stage. However, amounts in excess of OMR 126m (approximately £252.4m) have been claimed by the MOTC in contractual notices submitted by the MOTC to Ithra in accordance with the terms of the IT Infrastructure Contract (but have not at this stage been pleaded in the arbitration proceedings). The counterclaims made by the MOTC against Ithra include a claim that Ithra wrongly failed to procure a parent company guarantee ("**PCG**") from Ultra in favour of the MOTC in relation to the IT Infrastructure Contract. As part of such counterclaims, the MOTC is seeking an order for Ithra to procure an irrevocable and unconditional PCG from Ultra that guarantees the liabilities of Ithra. Ithra denies all of the MOTC's counterclaims, including that it had any obligation to procure a PCG.

In view of Ithra's liquidation and in order to enable claims to be brought against the MOTC and the MOTC's counterclaims to be defended in these proceedings, Ultra has provided, and continues to choose to provide, funding to Ithra in respect of these arbitration proceedings. The procedural timetable currently provides for an arbitration hearing in late 2018. Until any such hearing is completed (and potentially beyond), Ultra may choose to continue to provide funding to Ithra in respect of the arbitration. However, in view of the largely unparticularised and unquantified nature of the MOTC's defence and counterclaims, Ultra is currently unable to estimate reliably the cost it may incur should it choose to continue to provide such funding.

In this early stage of proceedings, it is not currently possible to predict the outcome or consequences of the arbitration or to assess the implications of any adverse finding.

11. Litigation affecting the Sparton Group

There are no, nor have there been any, governmental, legal or arbitration proceedings (nor is the Company aware of any such proceedings being pending or threatened) which may have, or have had during the 12 months immediately prior to the date of this Circular, a significant effect on the Sparton Group's financial position or profitability.

12. Working capital

The Company is of the opinion that, taking into account the facilities available to the Combined Group, the Combined Group has sufficient working capital for its present requirements, that is, for at least the next 12 months from the date of publication of this Circular.

13. Significant changes

13.1 Save for the Placing (as described in paragraph 2.5 (*Equity funding through the Placing*) of Part 1 (*Letter from the Chairman of Ultra*) of this Circular) there has been no significant change in the financial or trading position of the Ultra Group since 30 June 2017, being the date to which the last unaudited published interim financial statements of the Ultra Group were prepared.

13.2 There has been no significant change in the financial or trading position of the Sparton Group since 2 April 2017, being the date to which the last unaudited published interim financial statements of the Sparton Group were prepared.

14. Sources and bases

Where information contained in this Circular originates from a third party source, it is identified where it appears in this Circular together with the name of its source. Such third party information has been accurately reproduced and, so far as Ultra is aware and is able to ascertain from information published by the relevant third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

15. Sparton profit estimate

15.1 In its announcement of its third quarter results published on 9 May 2017, Sparton stated that:

"Sparton expects revenues for the fourth quarter of fiscal 2017 of between $97m and $101m at a gross margin of approximately 18%."

15.2 The above statement constitutes a profit estimate for the purpose of the Listing Rules. The Directors have considered and confirm that the above profit estimate for the fourth quarter of fiscal 2017 remains correct at the date of this document. The profit estimate does not take into account any impact of the Acquisition.

Basis of preparation

15.3 The profit estimate was properly compiled by Sparton management on the basis of the assumptions stated below in accordance with Sparton's US GAAP accounting policies, which are consistent with the accounting policies adopted by Ultra in the preparation of its audited financial statements for the year-ended 31 December 2016.

15.4 The Directors have prepared the fourth quarter fiscal 2017 profit estimate for Sparton based upon the unaudited published results of Sparton for the nine months ended 2 April 2017, the unaudited management accounts for the two months ended 31 May 2017 and an estimate of the results for the month to 30 June 2017.

Principal assumptions

15.5 The profit estimate has been compiled on the basis of the following:

(A) assumptions which are outside the influence of Sparton management and the Sparton Directors:

(i) there will be no material change in:

(a) the operational strategy or current management of Sparton;

(b) the current trading environment and economic conditions;

(c) the competitive environment in which Sparton operates;

(d) customer preferences and resulting purchase commitments;

(e) US congressional budgetary allocations;

(f) any applicable federal, state, provincial, local and foreign regulatory environment;

(ii) there will be no material business disruptions, including natural disasters and political or industrial instability; and

(B) assumptions which are within the influence of Sparton management and the Sparton Directors:

(i) there will be no acquisitions or disposals during the quarter ending 30 June 2017; and

(ii) there will be no material change in:

(a) the management and efficiency of Sparton's operations;

(b) internal controls and financial reporting policies.

16. Incorporation by reference

The following information is incorporated by reference into, and forms part of, this Circular:

Reference document	Information incorporated by reference
Ultra's Annual Report and Accounts for the year ended 31 December 2014	Information on related party transactions in note 33 to the financial statements of Ultra for the financial year ended 31 December 2014
Ultra's Annual Report and Accounts for the year ended 31 December 2015	Information on related party transactions in note 33 to the financial statements of Ultra for the financial year ended 31 December 2015
Ultra's Annual Report and Accounts for the year ended 31 December 2016	Information on related party transactions in note 33 to the financial statements of Ultra for the financial year ended 31 December 2016

17. Consents

17.1 Guggenheim Securities has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of its name and references to it in the form and context in which they appear.

17.2 Investec has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of its name and references to it in the form and context in which they appear.

17.3 RBC has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of its name and references to it in the form and context in which they appear.

17.4 Deloitte has given and has not withdrawn its written consent to the inclusion in this Circular of its "Accountant's Opinion on the Reconciliation of Sparton Group Financial Information to IFRS as applied by the Ultra Group" in Section B of Part V (*Unaudited Reconciliation of Sparton Group Financial Information to IFRS as applied by Ultra Group*) and its "Accountant's Report on Pro Forma Financial Information" in Section B of Part VI (*Unaudited Pro Forma Statement of Net Assets for the Combined Group*) of this Circular in the form and context in which it appears.

18. Documents available for inspection

Copies of the following documents are available for inspection during usual business hours on any Business Day from the date of publication of this Circular up to and including the date of the Ultra General Meeting at the offices of the Company, 417 Bridport Road, Greenford, Middlesex UB6 8UA:

(A) the Articles of Association of Ultra;

(B) the Annual Report and Accounts of Ultra for each of the financial years ended 31 December 2014, 31 December 2015 and 31 December 2016 and the interim results of Ultra for the period ended 30 June 2017;

(C) the Merger Agreement;

(D) the “Opinion on the Reconciliation of Sparton Group Financial Information” from Deloitte, set out in Section B of Part V (*Unaudited Reconciliation of Sparton Group Financial Information to IFRS as applied by Ultra Group*) and the “Report on Pro Forma Financial Information” from Deloitte, set out in Section B of Part VI (*Unaudited Pro Forma Statement of Net Assets for the Combined Group*);

(E) the consent letters referred to in paragraph 17 above; and

(F) this Circular.

DEFINITIONS

The following definitions apply throughout this Circular unless the context otherwise requires:

Acquisition	means the proposed acquisition of Sparton by Ultra pursuant to the terms and conditions of the Merger Agreement, as described in this Circular;
Acquisition Proposal	has the meaning given in paragraph 1.5 (*"No-Shop" provision*) of Part III (*Summary of the Merger Agreement*);
Amendment Agreement	has the meaning given in the risk factor headed "*The Sparton Group may default under its existing credit facility agreement prior to Completion*" in Part B (*Material New Risks to the Ultra Group or the Sparton Group as a Result of the Acquisition*) in Part II (*Risk Factors*);
Announcement	means the announcement published by Ultra on 7 July 2017 in connection with the Acquisition (including its appendices);
ANZ	means Australia and New Zealand Banking Group Limited;
Articles of Association	means the articles of association of Ultra, as amended from time to time;
ASW	means Anti-Submarine Warfare;
BAML	means Bank of America Merrill Lynch International Limited;
Barclays	means Barclays Bank plc;
Break Fee Trigger	means any of the circumstances described in paragraph 1.7 (*Termination fees*) of Part III (*Summary of the Merger Agreement*) pursuant to which Ultra would be obliged to disburse a termination fee of $7.5m to Sparton;
Business Day	means a day (other than Saturdays, Sundays and public holidays in the UK) on which banks are open for business in the City of London;
CFIUS	means the Committee on Foreign Investment in the United States;
Circular	means this document;
Combined Group	means the combined group, comprising the Ultra Group and the Sparton Group;
Companies Act	means the UK Companies Act 2006;
Company	means: (a) other than in Section A of Part IV (*Financial Information on the Sparton Group*), Ultra Electronics Holdings plc, a company registered in England and Wales with the number 02830397 whose registered office is at 417 Bridport Road, Greenford, Middlesex UB6 8UA; and (b) in Section A of Part IV (*Financial Information on the Sparton Group*), Sparton and its subsidiaries;
Completion	means the completion of the Acquisition in accordance with the terms of the Merger Agreement (and "**Complete**" shall be construed accordingly);
Conditions	means the conditions to Completion as set out in the Merger Agreement, including those summarised at paragraph 1.3 of Part III (*Summary of the Merger Agreement*);

CREST	means the relevant system (as defined in the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755)) in respect of which Euroclear is the Operator (as defined in such Regulations) in accordance with which securities may be held and transferred in uncertificated form;
DDTC	means the U.S. Department of State's Directorate of Defense Trade Controls;
Deloitte	means Deloitte LLP;
Directors	means the Ultra Directors or the Sparton Directors (as applicable);
DSS	means the Defense Security Service of the United States Department of Defense;
DTRs	means the Disclosure Guidance and Transparency Rules made by the FCA pursuant to Part VI of FSMA;
EBITDA	means earnings before interest, tax, depreciation and amortisation;
ECP or **ECP Division**	means the Engineered Components & Products Division of the Sparton Group;
Enhanced Acquisition Proposal . .	has the meaning given in paragraph 1.7 (*Termination fees*) of Part III (*Summary of the Merger Agreement*);
ERAPSCO	means the Indiana general partnership between USSI and SDS, governed by the terms of the ERAPSCO JVA;
ERAPSCO JVA	means the joint venture agreement between USSI and SDS for the supply of anti-submarine warfare products, dated 31 January 2007 (as amended and restated as at 25 May 2016);
Euroclear	means Euroclear UK & Ireland Limited, a company incorporated under the laws of England and Wales;
FCA or **Financial Conduct Authority**	means the UK Financial Conduct Authority;
Form of Proxy	means the form of proxy for use by Ultra Shareholders at the Ultra General Meeting, which accompanies this Circular;
FSMA	means the Financial Services and Markets Act 2000;
Governmental Entity	means any government or political subdivision, whether federal, state, local, non-U.S. or supranational, or any agency, authority, department, official or instrumentality of any such government or political subdivision, or any federal, state, local, non-U.S. or supranational court or tribunal, body, board or any other entity exercising executive, legislative, regulatory (including a stock exchange), judicial, military, regulatory or administrative functions of or pertaining to government, including public international organizations (e.g., the North Atlantic Treaty Organization and the United Nations);
Guggenheim Securities	means Guggenheim Securities, LLC;
HSR Act	means the Hart–Scott–Rodino Antitrust Improvements Act;
IDIQ	means indefinite delivery indefinite quantity;
Investec	means Investec Bank plc;

ITAR . . . . means the US Department of State's International Traffic in Arms Regulations;

Last Practicable Date . . . . 8 August 2017 (being the latest practicable date prior to the publication of this Circular);

Leverage Covenants . . . . has the meaning given in the risk factor headed "*The Sparton Group may default under its existing credit facility agreement prior to Completion*" in Part B (*Material New Risks to the Ultra Group or the Sparton Group as a Result of the Acquisition*) in Part II (*Risk Factors*);

LIBOR . . . . means the London Interbank Offered Rate;

Listing Rules . . . . means the rules and regulations made by the Financial Conduct Authority in its capacity as the UKLA under FSMA, and contained in the UKLA's publication of the same name;

Lloyds . . . . means Lloyds Bank plc;

LSE or **London Stock Exchange** . means London Stock Exchange plc;

MDS or **MDS Division** . . . . means the Manufacturing & Design Services Division of the Sparton Group;

Merger Agreement . . . . means the agreement and plan of merger dated 7 July 2017 entered into between Ultra, Ultra Aneira and Sparton;

No-Shop Restriction . . . . has the meaning given in paragraph 1.5 (*"No-Shop" provision*) of Part III (*Summary of the Merger Agreement*);

Notice of General Meeting . . . . . . means the notice of the Ultra General Meeting which is set out at the end of this Circular;

Placing . . . . means the placing of the Placing Shares by Investec for the purposes of financing the Acquisition in part, as more particularly described in paragraph 2.5 (*Equity funding through the Placing*) of Part I (*Letter from the Chairman of Ultra*);

Placing Agreement . . . . has the meaning given in paragraph 8.2 (*Placing Agreement*) of Part VIII (*Additional Information*)

Placing Shares . . . . has the meaning given in paragraph 8.2 (*Placing Agreement*) of Part VIII (*Additional Information*);

PRA or **Prudential Regulation Authority** . . . . means the UK Prudential Regulation Authority;

Prospectus Rules . . . . means the prospectus rules made by the Financial Conduct Authority pursuant to Part VI of FSMA, referred to in Section 73A(4) of FSMA and contained in the FCA's publication of the same name;

Proxy Statement . . . . means the preliminary proxy statement pursuant to Section 14(a) of the Securities Exchange Act, filed by Sparton with the SEC on 4 August 2017 in relation to the Acquisition;

RBC . . . . means RBC Europe Limited;

RBS . . . . means the Royal Bank of Scotland plc;

Registrars . . . . means Equiniti Limited of Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA;

Regulatory Information Service . . means any of the services set out in Appendix 3 of the Listing Rules;

Resolution	means the ordinary resolution to approve the Acquisition set out in the Notice of General Meeting;
RFP	means request for proposal;
SDS	means Sparton Deleon Springs, LLC, a member of the Sparton Group;
SEC	means the United States Securities and Exchange Commission;
Sparton	means Sparton Corporation, a company incorporated under the laws of Ohio;
Sparton Board	means the board of Directors of Sparton;
Sparton Credit Facility	has the meaning given in paragraph 9.3 (*2014 Credit Facility Agreement of the Sparton Group*) in Part VIII (*Additional Information*);
Sparton Directors	means the directors of Sparton;
Sparton Group	means Sparton and Sparton's subsidiaries and subsidiary undertakings;
Sparton Lenders	has the meaning given in the risk factor headed "*The Sparton Group may default under its existing credit facility agreement prior to Completion*" in Part B (*Material New Risks to the Ultra Group or the Sparton Group as a Result of the Acquisition*) in Part II (*Risk Factors*);
Sparton Shareholder	means a holder of Sparton Shares;
Sparton Shareholder Meeting	means the special meeting of Sparton Shareholders to be convened for the purposes of considering and, if thought fit, adopting the Merger Agreement;
Sparton Shares	means the shares of common stock, with a par value of US$1.25 per share, of Sparton (any such share being a "**Sparton Share**");
Sponsor	means Investec;
subsidiary	has the meaning given to that term in the Companies Act;
subsidiary undertaking	has the meaning given to that term in the Companies Act;
Superior Proposal	has the meaning given in paragraph 1.5 (*"No-Shop" provision*) of Part III (*Summary of the Merger Agreement*);
Tier 1	means a top-level platform provider;
UEC	means Ultra Electronics Canada Inc.;
UEFT	means Ultra Electronics Forensic Technology Inc.;
UEL	means Ultra Electronics Limited;
UEMS	means Ultra Electronics Maritime Systems Inc.;
UET	means Ultra Electronics TCS Inc.;
UK or **United Kingdom**	means the United Kingdom of Great Britain and Northern Ireland;
UK Listing Authority or **UKLA**	means the UK Listing Authority, being the Financial Conduct Authority acting in its capacity as the competent authority for the purposes of Part VI of FSMA;
Ultra	means Ultra Electronics Holdings plc, a company registered in England and Wales with the number 02830397 whose

	registered office is at 417 Bridport Road, Greenford, Middlesex UB6 8UA;
Ultra Aneira	means Ultra Electronics Aneira Inc., an Ohio corporation and an indirect wholly-owned subsidiary of Ultra;
Ultra Board	the board of Directors of Ultra;
Ultra Directors	the directors of Ultra at the date of this Circular;
Ultra General Meeting	means the general meeting of Ultra to be held at 417 Bridport Road, Greenford, Middlesex UB6 8UA at 10:00 a.m. on 29 August 2017 (or any adjournment thereof), notice of which is set out at the end of this Circular;
Ultra Group	means Ultra and Ultra's subsidiaries and subsidiary undertakings;
Ultra Shareholder	means a holder of Ultra Shares;
Ultra Shares	means ordinary shares with a nominal value of 5 pence each in the capital of Ultra (any such share being an "**Ultra Share**");
uncertificated or **in uncertificated form**	means in respect of a share or other security, where that share or other security is recorded on the relevant register of the share or security concerned as being held in uncertificated form in CREST and title to which may be transferred by means of CREST;
United States or **U.S.** or **US**	means the United States of America, its territories and possessions, any state of the United States of America, the District of Columbia and all other areas subject to its jurisdiction and any political sub-division thereof;
US DoD	means the United States Department of Defense; and
USSI	means UnderSea Sensor Systems, Inc.

ULTRA ELECTRONICS HOLDINGS PLC

(a public limited company incorporated in England and Wales under the Companies Act 1985 with registered number 02830397)

NOTICE OF GENERAL MEETING

NOTICE IS HEREBY GIVEN that a **GENERAL MEETING** of Ultra Electronics Holdings plc (the "**Company**") will be held at 417 Bridport Road, Greenford, Middlesex UB6 8UA at 10:00 a.m. on 29 August 2017 for the purpose of considering and, if thought fit, passing the following resolution, which will be proposed as an ordinary resolution.

ORDINARY RESOLUTION

THAT the proposed acquisition by the Company of all the outstanding shares of common stock of Sparton Corporation, on the terms and subject to the conditions of an agreement and plan of merger dated 7 July 2017 between (1) the Company, (2) Ultra Electronics Aneira Inc. and (3) Sparton Corporation (the "**Merger Agreement**"), (the "**Acquisition**"), as summarised in the circular of the Company dated 10 August 2017 of which this notice forms part (the "**Circular**"), together with all other agreements and associated and ancillary arrangements contemplated by the Merger Agreement, be and are hereby approved for the purposes of Chapter 10 of the Listing Rules of the Financial Conduct Authority, and that the directors of the Company (or any duly authorised committee thereof) be and are hereby authorised:

(1) to agree and make such modifications, amendments, variations, revisions, waivers or extensions to the terms and conditions of the Acquisition and/or the Merger Agreement and/or the agreements and associated and ancillary arrangements contemplated by the Merger Agreement (provided that such modifications, amendments, variations, revisions, waivers or extensions are not material) as they may, in their absolute discretion, think fit; and

(2) to do all such acts and things and execute all such agreements and make all such arrangements as may seem to them necessary, expedient, appropriate or desirable for the purposes of giving effect to, or otherwise in connection with, the Acquisition and/or the Merger Agreement and/or the agreements and associated ancillary arrangements contemplated by the Merger Agreement (including, without limitation, the waiver of any condition to the Merger Agreement).

By order of the Board
Sharon Harris
Company Secretary and General Counsel

Registered Office
417 Bridport Road
Greenford
Middlesex UB6 8UA

10 August 2017

NOTES TO THE NOTICE OF GENERAL MEETING

Record Date for voting

1. To be entitled to attend and vote at the General Meeting (and for the purpose of the determination by the Company of the votes they may cast), members must be registered in the register of members of the Company at 6:30 p.m. on 24 August 2017 (or, in the event of any adjournment, at 6:30 p.m. on the date which is two working days before the time of the adjourned meeting). Changes to the register of members of the Company after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the General Meeting.

Proxy voting

2. Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the General Meeting. A member may appoint more than one proxy in relation to the General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy need not be a member of the Company. A Form of Proxy which may be used to make such appointment and give proxy instructions accompanies this notice. If you do not have a Form of Proxy and believe that you should have, or if you require additional forms, please contact Equiniti Limited on 0371 384 2352. Lines are open 8.30a.m. to 5.30p.m., Monday to Friday (excluding public holidays in England and Wales). If calling from outside of the UK, please contact the Equiniti Limited overseas helpline number on +44 121 415 7047.

3. Proxies may be appointed by any one of the following methods:

(A) completing and returning the enclosed Form of Proxy in accordance with the instructions printed thereon, together with any authority under which it was executed (or a notarially certified copy of such authority);

(B) if you have registered for electronic communication, you can appoint your proxy electronically by logging onto your portfolio at www.shareview.co.uk using your usual user ID and password. Once logged in simply click "View" on the "My Investments" page, click on the link to vote then follow the on screen instructions;

(C) if you have not registered for electronic communication but wish to appoint your proxy electronically, by logging onto Equiniti's website at www.sharevote.co.uk and following the instructions provided. You will need your Voting ID, Task ID and Shareholder Reference Number, all of which are printed on your Form of Proxy; or

(D) if you are a member of CREST, by using the CREST electronic appointment service. For further details see notes 7 to 10.

4. To be valid, a completed Form of Proxy (or an electronic appointment completed in accordance with note 3(B), 3(C) or 3(D) above) must be received (in the case of a hardcopy Form of Proxy, by post or during normal business hours only, by hand) by the Company's Registrar, Equiniti Limited, at Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA, no later than 10:00 a.m. on 24 August 2017 (or 48 hours preceding the date and time of any adjourned meeting, excluding for these purposes any part of a day that is not a working day).

5. The appointment of a proxy (electronically or otherwise) will not prevent a shareholder from attending and voting in person at the General Meeting (or any adjourned meeting) if he/she wishes to do so.

6. If you submit more than one valid proxy appointment in respect of some share(s), the appointment received last before the latest time for receipt of proxies will take precedence; if the Company is unable to determine which was last validly received none of them shall be treated as valid.

Appointment of proxies through CREST

7. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the General Meeting and any adjournment thereof by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service

provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

8. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "**CREST Proxy Instruction**") must be properly authenticated in accordance with Euroclear's specifications, and must contain the information required for such instruction, as described in the CREST Manual (available via www.euroclear.com). The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by Equiniti Limited (CREST participant ID RA19) by 10:00 a.m. on 24 August 2017. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which Equiniti Limited is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, no message received through the CREST network will be accepted and any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

9. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his or her CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

10. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Joint holders

11. In the case of joint holders of shares, the vote of the senior holder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders. Seniority will be determined by the order in which the names appear in the register of members of the Company in respect of the joint holding.

Corporate representatives

12. A member which is a corporation and which wishes to be represented at the General Meeting by a person with authority to speak and vote (a "**corporate representative**") must appoint such a person by resolution of its directors or other governing body. A corporate representative has the same powers on behalf of the corporation he/she represents as that corporation could exercise if it was an individual member of the Company provided that, if the corporation appoints more than one corporate representative, the corporate representatives may not exercise powers on behalf of the corporation in respect of the same shares.

Nominated Persons

13. Any person to whom this notice is sent who is a person nominated to enjoy information rights pursuant to section 146 of the Companies Act (a "**Nominated Person**") may, under an agreement between him/her and the member by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under such agreement, have a right to give instructions to the member as to the exercise of voting rights.

14. The statements of the rights of members in relation to the appointment of proxies in notes 2 to 4 above do not apply to Nominated Persons. The rights described in these notes can only be exercised by members of the Company.

Total voting rights

15. As at the Last Practicable Date, the Company's issued share capital consisted of 77,706,030 Ordinary Shares, carrying one vote each. The Company held no shares in treasury. Therefore, the total number of voting rights in the Company as at the Last Practicable Date was 77,706,030.

Members' right to ask questions

16. Any member attending the General Meeting has the right to ask questions. Please follow instruction from the Chairman during the General Meeting. The Company must cause to be answered any such question relating to the business being dealt with at the General Meeting, but no such answer need be given if: (a) to do so would interfere unduly with the preparation for the General Meeting or involve the disclosure of confidential information; (b) the answer has already been given on a website in the form of an answer to a question or (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

Information available on website

17. A copy of this document, and other information required by s311A of the Companies Act, can be found on the Company's website www.ultra-electronics.com.

Emails

18. You may not use any electronic address provided either in this notice of General Meeting or any related document (including any Form of Proxy) to communicate with the Company for any purposes other than those expressly stated.

Documents available for inspection

19. The following documents will be available for inspection during normal business hours on any weekday (Saturday's, Sunday's and public holidays in England or Wales excluded) at the Company's registered office at 417 Bridport Road, Greenford, Middlesex UB6 8UA, from the date of this notice until the time of the General Meeting:

(A) copies of the Executive Directors' service contracts;

(B) copies of the letters of appointment of the Non-Executive Directors; and

(C) a copy of the Articles of Association.

Identification

20. If attending in person, you should bring with you a form of photographic identification such as a passport or photocard driving licence.

Merrill Corporation Ltd, London
17-18139-1