

November 11, 2005

To our Shareowners:

Sales for the three months ended September 30, 2005, totaled \$37,306,000. This was a decrease of \$7,882,000 (17%) from the same quarter last year, but consistent with our expectations. Government sales decreased \$1,556,000 due to timing differences related to the testing and shipment of sonobuoys. Industrial sales improved, consistent with plan. Sales in the aerospace market decreased 34% from the prior year. This decline was due to very strong sales of collision avoidance systems in 2004, which were not expected to continue at the higher levels into 2005. Medical sales declined slightly from the prior year, primarily due to delayed new program start-ups.

A pretax operating loss of \$2,302,000 was reported for the three months ended September 30, 2005, compared to pretax operating income of \$2,996,000 for the three months ended September 30, 2004. In fiscal 2006 there were charges of \$553,000 resulting from changes in estimates in the cost to complete several sonobuoy programs. These programs, which are anticipated to be completed and shipped during the remainder of this fiscal year, have a backlog of \$6 million. Also included in fiscal 2006 are the results of the Company's new Vietnam facility, which start-up adversely impacted gross margin by \$325,000. The results of our Vietnamese operations are expected to improve during the fiscal year, breaking even for fiscal 2006. The current year's margins also included several medical program start-ups which have proven to be more expensive than planned. Two of these programs had negative margins which, as of September 30, 2005, totaled \$330,000. The issues related to these contract losses are being addressed, and several should improve in future quarters. Finally, discussions with a current customer regarding the recovery of certain past costs were not completed and, as a result, \$354,000 was charged to expense during the first quarter of fiscal 2006. The Company is continuing its efforts to fully recover these costs in the second or third quarter.

The majority of the increased selling and administrative expenses, as a percentage of sales, was due to the significant decrease in sales during the first quarter of fiscal 2006, compared to the same period last year. Selling and administrative expenses in 2005 also included approximately \$226,000 of litigation expenses related to the current action against NRTC, which is now at trial. We expect a decision in the matter before the end of our second quarter. In addition, beginning this current fiscal year the Company is required to expense stock options. Stock option expense recorded in 2005, which is included in selling and administrative expense, totaled \$65,000.

SPARTON CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Operations (Unaudited)
For the Three-Month Periods ended September 30, 2005 and 2004

	Three-Month Periods	
	2005	2004
Net sales	\$37,306,118	\$45,188,315
Costs of goods sold	35,611,558	38,721,599
	<u>1,694,560</u>	<u>6,466,716</u>
Selling and administrative expenses	4,014,271	3,387,053
EPA related - net environmental remediation	(29,198)	84,000
Loss on sale of property, plant and equipment	11,156	—
	<u>3,996,229</u>	<u>3,471,053</u>
Operating income (loss)	(2,301,669)	2,995,663
Other income (expense):		
Interest and investment income	264,448	215,473
Equity income (loss) in investment	17,000	(20,000)
Other - net	109,275	358,462
	<u>390,723</u>	<u>553,935</u>
Income (loss) before income taxes	(1,910,946)	3,549,598
Provision (credit) for income taxes	(612,000)	1,136,000
Net income (loss)	<u>\$(1,298,946)</u>	<u>\$ 2,413,598</u>
Basic and diluted earnings (loss) per share	<u>\$(0.14)</u>	<u>\$0.26</u>

Notes:

1. Financial information was taken from the Company's internal records and is unaudited.

2. For the three-month periods, weighted average shares outstanding for computation of basic earnings per share were 9,290,149 in 2005 and 9,208,067 in 2004. Weighted average shares outstanding include the additional shares issued with respect to the 5% common stock dividends declared in November 2004 and October 2005. Differences in the weighted average number of shares outstanding for purposes of computing diluted earnings per share for the three months ended September 30, 2004, were due to the inclusion of the dilutive effect of employee stock options. These differences in the calculation of basic and diluted earnings per share were not material. The effect of stock options was not included in the 2005 calculation as such would have been anti-dilutive to the period net loss.

Other income-net in fiscal 2006 was \$109,000, versus \$358,000 in fiscal 2005. Translation adjustments, along with gains and losses from foreign currency transactions, are included in other income and, in the aggregate, amounted to a gain of \$111,000 and \$361,000 during the three months ended September 30, 2005 and 2004, respectively.

The Company reported a net loss of \$1,299,000 ((\$0.14) per share, basic and diluted) for the three months ended September 30, 2005, versus net income of \$2,414,000 (\$0.26 per share, basic and diluted) for the corresponding period last year. At September 30, 2005, the Company had \$95,206,000 in shareowners' equity (\$10.19 per share), \$73,835,000 in working capital, and a 4.93:1.00 working capital ratio. For the foreseeable future (12-18 months), the Company believes it has sufficient liquidity for its anticipated cash needs, unless a significant business acquisition is identified and completed for cash.

The Company has had no short-term debt since December 1996, and currently has an unused informal line of credit totaling \$20 million from one bank. The Board of Directors at their August 26, 2005, meeting reviewed the financial results for fiscal 2005. Based upon those results, and the Company's continued financial strength, the Board approved the payment of a \$.10 per share cash dividend to shareowners of record on September 14, 2005. The cash dividend was paid on October 5, 2005. The Board will review the Company's financial results and condition each year and consider the payment of a cash dividend at that time. In addition, at the Annual Meeting of Shareowners, the Company announced a 5% stock dividend to be distributed in January of 2006.

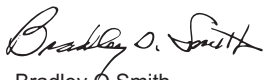
As of October 31, 2005, the Company has purchased 11,137 shares of Sparton stock in accordance with the stock repurchase program announced on August 29, 2005.

Purchases will be made on the open market over the next 24 months, with up to \$4,000,000 of shares to be repurchased.

Sparton continuously reviews its activities in order to remain in compliance with the new corporate governance rules enacted by the Securities and Exchange Commission, the New York Stock Exchange (NYSE), and the Sarbanes-Oxley Act, and at this time is fully compliant in all matters.

Your continued interest and support of Sparton and its goals are appreciated. Please visit our website at www.sparton.com for timely information on your Company.

Cordially,



Bradley O. Smith
Chairman



David W. Hockenbrocht
Chief Executive Officer and
President

Annual Shareowners' Meeting

Chairman Bradley O. Smith called the Annual Meeting of Shareowners of Sparton Corporation to order at 10:00 a.m. on Wednesday, October 26, 2005, at the Holiday Inn in Jackson, Michigan. Three directors, Richard J. Johns, M.D., Richard L. Langley, and William I. Noecker, were each re-elected to three-year terms expiring in 2008.

Chief Executive Officer and President David W. Hockenbrocht commented on the Company's progress and the continuing development of its Electronics Manufacturing Service businesses. Mr. Hockenbrocht also announced fiscal 2006 first quarter's financial results.

Also announced was that the Board of Directors, at its meeting on October 25, 2005, approved a 5% stock dividend. Eligible shareowners of record on December 21, 2005, will receive the stock dividend. The dividend distribution or payment date was established as January 13, 2006. Cash will be paid in lieu of fractional shares of stock. Mr. Hockenbrocht stated that this represents the fourth such distribution in the last several years as a way to reward shareowners, as well as demonstrate Sparton's commitment to the enhancement of shareowner value and to increase the liquidity of Sparton Stock.

Mr. Hockenbrocht then answered questions and adjourned the meeting.

This Shareowners' letter contains certain forward-looking statements within the scope of the Securities Act of 1933 and the Securities Exchange Act of 1934. The words "expect", "believe", "anticipate", and similar expressions, and the negatives of such expressions, are intended to identify forward-looking statements. Although the Company believes that these statements are based upon reasonable assumptions, such statements involve risks, uncertainties, and assumptions, including but not limited to industry and economic conditions, customer actions, and other factors discussed in the Company's Form 10-Q for the quarter ended September 30, 2005, and its other filings with the Securities and Exchange Commission. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual outcomes may vary materially from those indicated.

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SPARTON
CORPORATION

2005
First Quarter Report
Three Months Ended
September 30, 2005

