

February 14, 2007

To Our Shareowners:

Sales for the three months ended December 31, 2006, totaled \$53,056,000, an increase of \$15,363,000 (40.8%) from the same quarter last year. Sales for the six months ended December 31, 2006, totaled \$101,373,000, an increase of \$26,374,000 (35.7%) from the same period last year. Medical/scientific instrumentation sales increased significantly for both periods compared to the prior year. This increase in sales was due to the inclusion of the Company's newest subsidiary, Sparton Medical Systems Inc. (SMS), formerly known as Astro Instrumentation Inc. Aerospace sales were also greater than the prior year for both periods. Additional aerospace sales were primarily due to increased sales to two existing customers. Industrial sales for both periods of fiscal 2007 were also higher than the prior year, primarily from one new customer. These additional industrial sales levels are expected to continue for the foreseeable future. Government sales were below the prior year for both periods, as redesign and rework of existing sonobuoys was incurred to address issues from failed drop tests which occurred during the first quarter of fiscal 2007.

The majority of the Company's sales come from a small number of key strategic and large OEM customers. Sales to the six largest customers, including government sales, accounted for approximately 73% and 76% of net sales for the first six months of fiscal 2007 and 2006, respectively. Four of the customers, including government, were the same both years. An industrial customer accounted for 12% and 21% of total sales. Additionally, an aerospace customer, with several facilities to which we supply product, provided 17% and 18% of total sales for the six months ended December 31, 2006 and 2005, respectively. A key medical device customer of SMS contributed 20% of total sales during the six months ended December 31, 2006.

An operating loss of \$831,000 was reported for the three months ended December 31, 2006, compared to an operating loss of \$3,000 for the three months ended December 31, 2005. An operating loss of \$4,339,000 was reported for the six months ended December 31, 2006, compared to an operating loss of \$2,418,000 for the six months ended December 31, 2005. The gross profit percentage for the three months and six months ended December 31, 2006

SPARTON CORPORATION AND SUBSIDIARIES				
Condensed Consolidated Statements of Operations (Unaudited)				
For the Three-Month and Six-Month Periods ended December 31, 2006 and 2005				
	Three-Month Periods Ended December 31		Six-Month Periods Ended December 31	
	2006	2005	2006	2005
Net sales	\$53,056,457	\$37,693,154	\$101,373,228	\$74,999,272
Costs of goods sold	49,587,268	33,852,764	97,163,273	69,578,214
Gross profit	3,469,189	3,840,390	4,209,955	5,421,058
Selling and administrative expenses	4,393,064	3,749,626	8,714,296	7,763,897
Other operating (income) expense - net	(92,543)	93,435	(165,217)	75,393
	<u>4,300,521</u>	<u>3,843,061</u>	<u>8,549,079</u>	<u>7,839,290</u>
Operating loss	(831,332)	(2,671)	(4,339,124)	(2,418,232)
Other income (expense):				
Interest and investment income (loss)	(79,904)	263,379	71,027	527,827
Interest expense	(290,723)	-	(587,722)	-
Equity loss in investment	(19,000)	(18,000)	(7,000)	(1,000)
Other - net	(278,622)	54,097	(259,905)	277,264
	<u>(668,249)</u>	<u>299,476</u>	<u>(783,600)</u>	<u>804,091</u>
Income (loss) before income taxes	(1,499,581)	296,805	(5,122,724)	(1,614,141)
Provision (credit) for income taxes	(122,000)	95,000	(1,281,000)	(517,000)
Net Income (loss)	<u>\$ (1,377,581)</u>	<u>\$ 201,805</u>	<u>\$ (3,841,724)</u>	<u>\$ (1,097,141)</u>
Basic and diluted earnings (loss) per share	<u>\$(0.14)</u>	<u>\$0.02</u>	<u>\$(0.39)</u>	<u>\$(0.11)</u>

Notes:

- Financial information was taken from the Company's internal records and is unaudited.
- For the three-month and six month periods, weighted average shares outstanding were 9,834,019 and 9,842,970 and 9,878,860 and 9,785,226 in 2006 and 2005, respectively. Weighted average shares outstanding include the additional shares to be issued with respect to the 5% common stock dividend declared in October 2006. Differences in the basic and diluted weighted average number of shares outstanding for purposes of computing the diluted earnings per share for the three months ended December 31, 2005 were due to the inclusion of the dilutive effect of stock options. The difference in the calculation of basic and diluted earnings per share was not material. The effect of stock options was not included in the three months ended December 31, 2006 and the six months ended December 31, 2006 and 2005 calculations as such would have been anti-dilutive to each period's net losses.
- All share and per share information have been adjusted to reflect the impact of the 5% stock dividend declared in October 2006.

was 6.5% and 4.2%, respectively, a decrease from 10.2% and 7.2% for the same periods of the prior year. Gross profit varies from period to period and can be affected by a number of factors, including product mix, production efficiencies, capacity utilization, and new product introduction, all of which impacted the current period's performance. The primary reason for the reduction in gross profit from the prior year was the impact of redesign and rework of the failed sono-

buoy drop tests. For the three months and six months ended December 31, 2006, there were approximately \$5.5 million and \$9.3 million, respectively, of sonobuoy sales with no or minimal margin. Reflected in gross profit for the six months ended December 31, 2006 and 2005 were charges of \$1.9 million and \$0.7 million, respectively, resulting from changes in estimates, primarily related to design and production issues on certain sonobuoy programs. The programs

are loss contracts and the Company recognized the entire estimated losses as of December 31, 2006 and 2005. With the additional rework, government sales and related margins for the remainder of fiscal 2007 will be negatively impacted. Since September 2006, all sonobuoy lots presented have been accepted and while the Company's margins continue to be affected by the loss contracts, as described above, the sonobuoys related to these loss contracts are expected to be completed and shipped by May 2007. As of December 31, 2006, the backlog of government contracts with no or minimal margins was approximately \$26.4 million. Gross margin was further adversely impacted from the prior year by reduced margins on sales to one aerospace customer, resulting in approximately \$275,000 and \$690,000 of lower gross profit for the three months and six months ended December 31, 2006, respectively. The related issues are being addressed and, if successful, margins for this customer are expected to return to more normal levels. Included in our results for the three months and six months ended December 31, 2006 and 2005 were results from the Company's Vietnam facility, the start-up of which has negatively impacted gross profit by \$364,000 and \$362,000, and by \$685,000 and \$686,000, respectively. The results of our Vietnamese operation are expected to improve during the current fiscal year, possibly achieving breakeven levels on a monthly basis during fiscal 2008, or before, depending on the timing of several new program start-ups there.

The increase in selling and administrative expenses primarily relates to the inclusion of costs related to SMS, as well as minor increases in various categories, such as wages, employee benefits, insurance, and other items. Included in Other operating income (expense)-net is a \$225,000 insurance settlement received in October 2006. This settlement was a recovery of a portion of past costs incurred for environmental remediation at the Company's Coors Road facility. Other operating income (expense)-net for the three months and six months ended December 31, 2006, respectively, also included \$120,000 and \$242,000 of amortization expense related to the purchase of Astro Instrumentation, LLC (Astro). Interest expense, included in Other income (expense), of \$291,000 and \$588,000 for three months and six months ended December 31, 2006, respectively, is a result of the debt incurred and assumed as part of the acquisition of Astro.

Finally, Other income (expense)-net included ex-

pense for the three months and six months ended December 31, 2006 of \$279,000 and \$260,000, respectively, compared to income of \$54,000 and \$277,000 for the same periods in the prior year due to translation adjustments, along with gains and losses from foreign currency transactions.

The effective tax rate utilized to calculate the applicable tax provision (credit) requires management to make certain estimates, judgments, and assumptions. As a result of the change in fiscal 2007's estimated effective tax rate from the first quarter's 32% to the year-to-date period's 25%, approximately \$253,000 of reduced tax benefit was recognized in the quarter ended December 31, 2006, that related to the previous three months ended September 30, 2006.

Due to the factors described above, the Company reported a net loss of \$1,378,000 (\$0.14 per share, basic and diluted) and \$3,842,000 (\$0.39 per share, basic and diluted) for the three months and six months ended December 31, 2006, respectively. This compares with net income of \$202,000 (\$0.02 per share, basic and diluted) and a net loss of \$1,097,000 (\$0.11 per share, basic and diluted) for the same periods ended December 31, 2005.

The primary uses of cash in fiscal 2007 to date has been the purchase of property, plant and equipment, principally for the current plant expansion at SMS, payment of debt related to this acquisition, as well as the funding of the Company's current operational loss. In addition, the Company's previously announced \$4,000,000 stock repurchase program, as expected, has utilized a portion of the Company's investments. Cumulatively through December 31, 2006, approximately 331,781 shares, at a cost of approximately \$2,886,000, have been repurchased. The Company currently has an unused informal line of credit totaling \$20.0 million and a bank loan totaling \$9.0 million as of December 31, 2006. In addition, there are notes payable totaling \$6.7 million as of December 31, 2006, outstanding to the former owners of Astro, as well as \$2.3 million of industrial revenue bonds assumed as part of the acquisition.

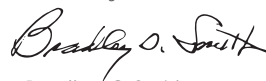
In May 2006, Sparton completed the acquisition of Astro, now named Sparton Medical Systems, Inc. (SMS). SMS is an EMS provider that designs and manufactures a variety of specialized medical devices, generally involving high-quality medical laboratory test equipment. SMS, located in Strongsville, Ohio,

now operates from a 60,000 square foot facility in an industrial park, which includes the addition of 20,000 square feet to the facility undertaken over the last several months and now substantially complete. We believe the expanded manufacturing area will allow for increased sales and greater efficiency.

At December 31 and June 30, 2006, the aggregate government funded EMS backlog was approximately \$33 million and \$41 million, respectively. A majority of the December 31, 2006, backlog is expected to be realized over the next 12-15 months. In addition, Sparton has been awarded a contract for the manufacture of sonobuoys for the United States Navy. The contract is valued at approximately \$13.8 Million. This contract will be for the production the Company's AN/SSQ-53F sonobuoy, which will occur in Sparton's DeLeon Springs, Florida facility. The new contract for \$13.8 million is not included in the above backlog of \$33 million. An additional governmental contract is anticipated to be awarded in February or March 2007.

On October 25, 2006, the Company declared another 5% stock dividend which was distributed January 19, 2007, to shareowners of record on December 27, 2006. At December 31, 2006, the Company had \$92,460,000 in shareowners' equity (\$9.44 per share), \$61,708,000 in working capital, and a 3.11:1.00 working capital ratio.

Cordially,



Bradley O. Smith
Chairman



David W. Hockenbrocht
Chief Executive Officer and
President

This shareowners' letter contains forward-looking statements within the scope of the Securities Act of 1933 and the Securities Exchange Act of 1934. The words "expects," "anticipates," and "believes," 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 December 31, 2006, 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



Second Quarter Report
Six Months Ended
December 31, 2006