

SPARTON CORP
Form 8-K
September 13, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): September 7, 2018

SPARTON CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Ohio
(State or other jurisdiction
of incorporation)

1-1000
(Commission File Number)

38-1054690
(IRS Employer
Identification No.)

425 N. Martingale Road

Suite 1000

Schaumburg, Illinois
(Address of Principal Executive Offices)

60173-2213
(Zip Code)

Registrant's telephone number, including area code: (800) 772-7866

N/A

(Former Name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter)

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards pursuant to Section 13(a) of the Exchange Act.

Item 4.02 Non-Reliance on Previously Issued Financial Statements or a Related Audit Report or Completed Interim Review.

On September 7, 2018, the audit committee of the board of directors (the Audit Committee) and management of Sparton Corporation (Sparton or the Company), after discussions with BDO USA, LLP (BDO), the Company's independent registered public accounting firm, concluded that the consolidated financial statements for the quarterly periods ended October 1, 2017, December 31, 2017, and April 1, 2018 (the Restated Quarters) which were issued in the Company's previously filed Quarterly Reports on Forms 10-Q for such periods should no longer be relied upon and will be restated.

The restatement of the Company's consolidated financial statements for the Restated Quarters is set forth below in the tabular presentation. The effect of the restatement is to increase our reported gross profit and net income or reduced net loss for the Restated Quarters. The restatement arose as a result of the implementation of a new enterprise resource planning system (ERP system) at our DeLeon Springs, FL location at the beginning of fiscal 2018. The new ERP system was implemented, in large part, to address the needs of the U.S. Navy, the Defense Contract Management Agency (DCMA) and the Defense Contract Audit Agency (DCAA) in our reporting and management of our government contracts. To meet these needs, the ERP system capitalized certain allowable general and administrative expenses to inventory in accordance with Defense Federal Acquisition Regulations (DFARs). In order to properly account for these expenses under generally accepted accounting principles, the Company, during its monthly financial close process, reversed these capitalized expenses as an adjustment in our consolidation and financial reporting tool. As this reversal entry was reflected in our consolidation and financial reporting tool but not in the ERP system, the Company did not properly account for cost of goods sold when inventory was shipped, resulting in an understatement of inventory and a corresponding overstatement of cost of goods sold. We believe this is an isolated matter as this was the only adjustment to the consolidation and financial reporting tool that was not also recorded in the ERP systems of the operating entities (other than reclassification entries for reporting purposes) during the Restated Quarters. The correction only impacted the Company's Engineered Components & Products reportable business segment.

In connection with the restatement, the Company re-evaluated its conclusions regarding the effectiveness of the Company's disclosure controls and procedures and internal controls over financial reporting for the Restated Quarters and determined that a material weakness existed for the periods covered by the Restated Quarters. We will report this material weakness in our fiscal year 2018 Form 10-K in Item 9A, Controls and Procedures Management Report on Internal Control over Financial Reporting. To remediate the material weakness over the interim reporting periods, we no longer allow adjustments to be made in our consolidation and financial reporting tool (other than reclassification entries for reporting purposes) that are not also reflected in the ERP systems of the operating entities. In addition, we will increase our quarterly oversight of our consolidation and financial reporting tool. We believe that the additional controls over our interim reporting periods will mitigate this matter.

The effects of this error on our previously reported fiscal year 2018 quarterly statements of operations are as follows:

| | Originally Reported | | | Adjustments | | | Restated | | |
|----------------------------|---------------------|-----------|-----------|-------------|---------|---------|-----------|-----------|-----------|
| | Q1 | Q2 | Q3 | Q1 | Q2 | Q3 | Q1 | Q2 | Q3 |
| Net sales | \$ 82,763 | \$ 97,819 | \$ 93,938 | \$ | \$ | \$ | \$ 82,763 | \$ 97,819 | \$ 93,938 |
| Cost of goods sold | 68,175 | 77,390 | 76,262 | (1,336) | (1,320) | (2,051) | 66,839 | 76,070 | 74,211 |
| Gross profit | 14,588 | 20,429 | 17,676 | 1,336 | 1,320 | 2,051 | 15,924 | 21,749 | 19,727 |
| Operating expense: | | | | | | | | | |
| Selling and administrative | 15,205 | 14,074 | 13,253 | | | | 15,205 | 14,074 | 13,253 |

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|-----------------------------------|------------|------------|---------|--------|--------|----------|------------|------------|----------|
| Internal research & development | 572 | 669 | 307 | | | | 572 | 669 | 307 |
| Amortization of intangible assets | 1,923 | 1,893 | 1,802 | | | | 1,923 | 1,893 | 1,802 |
| Total operating expense | 17,700 | 16,636 | 15,362 | | | | 17,700 | 16,636 | 15,362 |
| Operating income (loss) | (3,112) | 3,793 | 2,314 | 1,336 | 1,320 | 2,051 | (1,776) | 5,113 | 4,365 |
| Other expense: | (1,276) | (1,494) | (1,460) | | | | (1,276) | (1,494) | (1,460) |
| Income (loss) before income taxes | (4,388) | 2,299 | 854 | 1,336 | 1,320 | 2,051 | (3,052) | 3,619 | 2,905 |
| Income taxes | (1,536) | 11,333 | 239 | 468 | 370 | 574 | (1,068) | 11,703 | 813 |
| Net income (loss) | \$ (2,852) | \$ (9,034) | \$ 615 | \$ 868 | \$ 950 | \$ 1,477 | \$ (1,984) | \$ (8,084) | \$ 2,092 |
| EPS | \$ (0.29) | \$ (0.92) | \$ 0.06 | | | | \$ (0.20) | \$ (0.82) | \$ 0.21 |

The effects of this error on our previously reported fiscal year 2018 quarterly statements of operations on a year-to-date basis are as follows:

| | Originally Reported | | | Adjustments | | | Restated | | |
|-----------------------------------|---------------------|-------------|-------------|-------------|----------|----------|------------|-------------|------------|
| | YTD Q1 | YTD Q2 | YTD Q3 | YTD Q1 | YTD Q2 | YTD Q3 | YTD Q1 | YTD Q2 | YTD Q3 |
| Net sales | \$ 82,763 | \$ 180,582 | \$ 274,520 | \$ | \$ | \$ | \$ 82,763 | \$ 180,582 | \$ 274,520 |
| Cost of goods sold | 68,175 | 145,565 | 221,827 | (1,336) | (2,656) | (4,707) | 66,839 | 142,909 | 217,120 |
| Gross profit | 14,588 | 35,017 | 52,693 | 1,336 | 2,656 | 4,707 | 15,924 | 37,673 | 57,400 |
| Operating expense: | | | | | | | | | |
| Selling and administrative | 15,205 | 29,279 | 42,532 | | | | 15,205 | 29,279 | 42,532 |
| Internal research & development | 572 | 1,241 | 1,548 | | | | 572 | 1,241 | 1,548 |
| Amortization of intangible assets | 1,923 | 3,816 | 5,618 | | | | 1,923 | 3,816 | 5,618 |
| Total operating expense | 17,700 | 34,336 | 49,698 | | | | 17,700 | 34,336 | 49,698 |
| Operating income (loss) | (3,112) | 681 | 2,995 | 1,336 | 2,656 | 4,707 | (1,776) | 3,337 | 7,702 |
| Other expense: | (1,276) | (2,770) | (4,230) | | | | (1,276) | (2,770) | (4,230) |
| Income (loss) before income taxes | (4,388) | (2,089) | (1,235) | 1,336 | 2,656 | 4,707 | (3,052) | 567 | 3,472 |
| Income taxes | (1,536) | 9,797 | 10,036 | 468 | 838 | 1,412 | (1,068) | 10,635 | 11,448 |
| Net income (loss) | \$ (2,852) | \$ (11,886) | \$ (11,271) | \$ 868 | \$ 1,818 | \$ 3,295 | \$ (1,984) | \$ (10,068) | \$ (7,976) |
| EPS | \$ (0.29) | \$ (1.21) | \$ (1.15) | | | | \$ (0.20) | \$ (1.02) | \$ (0.81) |

The effects of this error on our previously reported fiscal year 2018 quarterly balance sheets are as follows:

| | Originally Reported | | | Adjustments | | | Restated | | |
|---------------------------|---------------------|----------|--------|-------------|----|----|----------|----------|--------|
| | Q1 | Q2 | Q3 | Q1 | Q2 | Q3 | Q1 | Q2 | Q3 |
| Assets | | | | | | | | | |
| Cash and cash equivalents | \$ 319 | \$ 1,104 | \$ 792 | \$ | \$ | \$ | \$ 319 | \$ 1,104 | \$ 792 |

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| | | | | | | | | | |
|----------------------------------|---------|---------|---------|----------|----------|----------|---------|---------|---------|
| Accounts receivable | 53,933 | 54,466 | 65,730 | | | | 53,933 | 54,466 | 65,730 |
| Inventory | 68,646 | 62,767 | 65,448 | 1,336 | 2,656 | 4,707 | 69,982 | 65,423 | 70,155 |
| Prepays and other current assets | 4,443 | 4,177 | 3,639 | | | | 4,443 | 4,177 | 3,639 |
| Total current assets | 127,341 | 122,514 | 135,609 | 1,336 | 2,656 | 4,707 | 128,677 | 125,170 | 140,316 |
| Property, plant and equipment | 33,374 | 34,484 | 33,760 | | | | 33,374 | 34,484 | 33,760 |
| Goodwill | 12,663 | 12,663 | 12,663 | | | | 12,663 | 12,663 | 12,663 |
| Other intangible assets | 26,522 | 24,629 | 22,827 | | | | 26,522 | 24,629 | 22,827 |
| Deferred income taxes | 24,874 | 14,771 | 14,760 | | | | 24,874 | 14,771 | 14,760 |
| Other non-current assets | 5,670 | 5,177 | 4,988 | | | | 5,670 | 5,177 | 4,988 |
| Total assets | 230,444 | 214,238 | 224,607 | \$ 1,336 | \$ 2,656 | \$ 4,707 | 231,780 | 216,894 | 229,314 |

Liabilities and Shareholders Equity

| | | | | | | | | | |
|--------------------------------------|-----------|-----------|-----------|-----|-------|-------|-----------|-----------|-----------|
| Accounts payable | \$ 30,278 | \$ 38,210 | \$ 28,401 | \$ | \$ | | \$ 30,278 | \$ 38,210 | \$ 28,401 |
| Accrued liabilities | 8,802 | 10,417 | 10,869 | | | | 8,802 | 10,417 | 10,869 |
| Other current liabilities | 8,228 | 10,390 | 11,730 | 468 | 838 | 1,412 | 8,697 | 11,228 | 13,142 |
| Total current liabilities | 47,308 | 59,017 | 51,000 | 468 | 838 | 1,412 | 47,777 | 59,855 | 52,412 |
| Credit facility | 97,600 | 78,900 | 96,800 | | | | 97,600 | 78,900 | 96,800 |
| Other long-term liabilities | 6,273 | 6,060 | 5,896 | | | | 6,273 | 6,060 | 5,896 |
| Total liabilities | 151,181 | 143,977 | 153,696 | 468 | 838 | 1,412 | 151,650 | 144,815 | 155,108 |
| Common Stock | 30,388 | 30,399 | 30,405 | | | | 30,388 | 30,399 | 30,405 |
| Retained earnings | 50,116 | 41,081 | 41,696 | 868 | 1,818 | 3,295 | 50,983 | 42,899 | 44,991 |
| Accumulated other comprehensive loss | (1,241) | (1,219) | (1,190) | | | | (1,241) | (1,219) | (1,190) |
| Total shareholders equity | 79,263 | 70,261 | 70,911 | 868 | 1,818 | 3,295 | 80,130 | 72,079 | 74,206 |

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| | | | | | | | | | |
|---|---------|---------|---------|----------|----------|----------|---------|---------|---------|
| Total liabilities and shareholders equity | 230,444 | 214,238 | 224,607 | \$ 1,336 | \$ 2,656 | \$ 4,707 | 231,780 | 216,894 | 229,314 |
|---|---------|---------|---------|----------|----------|----------|---------|---------|---------|

The Company intends to file, as soon as practicable, financial information for the Restated Fiscal 2018 Quarters through amendments to the previously filed fiscal year 2018 Quarterly Reports on Forms 10-Qs.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

SPARTON CORPORATION

Dated: September 13, 2018

By: /s/ Joseph J. Hartnett
Joseph J. Hartnett, Interim President
and Chief Executive Officer