



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
REGION 6
1445 ROSS AVENUE, SUITE 1200
DALLAS, TX 75202-2733

James
Carl

August 16, 2000

CERTIFIED MAIL - RETURN RECEIPT REQUESTED 7000 0520 0022 2563 0732

Mr. Tony Hurst, P.E.
Hurst Engineering Services
153 Camino de Sabinal
P.O. Box 220
Bosque, NM 87006



RE: Financial Assurance
EPA/NMED Comments
Sparton Technology, Inc., Consent Decree
Civil Action No. CIV 97 0206 LH/JHG

Dear Mr. Hurst:

The United States Environmental Protection Agency ("EPA") and the New Mexico Environment Department ("NMED"), have received the Financial Assurance documents submitted by Sparton Technology, Inc. ("Sparton") on July 12, 2000, pursuant to Section XXIV, Paragraph 90, of the March 3, 2000 Consent Decree. EPA and NMED reviewed the Financial Assurance documents to determine if they fulfill the requirements of the Consent Decree and Title 40 of the Code of Federal Regulations, Section 264.145(f).

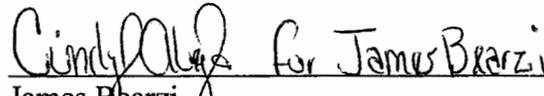
The Financial Assurance documents satisfies the majority of the Financial Assurance requirements of the Consent Decree; however, enclosed are a few comments that must be addressed to the satisfaction of EPA and NMED prior to approval. Pursuant to Section X, Paragraph 30a, Sparton has forty-five days to address these comments and resubmit the revised Financial Assurance documents for approval. If you have any questions, please contact Michael A. Hebert (EPA) at 214-665-8315 or James Bearzi (NMED) at 505-827-1567.

EPA/NMED Financial Assurance comments
on July 12, 2000, Sparton submittal

Albuquerque v. Sparton Technology, Inc.
No. CV 97 0206 (D.N.M.)



Michael A. Hebert
Project Coordinator
U.S. EPA Region 6



James Bearzi
Project Coordinator
New Mexico Environment Department

Enclosure - EPA/NMED Financial Assurance comments

cc: Secretary - Sparton Technology, Inc.

EPA/NMED Comments
on
Submission of Financial Assurance Documents
dated July 12, 2000

1. The letter to Gregg Cooke and Peter Maggiore and the Corporate Guarantee for Corrective Action and Any Post-Closure Care are not on Sparton Corporation letterhead. Please transmit these documents on Sparton Corporation letterhead so that it is evident they are related a corporate guarantee being provided by Sparton Corporation.

2. Concerning the letter from Ernst & Young, there appear to be several inconsistencies, these being:
 - The only date on the letter is August 27, 1999, which precedes the date of the letter from Richard Langley which prompts the question of how the independent certified public accountant could have reviewed and commented on Mr. Langley's letter prior to Mr. Langley composing his letter.
 - The letter is unclear as to stating what is described in 40 CFR 264.145(f)(3)(iii)(A) and 264.145(f)(3)(iii)(B). The letter from the independent certified public accountant should clearly state what is contained in the above regulations.
 - The letter as stands refers to the letter dated July 13, 2000, signed by Richard Langley and Mr. Langley's letter is clearly dated July 12, 2000. Therefore, it is unclear whether there is an additional letter from Mr. Langley dated July 13, 2000 that was not submitted as part of the financial assurance package or whether this was a typographical error.

These discrepancies should be rectified and a corrected letter from the independent certified public accountant pursuant to 40 CFR 264.145(f)(3)(iii)(A) and 264.145(f)(3)(iii)(B) should be submitted.

3. According to Sparton Corporation's Securities and Exchange Commission (SEC) 10-Q report for the period ending March 31, 2000, for the Sparton facility located in Albuquerque, New Mexico, Sparton Corporation reports that "...Sparton has an accrual of \$9,417,000 as its estimate of the future undiscounted minimum financial liability for remediation." A copy of the relevant page from the SEC 10-Q report is enclosed for Sparton's information. In Sparton's March 31, 2000, and July 12, 2000, financial assurance submittals to EPA and NMED, Sparton's estimate for remedial activities is \$4,623,910. There is an apparent discrepancy between these two estimates which are both for the remedial activities described within the March 3, 2000, Consent Decree. Sparton should provide an explanation of why these two cost estimates are different, or

revise the financial assurance documentation accordingly to provide additional financial assurance to EPA and NMED for the \$9,417,000 amount.

Sparton SEC 10-Q Report
for period ending March 31, 2000
page 7

Shareowners' equity includes accumulated other comprehensive losses of \$109,000 and \$71,000 at March 31, 2000, and June 30, 1999, respectively, which relate to unrealized losses on investments.

5. Cash and cash equivalents consist of demand deposits and other highly liquid investments with an original maturity date of less than three months. A large majority of the investment portfolio has an original maturity date of less than two years and a daily market exists for all the investment securities. The Company believes that the impact of fluctuations in interest rates on its investment portfolio should not have a material impact on financial position or results of operations. It is the Company's intention to use these investment securities to provide working capital and to otherwise fund the expansion of its business.

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At March 31, 2000, the Company had net unrealized losses of \$175,000. At that date, the net after-tax effect of these losses was \$109,000 and included in equity. For the nine months ended March 31, 2000 and 1999, the Company had sales of investment securities totaling \$13,923,000 and \$8,740,000, respectively. There were no purchases of investment securities for the nine months ended March 31, 2000. Gross purchases of investment securities totaled \$7,534,000 for the same period last year.

6. One of Sparton's facilities, located in Albuquerque, New Mexico, has been the subject of ongoing investigations conducted with the United States Environmental Protection Agency (EPA) under the Resource Conservation and Recovery Act (RCRA). This EPA compliance issue is related to continuing operations, but involves a largely idled facility. The investigation began in the early 1980's and involved a review of on-site and off-site environmental impacts.

On January 18, 2000, a Consent Decree was lodged with the Federal District Court in Albuquerque that resolved all disputes related to the Final Administrative Order dated February 10, 1998. As a result of the execution of the Consent Decree, the Company revised its estimate of the future minimum costs expected to be incurred, as well as the time period involved. The change in estimate resulted in a \$10,000,000 pre-tax charge to operations in December 1999.

At March 31, 2000, Sparton has an accrual of \$9,417,000 as its estimate of the future undiscounted minimum financial liability for remediation. This balance is after payment of \$1,675,000, in March, 2000, to resolve claims for damages to natural resources, civil penalties and costs, which were paid to various governmental agencies as part of the final terms of the Consent Decree. Cash expenditures for remediation activities are expected to be incurred over the next thirty years. The accrual reflects the Company's estimate of the minimum amount it will incur under the agreed upon work plans. The Company's cost estimate is based upon existing technology and excludes legal and related consulting costs. The Company's estimate includes equipment and operating costs for on-site and off-site pump and treat containment systems, a soil vapor extraction program and continued on-site and off-site monitoring and is based on existing methodology. Legal and related consulting costs are expensed as incurred.

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 affected by the