

Sparton 2002

James

SPARTON

SPARTON CORPORATION

September 16, 2002

Mr. Gregg A. Cooke
Regional Administrator
Environmental Protection Agency
Region 6
1445 Ross Avenue
Dallas, Texas 75202

SEP 2002

Mr. John D'Antonio
Secretary of New Mexico Environment Department
Harold S. Runnels Building
1190 St. Francis Drive
P.O. Drawer 26110
Santa Fe, New Mexico 87502-6110

Dear Messrs. Cooke and D'Antonio:

I am the chief financial officer of Sparton Corporation, 2400 E. Ganson Street, Jackson, Michigan 49202. This letter is in support of Sparton Corporation's use of the financial test to demonstrate financial assurance for corrective action and any post-closure care, as specified in subparts G and H of 40 C.F.R. parts 264 and 265.

1. Sparton Corporation is the owner or operator of the following facilities -for which financial assurance for closure, post-closure care, or corrective action is demonstrated through the financial test specified in subpart H of 40 C.F.R. parts 264 and 265. The current closure, post-closure care, and/or corrective action cost estimates covered by the test are shown for each facility: None.

2. Sparton Corporation guarantees, through the guarantee specified in subpart H of 40 C.F.R. parts 264 and 265, the corrective action and any post-closure care of the following facilities owned or operated by the guaranteed party. The current cost estimates for the corrective action and post-closure care so guaranteed are shown for each facility: Sparton Technology, Inc., 9621 Coors Rd., N.E., Albuquerque, New Mexico 87114: corrective action and post-closure care cost estimate = \$3,822,530. Sparton Corporation is the direct parent corporation of Sparton Technology, Inc.

3. In States where EPA is not administering the financial requirements of subpart H of 40 C.F.R. part 264 or 265, Sparton Corporation, as guarantor, is demonstrating financial assurance for the closure, post-closure care, or corrective action of the following facilities through the use of test equivalent or substantially equivalent to the financial test specified in subpart H of 40 C.F.R. parts 264 and 265. The current closure, post-closure care, and corrective action cost estimates covered by such a test are shown for each facility: Except for the Sparton Technology, Inc. facility listed under number 2 above, none.

4. Sparton Corporation is the owner or operator of the following hazardous waste management facilities for which financial assurance for closure, post-closure care, or corrective action is not demonstrated either to EPA or a State through the financial test of any other financial assurance mechanism specified in subpart H of 40 C.F.R. parts 264 and 265 or equivalent or substantially equivalent State mechanisms. The current closure, post-closure care, and corrective action cost estimates not covered by such financial assurance are shown for each facility: None.

5. Sparton Corporation is the owner or operator of the following UIC facilities for which financial assurance for plugging and abandonment is required under part 144. The current closure cost estimates as required by 40 C.F.R. 144.62 are shown for each facility: None.

Sparton Corporation is required to file a Form 10K with the Securities and Exchange Commission (SEC) for the latest fiscal year.

The fiscal year of this firm ends on June 30. The figures for the following items marked with an asterisk are derived from this firm's independently audited, year-end financial statements for the latest completed fiscal year, ended June 30, 2002.

ALTERNATIVE I

1. Sum of current corrective action and post-closure care cost estimates:

\$3,822,530

*2. Total liabilities: \$20,786,831

*3. Tangible net worth: \$81,614,416

*4. Net worth: \$81,614,417

*5. Current assets: \$84,122,013

*6. Current liabilities: \$13,411,572

*7. Net working capital: \$70,710,441

*8. The sum of net income plus depreciation, depletion, and amortization:

\$4,591,313

*9. Total assets in U.S. (required only if less than 90% of firm's assets are located in the U.S.): Not Applicable

10. Is line 3 at least \$10 million? (Yes/No) Yes

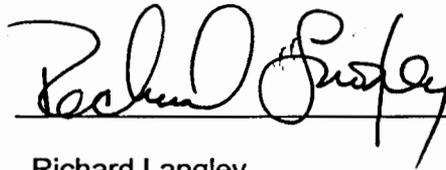
11. Is line 3 at least 6 times line 1? (Yes/No) Yes

SPARTON

12. Is line 7 at least 6 times line 1? (Yes/No) Yes
- *13. Are at least 90% of firm's assets located in the U.S.? If not, complete line 14
(Yes/No) Yes
14. Is line 9 at least 6 times line 1? (Yes/No) Not Applicable
15. Is line 2 divided by line 4 less than 2.0? (Yes/No) Yes
16. Is line 8 divided by line 2 greater than 0.1? (Yes/No) Yes
17. Is line 5 divided by line 6 greater than 1.5? (Yes/No) Yes

I hereby certify that the wording of this letter is substantially identical to the wording specified in 40 C.F.R. 264.151(f) as such regulations were constituted on the date shown immediately below, except as modified to reflect financial assurances of corrective action and except where "this firm" is replaced with "Sparton Corporation."

[Signature]



[Name]

Richard Langley

[Title]

Vice President, Chief Financial Officer, Treasurer

[Date]

September 16, 2002

To follow in separate enclosure: Sparton's 2002 Annual Report on Form 10-K.

SPARTON

SPARTON CORPORATION

Copies to:

United States Environmental Protection Agency – Region VI
Technical Section (6EN-HX)
Compliance Assurance and Enforcement Division
1445 Ross Avenue
Dallas, Texas 75202
Attn: Sparton Technology, Inc., Project Coordinator – Michael Hebert (3)

Director
Water and Waste Management Division
New Mexico Environment Department
P.O. Box 26119
Santa Fe, NM 87502-6110

✓ Chief
Hazardous and Radioactive Materials Bureau
New Mexico Environment Department
P.O. Box 26119
Santa Fe, NM 87502-6110

Chief
Groundwater Bureau
New Mexico Environment Department
P.O. Box 26119
Santa Fe, NM 87502-6110

Tony Hurst
Hurst Engineering Services
17990 Clydesdale Road
Colorado Springs, CO 80908

9/16/02

Report of Independent Accountants on Applying Agreed-Upon Procedures

Mr. Richard L. Langley
Chief Financial Officer
Sparton Corporation
2400 East Ganson Street
Jackson, Michigan 49202

We have audited, in accordance with auditing standards generally accepted in the United States, the consolidated balance sheet of Sparton Corporation and subsidiaries as of June 30, 2002 and the related consolidated statements of operations, shareowners' equity, and cash flows for the year then ended, and have issued our report thereon dated August 23, 2002 except for Note 12, as to which the date is September 5, 2002. Our opinion on the financial statements referred to above is presented in Sparton Corporation's 2002 Annual Report (Form 10-K) which is included with the letter dated September 16, 2002 and signed by Richard Langley, Chief Financial Officer of Sparton Corporation, to the Environmental Protection Agency and the New Mexico Environment Department ("the Langley Letter").

We have performed the procedures described below, which were specified by the Environmental Protection Agency and agreed to by Sparton Corporation, to the Langley Letter, solely to assist you in complying with the requirements of the State of New Mexico and the United States Environmental Protection Agency. This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

We have compared the following data included in the Langley Letter, to amounts included in or derived from the audited consolidated balance sheet of Sparton Corporation and subsidiaries as of June 30, 2002, and the related consolidated statements of operations, shareowners' equity, and cash flows for the year then ended, which we have audited and issued our report thereon as described above, and found them to be in agreement.

<u>Description</u>	<u>Balance</u>
Total liabilities	\$ 20,786,831
Tangible net worth	81,614,416
Net worth	81,614,417
Current assets	84,122,013
Current liabilities	13,411,572
Net working capital	70,710,441
Sum of net earnings plus depreciation, depletion, and amortization	4,591,313

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the Langley Letter. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of management of Sparton Corporation, the State of New Mexico, and the United States Environmental Protection Agency and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

Ernst + Young LLP

August 23, 2002

August 16, 2002

Ms. Susan Widener
Sparton Corporation
2400 East Ganson Street
Jackson, Michigan 49202

W.O. #555-004

Re: Sparton Technologies, Inc.
Albuquerque, New Mexico
Coors Road Facility Financial Assurance Estimate



Dear Ms. Widener:

Environmental Resources Management (ERM) is pleased to provide the attached estimate of financial assurance to be included in the submission by Sparton Technologies, Inc. (Sparton) to the Environmental Protection Agency (EPA) and New Mexico Environmental Department (NMED) per Section XXIV, Paragraph 90, of the March 3, 2000 Consent Decree and meets the requirements for cost estimates for closure found under 40 CFR §264.142. The attached estimate of \$3,822,530 is based on an effective value date on June 30, 2002, which is consistent with Sparton's fiscal year-end and also the RCRA regulatory requirements. This estimate is \$360,996 lower than ERM's previous estimate provided to Sparton in December 2001. Items reducing the estimate included completion of another year, for a total of 3 of the 30 years of projected time for closure operations, completion of capital expenditures for the Source Containment system, completion of the monitoring and sampling associated with the 1 year required operation of the Vadose SVE system, and discontinuing operation of a chromium treatment system. Other adjustments include reducing O&M costs for source containment and increase in electricity costs, both based on FY2002 actual costs. The modifications made as part of the update of the financial assurance estimate, are described both below and in the attached estimate as notes of the changes made. (See Attachment 1 - 27 Year Summary.)

The starting point for this update was ERM's estimate provided to Sparton in December 2001. The financial assurance estimate provided in December 2001 started with fiscal year 2002 (starting date of July 1, 2001). Mr. Tony Hurst was again contacted as part of this update and he provided information, including monthly reports, on operations of the systems at the Coors Road Facility. Labor rates and the estimate for plugging and abandoning site wells were also confirmed. The process and changes made to the estimate included the following:

- Confirmed that there are no additional capital expenditures to be included in the financial assurance estimate.
- Confirmed that chromium treatment was discontinued in FY2002 and is not expected to be restarted.
- Confirmed that soil gas samples associated with Vadose SVE were taken and no other samples or additional operation of the Vadose SVE was anticipated.
- Used for future estimated expenditures the highest monthly cost of electricity incurred during FY2002.
- Included actual cost for the lease of water rights listed under source containment.
- Reduced source containment system estimated O&M equipment and labor costs based on actual costs incurred in FY2002.

Based on the information obtained by ERM, original assumptions are still valid with respect to the end date (FY2029), expected operations and maintenance of various systems (exceptions noted above), closure (including well plugging and abandonment costs), labor rates, analysis costs, and other costs associated with evaluation and recommendations.

It has been our pleasure assisting Sparton Corporation with this matter. If you should have questions, please feel free to contact Mr. Dan Yamashiro at 281-600-1238.

Sincerely,

Environmental Resources Management



Richard C. Bost, P.E., CGWP
Principal

RCB/akm
Attachments

cc: Mr. Dan Yamashiro - Environmental Resources Management
Mr. Jason Dupres - Environmental Resources Management

27-Year Summary
Attachment 1

August 16, 2002
WO #555-004
Sparton Technologies, Inc.

Environmental Resources Management
16300 Katy Freeway, Suite 300
Houston, Texas 77049
(281) 600-1000

Sparton Technologies, Inc.
Coors Rd. Facility
Albuquerque, New Mexico
Fiscal Year 2003
27 Year Summary

Changes Notes	Material and Service Expenditures					Labor Expenditures				TOTAL TYPICAL ANNUAL COST	2003-2004	2005-2009	2010-2014	2015-2019	2020-2024	2025-2029	Totals
	Unit	No.	Cost/Unit	Contingency	Percent	Hours	Hourly Rate	Contingency	Percent		\$	\$	\$	\$	\$	\$	\$
Remaining Capital Expenditures																	
Offsite Containment I No remaining tasks											\$0	\$0	\$0	\$0	\$0	\$0	\$0
Vadose (SVE) No remaining tasks											\$0	\$0	\$0	\$0	\$0	\$0	\$0
Source Containment No remaining tasks											\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Remaining Capital Expenditure											\$0	\$0	\$0	\$0	\$0	\$0	\$0
O&M Expenditures																	
Offsite Containment II Permits / Licenses											\$107,000	\$267,500	\$267,500	\$267,500	\$0	\$0	\$909,500
Pipeline Easement	LS	1	500		0%					500	1000	2500	2500	2500	0	0	0
Arroyos Easement	LS	1	3,000		0%					3000	6000	15000	15000	15000	0	0	0
Influent/Effluent Sampling	Month	12	315	420	11%					4200	8400	21000	21000	21000	0	0	0
O&M - Equipment (a)	Month	12	1,000	1200	10%					13200	26400	66000	66000	66000	0	0	0
O&M - Labor (b)						156	45	780	11%	7800	15600	39000	39000	39000	0	0	0
Ground water monitoring - see below											0	0	0	0	0	0	0
Vadose (SVE) Monitoring											\$0	\$0	\$0	\$0	\$0	\$0	\$0
Source Containment											\$80,280	\$150,100	\$150,100	\$150,100	\$150,100	\$150,100	\$810,760
Influent/Effluent Sampling	Month	12	315	420	11%					4200	8400	21000	21000	21000	21000	21000	21000
O&M - Equipment (a)	Month	12	1,000	1200	10%					9900	19800	49500	49500	49500	49500	49500	49500
O&M - Labor (b)						117	45	585	11%	5850	11700	29250	29250	29250	29250	29250	29250
Evaluation, Analysis & Recommendation Quality Check (c)						5	60	60	20%	360	1800	1800	1800	1800	1800	1800	1800
Aquifer Model (ERM Estimate) (d)						520	75	4200	11%	43200	52200	29400	6000	6000	6000	6000	6000
Annual Reports Incl. Perf. & AR Eval. (e)						50	60	600	20%	3600	7200	18000	18000	18000	18000	18000	18000
Ground Water Monitoring and Sampling Data Collection and Sampling (f)						255	45	1275	11%	12750	25500	63750	63750	63750	63750	63750	63750
Sampling Equipment (g)	Sample	93	14	148	11%					1450	2900	7250	7250	7250	7250	7250	7250
Analysis (Lab Costs) (h)	Sample	93	270	2790	11%					27900	55800	139500	139500	139500	139500	139500	139500
QA/QC and Data Analysis (i)						26	75	300	15%	2250	4500	11250	11250	11250	11250	11250	11250
Analysis of Additional Modeling Information (j)						180	75	1500	11%	15000	15000	0	0	0	0	0	0
Closure											\$0	\$0	\$0	\$0	\$0	\$84,100	\$84,100
Plug and Abandon 63 wells	Well	63	1,200	11500	15%					87100						87100	87100
Remove Piping (LS)			1,600	600	33%					2,000						2000	2000
Closure Certification Report (k)						60	75	500	11%	5000	0	0	0	0	0	5000	5000
Soil Sampling at Infiltration Galleries (l)																	
Project Management Management (m)						170	75	900	7%	13650	\$21,600	\$43,200	\$108,000	\$108,000	\$108,000	\$108,000	\$983,200
Data Tabulation (n)						25	75	110	6%	1985	27300	3970	68250	68250	68250	68250	68250
Monthly Reporting (o)						25	75	110	6%	1985	3970	9925	9925	9925	9925	9925	9925
Annual Reporting (p)						50	75	230	6%	3980	7960	19900	19900	19900	19900	19900	19900
Total O&M Expenditure											\$374,280	\$796,550	\$773,150	\$773,150	\$505,650	\$599,750	\$3,822,530
Summary																	
Total Remaining Capital Expenditure											\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total O&M Expenditure											\$374,280	\$796,550	\$773,150	\$773,150	\$505,650	\$599,750	\$3,822,530
TOTAL											\$374,280	\$796,550	\$773,150	\$773,150	\$505,650	\$599,750	\$3,822,530 (q)

Review of Financial Assurance Test

(financial numbers as of 6/30/02)

Criteria**Met Criteria?**

*

Liabilities to Net worth less than 2

Liabilities	Net Worth			
\$20,786,831 to	\$81,614,417 equals	0.25		Yes

+

Current Assets to Current Liabilities greater than 1.5

Curr. Asset	Curr. Liability			
\$84,122,013 to	\$13,411,572 equals	6.27		Yes

Working Capital and Net worth greater than 6 time remediation liability (6 x \$3,822,530 = \$22,935,180)

Curr. Asset	Curr. Liability	Working Capital		
\$84,122,013 less	\$13,411,572 equals	\$70,710,441		Yes
		Net Worth		
		\$81,614,417		Yes

Net Worth greater than \$10,000,000

Yes

U.S. Assets greater than 90% of total assets or greater than 6 time remediation liability (\$22,935,180)

Total Assets	Canada	U.S. %		
\$102,401,248	\$7,474,408	92.7%		Yes
U.S. Assets				
\$94,926,840				Yes

*

Net Income plus depreciation plus depletion plus amortization / Total Liabilities greater than 0.1

Net income (loss)	\$2,928,204			
Depreciation	\$1,663,109			
Depletion		Total		
Amortization		Liabilities		
Total	\$4,591,313 /	20,786,831	0.221	Yes

*.

Only two of the three criteria must be met - Are two met?

Yes