

ST  
**SPARTON**

**SPARTON CORPORATION**

September 14, 2007



Mr. Richard Greene  
Regional Administrator  
Environmental Protection Agency  
Region 6  
1445 Ross Avenue  
Dallas, Texas 75202

Mr. Ron Curry  
Secretary of New Mexico Environment Department  
Harold S. Runnels Building, Suite 4050 N  
1190 St. Francis Drive  
P.O. Drawer 26110  
Santa Fe, New Mexico 87502-6110

Dear Messrs. Greene and Curry:

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 = \$3,350,200. 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, 2007.

#### ALTERNATIVE I

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

\$3,350,200

\*2. Total liabilities: \$50,528,127

\*3. Tangible net worth: \$63,857,697

\*4. Net worth: \$86,479,671

\*5. Current assets: \$85,790,726

\*6. Current liabilities \$32,801,602

\*7. Net working capital: \$52,989,124:

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

\$(5,180,848)

\*9. Total assets in U.S. (required only if less than 90% of firm's assets are located in the U.S.): \$121,661,306 (88.8%)

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

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

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) No

14. Is line 9 at least 6 times line 1? (Yes/No) Yes

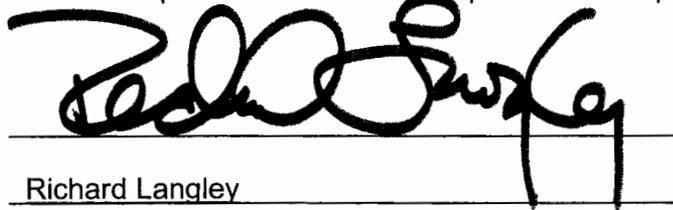
15. Is line 2 divided by line 4 less than 2.0? (Yes/No) Yes

16. Is line 8 divided by line 2 greater than 0.1? (Yes/No) No

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 14, 2007

To follow in separate enclosure: Sparton's 2007 Annual Report on Form 10-K

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 (3)

Director  
Water and Waste Management Division  
New Mexico Environment Department  
P.O. Box 26110  
Santa Fe, NM 87502-6110

Chief  
Hazardous Waste Bureau  
New Mexico Environmental Department  
P.O. Box 26110  
Santa Fe, NM 87502-6110

Chief  
Groundwater Bureau  
New Mexico Environment Department  
P.O. Box 26110  
Santa Fe, NM 87502-6110

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

**MWC Legal & Environmental Consulting**  
**7413 Lake Windermere Dr.**  
**Corpus Christi, Texas 78413**  
**Fax: 361-850-9604**

September 6, 2007

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

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

Dear Ms. Widener:

MWC Legal & Environmental Consulting is pleased to provide the attached estimate of financial assurance to be included in the submission by Sparton Technology, 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 \$3,350,200 is based on an effective value date on June 30, 2007, which is consistent with Sparton's fiscal year-end and also the RCRA regulatory requirements. This estimate is \$150,765 lower than the previous estimate provided to Sparton on August 27, 2006. The largest single item reducing the estimate is completion of another year, for a total of 8 of the 30 years of projected time for closure operations. The estimated contribution for the most recently completed fiscal year was \$208,855 for expenses. The remaining 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 – 22 Year Summary.) As in past years, electricity costs were adjusted based on the previous year's actual costs; in this case FY2007.

The starting point for this update was the estimate provided to Sparton on August 27, 2006 with adjustments made to reflect an estimated effective value as of the end of FY2007, June 30, 2007, covering the project through the estimated remaining life of 22 years. Mr. Tony Hurst was again contacted as part of this update and he provided information, including monthly reports and the 2006 Annual Report, on operations of the systems at the Coors Road Facility. The estimated cost to plug and abandon a site well was also confirmed. The May 2004 NMED Corrective Action Fund contractor fee schedule was confirmed to be the current update, thus validating the maximum hourly rates for professional services and sampling equipment costs. The update process and changes made to the estimate included the following:

- A demonstration is being required to prove that the plume does not extend into the deep flow zone being monitored by MW-79. A total of \$10,000 of the original estimated cost of \$26,000 for modeling to make this demonstration was carried over into FY2008.
- The average cost of electricity incurred during FY2007 was used to estimate future expenditures. The change increased total electricity costs for the remaining 22 years of the project by approximately \$51,200.
- Two additional years of higher modeling costs, an additional \$17,000, was added in last year's estimate. However, the second year is no longer necessary and therefore the attached estimate reflects a reduction of \$8,500.
- Plugging and abandoning the three dry wells did not occur in FY2007 but is expected to take place in FY2008. Therefore, the estimated cost of \$4,400 was carried over into FY2008.

Based on the information obtained, original assumptions are still valid, except as noted above, with respect to the end date (FY2029), expected operations and maintenance of various containment systems, project management, closure costs, and other costs associated with evaluation and recommendations.

It has been my pleasure assisting Sparton Corporation with this matter. If you should have questions, please feel free to contact me at 361-850-9604 or 361-947-9003.



Mark W. Cheesman, J.D.  
Principal

cc: Mr. Tony Hurst – Hurst Engineering Services

**22 Year Summary**  
*Attachment 1*

*September 6, 2007*  
*Sparton Technology, Inc.*

**MWC Legal & Environmental Consulting**  
7413 Lake Windermere Drive  
Corpus Christi, Texas 78413  
(361) 850-9604

Sparton Technology, Inc.  
Coors Rd. Facility  
Albuquerque, New Mexico  
Fiscal Year 2008  
22 Year Summary

Changes Notes	Material and Service Expenditures (t)					Labor Expenditures (s)				TOTAL TYPICAL ANNUAL COST	2008-2009	2010-2014	2015-2019	2020-2024	2025-2029	Totals				
	Unit	No.	Cost/Unit	Contingency	Percent	Hours	Hourly Rate	Contingency	Percent											
<b>Remaining Capital Expenditures</b>																				
<b>Offsite Containment I</b>											\$0	\$0	\$0	\$0	\$0	\$0				
No remaining tasks																				
<b>Vadose (SVE)</b>											\$0	\$0	\$0	\$0	\$0	\$0				
No remaining tasks																				
<b>Source Containment</b>											\$0	\$0	\$0	\$0	\$0	\$0				
No remaining tasks																				
<b>CW-3/MW-79</b>																\$0				
No remaining tasks																				
<b>Total Remaining Capital Expenditure</b>											\$0	\$0	\$0	\$0	\$0	\$0				
<b>O&amp;M Expenditures</b>																				
<b>Offsite Containment II</b>											\$114,200	\$285,500	\$285,500	\$0	\$0	\$685,200				
Permits / Licenses																				
Pipeline Easement	LS	1	500		0%					500	1000	2500	2500	0	0					
Arroyos Easement	LS	1	3,000		0%					3000	6000	15000	15000	0	0					
1 Operate System - Power (45hp) & Utilities	Month	12	1,783	2100	10%					23500	47000	117500	117500	0	0					
Influent/Effluent Sampling	Month	12	315	420	11%					4200	8400	21000	21000	0	0					
O&M - Equipment (a)	Month	12	1,140	1320	10%					15000	30000	75000	75000	0	0					
O&M - Labor (b)						156	63.25	1033.00	10%	10900	21800	54500	54500	0	0					
Ground water monitoring -see below																				
O&M - Chromium Treatment, Complete												0	0	0	0	0				
<b>Vadose (SVE)</b>											\$0	\$0	\$0	\$0	\$0	\$0				
Monitoring - Soil gas samples, Complete												0	0	0	0	0				
<b>Source Containment</b>											\$72,700	\$181,750	\$181,750	\$181,750	\$181,750	\$799,700				
2 Operate System - Power	Month	12	875	1100	10%					11600	23200	58000	58000	58000	58000					
Influent/Effluent Sampling	Month	12	315	420	11%					4200	8400	21000	21000	21000	21000					
O&M - Equipment (a)	Month	12	890	1120	10%					11800	23600	59000	59000	59000	59000					
O&M - Labor (b)						117	63.25	799.75	11%	8200	16400	41000	41000	41000	41000					
6 Lease of water rights	LS	1	550		0%					550	1100	2750	2750	2750	2750					
<b>Deep Flow Zone (DFZ) Monitoring Well MW-79 (r)</b>											\$10,000	\$0	\$0	\$0	\$0	\$10,000				
4 Plume Assessment												10000	0	0	0	0				
<b>Evaluation, Analysis &amp; Recommendation</b>											\$116,700	\$270,500	\$270,500	\$270,500	\$270,500	\$1,198,700				
5 Quality Check (c)												800	2000	2000	2000	2000				
Aquifer Model (Estimate) (d)												100	82.50	1650.00	20%	9900	11300	7000	7000	7000
Annual Reports Incl. Perf. & Alt. Eval. (e)												50	66.00	700.00	21%	4000	8000	20000	20000	20000
<b>Ground Water Monitoring and Sampling</b>																				
Data Collection and Sampling (f)												255	63.25	1671.25	10%	17800	35600	89000	89000	89000
Sampling Equipment (g)	Sample	86	22.20	190.8	10%					2100	4200	10500	10500	10500	10500					
Analysis (Lab Costs) (h)	Sample	86	270	2780	12%					26000	52000	130000	130000	130000	130000					
QA/QC and Data Analysis (i)												26	82.50	255.00	12%	2400	4800	12000	12000	12000
Analysis of Additional Modeling Information (j)												180	82.50	1550.00	10%	16400	0	0	0	0
<b>Closure</b>											\$4,400	\$0	\$0	\$0	\$112,100	\$116,500				
3 Plug and Abandon 60 wells including 3 in FY2008	Well	71	1,300	10700	12%					103000	4400	0	0	0	103000					
Remove Piping (LS)													2,200	0	0	0	2200			
Closure Certification Report (k)												60	104.50	630.00	10%	6900	0	0	0	6900
Soil Sampling at Infiltration Galleries (l)																				
<b>Project Management</b>											\$49,100	\$122,750	\$122,750	\$122,750	\$122,750	\$540,100				
Management (m)												170	82.50	1375.00	10%	15400	30800	77000	77000	77000
Data Tabulation (n)												25	82.50	237.50	12%	2300	4600	11500	11500	11500
Monthly Reporting (o)												25	82.50	237.50	12%	2300	4600	11500	11500	11500
Annual Reporting (p)												50	82.50	425.00	10%	4550	9100	22750	22750	22750
<b>Total O&amp;M Expenditure</b>											\$367,100	\$860,500	\$860,500	\$575,000	\$687,100	\$3,350,200				
<b>Summary</b>																				
<b>Total Remaining Capital Expenditure</b>											\$0	\$0	\$0	\$0	\$0	\$0				
<b>Total O&amp;M Expenditure</b>											\$367,100	\$860,500	\$860,500	\$575,000	\$687,100	\$3,350,200				
<b>TOTAL</b>											\$367,100	\$860,500	\$860,500	\$575,000	\$687,100	\$3,350,200 (q)				

**Changes made from FY2007 Estimate:**

1. Offsite Containment O&M Expenditures to operate system - Power (45hp) & Utilities has decreased from \$1,800/Unit to \$1,783/Unit and contingency decreased from \$2,400 to \$2,100.  
This was based on using the average monthly actual electricity cost in FY2007 adjusted for operating 100% of the time.
2. O&M Expenditures to Operate System - Power (12hp) has increased from \$675/Unit to \$875/Unit and contingency increased from \$900 to \$1,100 based on average FY2007 monthly actual adjusted for operating 100% of the time.
3. Adjusted for current number of wells (monitoring and containment) on-site that are currently expected to be functional, 71 total. Three dry wells were expected to be plugged and abandoned in FY2007 but carried over into FY2008.
4. Carry over work associated with new deep flow zone monitoring well, MW-79, 110 hours for a Project Engineer (\$82.50/hr.) plus contingency. Sampling and O&M costs included above in GW Sampling estimates.
5. Dropped second year of higher modeling costs based on 2006 Annual Report information.
6. Cost for lease of water rights increased from \$505/year to \$550/year.

**Notes**

- (a) The equipment cost of \$15,000 per year each for offsite systems and \$11,800 per year for the onsite system includes \$177,000 for replacing a total of 12 wells.
- (b) Labor cost for operation and maintenance of the containment systems (off-site and source) assumes \$63.25/hour plus a minimum contingency of 10%. The labor requirement assumes performing routine inspection on each of the two systems an average of 3 hours per week for the offsite and 2.25 hours per week for the onsite, not including 15 minute inspections each week included in sampling labor. This is consistent with past experience and the experience of Sparton. The inspection and monitoring program will entail checking and recording information related to the status of the system. The parameters that will be monitored are listed in Appendix K of the System O&M Manual.
- (c) Quality Check entails additional evaluation of previously collected analytical data, resulting in 5 hours of work annually for a staff scientist (\$66.00 / hour) plus a minimum of 10% contingency.
- (d) Aquifer Modeling will require 100 hours per year through 2008 and 14 hours per year for the remaining years. Basis for the reduction of effort relates to the improved calibration of the model over time, assuming only minor adjustments will be required to confirm model outputs are consistent with observations. Modeling will be executed by a Project Scientist (\$82.50 / hour) plus a minimum of 10% contingency.
- (e) The preparation of annual reports includes performance and alternative system evaluation. Due to the data generated throughout the process, with costs contained in other sections of the budget (i.e. modeling, data analysis, etc.), 50 hours annually are allocated to prepare the Annual Report for a Staff Engineer (\$66.00 / hour). A minimum of 10% contingency and additional review by a Senior Engineer are included in a total contingency not to exceed \$700.00.
- (f) Data collection for 69 wells and sampling for the 59 wells located both on and off-site require 255 hours annually for a field technician (\$63.25), plus a minimum of 10% contingency.
- (g) Assumes 23 days for rental of pH/specific conductance/temperature meter (\$50/day), water level indicator (\$25/day), disposable bailers (\$3/day), miscellaneous equipment (gloves, tape, replacement drums, etc., \$5/well), which averages about \$22.20/sample.
- (h) Number of samples based on 59 wells plus approximately 27 quality control samples.
- (i) Quality Assurance and Control of data analysis results consists of 1 hour every other week for a Project Engineer (\$82.50 / hour) plus a minimum of 10% contingency.
- (j) Analysis of Modeling Information will entail combining previous annual reports, modeling results and other previously collected data with the 5 year annual report; interactions with NMED & EPA; the data analysis and performance evaluation for this report is included under aquifer modeling, annual reports and project management.
- (k) Closure Certification Report entails compiling historical data and a written analysis of 30 years of progress, as a result of the remedial actions, by a Senior Engineer (\$104.50/ hour) plus a minimum of 10% contingency.
- (l) Task to be completed only if significant exceedances of discharge limits occur, thus no expenditure is anticipated. If this expenditure is required, the contingency for closure (\$12,850) is ample to cover the anticipated sampling cost (\$1000).
- (m) "Management" consists of meetings with agency representatives, consultants and individuals from Sparton Technologies, in addition to handling routine administrative tasks. The total estimate for these tasks is 170 hours per year.
- (n) "Data Tabulation" is assumed to be on a quarterly basis for about 6 hours per quarter.
- (o) "Monthly Reporting" is assumed to be about 2 hours per month.
- (p) "Annual Reporting" is assumed to be 50 hours annually.
- (q) Total includes contingency.
- (r) New deep flow zone well was installed and tested in FY2006. Sampling and O&M costs included above. Estimate is complete carry over work from FY2007.
- (s) Labor rates per May 2004 (most current version) NMED Corrective Action Fund contractor fee schedules for the maximum hourly rates for professional services.
- (t) Material rates per May 2004 (most current version) NMED Corrective Action Fund contractor fee schedules for field equipment.



**BDO Seidman, LLP**  
Accountants and Consultants

99 Monroe Avenue NW, Suite 800  
Grand Rapids, Michigan 49503-2654  
Telephone: (616) 774-7000  
Fax: (616) 776-3680

## **Report of Independent Accountants on Applying Agreed-Upon Procedures**

Board of Directors and Management  
Sparton Corporation  
Jackson, Michigan

Environmental Protection Agency  
Dallas, Texas

New Mexico Environmental Department  
Santa Fe, New Mexico

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Sparton Corporation and subsidiaries as of June 30, 2007, and the related consolidated statements of income, shareowners' equity and cash flows for the year then ended, and have issued our report thereon dated September 12, 2007. Our opinion on the financial statements referred to above is presented in Sparton Corporation's 2007 Annual Report (Form 10-K) which is referred to in the letter dated September 14, 2007 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 conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the parties specified in this 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, 2007, and the related consolidated statements of income, 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.

<i>Description</i>	<i>Balance</i>
Total liabilities	\$ 50,528,127
Tangible net worth	63,857,697
Net worth	86,479,671
Current assets	85,790,726
Current liabilities	32,801,602
Net working capital	52,989,124
Sum of net loss plus depreciation, depletion and amortization	(5,180,848)
Total assets in U.S.	121,661,306

We were not engaged to, and did not, conduct an audit, examination or review, the objectives of which would be the expression of an opinion or limited assurance on the Langley Letter. Accordingly, we do not express such an opinion or limited assurance. 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 the Board of Directors and management of Sparton Corporation, the State of New Mexico and the United States Environmental Protection Agency and is not intended to and should not be used by anyone other than these specified parties.

*BDO Seidman, LLP*

Grand Rapids, Michigan  
September 14, 2007

**Review of Financial Assurance Test**

(financial numbers as of 6/30/07)

**Criteria****Met Criteria?**

<b>* Liabilities to Net worth less than 2</b>					
Liabilities	Net Worth				
\$50,528,127 to	\$86,479,671 equals	0.58			Yes
<b>Liabilities to Tangible Net worth less than 2</b>					
Liabilities	Tangible Net Worth				
\$50,528,127 to	\$63,857,697 equals	0.79			Yes
<b>* Current Assets to Current Liabilities greater than 1.5</b>					
Curr. Asset	Curr. Liability				
\$85,790,726 to	\$32,801,602 equals	2.62			Yes
<b>Working Capital <u>and</u> Net worth greater than 6 time remediation liability (6 x \$3,350,200 = \$20,101,200)</b>					
Curr. Asset	Curr. Liability	Working Capital			
\$85,790,726 less	\$32,801,602 equals	\$52,989,124			Yes
		Net Worth			
		\$86,479,671			Yes
<b>Tangible Net Worth</b>					
Net Worth	Intangibles	Tangible Net Worth			
\$86,479,671 less	\$22,621,974 equals	\$63,857,697			Yes
<b>Net Worth and Tangible Net Worth greater than \$10,000,000</b>					Yes
<b>U.S. Assets greater than 90% of total assets <u>or</u> greater than 6 time remediation liability (\$20,101,200)</b>					
Total Assets	Canada	Vietnam	US %		
\$137,007,798	\$9,952,532	\$5,393,960	88.80%		No
U.S. Assets					
\$121,661,306					Yes
<b>* Net Income plus depreciation plus depletion plus amortization / Total Liabilities greater than 0.1</b>					
Net income	(\$7,768,627)				
D + D + A	\$2,587,779	Total Liabilities			
Total	(\$5,180,848) /	\$50,528,127	(0.103)		No
<b>* Only two of the three criteria must be met - Are two met?</b>					Yes