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

August 25, 2003

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

Re: Sparton Technologies, 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 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 $3,899,370 is based on an effective value date on June 30, 2003, which is consistent with Sparton's fiscal year-end and also the RCRA regulatory requirements. This estimate is $76,840 higher than the previous estimate provided to Sparton in August 2002. The item reducing the estimate is completion of another year, for a total of 4 of the 30 years of projected time for closure operations. The estimated contribution for the most recently completed fiscal year was $196, 850. Other major adjustments include increasing electricity costs based on FY2003 actual costs, increasing the average cost to replace 14 monitoring/recovery wells from $10,000 to $15,000 per well, and installing and operating for 1 year a treatment system for MW-71R. 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 – 26 Year Summary.)

The starting point for this update was the estimate provided to Sparton in August 2002 with adjustments made to reflect an estimated effective value as of the end of FY2003, June 30, 2003 covering the project through the estimated life of 26 years. 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 update process and changes made to the estimate included the following:

- Included $128,000 for additional capital expenditures in the financial assurance estimate for a MW-71R effluent sand and carbon filter treatment system. Treated effluent is to be re-injected into the source strata.
- Provided for one year of operations of the MW-71R treatment system starting in the 4th Quarter of FY2004. Included power for the system, and estimated O&M Equipment and Labor costs.
- Used for future estimated expenditures the average cost of electricity incurred during FY2003.
- Previously estimated O&M Equipment costs included replacement of monitoring and recovery wells. The FY2003 estimate was for $140,000 to replace 15 wells. MW-52 was replaced in FY2003, thus the number of wells to be replaced was reduced to 14 for the balance of the operations. In addition, the average estimated cost to replace these wells was increased based on current costs.
- Included actual cost for the lease of water rights listed under source containment.
- Increased labor rate for producing the closure certification report to reflect using a Senior Engineer.

Based on the information obtained, 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 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

26-Year Summary

Attachment 1

August 25, 2003
Sparton Technologies, Inc.

MWC Legal & Environmental Consulting
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Sparton Technologies, Inc.
Coors Rd. Facility
Albuquerque, New Mexico
Fiscal Year 2004
26 Year Summary

Changes Notes	Remaining Capital Expenditures	Material and Service Expenditures					Labor Expenditures				TOTAL TYPICAL ANNUAL COST	2004	2005-2009	2010-2014	2015-2019	2020-2024	2025-2029	Totals
		Unit	No.	Cost/Unit	Contingency	Percent	Hours	Hourly Rate	Contingency	Percent								
	Offsite Containment I											$0	$0	$0	$0	$0	$0	$0
	No remaining tasks																	
	Vadose (SVE)											$0	$0	$0	$0	$0	$0	$0
	No remaining tasks																	
	Source Containment											$0	$0	$0	$0	$0	$0	$0
	No remaining tasks																	
7	**MW-71R Treatment System**																	
	Sand & Carbon Filter Treatment with Re-injection		1	101,000	11000	11%	240	60	1600	11%		$128,000	$0	$0	$0	$0	$0	$128,000
	Total Remaining Capital Expenditure											$128,000	$0	$0	$0	$0	$0	$128,000
	O&M Expenditures																	
	Offsite Containment II											$57,000	$285,000	$285,000	$285,000	$0	$0	$912,000
	Permits / Licenses																	
	Pipeline Easement	LS	1	500		0%					500	500	2500	2500	2500	0	0	
	Arroyos Easement	LS	1	3,000		0%					3000	3000	15000	15000	15000	0	0	
1	Operate System - Power (45hp) & Utilities	Month	12	1,975	2602	11%					26500	26500	132500	132500	132500	0	0	
	Influent/Effluent Sampling	Month	12	315	420	11%					4200	4200	21000	21000	21000	0	0	
3	O&M - Equipment (a)	Month	12	1,140	1320	10%					15000	15000	75000	75000	75000	0	0	
	O&M - Labor (b)						156	45	780	11%	7800	7800	39000	39000	39000	0	0	
	Ground water monitoring -see below																	
	O&M - Chromium Treatment, Complete											0	0	0	0	0	0	
	Vadose (SVE)											$0	$0	$0	$0	$0	$0	$0
	Monitoring - Soil gas samples, Complete											0	0	0	0	0	0	
	Source Containment											$32,685	$163,425	$163,425	$163,425	163,425	163,425	$849,810
2	Operate System - Power	Month	12	787	1061	11%					10500	10500	52500	52500	52500	52500	52500	
	Influent/Effluent Sampling	Month	12	315	420	11%					4200	4200	21000	21000	21000	21000	21000	
3	O&M - Equipment (a)	Month	12	890	1120	10%					11800	11800	59000	59000	59000	59000	59000	
	O&M - Labor (b)						117	45	585	11%	5850	5850	29250	29250	29250	29250	29250	
4	Lease of water rights	LS	1	335		0%					335	335	1675	1675	1675	1675	1675	
8	**MW-71R Treatment System**											$4,775	$14,325	$0	$0	$0	$0	$19,100
	Operate System - Power (r)	Month	12	350	500	12%					4700	1175	3525	0	0	0	0	
	O&M - Equipment (r)	Month	12	900	1100	10%					11900	2975	8925	0	0	0	0	
	O&M - Labor (r)						50	45	250	11%	2500	625	1875	0	0	0	0	
	Evaluation, Analysis & Recommendation											$72,310	$270,950	$247,550	$247,550	$247,550	$247,550	$1,333,460
	Quality Check (c)						5	60	60	20%	360	360	1800	1800	1800	1800	1800	
	Aquifer Model (Estimate) (d)						100	75	1500	20%	9000	9000	29400	6000	6000	6000	6000	
	Annual Reports Incl. Perf. & Alt. Eval. (e)						50	60	600	20%	3600	3600	18000	18000	18000	18000	18000	
	Ground Water Monitoring and Sampling												0	0	0	0	0	
	Data Collection and Sampling (f)						255	45	1275	11%	12750	12750	63750	63750	63750	63750	63750	
	Sampling Equipment (g)	Sample	93	14	148	11%					1450	1450	7250	7250	7250	7250	7250	
	Analysis (Lab Costs) (h)	Sample	93	270	2790	11%					27900	27900	139500	139500	139500	139500	139500	
	QA/QC and Data Analysis (i)						26	75	300	15%	2250	2250	11250	11250	11250	11250	11250	
	Analysis of Additional Modeling Information (j)						180	75	1500	11%	15000	15000	0	0	0	0	0	
	Closure											$0	$0	$0	$0	$0	$95,400	$95,400
5	Plug and Abandon 63 wells	Well	63	1,200	11500	15%					87100	0	0	0	0	0	87100	
	Remove Piping (LS)			1,500	500	33%					2,000	0	0	0	0	0	2000	
6	Closure Certification Report (k)						60	95	600	11%	6300	0	0	0	0	0	6300	
	Soil Sampling at Infiltration Galleries (l)																	
	Project Management										$ 21,600	$21,600	$108,000	$108,000	$108,000	$108,000	$108,000	$561,600
	Management (m)						170	75	900	7%	13650	13650	68250	68250	68250	68250	68250	
	Data Tabulation (n)						25	75	110	6%	1985	1985	9925	9925	9925	9925	9925	
	Monthly Reporting (o)						25	75	110	6%	1985	1985	9925	9925	9925	9925	9925	
	Annual Reporting (p)						50	75	230	6%	3980	3980	19900	19900	19900	19900	19900	
	Total O&M Expenditure											$188,370	$841,700	$803,975	$803,975	$518,975	$614,375	$3,771,370
	Summary																	
	Total Remaining Capital Expenditure											$128,000	$0	$0	$0	$0	$0	$128,000
	Total O&M Expenditure											$188,370	$841,700	$803,975	$803,975	$518,975	$614,375	$3,771,370
	TOTAL											$316,370	$841,700	$803,975	$803,975	$518,975	$614,375	$3,899,370 (q)

Changes made:

1. Offiste Containment O&M Expenditures for Operate System - Power (45hp) & Utilities has increased from $1,875/Unit to $1,975/Unit and contingency from $2,250 to $2602
   This was based on using the average monthly actual electricity cost in FY2003 adjusted for operating 100% of the time.
2. O&M Expenditures to Operate System - Power (12hp) has increased from $747/Unit to $787/Unit and contingency from $895 to $1061based on average FY2003 monthly actual electricity costs.
3. O&M Equipment for the Source Containment and Offsite Containment were increased to account for a higher estiamted cost to replace 14 monitoring/recovery wells over the balance of the project.
4. Cost/Unit of Source Containment Lease of water rights was increased to $335 (based on actual costs).
5. Cost/Unit to Plug and Abandon 63 wells was verified..
6. The Hourly Rates for Labor Expenditures for Closure Certification Report was increased due to requirement for professional certification of the report.
7. MW-71R Treatment System estimated capital cost for 40 gpm sand filter and carbon treatment system, new electrical feed, injection pump and injection well plus engineering for project.
   No money is included for permitting.
8. MW-71R Treatment system operating cost is electricity to operate carbon treatment system and 5 hp motor for pump to re-inject treated groundwater.
   O&M Costs, labor estimated at 1 hour per week for a field technician while equipment is a sand filter and carbon filter.
9. The Hourly Rates for Labor Expenditures were checked for applicability.
10. The cost estimates for the 2000-2004 column has been modified to show FY 2004 (i.e. 1 year) while the remaining columns are for 5 year periods.

Notes

(a) The equipment cost of $15,000 per year each for offsite systems and $11,800 per year for the onsite system includes $200,000 for replacing a total of 14 wells.
(b) Labor cost for operation and maintenance of the containment systems (off-site and source) assumes $45.00/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 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 ($60.00 / hour) plus a minimum of 10% contingency.
(d) Aquifer Modeling will require 520 hours for the first three years, 100 hours for the next four years, 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 ($75.00 / 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 ($60.00 / hour). A minimum of 10% contingency and additional review by a Senior Engineer are included in a total contingency not to exceed $600.00.
(f) Data collection and sampling for the 63 wells located both on- and off-site require 255 hours annually for a field technician ($45.00), plus a minimum of 10% contingency.
(g) Assumes 19 days for rental of pH/specific conductance/temperature meter ($20/day), water level indicator ($25/day), disposable bailers ($2/day), micellaneous equipment (gloves, tape, replacement drums, etc., $5/well), which averages about $14/sample.
(h) Number of samples based on 63 wells plus approximately 30 quality control samples.
(i) Quality Assurance and Control of data analysis results consists of 1 hour every other week for a Project Engineer ($75.00 / hour) plus a minimum of 10% contingency.
(j) Analysis of Additional Modeling Information will entail combining previous annual reports, modeling results and other previously collected data with the current (5th year) annual report; 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 ($95.00 / 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 contigency for closure ($11,500) 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) Current projection is to complete installation of MW-71R treatment system by end of 3rd Quarter FY2004 and operate for 1 year. O&M Equipment costs include sand fileter rental and carbon filter system. O&M labor is for $45.00/hr for a field technician, one hour per week plus a minimum 10% contingency. Power is for 40 gpm re-injection pump.

Review of Financial Assurance Test (financial numbers as of 6/30/03)

Critera						Met Critera?
* **Liabilities to Net worth less than 2**						
Liabilities		Net Worth				
$24,845,664	to	$91,168,206	equals	0.27		Yes
* **Current Assets to Current Liabilities greater than 1.5**						
Curr. Asset		Curr. Liability				
$95,997,615	to	$18,015,533	equals	5.33		Yes
Working Capital and Net worth greater than 6 time remediation liability (6 x $3,899,370 = $23,396,220)						
Curr. Asset		Curr. Liability		Working Capital		
$95,997,615	less	$18,015,533	equals	$77,982,082		Yes
				Net Worth		
				$91,168,206		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 ($23,396,220)						
Total Assets		Canada		U.S. %		
$116,013,870		$6,702,922		94.2%		Yes
U.S. Assets						
$109,310,948						Yes
* **Net Income plus depreciation plus depletion plus amortization / Total Liabilities greater than 0.1**						
Net income (loss)		$8,992,272				
Depreciation		$1,497,083				
Depletion				Total		
Amortization				Liabilities		
Total		$10,489,355	/	24,845,664	0.422	Yes
* Only two of the three criteria must be met - Are two met?						Yes