

Sparton Corporation
425 North Martingale Road
Suite 2050
Schaumburg, Illinois 60173
800.772.7866
www.sparton.com



VIA CERTIFIED MAIL

October 15, 2009

Mr. Lawrence E. Starfield
Acting Regional Administrator
Environmental Protection Agency
Region 6
1445 Ross Avenue
Dallas, Texas 75202

Mr. Ron Curry
Secretary of New Mexico Environment Department
Harold L. Runnels Building
1190 St. Francis Drive
Suite N4050
Santa Fe, New Mexico 87505

**FINANCIAL ASSURANCE TO PAY FOR WORK
UNDER THE CONSENT DECREE OF MARCH 2, 2000
IN CITY of ALBUQUERQUE v. SPARTON TECHNOLOGY, INC., NO. CV-97-0206 (D.N.M.) (the "Consent Decree")**

Dear Messrs. Starfield and Curry

Pursuant to Paragraph 90 of the above-referenced Consent Decree, Sparton Corporation submits the enclosed financial assurance in the form of a trust agreement to cover payment of the work under the Consent Decree. In accordance with 40 C.F.R. § 264.143(a), an originally signed duplicate of the trust agreement is also being submitted to Mr. Starfield with a copy to Mr. Curry.

In the past pursuant to 40 C.F.R. § 264.143(f)(10), Sparton Technology, Inc. ("Sparton Technology") has met its financial assurance requirements under the Consent Decree by obtaining and providing a corporate guarantee from its direct parent corporation, Sparton Corporation. However, due to certain one-time events during its just-closed June 2008/2009 fiscal year, Sparton Corporation is not able to satisfy the financial test requirements in support of Sparton Technology's financial assurance. Sparton Corporation expects that it will be able to meet the financial test requirements, and thus resume its corporate guarantee at the close of its 2009/2010 fiscal year. Accordingly, pursuant to 40 C.F.R. § 264.143(a), Sparton Corporation is submitting a trust agreement on behalf of Sparton Technology.

The trust agreement names the Environmental Protection Agency as the Beneficiary of Trust. The New Mexico Environment Department ("NMED") cannot be named as a beneficiary because the wording of the trust agreement and form in 40 C.F.R. § 264.151(a) does not provide for naming NMED.

In accordance with Paragraph 90 of the Consent Decree, the estimated cost of the work is \$ 3,129,150 as explained in the enclosed letter from MWC Legal & Environmental Consulting.

Thank you for the opportunity to provide this financial assurance.

Sincerely,



Gregory A. Slome
Senior Vice President and Chief Financial Officer

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 copies) (via Overnight Mail)

Director
Water and Waste Management Division
New Mexico Environment Department
Harold L. Runnels Building
1190 St. Francis Drive
Santa Fe, New Mexico 87505 (via Overnight Mail)

Chief
Hazardous Waste Bureau
New Mexico Environment Department
2905 Rodeo Park Drive East, Building 1
Santa Fe, NM 87505-6313 (via Overnight Mail)

Chief
Groundwater Quality Bureau
New Mexico Environment Department
Harold L. Runnels Building
1190 St. Francis Drive
Suite N2250
Santa Fe, New Mexico 87505 (via Overnight Mail)

Tony Hurst
Hurst Engineering Services
1915 Fairfax St.
Denver, CO 80220 (via Regular Mail)

**TRUST AGREEMENT CREATING THE SPARTON CORPORATION
FINANCIAL ASSURANCE TRUST**

This Trust Agreement, the "Agreement," is entered into as of October 15, 2009 by and between Sparton Corporation, an Ohio Corporation, the "Grantor," and National City Bank, a National Bank, the "Trustee."

Whereas, the United States Environmental Protection Agency, "EPA," an agency of the United States Government, has established certain regulations requiring that an owner or operator of a hazardous waste management facility shall provide assurance that funds will be available when needed for closure and/or post-closure care of the facility, which are applicable to Sparton Technology, Inc., the subsidiary of Grantor, pursuant to the consent decree styled *The City of Albuquerque, et al. v. Sparton Technology, Inc.*, Civil Action No. CIV 97 0206 LH/JHG pending in the United States District Court for the District of New Mexico (the "Consent Decree"),

Whereas, the Grantor has elected to establish a trust to provide all or part of such financial assurance for the facilities identified herein,

Whereas, the Grantor, acting through its duly authorized officers, has selected the Trustee to be the trustee under this agreement, and the Trustee is willing to act as trustee,

Now, Therefore, the Grantor and the Trustee agree as follows:

Section 1. Definitions. As used in this Agreement:

(a) The term "Grantor" means Sparton Corporation who enters into this Agreement and any successors or assigns of the Grantor.

(b) The term "Trustee" means the Trustee who enters into this Agreement and any successor Trustee.

(c) The term "EPA Regional Administrator" means the Regional Administrator for EPA Region VI or his designee.

Section 2. Identification of Facilities and Cost Estimates. This Agreement pertains to the facility and cost estimates identified on attached Schedule A.

Section 3. Establishment of Fund. The Grantor and the Trustee hereby establish a trust fund, the "Fund," for the benefit of EPA. The Grantor and the Trustee intend that no third party have access to the Fund except as herein provided. The Fund is established initially as consisting of the property, which is acceptable to the Trustee, described in Schedule B attached hereto. Such property and any other property subsequently transferred to the Trustee is referred to as the Fund, together with all earnings and profits thereon, less any payments or distributions made by the Trustee pursuant to this Agreement. The Fund shall be held by the Trustee, IN TRUST, as

hereinafter provided. The Trustee shall not be responsible nor shall it undertake any responsibility for the amount or adequacy of, nor any duty to collect from the Grantor, any payments necessary to discharge any liabilities of the Grantor established by EPA.

Section 4. Payment for Work Under the Consent Decree. The Trustee shall make payments from the Fund as the EPA Regional Administrator shall direct, in writing, to provide for the payment of the costs of the work under the Consent Decree for the facility covered by this Agreement, upon a demonstration satisfactory to the Trustee that Grantor has failed to faithfully perform work in accordance with the Consent Decree. The Trustee shall reimburse the Grantor from the Fund for expenditures in connection with work under the Consent Decree in such amounts as the EPA Regional Administrator shall direct in writing. In addition, the Trustee shall refund to the Grantor such amounts as the EPA Regional Administrator specifies in writing. Upon refund, such funds shall no longer constitute part of the Fund as defined herein.

Section 5. Payments Comprising the Fund. Payments made to the Trustee for the Fund shall consist of cash or securities acceptable to the Trustee.

Section 6. Trustee Management. The Trustee shall invest and reinvest the principal and income of the Fund and keep the Fund invested as a single fund, without distinction between principal and income, in accordance with general investment policies and guidelines which the Grantor may communicate in writing to the Trustee from time to time, subject, however, to the provisions of this section. In investing, reinvesting, exchanging, selling, and managing the Fund, the Trustee shall discharge his duties with respect to the trust fund in the interest of the beneficiary and with the care, skill, prudence, and diligence under the circumstances then prevailing which persons of prudence, acting in a like capacity and familiar with such matters, would use in the conduct of an enterprise of a like character and with like aims; *except that:*

(i) Securities or other obligations of the Grantor, or any other owner or operator of the facilities, or any of their affiliates as defined in the Investment Company Act of 1940, as amended, 15 U.S.C. 80a-2.(a), shall not be acquired or held, unless they are securities or other obligations of the Federal or a State government;

(ii) The Trustee is authorized to invest the Fund in time or demand deposits of the Trustee,; and

(iii) The Trustee is authorized to hold cash awaiting investment or distribution uninvested for a reasonable time and without liability for the payment of interest thereon.

Section 7. Commingling and Investment. The Trustee is expressly authorized in its discretion:

(a) To transfer from time to time any or all of the assets of the Fund to any common, commingled, or collective trust fund created by the Trustee in which the Fund is eligible to participate, subject to all of the provisions thereof, to be commingled with the assets of other trusts participating therein; and

(b) To purchase shares in any investment company registered under the Investment Company Act of 1940, 15 U.S.C. 80a-1 et seq., including one which may be created, managed,

underwritten, or to which investment advice is rendered or the shares of which are sold by the Trustee. The Trustee may vote such shares in its discretion.

Section 8. Express Powers of Trustee. Without in any way limiting the powers and discretions conferred upon the Trustee by the other provisions of this Agreement or by law, the Trustee is expressly authorized and empowered:

(a) To sell, exchange, convey, transfer, or otherwise dispose of any property held by it, by public or private sale. No person dealing with the Trustee shall be bound to see to the application of the purchase money or to inquire into the validity or expediency of any such sale or other disposition;

(b) To make, execute, acknowledge, and deliver any and all documents of transfer and conveyance and any and all other instruments that may be necessary or appropriate to carry out the powers herein granted;

(c) To register any securities held in the Fund in its own name or in the name of a nominee and to hold any security in bearer form or in book entry, or to combine certificates representing such securities with certificates of the same issue held by the Trustee in other fiduciary capacities, or to deposit or arrange for the deposit of such securities in a qualified central depository even though, when so deposited, such securities may be merged and held in bulk in the name of the nominee of such depository with other securities deposited therein by another person, or to deposit or arrange for the deposit of any securities issued by the United States Government, or any agency or instrumentality thereof, with a Federal Reserve bank, but the books and records of the Trustee shall at all times show that all such securities are part of the Fund;

(d) To deposit any cash in the Fund in interest-bearing accounts maintained or savings certificates issued by the Trustee, in its separate corporate capacity, or in any other banking institution affiliated with the Trustee, to the extent insured by an agency of the Federal or State government; and

(e) To compromise or otherwise adjust all claims in favor of or against the Fund.

Section 9. Taxes and Expenses. All taxes of any kind that may be assessed or levied against or in respect of the Fund and all brokerage commissions incurred by the Fund shall be paid from the Fund. All other expenses incurred by the Trustee in connection with the administration of this Trust, including fees for legal services rendered to the Trustee, the compensation of the Trustee to the extent not paid directly by the Grantor, and all other proper charges and disbursements of the Trustee shall be paid from the Fund.

Section 10. Annual Valuation. The Trustee shall annually, at least 30 days prior to the anniversary date of establishment of the Fund, furnish to the Grantor and to the appropriate EPA Regional Administrator a statement confirming the value of the Trust. Any securities in the Fund shall be valued at market value as of no more than 60 days prior to the anniversary date of establishment of the Fund. The failure of the Grantor to object in writing to the Trustee within 90 days after the statement has been furnished to the Grantor and the EPA Regional Administrator shall constitute a conclusively binding assent by the Grantor, barring the Grantor from asserting any claim or liability against the Trustee with respect to matters disclosed in the statement.

Section 11. Advice of Counsel. The Trustee may from time to time consult with counsel, who may be counsel to the Grantor, with respect to any question arising as to the construction of this Agreement or any action to be taken hereunder. The Trustee shall be fully protected, to the extent permitted by law, in acting upon the advice of counsel.

Section 12. Trustee Compensation. The Trustee shall be entitled to reasonable compensation for its services as agreed upon in writing from time to time with the Grantor.

Section 13. Successor Trustee. The Trustee may resign or the Grantor may replace the Trustee, but such resignation or replacement shall not be effective until the Grantor has appointed a successor trustee and this successor accepts the appointment. The successor trustee shall have the same powers and duties as those conferred upon the Trustee hereunder. Upon the successor trustee's acceptance of the appointment, the Trustee shall assign, transfer, and pay over to the successor trustee the funds and properties then constituting the Fund. If for any reason the Grantor cannot or does not act in the event of the resignation of the Trustee, the Trustee may apply to a court of competent jurisdiction for the appointment of a successor trustee or for instructions. The successor trustee shall specify the date on which it assumes administration of the trust in a writing sent to the Grantor, the EPA Regional Administrator, and the present Trustee by certified mail 10 days before such change becomes effective. Any expenses incurred by the Trustee as a result of any of the acts contemplated by this Section shall be paid as provided in Section 9.

Section 14. Instructions to the Trustee. All orders, requests, and instructions by the Grantor to the Trustee shall be in writing, signed by such persons as are designated in the attached Exhibit A or such other designees as the Grantor may designate by amendment to Exhibit A. The Trustee shall be fully protected in acting without inquiry in accordance with the Grantor's orders, requests, and instructions. All orders, requests, and instructions by the EPA Regional Administrator to the Trustee shall be in writing, signed by the EPA Regional Administrator, and the Trustee shall act and shall be fully protected in acting in accordance with such orders, requests, and instructions, and this Agreement. The Trustee shall have the right to assume, in the absence of written notice to the contrary, that no event constituting a change or a termination of the authority of any person to act on behalf of the Grantor or EPA hereunder has occurred. The Trustee shall have no duty to act in the absence of such orders, requests, and instructions from the Grantor and/or EPA, except as provided for herein.

Section 15. Notice of Nonpayment. The Trustee shall notify the Grantor and the appropriate EPA Regional Administrator, by certified mail within 10 days following the expiration of the 30-day period after the anniversary of the establishment of the Trust, if no payment is received from the Grantor during that period. After the pay-in period is completed, the Trustee shall not be required to send a notice of nonpayment.

Section 16. Amendment of Agreement. This Agreement may be amended by an instrument in writing executed by the Grantor, the Trustee, and the appropriate EPA Regional

Administrator, or by the Trustee and the appropriate EPA Regional Administrator if the Grantor ceases to exist.

Section 17. Irrevocability and Termination. Subject to the right of the parties to amend this Agreement as provided in Section 16, this Trust shall be irrevocable and shall continue until terminated at the written agreement of the Grantor, the Trustee, and the EPA Regional Administrator, or by the Trustee and the EPA Regional Administrator, if the Grantor ceases to exist, or by notice from the Grantor that it has provided alternate financial assurance as authorized under 40 CFR Part 264, Subpart H. Upon termination of the Trust, all remaining trust property, less final trust administration expenses, shall be delivered to the Grantor.

Section 18. Immunity and Indemnification. The Trustee shall not incur personal liability of any nature in connection with any act or omission, made in good faith, in the administration of this Trust, or in carrying out any directions by the Grantor or the EPA Regional Administrator issued in accordance with this Agreement. The Trustee shall be indemnified and saved harmless by the Grantor or from the Trust Fund, or both, from and against any personal liability to which the Trustee may be subjected by reason of any act or conduct in its official capacity, including all expenses reasonably incurred in its defense in the event the Grantor fails to provide such defense.

Section 19. Choice of Law. This Agreement shall be administered, construed, and enforced according to the laws of the State of Michigan.

Section 20. Interpretation. As used in this Agreement, words in the singular include the plural and words in the plural include the singular. The descriptive headings for each Section of this Agreement shall not affect the interpretation or the legal efficacy of this Agreement.

In Witness Whereof the parties have caused this Agreement to be executed by their respective officers duly authorized and their corporate seals to be hereunto affixed and attested as of the date first above written: The parties below certify that the wording of this Agreement is identical to the wording specified in 40 CFR 264.151(a)(1) as such regulations were constituted on the date first above written except where the language has been changed to clarify that Sparton Corporation is establishing this Trust Agreement for Sparton Technology, Inc, as alternate financial assurance under the referenced Consent Decree and to clarify the obligations of the Trustee.

Sparton Corporation

By: *Gregory A. Slome*
[Name] GREGORY A. SLOME
[Title] CFO

Attest: *S.A. Micun*
[Title] Sarah A. Micun
[Seal]

National City Bank

By: _____
[Name]
[Title]

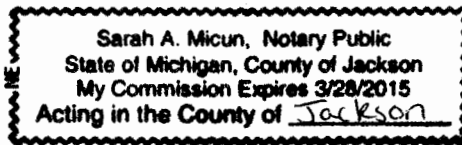
Attest: _____
[Title]
[Seal]

State of Michigan

County of Jackson

On this 15th of October [date], before me personally came Gregory A. Slome
to me known, who, being by me duly sworn, did depose and say that she/he resides at
635 W. Wrightwood, Chicago, IL [address], that she/he is CFO [title] of
Sparton Corporation, the corporation described in and which executed the above instrument; that
she/he knows the seal of said corporation; that the seal affixed to such instrument is such
corporate seal; that it was so affixed by order of the Board of Directors of said corporation, and
that she/he signed her/his name thereto by like order.

S.A. Micun
[Signature of Notary Public]



SCHEDULE A

The facility is the land and improvements including all buildings currently owned by Sparton Technology, Inc. and located at 9621 Coors Road, NW, Albuquerque, Bernalillo County, New Mexico.

The current cost estimate for work under the Consent Decree is \$ 3,129,150.00

The persons that are designated to sign any written orders, requests, and instructions by the Grantor to the Trustee are Gregory A. Slome, Cary B. Wood, and Joseph S. Lerczak.

SCHEDULE B

CD # _____ in the amount of \$3,129,150.00.

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

August 29, 2009

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 \$3,129,150 is based on an effective value date on June 30, 2009, which is consistent with Sparton's fiscal year-end and also the RCRA regulatory requirements. This estimate is \$2,725 higher than the previous estimate provided to Sparton on September 2, 2008. The largest single item reducing the estimate is completion of another year, for a total of 10 of the 30 years of projected time for closure operations. The estimated contribution for the most recently completed fiscal year was \$171,225 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 – 20 Year Summary) As in past years, electricity costs were adjusted based on the previous year's actual costs; in this case FY2009.

The starting point for this update was the estimate provided to Sparton on September 2, 2008 with adjustments made to reflect an estimated effective value as of the end of FY2009, June 30, 2009, covering the project through the estimated remaining life of 20 years. Mr. Tony Hurst was again contacted as part of this update and he provided information, including monthly reports and the 2008 Annual Report, on operations of the systems at the Coors Road Facility. The estimated cost to plug and abandon a site well was also updated based on current costs. 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:

- The average cost of electricity incurred during FY2009 was used to estimate future expenditures. The change increased total electricity costs for the remaining 20 years of the project by approximately \$92,000.
- The annual cost for the lease of water rights was actually \$850 versus an estimate of \$875 which decreased the total cost by \$500.
- Increase annual modeling costs through the life of the project to account for the problems encountered with predicting actual contaminant levels which results in an estimated increase of approximately \$45,000.
- Increase quality check by approximately \$22,000 over the life of the project to account for additional verification of data used in the modeling.
- Plugging and abandoning of wells was increased by \$14,950. This reflects an increase in actual costs to plug and abandon the remaining number of currently active wells at the end of the project as well as MW33 in FY2010.

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

20 Year Summary
Attachment 1

August 29, 2009
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 2010
20 Year Summary

Changes Notes	O&M Expenditures	Material and Service Expenditures (t)				Labor Expenditures (s)				TOTAL TYPICAL ANNUAL COST	2010-2014	2015-2019	2020-2024	2025-2029	Totals
	Offsite Containment II														
	Permits / Licenses										\$308,000	\$308,000	\$0	\$0	\$616,000
	Pipeline Easement	LS	1	500	0%				500	2500	2500	0	0		
	Arroyos Easement	LS	1	3,000	0%				3000	15000	15000	0	0		
1	Operate System - Power (45hp) & Utilities	Month	12	2,133	2400	9%			28000	140000	140000	0	0		
	Influent/Effluent Sampling	Month	12	315	420	11%			4200	21000	21000	0	0		
7	O&M - Equipment (a)	Month	12	1,140	1320	10%			15000	75000	75000	0	0		
	O&M - Labor (b)								10900	54500	54500	0	0		
	Ground water monitoring -see below					156	63.25	1033.00	10%						
	O&M - Chromium Treatment, Complete									0	0	0	0		
	Source Containment										\$185,250	\$185,250	185,250	185,250	\$741,000
2	Operate System - Power	Month	12	900	1200	11%			12000	60000	60000	60000	60000		
	Influent/Effluent Sampling	Month	12	315	420	11%			4200	21000	21000	21000	21000		
7	O&M - Equipment (a)	Month	12	890	1120	10%			11800	59000	59000	59000	59000		
	O&M - Labor (b)								8200	41000	41000	41000	41000		
4	Lease of water rights	LS	1	850	0%				850	4250	4250	4250	4250		
	Deep Flow Zone (DFZ) Monitoring Well MW-79 (r)														
	Complete														
	Evaluation, Analysis & Recommendation										\$316,500	\$280,500	\$280,500	\$280,500	\$1,158,000
5	Quality Check (c)					20	66.00	180.00	14%	1500	7500	7500	7500	7500	
5	Aquifer Model (Estimate) (d)					100	82.50	1250.00	15%	9500	47500	11500	11500	11500	
	Annual Reports Incl. Perf. & Alt. Eval. (e)					50	66.00	700.00	21%	4000	20000	20000	20000	20000	
	Ground Water Monitoring and Sampling														
6	Data Collection and Sampling (f)					255	63.25	1671.25	10%	17800	89000	89000	89000	89000	
6	Sampling Equipment (g)	Sample	86	22.20	190.8	10%			2100	10500	10500	10500	10500		
	Analysis (Lab Costs) (h)	Sample	86	270	2780	12%			26000	130000	130000	130000	130000		
	QA/QC and Data Analysis (i)					26	82.50	255.00	12%	2400	12000	12000	12000	12000	
	Analysis of Additional Modeling Information (j)					180	82.50	1550.00	10%	16400	0	0	0	0	
	Closure										\$1,850	\$0	\$0	\$121,300	\$123,150
3	Plug and Abandon 68 wells	Well	68	1,500	10200	10%			112200	1850	0	0	112200		
	Remove Piping (LS)			1,650	550	33%			2200	0	0	0	2200		
	Closure Certification Report (k)					60	104.50	630.00	10%	6900	0	0	6900		
	Soil Sampling at Infiltration Galleries (l)									0	0	0	6900		
	Project Management										\$122,750	\$122,750	\$122,750	\$122,750	\$491,000
	Management (m)					170	82.50	1375.00	10%	15400	77000	77000	77000	77000	
	Data Tabulation (n)					25	82.50	237.50	12%	2300	11500	11500	11500	11500	
	Monthly Reporting (o)					25	82.50	237.50	12%	2300	11500	11500	11500	11500	
	Annual Reporting (p)					50	82.50	425.00	10%	4550	22750	22750	22750	22750	
	Total O&M Expenditure										\$934,350	\$896,500	\$588,500	\$709,800	\$3,129,150
	Summary														
	Total O&M Expenditure										\$934,350	\$896,500	\$588,500	\$709,800	\$3,129,150 (q)

Changes made from FY2009 Estimate:

1. Offsite Containment O&M Expenditures to operate system - Power (45hp) & Utilities has increased from \$1,758/Unit to \$2,133/Unit and contingency increased from \$2,100 to \$2,400..
This was based on using the average monthly actual electricity cost in FY2009 adjusted for operating 100% of the time.
2. O&M Expenditures to Operate System - Power (12hp) has increased from \$733/Unit to \$900/Unit and contingency increased from \$1,000 to \$1,200 based on average FY2009 monthly actual electricity costs cost adjusted for operating 100% of the time.
3. Updated cost (\$1,500/well plus 10% Contingency) to plug and abandon 68 wells at the end of the project and also included cost to plug and abandon MW-33 in FY2010.
4. Cost for lease of water rights adjusted from \$875/year to \$850/year.
5. Increased estimate for Aquifer Model to \$9,500 per year through 2019 and \$2,300 thereafter due to continuing issues with obtaining convergence on the model. Also increased Quality Check to \$1,500/year (including contingency)
6. No adjustments have been made to cost estimates for sampling and data analysis due to approval to discontinue dissolved oxygen and oxidation/reduction potential data collection due to cost of general water quality meter does not change and time to conduct is minimal.
7. Cost to drill new monitoring well, MW-80, included in equipment costs. Number of wells is still 59 including MW-80 and plugging MW-33.

Notes

- (a) The equipment cost of \$15,000 per year each for offsite systems and \$11,800 per year for the onsite system includes \$170,000 to replace approximately 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 20 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 2019 and 25 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 59 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 with data analysis completed in 2008. Sampling and O&M costs included above.
- (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.

**TRUST AGREEMENT CREATING THE SPARTON CORPORATION
FINANCIAL ASSURANCE TRUST**

This Trust Agreement, the "Agreement," is entered into as of October 15, 2009 by and between Sparton Corporation, an Ohio Corporation, the "Grantor," and National City Bank, a National Bank, the "Trustee."

Whereas, the United States Environmental Protection Agency, "EPA," an agency of the United States Government, has established certain regulations requiring that an owner or operator of a hazardous waste management facility shall provide assurance that funds will be available when needed for closure and/or post-closure care of the facility, which are applicable to Sparton Technology, Inc., the subsidiary of Grantor, pursuant to the consent decree styled *The City of Albuquerque, et al. v. Sparton Technology, Inc.*, Civil Action No. CIV 97 0206 LH/JHG pending in the United States District Court for the District of New Mexico (the "Consent Decree"),

Whereas, the Grantor has elected to establish a trust to provide all or part of such financial assurance for the facilities identified herein,

Whereas, the Grantor, acting through its duly authorized officers, has selected the Trustee to be the trustee under this agreement, and the Trustee is willing to act as trustee,

Now, Therefore, the Grantor and the Trustee agree as follows:

Section 1. Definitions. As used in this Agreement:

(a) The term "Grantor" means Sparton Corporation who enters into this Agreement and any successors or assigns of the Grantor.

(b) The term "Trustee" means the Trustee who enters into this Agreement and any successor Trustee.

(c) The term "EPA Regional Administrator" means the Regional Administrator for EPA Region VI or his designee.

Section 2. Identification of Facilities and Cost Estimates. This Agreement pertains to the facility and cost estimates identified on attached Schedule A.

Section 3. Establishment of Fund. The Grantor and the Trustee hereby establish a trust fund, the "Fund," for the benefit of EPA. The Grantor and the Trustee intend that no third party have access to the Fund except as herein provided. The Fund is established initially as consisting of the property, which is acceptable to the Trustee, described in Schedule B attached hereto. Such property and any other property subsequently transferred to the Trustee is referred to as the Fund, together with all earnings and profits thereon, less any payments or distributions made by the Trustee pursuant to this Agreement. The Fund shall be held by the Trustee, IN TRUST, as

hereinafter provided. The Trustee shall not be responsible nor shall it undertake any responsibility for the amount or adequacy of, nor any duty to collect from the Grantor, any payments necessary to discharge any liabilities of the Grantor established by EPA.

Section 4. Payment for Work Under the Consent Decree. The Trustee shall make payments from the Fund as the EPA Regional Administrator shall direct, in writing, to provide for the payment of the costs of the work under the Consent Decree for the facility covered by this Agreement, upon a demonstration satisfactory to the Trustee that Grantor has failed to faithfully perform work in accordance with the Consent Decree. The Trustee shall reimburse the Grantor from the Fund for expenditures in connection with work under the Consent Decree in such amounts as the EPA Regional Administrator shall direct in writing. In addition, the Trustee shall refund to the Grantor such amounts as the EPA Regional Administrator specifies in writing. Upon refund, such funds shall no longer constitute part of the Fund as defined herein.

Section 5. Payments Comprising the Fund. Payments made to the Trustee for the Fund shall consist of cash or securities acceptable to the Trustee.

Section 6. Trustee Management. The Trustee shall invest and reinvest the principal and income of the Fund and keep the Fund invested as a single fund, without distinction between principal and income, in accordance with general investment policies and guidelines which the Grantor may communicate in writing to the Trustee from time to time, subject, however, to the provisions of this section. In investing, reinvesting, exchanging, selling, and managing the Fund, the Trustee shall discharge his duties with respect to the trust fund in the interest of the beneficiary and with the care, skill, prudence, and diligence under the circumstances then prevailing which persons of prudence, acting in a like capacity and familiar with such matters, would use in the conduct of an enterprise of a like character and with like aims; *except that:*

(i) Securities or other obligations of the Grantor, or any other owner or operator of the facilities, or any of their affiliates as defined in the Investment Company Act of 1940, as amended, 15 U.S.C. 80a-2.(a), shall not be acquired or held, unless they are securities or other obligations of the Federal or a State government;

(ii) The Trustee is authorized to invest the Fund in time or demand deposits of the Trustee; and

(iii) The Trustee is authorized to hold cash awaiting investment or distribution uninvested for a reasonable time and without liability for the payment of interest thereon.

Section 7. Commingling and Investment. The Trustee is expressly authorized in its discretion:

(a) To transfer from time to time any or all of the assets of the Fund to any common, commingled, or collective trust fund created by the Trustee in which the Fund is eligible to participate, subject to all of the provisions thereof, to be commingled with the assets of other trusts participating therein; and

(b) To purchase shares in any investment company registered under the Investment Company Act of 1940, 15 U.S.C. 80a-1 et seq., including one which may be created, managed,

underwritten, or to which investment advice is rendered or the shares of which are sold by the Trustee. The Trustee may vote such shares in its discretion.

Section 8. Express Powers of Trustee. Without in any way limiting the powers and discretions conferred upon the Trustee by the other provisions of this Agreement or by law, the Trustee is expressly authorized and empowered:

(a) To sell, exchange, convey, transfer, or otherwise dispose of any property held by it, by public or private sale. No person dealing with the Trustee shall be bound to see to the application of the purchase money or to inquire into the validity or expediency of any such sale or other disposition;

(b) To make, execute, acknowledge, and deliver any and all documents of transfer and conveyance and any and all other instruments that may be necessary or appropriate to carry out the powers herein granted;

(c) To register any securities held in the Fund in its own name or in the name of a nominee and to hold any security in bearer form or in book entry, or to combine certificates representing such securities with certificates of the same issue held by the Trustee in other fiduciary capacities, or to deposit or arrange for the deposit of such securities in a qualified central depository even though, when so deposited, such securities may be merged and held in bulk in the name of the nominee of such depository with other securities deposited therein by another person, or to deposit or arrange for the deposit of any securities issued by the United States Government, or any agency or instrumentality thereof, with a Federal Reserve bank, but the books and records of the Trustee shall at all times show that all such securities are part of the Fund;

(d) To deposit any cash in the Fund in interest-bearing accounts maintained or savings certificates issued by the Trustee, in its separate corporate capacity, or in any other banking institution affiliated with the Trustee, to the extent insured by an agency of the Federal or State government; and

(e) To compromise or otherwise adjust all claims in favor of or against the Fund.

Section 9. Taxes and Expenses. All taxes of any kind that may be assessed or levied against or in respect of the Fund and all brokerage commissions incurred by the Fund shall be paid from the Fund. All other expenses incurred by the Trustee in connection with the administration of this Trust, including fees for legal services rendered to the Trustee, the compensation of the Trustee to the extent not paid directly by the Grantor, and all other proper charges and disbursements of the Trustee shall be paid from the Fund.

Section 10. Annual Valuation. The Trustee shall annually, at least 30 days prior to the anniversary date of establishment of the Fund, furnish to the Grantor and to the appropriate EPA Regional Administrator a statement confirming the value of the Trust. Any securities in the Fund shall be valued at market value as of no more than 60 days prior to the anniversary date of establishment of the Fund. The failure of the Grantor to object in writing to the Trustee within 90 days after the statement has been furnished to the Grantor and the EPA Regional Administrator shall constitute a conclusively binding assent by the Grantor, barring the Grantor from asserting any claim or liability against the Trustee with respect to matters disclosed in the statement.

Section 11. Advice of Counsel. The Trustee may from time to time consult with counsel, who may be counsel to the Grantor, with respect to any question arising as to the construction of this Agreement or any action to be taken hereunder. The Trustee shall be fully protected, to the extent permitted by law, in acting upon the advice of counsel.

Section 12. Trustee Compensation. The Trustee shall be entitled to reasonable compensation for its services as agreed upon in writing from time to time with the Grantor.

Section 13. Successor Trustee. The Trustee may resign or the Grantor may replace the Trustee, but such resignation or replacement shall not be effective until the Grantor has appointed a successor trustee and this successor accepts the appointment. The successor trustee shall have the same powers and duties as those conferred upon the Trustee hereunder. Upon the successor trustee's acceptance of the appointment, the Trustee shall assign, transfer, and pay over to the successor trustee the funds and properties then constituting the Fund. If for any reason the Grantor cannot or does not act in the event of the resignation of the Trustee, the Trustee may apply to a court of competent jurisdiction for the appointment of a successor trustee or for instructions. The successor trustee shall specify the date on which it assumes administration of the trust in a writing sent to the Grantor, the EPA Regional Administrator, and the present Trustee by certified mail 10 days before such change becomes effective. Any expenses incurred by the Trustee as a result of any of the acts contemplated by this Section shall be paid as provided in Section 9.

Section 14. Instructions to the Trustee. All orders, requests, and instructions by the Grantor to the Trustee shall be in writing, signed by such persons as are designated in the attached Exhibit A or such other designees as the Grantor may designate by amendment to Exhibit A. The Trustee shall be fully protected in acting without inquiry in accordance with the Grantor's orders, requests, and instructions. All orders, requests, and instructions by the EPA Regional Administrator to the Trustee shall be in writing, signed by the EPA Regional Administrator, and the Trustee shall act and shall be fully protected in acting in accordance with such orders, requests, and instructions, and this Agreement. The Trustee shall have the right to assume, in the absence of written notice to the contrary, that no event constituting a change or a termination of the authority of any person to act on behalf of the Grantor or EPA hereunder has occurred. The Trustee shall have no duty to act in the absence of such orders, requests, and instructions from the Grantor and/or EPA, except as provided for herein.

Section 15. Notice of Nonpayment. The Trustee shall notify the Grantor and the appropriate EPA Regional Administrator, by certified mail within 10 days following the expiration of the 30-day period after the anniversary of the establishment of the Trust, if no payment is received from the Grantor during that period. After the pay-in period is completed, the Trustee shall not be required to send a notice of nonpayment.

Section 16. Amendment of Agreement. This Agreement may be amended by an instrument in writing executed by the Grantor, the Trustee, and the appropriate EPA Regional

Administrator, or by the Trustee and the appropriate EPA Regional Administrator if the Grantor ceases to exist.

Section 17. Irrevocability and Termination. Subject to the right of the parties to amend this Agreement as provided in Section 16, this Trust shall be irrevocable and shall continue until terminated at the written agreement of the Grantor, the Trustee, and the EPA Regional Administrator, or by the Trustee and the EPA Regional Administrator, if the Grantor ceases to exist, or by notice from the Grantor that it has provided alternate financial assurance as authorized under 40 CFR Part 264, Subpart H. Upon termination of the Trust, all remaining trust property, less final trust administration expenses, shall be delivered to the Grantor.

Section 18. Immunity and Indemnification. The Trustee shall not incur personal liability of any nature in connection with any act or omission, made in good faith, in the administration of this Trust, or in carrying out any directions by the Grantor or the EPA Regional Administrator issued in accordance with this Agreement. The Trustee shall be indemnified and saved harmless by the Grantor or from the Trust Fund, or both, from and against any personal liability to which the Trustee may be subjected by reason of any act or conduct in its official capacity, including all expenses reasonably incurred in its defense in the event the Grantor fails to provide such defense.

Section 19. Choice of Law. This Agreement shall be administered, construed, and enforced according to the laws of the State of Michigan.

Section 20. Interpretation. As used in this Agreement, words in the singular include the plural and words in the plural include the singular. The descriptive headings for each Section of this Agreement shall not affect the interpretation or the legal efficacy of this Agreement.

In Witness Whereof the parties have caused this Agreement to be executed by their respective officers duly authorized and their corporate seals to be hereunto affixed and attested as of the date first above written: The parties below certify that the wording of this Agreement is identical to the wording specified in 40 CFR 264.151(a)(1) as such regulations were constituted on the date first above written except where the language has been changed to clarify that Sparton Corporation is establishing this Trust Agreement for Sparton Technology, Inc, as alternate financial assurance under the referenced Consent Decree and to clarify the obligations of the Trustee.

Sparton Corporation

By: *Gregory A. Slome*
[Name] GREGORY A. SLOME
[Title] CFO

Attest: *S.A. Moun*
[Title] Sarah A. Moun
[Seal]

National City Bank

By: *Craig S. Haynes*
[Name] CRAIG S. HAYNES
[Title] VICE PRESIDENT

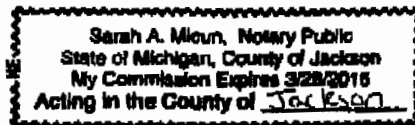
Attest: _____
[Title]
[Seal]

State of Michigan

County of Jackson

On this 15th of October [date], before me personally came Gregory A. Slome to me known, who, being by me duly sworn, did depose and say that she/he resides at 635 W. Wristwood, Chicago, IL [address], that she/he is CFO [title] of Sparton Corporation, the corporation described in and which executed the above instrument; that she/he knows the seal of said corporation; that the seal affixed to such instrument is such corporate seal; that it was so affixed by order of the Board of Directors of said corporation, and that she/he signed her/his name thereto by like order.

S.A. Moun
[Signature of Notary Public]



SCHEDULE A

The facility is the land and improvements including all buildings currently owned by Sparton Technology, Inc. and located at 9621 Coors Road, NW, Albuquerque, Bernalillo County, New Mexico.

The current cost estimate for work under the Consent Decree is \$ 3,129,150.00

The persons that are designated to sign any written orders, requests, and instructions by the Grantor to the Trustee are Gregory A. Slome, Cary B. Wood, and Joseph S. Lerczak.

SCHEDULE B

CD # _____ in the amount of \$3,129,150.00.