

**Sparton Corporation  
Corporate Governance Guidelines**

**A. GOVERNANCE PHILOSOPHY**

Our standard is, and will continue to be, to conduct our business at the highest ethical level and to comply with all applicable laws and regulations. Though our business environment will change, our commitment to ethical and moral standards of business conduct must remain constant. Indeed, we must remain focused on and committed to *The Sparton Way*. *The Sparton Way* states that our employees, officers and directors shall be:

- ❖ Dedicated to the conduct of our business at the highest ethical level.
- ❖ Dedicated to being a good corporate citizen in the communities where our manufacturing facilities are located.
- ❖ Dedicated to the design and manufacture of superior quality products in the most efficient manner possible and at the lowest possible cost.
- ❖ Dedicated to serving our customers to the utmost of our ability by making continuing contributions that support their progress.
- ❖ Dedicated to constantly improving our Corporation's technology base to better serve our customers.
- ❖ Dedicated to the implementation of new ideas and new processes in order to be the low cost producer in our chosen markets.
- ❖ Dedicated to making our Corporation grow faster than the economy.
- ❖ Dedicated to the maximization of shareowner value.
- ❖ Dedicated to honest and open communications with all who are involved in Sparton's business.
- ❖ Dedicated to providing a work environment that is safe and clean and one where our employee/associates can achieve their highest potential during their working years.

To accomplish these goals requires effective board governance. Therefore, our Board of Directors has adopted the following guidelines regarding the corporate governance of Sparton Corporation:

**B. RESPONSIBILITIES OF THE BOARD OF DIRECTORS**

**1. General Authority and Responsibility**

The Board is elected by the shareholders to oversee their interests in the long-term performance and overall success of the enterprise. The Board serves as the ultimate decision-making body of the Corporation except for those matters reserved to or shared with its shareholders. Members of the Board are expected to exercise their business judgment and to act in good faith and in a manner he or she reasonably believes to be in the best interest of the Corporation and its shareholders. The primary responsibilities of the Board are oversight, counseling and direction to the management of the Corporation in the interest and for the benefit of the Corporation's shareholders. The Board's detailed responsibilities, some of which are conducted through Committees of the Board, include:

- (a) Selecting, regularly evaluating the performance of, and approving the compensation of the Chief Executive Officer and other senior executives;
- (b) Planning for succession with respect to the position of Chief Executive Officer and monitoring management's succession planning for other senior executives;
- (c) Reviewing and, where appropriate, approving the Corporation's major financial objectives, strategic and operating plans and actions;
- (d) Overseeing the conduct of the Corporation's business to evaluate whether the business is being properly managed;
- (e) Overseeing the processes for maintaining the integrity of the Corporation with regard to its financial statements and other public disclosures, and compliance with law and ethics; and
- (f) Assessing major risk factors relating to the Corporation and its performance, and reviewing measures to address and mitigate risk.

The Board of Directors has delegated to the Chief Executive Officer, working with the other executive officers of the Corporation, the authority and responsibility for managing the business of the Corporation in a manner consistent with the Corporation's standards, practices, and policies, and in accordance with any specific plans, instructions or directions of the Board. The Chief Executive Officer and management are responsible to seek the advice and, in appropriate situations, the approval of the Board with respect to extraordinary actions to be undertaken by the Corporation.

**2. Meeting Attendance**

Directors are expected to prepare for, attend and participate in all Board and applicable Committee meetings, and to devote the requisite time and effort necessary to fulfill their respective responsibilities.

**C. BOARD COMPOSITION**

**1. Size of the Board and Classification**

The Board will have at least nine (9) members divided into three classes as nearly equal in number as possible, unless otherwise determined in accordance with the Corporation's Code of Regulations. Board members shall be elected for staggered terms of three years.

**2. Board Independence**

A majority of our Board will be "independent." Our Corporation defines an "independent" director in accordance with the New York Stock Exchange listing standards for independent directors (NYSE Listed Company Manual Rule 303A.01 and 303A.02).

Because it is not possible to anticipate or explicitly provide for all potential conflicts of interest or relationships which may affect independence, the Board is responsible to affirmatively determine that each independent director has no material relationship with the Corporation or its affiliates or with any executive officer of the Corporation or his or her affiliates. A relationship will be considered "material" if in the judgment of the Board it would interfere with the director's independent judgment.

**3. Business Relationships with Directors**

For the purpose of minimizing the risk of actual or perceived conflicts of interest, any monetary arrangement (other than director compensation, employee compensation, or amounts considered immaterial) between a director (including any member of a director's family as required under the NYSE Listed Company Manual Rules) and the Corporation or any of its affiliates or members of senior management or their family shall be subject to approval by the Nominating/Governance Committee or the Board as a whole. Each Director must notify the Chief Executive Officer before entering into any such transaction.

**4. Selection of New Director**

The Nominating/Governance Committee has the responsibility to screen all potential candidates for participation on the Board. The Board will fill vacancies in the manner established in the Corporation's Code of Regulations.

**5. Board Membership Criteria**

To meet the Corporation's needs in a rapidly changing environment, Sparton Corporation requires a high-performance Board whose members subscribe to our values and meet the specific resource needs of the business. The Nominating/Governance Committee is responsible for reviewing with the Board from time to time the appropriate experiences, skills and characteristics required of Board members in the context of the current make-up of the Board.

**6. Other Board/Audit Committee Memberships**

Board members will disclose all involvement in business and philanthropic boards and related audit committee assignments consistent with the requirements of the NYSE Listed Company Manual, as amended.. These commitments will be considered as part of the annual review process. Board members are generally discouraged from participation on more than three public Corporation boards (including the Sparton Corporation board).

**7. Directors with a Material Change in Status**

Board members who retire or change positions held, or otherwise have a material change in status, shall offer to resign from the Board. Although this will prompt a review, the Board need not accept the offer of resignation.

Any employee who becomes a member of the Board, including the Chief Executive Officer, will offer to resign from the Board upon termination of employment. The employee may be invited, however, to serve the remainder of his or her term and be nominated for additional terms at the discretion of the Board.

The Nominating/Governance Committee shall review and recommend to the Board the appropriateness of continued Board membership when offers to resign are received.

**8. Separation of the Position of Chairperson and CEO**

The Board believes the roles of Chief Executive Officer and Chairperson should be separated. If the positions are combined, the Board will closely monitor the performance and working relationship between the Chief Executive Officer/Chairperson and the Board.

**9. Board Compensation**

It is the general policy of the Board that Board compensation should be a mix of cash and equity-based compensation. Independent directors may not receive

consulting, advisory or other compensatory fees from the Corporation, in addition to their Board compensation, in amounts which causes them to lose their independence. Changes in Board compensation, if any, shall be based on the recommendation of the Corporation's Compensation Committee, but with full concurrence and discussion by the Board. The Committee's recommendation may be based on information provided by independent consultants.

## **D. BOARD MEETINGS AND MATERIALS**

### **1. Scheduling and Selection of Agenda Items for Board Meetings**

Board meetings are scheduled in advance, typically four to six meetings each year plus an annual meeting. In addition to regularly scheduled meetings, additional Board meetings may be called upon appropriate notice at any time to address specific needs of the Corporation. The Board may also take action from time to time by unanimous written consent.

The Chairman of the Board, in consultation with the Chief Executive Officer, and with the assistance of management, prepares the agenda for each meeting and distributes it in advance to members of the Board. Each director may propose the inclusion of items on the agenda, request the presence of or a report by any member of the Corporation's management, or at any Board meeting raise subjects that are not on the agenda for that meeting.

Directors are encouraged to keep themselves informed about the Corporation's affairs between Board meetings through direct individual contacts with members of the Corporation's senior management, as well as among Board members. Members of senior management and the Corporation's legal advisors and key consultants shall make themselves generally accessible to members of the Board and respond, as soon as reasonably practical, to matters of inquiry.

### **2. Board Material Distributed in Advance**

Information that is important to the Board's understanding of the business, Board or Committee meeting agendas and material related to agenda items should be distributed (either in hard copy or electronically) to Board members in advance of the meeting. Supplemental written materials will be provided to the Board on a periodic basis and at any time upon request of Board members.

### **3. Access to Senior Management and Employees and Board Presentations**

The Board and each Committee of the Board have complete access to contact and meet with senior management and employees. The Board encourages management to schedule from time to time managers to present at Board meetings who: (a) have knowledge and expertise with respect to an agenda item to be

discussed, or (b) have future potential that management believes should be given exposure to the Board.

**4. Independent Directors' Discussions**

The independent directors of the Board will meet in at least two regularly scheduled meetings. Additional meetings will be held if warranted at the request of an independent director to the presiding independent director. A presiding director will be elected by the independent directors, who will chair the meetings and assume such responsibilities as may be designated by the independent directors. Independent directors may make recommendations for consideration by the full Board, but will not take formal action.

**5. Non-Management Directors' Discussions**

The non-management directors of the Board will meet at least once annually in a scheduled meeting. A presiding director will be elected by the non-management directors, who will chair the meetings and assume such responsibilities as may be designated by the non-management directors. Non-management directors may make recommendations for consideration by the full Board, but will not take formal action.

**6. Annual Review of Directors and the Board**

The Nominating/Governance Committee, in conjunction with the Chief Executive Officer, will conduct an annual review of overall Board performance. In addition, the Committee will review performance of individual Board members who are approaching re-election.

**7. Director Orientation and Continuing Education**

The Nominating/Governance Committee in conjunction with the Chief Executive Officer is responsible for new-director orientation programs and for director continuing education programs. The orientation programs are designed to familiarize new directors with the Corporation's businesses, strategies and challenges. Members of the Board are encouraged to attend and participate in director training and continuing education programs. Provided that a director receives the prior approval of the Chairman of the Board or the Chairman of the Nominating/Corporate Governance Committee to attend such training or continuing education program, the cost of that program will be reimbursed by the Corporation.

**E. BOARD COMMITTEES**

**1. Committees**

Committees shall be established by the Board from time to time to facilitate and assist in the execution of the Board's responsibilities. Committees may be standing or *ad hoc*. There are currently four standing committees:

Audit Committee  
Compensation Committee  
Executive Committee  
Nominating/Governance Committee

Each member of the Audit Committee, Compensation Committee, and Nominating/Governance Committee must be independent, as provided under the NYSE listing standards, and each member of the Audit Committee must meet the independence standards imposed by the Sarbanes-Oxley Act of 2002.

Each Committee will have a written charter, approved by the Board, which describes the Committee's general authority, duties and responsibilities. A copy of each charter will be posted on the Corporation's web site. Each Committee will undertake an annual review of its charter, and will work with the Nominating/Governance Committee and the Board to make such revisions as are considered appropriate.

Each Committee has the authority to engage outside experts, advisers and counsel to the extent it considers appropriate to assist the Committee in its work.

Each Committee will regularly report to the Board concerning the Committee's activities.

**2. Assignment and Term of Service of Committee Members**

The Board is responsible for the annual appointment of Committee members and Committee chairpersons.

**F. ANNUAL REVIEW OF GOVERNANCE GUIDELINES**

The Nominating/Governance Committee of the Board of Directors shall review these Governance Guidelines on at least an annual basis and report any recommendations to the Board.

**G. AVAILABILITY OF GUIDELINES**

These Governance guidelines shall be posted on the Corporation's website and referenced in the Corporation's annual proxy statements.

May 1, 2007

Effective: April 23, 2004.  
Revised: May 1, 2007.