

CORPORATE GOVERNANCE GUIDELINES THE ALLIED DEFENSE GROUP, INC.

Responsibility of the Board

The primary mission of the Board of Directors (the "Board") of The Allied Defense Group, Inc. (the "Company") is to advance the interests of the Company's stockholders by creating a business of sustainable and growing value over the long term. The Board is elected to oversee the management of the Company. The Board's principal oversight functions relate to:

- The Company's fundamental business and financial strategies, including any material acquisition or financing transactions;
- The selection, evaluation and compensation of the Chief Executive Officer ("CEO"); the selection (in consultation with the CEO), evaluation and compensation of other senior managers; and senior management succession generally;
- Material risks the Company confronts and methods developed and to be implemented by management to mitigate or manage such risks; and
- The Company's procedures for compliance with legal and other requirements and the creation of policies to promote the highest standards of ethics, integrity and good corporate citizenship.

In discharging their obligations, directors should be entitled to rely on the honesty and integrity of the Company's senior executives and its outside advisors and auditors.

Board Composition

A majority of the members of the Board must be "independent" as defined by the requirements of the primary trading market or securities exchange on which the Company's securities are traded (currently the American Stock Exchange, or the "Amex"). The Board must make an affirmative determination with respect to each Director's independence to the extent required by the Amex. The Board presently has seven members, and it is the present sense of the Board that a size of between five and eight is appropriate. Currently, four of the seven members are independent. The Board will determine the number of directors as permitted in the Company's certificate of incorporation or by-laws, as applicable, and will periodically review the size of the Board after consultation with the Nominating Committee of the Board (the "Nominating Committee").

The Board's present sense is that the positions of Chairman of the Board and the CEO should be filled by separate persons.

Board members are expected to prepare for, attend and participate in the annual meeting of stockholders, Board meetings, and meetings of Board committees on which they serve and to devote the time necessary to appropriately discharge their responsibilities. Each Board member is expected to ensure that other commitments do not materially interfere with the member's service as a director.

The Board's present sense is that service by its members on other boards of directors is not objectionable so long as such service does not impair the ability of a director to fulfill his responsibilities to the Company. In view of the varying demands imposed by particular

boards, the Board's present sense is that an arbitrary limit by the Company on the number or type of such other involvements is not appropriate. Directors should, however, advise the Chairman of the Board and the Chairman of the Nominating Committee in advance of accepting an invitation to serve on the board of directors of another public company. Additionally, the CEO and other executive officers must (i) obtain the approval of the Board before accepting membership on the board of any other public company, and (ii) notify the Board through the CEO before accepting membership on any other boards (or similar bodies), including private, corporate, and charitable boards. Each director must notify the Chairman of the Nominating Committee of a change in his or her principal occupation or employment. The Board, based upon the recommendation of the Nominating Committee, should consider whether a change in an individual's principal occupation or employment may reasonably be expected to directly or indirectly impact that person's ability to fulfill his or her obligations as a director of the Company. Any director who is an employee of the Company should submit his or her resignation from the Board upon retirement, resignation or termination of employment. The Board may accept or reject any such resignation in its discretion.

The Board's present sense is that it should not establish term limits for directors. While term limits could help insure that there are fresh ideas and viewpoints available to the Board, they hold the disadvantage of losing the contribution of directors who have been able to develop, over a period of time, increasing insight into the Company and its operations and, therefore, provide an increasing contribution to the Board as a whole.

The Board's present sense is that age alone should not determine whether an individual should serve as a director and, therefore, does not believe that a mandatory retirement age for directors is appropriate.

Director Selection

The Nominating Committee is responsible for reviewing with the Board the appropriate skills and experience required of Board and committee members. This assessment should include factors such as judgment, experience, leadership, relevant industry or regulatory affairs knowledge, the interplay of the candidate's experience with the experience of other Board members, and the requirements of applicable law and the Amex.

The Nominating Committee will recommend candidates for election to the Board in accordance with the policies and principles in its charter and the criteria described in these guidelines. The invitation to join the Board should be extended by the Board via the Chairman of the Board. The CEO will make recommendations to the Board regarding orientation for new directors.

Director Compensation and Performance

It is the policy of the Board to provide independent directors with compensation which appropriately reflects the obligations and responsibilities of the Board and its committees and is competitive in the marketplace. The compensation of non-management directors may include stock or stock-based elements to contribute to aligning the directors' financial interests with those of the Company's stockholders. Proposed changes in Board compensation will be initially reviewed by the Compensation Committee, but any changes in the compensation of directors must be approved by the full Board. The Compensation Committee will periodically review the status of Board compensation in relation to other

comparable companies and such other factors as it deems appropriate and will discuss its review with the Board.

Except for employment arrangements with those members of the Company's management that serve on the Board and commercial arrangements entered into in the ordinary course of business on arm's-length terms that are consistent with the requirements of the Amex, the Company does not engage in transactions with directors or their affiliates if the transaction would cast into doubt the independence of a director or is otherwise prohibited by law, rule or regulation. This prohibition includes any extension, maintenance or renewal of an extension of credit to any director or member of management of the Company. This prohibition also includes significant business dealings with directors or their affiliates, substantial charitable contributions by the Company to organizations in which a director is affiliated, and consulting contracts with, or other indirect forms of compensation to, a director. Under exceptional circumstances, a waiver of this policy may be approved by the Board or the Ethics and Governance Committee. Related party transactions involving directors shall be reviewed and approved by the Board or any appropriate committee thereof as required by the Amex or applicable law.

Board Meetings

Regularly scheduled Board meetings are held periodically throughout each calendar year. The Board also holds special meetings as required. The Chairman of the Board and the CEO will establish the agenda for each Board meeting. Each Board member may submit suggested items to be included on the agenda. Board members may also raise subjects that are not on the agenda at any meeting. Information that is important to the Board's understanding of the Company's business should be distributed to the Board members a reasonable period of time before the Board meeting.

The independent directors will have an annual meeting, at the time of the annual shareholders meeting, at which only independent directors are present; however, the Chairman of the Board or a majority of the independent directors may call a meeting of the independent directors at any time. The senior serving independent director will supervise the conduct of the meeting of independent directors and communicate meeting results to the Chairman of the Board and the CEO.

Directors will have full access to officers and employees of the Company and, as the Chairman of the Board or any committee chairman determines to be necessary and appropriate, the Company's independent advisers, including legal counsel and independent accountants. Any meetings or contacts a director wishes to initiate may be arranged through the CEO. The directors will use their judgment to ensure that any such contact is not disruptive to the business operations of the Company and will, to the extent appropriate, provide the Chairman of the Board and the CEO with a copy of any written communications between a director and an officer or employee of, or adviser to, the Company. The Board encourages senior management to invite to Board meetings officers and other key employees who can provide additional insight into the items being discussed, or that senior management believes should be given exposure to the Board.

The Board believes that senior management speaks for the Company. Individual Board members may, from time to time, meet or otherwise communicate with the media or various constituencies that are involved with the Company, but it is expected that Board

members would do so with the knowledge of senior management and, in most instances, at the request of senior management.

Board Committees

The Board will have at all times an Ethics and Governance Committee, an Audit Committee, a Compensation Committee, and a Nominating Committee (the "Key Committees"). The Board may also have such other committees as it deems appropriate from time to time. Committees will receive authority exclusively through delegation from the Board through the by-laws, Board resolutions, committee charters, as provided by these guidelines, or as required by applicable law.

Committee members will be appointed by the Board with consideration of the requirements of applicable law and the Amex, the background of the various directors, the desires of individual directors, and other factors as the Board from time to time may deem relevant. Each committee chairman, in consultation with the committee members, the Chairman of the Board, and the CEO, will determine the frequency of committee meetings consistent with the committee's charter, provided that a majority of committee members may call a meeting of the committee on which they are members at any time. Each Committee shall hold an executive session from time to time as required or deemed necessary by any member.

Each Key Committee will have a written charter approved by the Board. These charters will set forth the purposes and responsibilities of the Key Committees as well as qualifications for committee membership and such other matters as the Board from time to time may deem relevant. The Key Committee charters will be posted on the Company's website.

Management Succession

The Board will select the CEO. The Compensation Committee will conduct an annual review of the performance of the CEO and any other executive officers of the Company in light of the goals and objectives of the Company. The Compensation Committee will set the CEO's compensation based on such factors as it deems appropriate.

The Nominating Committee will periodically make a report to the Board on succession planning in regards to principal corporate headquarters and the leadership of the subsidiaries. The Company's succession plan will include appropriate contingencies in case the Chairman of the Board or the CEO retires or is incapacitated. The Board, with the assistance of the Nominating Committee, will evaluate potential successors to the Chairman of the Board and the CEO. The Chairman of the Board and the CEO should, at all times, make available to the Board and the Nominating Committee their recommendations and evaluations of potential successors, along with a review of any development plans recommended for such individuals.

Conduct of the Board

The Board will perform its duties and responsibilities in accordance with the Company's certificate of incorporation, by-laws, Code of Ethics and Standards of Conduct, and applicable laws, rules and regulations. State and federal laws, as well as the requirements of the Amex, impose numerous requirements relating to the functioning of the Board of Directors. The Board intends to comply with such requirements. While the Board is familiar with the requirements, the Board necessarily relies on management and counsel to identify specific requirements and changes applicable to the Board and the decisions it

is called upon to make. In addition to such requirements, the Board has adopted the guidelines set forth above to assist it in carrying out its functions. The Board will operate within these guidelines and, when applicable, apply them to particular actions or decisions in the manner it determines to be in the best interests of the Company.

Code of Ethical Conduct

The Company has adopted a Code of Ethical Conduct and other internal policies and guidelines designed to support the mission statement set forth above and to comply with the laws, rules and regulations that govern the Company's business operations. The Code of Ethical Conduct applies to all employees of the Company and its subsidiaries, as well as to the members of the Board. In addition, the Company has adopted a Code of Ethical Conduct for Financial Officers which applies to the CEO, CFO, and Controller of the Company. The Ethics and Governance Committee shall monitor compliance with the Code of Ethical Conduct, the Code of Ethical Conduct for Financial Officers, and other internal policies and guidelines.

Indemnification

The Company provides reasonable directors' and officers' liability insurance for the directors and shall indemnify the directors to the fullest extent permitted by law and the Company's certificate of incorporation and by-laws.

Periodic Review

The Company's Board of Directors will periodically evaluate the performance and effectiveness of the Audit Committee. Factors related to the effectiveness of the oversight include:

- The independence of the committee members from management;
- The clarity with which the audit committee's responsibilities are articulated (e.g., in the audit committee's charter) and how well the audit committee and management understand those responsibilities;
- The audit committee's involvement and interaction with the independent auditor, as well as interaction with key members of financial management, including the CFO and Controller;
- Whether the right questions are raised and pursued with management and the auditor, including questions that indicate an understanding of the critical accounting policies and judgmental accounting estimates; and
- The responsiveness to issues raised by the external auditors.

The Board will periodically review and amend these Corporate Governance Guidelines as it deems appropriate. Annually, the Ethics and Governance Committee will conduct an informal review and appraisal of the Board's performance based on the procedures outlined herein.