

The Allied Defense Group, Inc. (ADG) Compensation Committee Charter

1. Purpose

The primary function of the Compensation Committee (the "Committee") will be to assist the Board of Directors in fulfilling its responsibility to the shareholders, potential shareholders, and investment community. The Committee will ensure that the corporation's officers, key executives, and board members are compensated in accordance with the Corporation's total compensation objectives and executive compensation policy. The Committee shall advise, recommend, and approve compensation policies, strategies, and pay levels necessary to support the Corporation's objectives.

The Committee will maintain free and open communication between the members of the Board of Directors and the Chief Executive Officer of the Corporation.

2. Composition

The Committee will consist of a minimum of two outside directors, each of whom meets the independence and experience requirements of the American Stock Exchange, the Securities Exchange Act of 1934, and the rules and regulations of the Securities and Exchange Commission, who are not employed by the Corporation, and are free of any relationship that would interfere with their exercise of independent judgment as a Committee Member. The Committee Chairman and Committee assignments will be recommended to the Board of Directors by the Chairman of the Board. These individuals will then be appointed by the Board of Directors and serve at the pleasure of the Board.

3. Meetings

The Committee will meet as often as it determines is appropriate to carry out its responsibilities, but must meet once formally per year. The Chair of the Committee, in consultation with the other Committee members, will determine the frequency and length of the meetings, and will set the agenda consistent with this Charter

4. Responsibilities and Duties

The Committee's policies will remain flexible to react to changing conditions and to ensure to the Board of Directors and shareholders that: (1) the achievement of the overall goals and objectives of the Corporation can be supported by adopting an appropriate executive compensation program, (2) and that the total

compensation program and practices of the Corporation are consistent with all accounting, tax, securities law, and regulatory requirements.

The Committee will:

- (a) Assist the Corporation in defining an executive and total compensation policy that (1) supports the Corporation's overall business strategy and objectives, (2) attracts and retains key executives, (3) links total compensation with business objectives and organizational performance in good and bad times, and (4) provides competitive total compensation opportunities at a reasonable cost per Management Performance Objectives (MPO).
- (b) Act on behalf of the Board of Directors to set executive compensation policy, administer compensation plans approved by the Board of Directors and shareholders, and make decisions or develop recommendations for the Board of Directors with respect to the compensation of the Corporation's executives.
- (c) Determine the annual base salary, annual incentive opportunity, long-term incentive opportunity, executive perquisites, employment agreement (if and when appropriate), change in control provisions/agreements (if and when appropriate), benefits and supplemental benefits of the Chief Executive Officer. The Chief Executive Officer will determine the annual base salary, annual incentive opportunity, long-term incentive opportunity, executive perquisites, employment agreement (if and when appropriate), change in control provisions/agreements (if and when appropriate), benefits and supplemental benefits of the key executive officers and direct reporting General Managers. The CEO will inform the Committee (in advance) of his determination for compensation enhancement for key executive officers.
- (d) Review the Corporation's strategic and financial plans to determine their relationship to the compensation program.
- (e) Approve MPOs established before the start of the plan year and determine when MPO goals have been achieved at the end of the plan year.
- (f) Oversee and approve new incentive plans developed by management to ensure they are consistent with executive compensation policy.
- (g) Monitor the appropriateness of payouts under alternative business scenarios.
- (h) Oversee and approve the retirement plans of the Corporation. Determine any differences between plan objectives, needs, current benefits, amendments, and the results of the retirement plan investments for compliance with organization policies, tax law, Employee Retirement Income Security Act of 1974 (ERISA), and related legal requirements.

(i) Compare group health care benefits provided against benefits of other organizations in the same industry, and evaluate the risk sharing and funding for any self-administered benefits plans as well as the cost and effectiveness of plan administration.

(j) Keep abreast of current developments in executive compensation outside the company.

(k) Annually provide an information briefing to the entire Board of Directors on compensation matters and executive pay to include performance bonuses.

The Committee must distinguish its oversight responsibility from involvement in the company's day-to-day management. The Committee shall work in concert with the Audit and Ethics and Governance Committees. The Committee must work with management in accordance with its charter to demonstrate a clear relationship of pay levels to the organization's performance. The Committee will always be mindful of the fact that compensation structures that are not properly aligned with organizational objectives become a barrier to the Corporation's effectiveness in delivering sustainable returns to shareholders.

The Committee may employ an independent compensation consultant if necessary and approved by the Chairman of the Board.

5. Committee Charter

The Committee will periodically review this Charter and will recommend any changes to the Chairman and the Board as the Committee deems appropriate, including satisfying any applicable requirements of the American Stock Exchange and any other legal or regulatory requirements. A copy of this Charter will be made available on the Corporation's website at www.allieddefensegroup.com

The supersedes Compensation Committee Charter dated September 26, 1996