State of New Jersey

DEPARTMENT OF ENVIRONMENTAL PROTECTION

JON S. CORZINE
Governor

LISA P. JACKSON
Commissioner

Enforcement and Assignment Element
401 East State Street
P.O. Box 028
Trenton, NJ 08625-0028
Phone #: 609-633-1480
Fax #: 609-633-1439

October 17, 2008

Hoy E. Frakes, Jr., President
Shieldalloy Metallurgical Corporation
545 Beckett Road, Suite 208
Swedesboro, NJ 08085

Marc S. Faecher, Senior Vice President
TRC Companies, Inc.
57 East Willow Street
Millburn, NJ 07041

Re: Shieldalloy Metallurgical Corporation
35 South West Boulevard
Newfield Borough, Gloucester County, New Jersey
PI# 000297

Dear Messrs. Frakes and Faecher:

A meeting was held on September 22, 2008, among the United States Environmental Protection Agency (EPA), Shieldalloy Metallurgical Corporation (SMC), TRC Environmental Corporation (TRC) and the New Jersey Department of Environmental Protection (DEP) to discuss EPA's September 2, 2008 letter (attached). In the letter EPA advised that it was assuming lead oversight responsibility with regard to completion of the remedial investigation, feasibility study and remedial design activities at the Newfield site and invited SMC to enter into a settlement agreement to conduct the work. SMC and TRC jointly requested the meeting to help clarify some of the issues before responding to the EPA letter with a good faith offer to do the work.

A major concern expressed by SMC and TRC at the meeting is the transition of lead oversight responsibilities from DEP to EPA since the remediation is currently proceeding under the February 2, 2006 Administrative Consent Order (ACO) that accommodated the Exit Strategy agreement between SMC and TRC. The concern stems in part from a statement in the letter that says that the transition would not affect in any way the legal obligations of SMC and TRC to the State of New Jersey under the existing state agreements. SMC and TRC expressed concern about having to comply with two different oversight documents with two different agencies.

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As explained at the meeting, it is not the intent of the agencies to impose duplicative requirements on SMC and TRC, but SMC and TRC's responsibilities to each agency will change as EPA takes over.

The ACO defines the remedial work that will be conducted by each party, specifically, SMC agreed to conduct all remedial activities necessary to address the radioactive and perchlorate contamination at and/or emanating from the site and TRC agreed to conduct all remedial activities necessary to address all contaminants not including the radioactive and perchlorate contamination. The ACO contains no specific actions required of SMC as to the radioactive contamination. Instead the ACO recognizes that the radioactive material is regulated by the United States Nuclear Regulatory Commission, which will remain the lead agency for overseeing the remediation of the radioactive materials by SMC. DEP will continue to reserve any rights it may have with respect to these materials.

Currently, pursuant to the ACO, SMC and TRC submit the required documents to DEP for review. Copies are also provided by SMC and TRC to EPA for review. All comments, including those from EPA, deficiencies and approvals are provided to SMC and TRC by DEP.

As the lead agency changes from DEP to EPA, SMC and TRC will be required to submit documents to EPA that conform to EPA's rules, regulations and guidance and to provide copies of those same documents to DEP. DEP will still review the documents for consistency with DEP remediation requirements, but will provide any comments to EPA. All comments, including those from DEP, deficiencies and approvals would then be provided to SMC and TRC by EPA.

During the transition phase, DEP will complete its review of all pending documents that have been submitted to DEP by SMC and TRC under the ACO, including the Sediment Work Plan, Phase II Supplemental Off-site Groundwater Investigation Work Plan and Permit-by-Rule application.

Provided that SMC and TRC conduct the required remedial investigation, feasibility study, and remedial design activities in accordance with a signed EPA oversight document, DEP will hold in abeyance all ACO requirements, with the exception of the requirement to remediate the perchlorate contamination at or emanating from the site in accordance with paragraph 13 of the ACO, unless the EPA oversight document includes a similar remediation requirement for the perchlorate contamination. Two other possible exceptions are the requirement to maintain a remediation funding source (RFS) and the requirement to reimburse the Department for its oversight costs, as explained below.

SMC and TRC will continue to operate the existing ground water treatment plant under DEP oversight until a subsequent EPA oversight document is signed, at which time EPA is expected to take on the oversight responsibilities. Again, so long as SMC and TRC conduct the required remedial actions in accordance with a signed EPA oversight document, DEP will hold in abeyance all ACO requirements with regard to the operation of the existing ground water treatment plant.

Other issues were not discussed in detail at the meeting, so no determinations can be made regarding these issues at this time. For example, since EPA's requirements for the establishment of a RFS have not been determined DEP is unable to comment on the need to continue to maintain a RFS pursuant to the ACO. Similarly, the manner in which DEP oversight costs would be paid was not discussed. Resolution of these issues will depend upon the good faith offer made by SMC and TRC and EPA's acceptance of the offer.

I believe this information will be useful in preparing your good faith offer to EPA. If you have any further questions regarding this matter, please contact Donna L. Gaffigan at (609) 633-1494.

Sincerely,

Ronald T. Corcory, Assistant Director
Enforcement and Assignment Element

C: Trevor Anderson, USEPA
Kimberly O'Connell, USEPA
Frank Cardiello, USEPA
Dr. David White, SMC
Barbara Flowers, SMC
Marty Judge, Flaster Greenberg
Stephen Tappert, TRC

UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
REGION 2
290 BROADWAY
NEW YORK, NY 10007-1866

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RECEIVED
SEP 09 2008
BY

URGENT LEGAL MATTER--PROMPT REPLY NECESSARY
CERTIFIED MAIL: RETURN RECEIPT REQUESTED

Mr. Eric Jackson, President
Shieldalloy Metallurgical Corporation
545 Beckett Road, Suite 201
Swedesboro, New Jersey 08085

Re: Notice of Potential Liability and Request to Perform Supplemental Feasibility Study (FS) and Remedial Design (RD).

Dear Mr. Jackson:

As you know, the U.S. Environmental Protection Agency ("EPA") has documented the release of hazardous substances into the environment at the Shieldalloy Metallurgical Corporation Superfund Site ("Site") located in the Borough of Newfield, Gloucester County, New Jersey. Pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"), 42 U.S.C. §9601, et seq., and in response to these releases and the threat of future such releases, EPA has spent public funds and anticipates spending additional public funds.

NOTICE OF POTENTIAL LIABILITY

Under CERCLA and other laws, responsible parties may be held liable for any costs incurred by the government in taking response actions at the Site. Responsible parties may also be subject to orders requiring them to take response actions themselves. Responsible parties under CERCLA include, among others, the current and past owners and/or operators of a facility from which there has been a release or threatened release of hazardous substances.

By copy of this letter, EPA is notifying Shieldalloy Metallurgical Corporation ("SMC," or "your Company") that EPA considers SMC to be a potentially responsible party ("PRP") under Section 107(a) of CERCLA, 42 U.S.C. §9607(a) regarding this Site.

REQUEST TO PERFORM SUPPLEMENTAL FEASIBILITY STUDY (FS) AND REMEDIAL DESIGN (RD)

As you know, the remediation of groundwater at the Site as required by the Record of Decision, dated September 24, 1996 (1996 ROD), is ongoing, under the oversight of the New Jersey Department of Environmental Protection (NJDEP). Furthermore, additional tasks to further delineate the groundwater contamination, have been underway.

EPA has determined that this Site will now be considered an EPA-lead site with regard to completion of the Remedial Investigation/Feasibility Study (RI/FS) and Remedial Design/Remedial Action (RD/RA) activities. Specifically, EPA has determined that (1) RD activities to further delineate the extent of groundwater contamination and prepare an engineering design of the selected remedy pursuant to the 1996 ROD, as well as; (2) a RI/FS to address soil, sediment and surface water contamination at the Site ((1) & (2) collectively, the "Work"), shall be conducted under the direct oversight of EPA in the future. Please note, however, that nothing in this letter should be construed as abrogating, modifying or affecting in any way your legal obligations to the State of New Jersey under existing state agreements.

EPA hereby invites SMC to enter into a settlement with EPA to conduct the Work specified above. Any agreement by your Company to perform this Work will need to be memorialized in an administrative agreement issued by EPA under CERCLA. EPA representatives are willing to meet with representatives of SMC to discuss any questions concerning the Work.

Within thirty (30) days from the date of your receipt of this letter, please submit a good faith offer to conduct the Work. A good faith offer consists of a written proposal that demonstrates your qualifications and willingness to conduct the Work, as defined above, and shall include the following elements:

1. A statement of your Company's willingness to conduct the Work;

2. A demonstration of your Company's technical capability to carry out the Work including the identification of

the firm(s) that may actually conduct the Work or a description of the process that will be undertaken to select the firm(s);

3. A demonstration of your Company's capability to finance the Work;

4. A statement of the willingness of your Company to reimburse EPA for costs incurred in overseeing your implementation of the Work; and

5. The name, address, and telephone number of the individual who will represent your Company in the negotiations.

EPA is aware that SMC is currently conducting, under NJDEP oversight, remedial activities related to contaminated groundwater at the Site. These remedial activities include the extraction and treatment of the chromium-contaminated groundwater. At this time, NJDEP will continue to be the lead agency for the groundwater extraction and treatment system which currently exists at the Site. However, aside from that sole exception, EPA will be the lead agency for all other CERCLA actions relating to the Site, including a) the RI/FS work relating to and all remedial action(s) required for soil, sediment and surface water at the Site and b) all future RD/RA work relating to groundwater at the Site (including any investigations which may be needed during the RD phase to more accurately assess the nature and extent of groundwater contamination at the Site) and c) any investigations related to perchlorate at the Site.

Your good faith offer to conduct the RI/FS and RD should be sent to:

Trevor Anderson
Remedial Project Manager
United States Environmental Protection Agency - Region II
Emergency and Remedial Response Division
290 Broadway, 19th Floor
New York, NY 10007-1866

With a copy to:

Frank X. Cardiello
Assistant Regional Counsel
United States Environmental Protection Agency - Region II
290 Broadway, 17th Floor
New York, NY 10007-1866

Please be advised that pursuant to Section 104(a) of CERCLA, 42 U.S.C. 9604(a), EPA will only allow SMC to perform the Work if it determines that it is qualified and can do so properly and promptly.

If EPA does not receive a timely response, it will assume that your Company does not wish to enter into a settlement for, or participate in, the Work. In such an event, EPA will take appropriate action at the Site, which may include the performance of the Work and the possible pursuit of a cost recovery claim against SMC pursuant to Section 107 of CERCLA, 42 U.S.C. §9607.

EPA urges that immediate attention and a prompt response be given to this letter. EPA has decided not to use the special notice procedures stated in Section 122 (e) of CERCLA, 42 U.S.C. §9622(e), because EPA does not believe that those procedures would facilitate an agreement between EPA and your Company nor would they expedite completion of the Work at the Site.

If you have any questions regarding this letter, please contact Frank Cardiello, Assistant Regional Counsel, at (212) 637-3148 or Trevor Anderson, the Remedial Project Manager, at (212) 637-3865. All inquiries from attorneys should be directed to Mr. Cardiello.

Sincerely yours,

Raymond Basso
Strategic Integration Manager
Emergency and Remedial Response Division

cc: Donna Gaffigan, NJDEP
Ed Putnam, NJDEP
Carl Stopper, Remediation V.P., TRC Env. Corp.
Robert Smith, Program Manager, TRC Env. Corp.
Marty M. Judge, Esq., Drinker Biddle & Reath