

SPARTON**SPARTON CORPORATION***Bob & Dennis*

January 10, 1997

Mr. Mark E. Weidler, Secretary
State of New Mexico Environment Dept.
Harold Runnels Building
1190 St. Francis Drive
P. O. Drawer 26110
Santa Fe, NM 87502-0110

Dear Mark:

Dave Hockenbrocht asked me to respond to your letter to him dated December 19, 1996, which incidentally he did not see until December 27, 1996. We were disappointed by the tone of your letter. We have viewed your discussions with Dave Hockenbrocht and as an attempt by two parties, with very different charges, to reach a mutually acceptable resolution of our differences. To that end, significant resources of Sparton Technology have been devoted to developing a proposal that would achieve the three criteria set forth in Dave's letter to you of December 8, 1995:

1. Providing a remedy that is capable of delivering a meaningful level of cleanup, that Sparton Technology can afford,
2. Insuring a remedy is selected only once, and
3. Providing a remedy on which all regulatory agencies agree.

Unfortunately, our experience over the last year has led us to the conclusion that criteria 2 and 3 cannot now be achieved. However, we have been hoping that we could reach agreement on actions at the site that Sparton Technology can afford and which should meaningfully reduce impacts to the environment associated with our former operations at the Coors Road Plant.

To that end, we submitted a conceptual proposal on July 10, 1996, in which we offered to undertake soil-vapor extraction onsite, increase containment of solvents in groundwater onsite, and initiate offsite containment of solvents in groundwater.

It became apparent to me that closure on our proposal was not achievable unless we got together face-to-face for a long enough period of time to thrash out and hopefully resolve technical concerns. We therefore proposed a two-day meeting in Santa Fe for that purpose.

I think you will agree that the meeting was helpful, and I felt that all parties left it on a relatively positive note. Unfortunately, in follow-up meetings we had in New Mexico to flesh out certain issues not totally resolved at the meeting in Santa Fe, one issue became a sticking point. How would Sparton economically dispose of water associated with long-term implementation of containment wells either on or offsite?

We cannot over emphasize the importance of this issue to Sparton Technology. Sparton Technology is small and has limited financial resources. The only cost-effective way for us to

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SPARTON

Mr. Mark E. Weidler
January 10, 1997
Page 2

deal with recovered groundwater is to discharge it into the arroyo. If we cannot discharge into the arroyo, we cannot afford the remediation we proposed. The installation of additional wells onsite or offsite makes no sense to us unless and until we can find an economical way to dispose of the treated water.

Please understand that we are not asking NMED or any other agency to approve now, without reviewing a discharge application, any discharge proposal to the arroyo. Nor are we asking NMED or any other regulatory agency to commit now or otherwise agree to an ultimate remedy. We simply want to know, before we undertake expensive installation of additional onsite and offsite wells, that we can operate them long-term, while we continue to discuss and hopefully eventually agree on an ultimate remedy.

It is difficult for us to understand why NMED would be unwilling to allow us to operate containment wells even though they may not be the "final fix." In all likelihood they will have some positive impact on the environment. All we ask is that, before we spend money, we have in hand the necessary authorizations that would allow us to operate such wells, while we discuss additional remediation that may be appropriate.

Our need to discharge into the arroyo is not speculation on our part. It is the only mechanism that we have identified that we can afford. We are at a loss to understand why waiting perhaps six months before beginning the installation of additional wells on and offsite, while permits are processed and issued, should be unacceptable to NMED.

Please keep in mind that in the interim, we plan to implement our soil-vapor extraction proposal. In fact, after receiving your staff's comments of January 3, 1997, we have asked Gary Richardson to engage a contractor in order to get started. We would also be willing to implement the onsite containment proposal, but we have nowhere to get rid of the water economically.

As you are undoubtedly aware, if this matter devolves to litigation, no offsite remediation efforts will be undertaken for some extended period of time. In that event, both sides will have expended significant legal resources that could probably be better applied elsewhere. Most importantly, nothing will have been done to deal with offsite environmental impacts.

Mark, we ask that you step back for a second and try and put yourself in our position. I think that if you do so, you should recognize that Sparton has a legitimate and rational basis for the positions it has taken. We acknowledge, however, that those positions are influenced by certain biases we bring to the negotiations. First and foremost is a distrust of regulatory agencies. We have a perception that environmental regulators, in general, are not interested in real world solutions. To them, cost is not a significant factor to be considered in addressing environmental issues. Unfortunately, our experiences with NMED and EPA over the last several months have not altered our perception in this regard. We remain very nervous about agreeing to any proposal that is open ended with respect to disposal of recovered groundwater.

We intend to file applications for an NPDES permit and for approval of discharge plan to NMED and EPA by the end of January. By separate letter, Pierce Chandler will be responding to Ana Marie Ortiz's letter dated January 3, 1997, which provided us with

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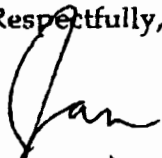
Mr. Mark E. Weidler
January 10, 1997
Page 3

NMED's response to our Proposals dated December 6, 1996. We anticipate that Pierce's letter will be faxed on or before Friday, January 17, 1997.

Let us reconfirm that we are moving forward as quickly as possible on implementation of our soil-vapor extraction proposal. We would also be willing to immediately implement full onsite containment activities if we had an economical option for getting rid of the recovered water. Likewise, we are prepared to implement our offsite proposal as soon as we have a way of economically getting rid of water recovered from long-term operation of a containment well associated with that work. Other issues were raised in your staff's comments of January 3, 1997, that relate to the implementation of the onsite and offsite groundwater work. As previously stated, we intend to respond to these staff comments by January 17, 1997.

Mark, as close as we are, why should we throw aside what we have agreed upon, and start over in front of a judge.

Respectfully,



R. Jan Appel
Vice President and
General Counsel

RJA:jc

cc: Governor Gary E. Johnson
David Hockenbrocht
Richard Mico
James Harris
Ana Marie Ortiz

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