

M. L. Foley

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January 25, 2001

**ATTORNEY/CLIENT PRIVILEGED
PREPARED IN ANTICIPATION OF LITIGATION**

Department of the Army
Buffalo District, Corps of Engineers
1776 Niagara Street
Buffalo, New York 14207-3199
Attention: Ms. Mary Price

Subject: Contract No. DACW49-98-D-0003, SPIDT, DO1
Asbestos Removal Phase I and II, Somerset Property
Former Lake Ontario Ordnance Works, Lewiston, NY
Damage Allegedly Caused During Site Work
Monthly Report 3 - Status of Negotiations
Reporting Period: 15-Dec-00 to 14-Jan-01

Dear Ms. Price:

As requested in your letter of 15-Sep-00 regarding subject matter, this report is being provided to keep you informed of the status of this matter.

We have organized this report into the following three sections that address completed actions, anticipated problems and actions items.

COMPLETED ACTIONS

During this reporting period, EQ continued to review and discuss a draft settlement offer with our legal council, our insurance company and EPS. The principal items of discussion involve:

1. Limits of liability that EQ's insurance company will assume.
2. Agreement between the EQ and EPS insurance companies regarding a possible settlement offer and related topics (i.e., limits of liability, indemnification, subrogation, etc.).

ANTICIPATED PROBLEMS

None.



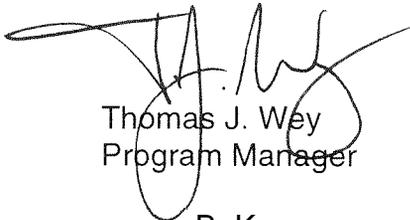
ACTION ITEMS

1. After the draft settlement offer has been reviewed by all parties (i.e., EQ, EPS, and legal council), finalize settlement offer.
2. EQ's legal council will then contact Somerset's legal council to begin discussing a settlement offer and to determine their willingness to be reasonable and to reach a fair settlement. Assuming these communication proceed favorably, EQ anticipates presentation of a formal settlement offer thereafter.

Please contact me at (513) 8257500 If you have any questions or require any information.

Sincerely,

ENVIRONMENTAL QUALITY MANAGEMENT, INC.



Thomas J. Wey
Program Manager

cc: B. Kemner
B. Kuhlenberg
J. Greber
J. Mullane
J. Zody