



THE QUEEN MARY.

March 23, 2004

Honorable Mayor and City Councilmembers:

**Subject: City Auditor's March 23, 2004 Review of
rent provisions of the Queen Mary Lease and
Operations Agreement**

We are in receipt of the subject. We disagree with the City Auditor's conclusion that QSDI owes \$2,012,148. for 2000, 2001, and 2002 in percentage rent.

While we appreciate the City Auditor's recognition of our good faith in interpreting the lease for the past 3 years; and that the lease document is vague, confusing, and inconsistent in several sections related to the rent credit, we strongly disagree that the City Auditor's "most likely" intent of the lease is the appropriate interpretation. Particularly since we reviewed each year our approach to the rent credits with our auditors, the City Auditor and the then City Manager.

We look forward to working with the City Manager and the Staubach Company for a resolution of:

- 1) The rent credits dispute which is the subject of the Auditor's Report of March 23, 2004.
- 2) The negotiated November 12, 2002 rent credits and implementation of the appropriate amendment.
- 3) Our plans for the development of Phase II. Phase I was complete when we substituted our original plan (with the approval of the City Manager) with Carnival's \$35 million project.
- 4) The impact of new investors for the Phase II development.

Honorable Mayor and City Councilmembers

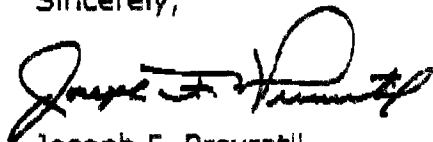
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I have confidence that the City Manager and I will be able to reach a resolution that is equitable to both the City and QSDI.

Should you have any questions, please let me know.

Sincerely,

A handwritten signature in black ink, appearing to read "Joseph F. Prevratil". The signature is fluid and cursive, with a large initial "J" and "P".

Joseph F. Prevratil

President & CEO

Queen's Seaport Development, Inc.

cc: Gerald R. Miller, City Manager
Robert Shannon, Esq., City Attorney
Gary Burroughs, CPA, City Auditor

JFP/sf