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CONFIDENTIAL MEMORANDUM FOR SETTLEMENT DISCUSSION PURPOSES  
ONLY AND NOT ADMISSIBLE INTO EVIDENCE FOR ANY PURPOSE

December 1, 2004

VIA FAX: 625-6939

Mr. Gavin Cooley  
Chief Financial Officer  
City of Spokane  
808 Spokane Falls Blvd.  
Spokane, WA 99201

Re: *RPS II L.L.C., et al.*

Dear Mr. Cooley:

You have asked Steven Rector, of RPS II L.L.C., that I provide you with an abbreviated history of the discussions I have had with the principals and officers of RPS II L.L.C., Lincoln Investment Company and Citizens Realty Company (together, the "RPS Parties"), and others, with respect to placing the owner of the River Park Square urban mall (the "Mall") into a Chapter 11 bankruptcy proceeding. In light of the tight time constraints involved, and at your request, I am sending this letter directly to you, with a copy to your counsel, Ms. Laurel Siddoway.

I offer the following abbreviated summary of our bankruptcy discussions, and some of the underlying facts which led to those discussions:

1. As is apparent from the operating statements and other financial information which you have been provided, the Mall is not self supporting. From the beginning, in order to meet its operating and debt service obligations, it has been heavily subsidized by the equity owners of the RPS Parties.
2. Knowing that the Mall could not support its regular operations without significant outside assistance, it is equally clear that it cannot continue to pay the ongoing costs of defense in the River Park Square Bond Litigation, nor does it have any unencumbered assets, or even equity in encumbered assets, from which any adverse judgment could be satisfied.

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3. In July of 2004, it was the perception of the RPS Parties that the City of Spokane expected that any adverse judgment, or any settlement, in the River Park Square Bond Litigation would be paid by the equity owners of the RPS Parties, notwithstanding that the equity owners have no independent personal liability. This was extremely frustrating to the RPS Parties as it seemed to preclude the possibility of settlement on any realistic economic basis.
4. At that time, we began seriously discussing the possibility of a Chapter 11 filing. Specifically, we discussed the contours of a contemplated Plan of Reorganization, including the value of Mall and the treatment of secured, unsecured, and under-secured creditors, including the City of Spokane.
5. In early August of 2004, after judgment was entered against the RPS Parties and in favor of RWR Management, Inc., bankruptcy discussions took on added urgency, for the obvious reason that, as noted above, while operations at the Mall were improving, the RPS Parties, and the Mall, had no financial ability to pay the judgment, or any other expenses which were not directly related to the Mall.
6. In our analysis, it became clear that a Chapter 11 filing would allow the RPS Parties to focus on the success of the Mall itself, freeing them from the significant ongoing expenses and the diversion of their management attention caused by the River Park Square Bond Litigation and the litigation with RWR Management, Inc. It also became clear, because the secured claims against the Mall exceeded its value, that a Chapter 11 Plan may provide a means to substantially reduce the claims of creditors.
7. Throughout September and October of 2004, in anticipation of a Chapter 11 filing, I met with representatives of the RPS Parties and U.S. Bank, their primary secured creditor, and the bank's counsel, to discuss the probability of a filing and to work out, in advance of filing, agreed Cash Collateral Orders and Post Petition Debtor in Possession Financing Orders, which has now largely been accomplished. As a result of the likely Chapter 11 filing, U.S. Bank transferred control over the Mall loan to its Special Assets Group ("SAG") in Minneapolis.
8. In November of 2004, we met with the RPS Parties and were directed to (i) prepare a bankruptcy petition, schedules, a draft Disclosure Statement and Plan of Reorganization, and (ii) finalize the necessary "first day" orders with

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Mr. Gavin Cooley  
December 1, 2004  
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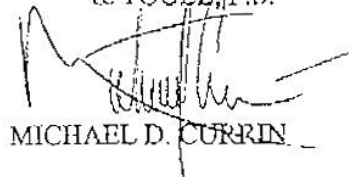
U.S. Bank, i.e. the cash collateral and financing orders, no later than December 10, 2004. We have prepared drafts of all of the above documents, and expect to finalize all issues relating to the Cash Collateral and Post Petition Financing Orders with U.S. Bank on December 2, 2004, in a meeting with its designated SAG officer and the bank's outside counsel.

As we have discussed many times, although a Chapter 11 filing is not the RPS Parties' preferred method of resolving the many outstanding issues that have arisen in the River Park Square Bond Litigation, the RWR Management, Inc. litigation, and the myriad of other cases which have sprung from this transaction, it is now the most likely course of action unless all parties take a realistic view of settlement. It is our position that a "realistic" view requires that the City of Spokane recognize that, in the unlikely event the RPS Parties may be found to have liability to it, their equity owners have no independent means of payment and that any payment made by them will be purely voluntary and must be based upon sound practical and economic principals.

Should you have any questions concerning this matter, please feel free to discuss them with Ms. Siddoway and then the two of you may call at your earliest convenience.

Very truly yours,

WITHERSPOON, KELLEY, DAVENPORT  
& TOOLE, P.S.



MICHAEL D. CURRIN

MDC/

cc: Elizabeth Cowles  
Steven Rector  
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