



January 27, 2009

Catherine Fischer, President
Kyle Fischer, Chief Executive Officer
Downey Street Productions, Inc.
2218 Woolsey Street
Berkeley, CA 94705

Dear Ms. and Mr. Fischer:

As you are aware, the El Cerrito Redevelopment Agency has completed a financial review of Downey Street Productions, DBA Speakeasy Theaters. This review was initiated per direction of the Agency Board on June 30, 2008 as a result of Downey Street's failure to submit rent payments according to the Cerrito Theater Lease Agreement as well as the failure to provide the Agency with timely financial reports.

The Agency Board's goal has been to ensure the continued operation of the Cerrito Theater, which arises from the belief that the Cerrito is a community asset and that it is in the City's and Agency's best interest to ensure the viability and success of the Theater. The Cerrito Theater has served as a wonderful addition to the El Cerrito community. However, the Board is extremely disappointed that Downey Street has not fulfilled its obligations per the lease agreement, including the inability of Downey Street to provide an accurate financial picture of the theater operations so that the Board might understand the events and issues that have brought us to this point. The Board is also disappointed with the lack of frank communication to the Agency regarding Downey Street's inability to fulfill the terms of the agreement until the situation had deteriorated to this level.

The Board has been presented with draft financial statements completed as a result of the review. The review has presented some concerns to the Board. Therefore the Board would like any continued relationship with Downey Street Productions to alleviate these concerns in order to ensure success of the Cerrito Theater.

Under Section 11 of the Cerrito Theater Lease Agreement, Downey Street Productions is, by definition, in default of the Agreement. The Board is hereby placing Downey Street Productions on notice that an Event of Default has occurred under the Lease and the Disposition, Development and Loan Agreement. Pursuant to the terms of the Lease and in particular, Section 11.3, the Board is not electing to terminate the Lease at this time and it is the Board's expectation that while the Agency and Downey Street work to resolve these issues, Downey Street will continue to operate the theater as required pursuant to the Lease.

You have informed Agency staff that with restructuring of your current lease obligation and relief of some of your debt obligations that arose as part of the theater construction, the theater can operate successfully. Before the Agency Board can consider restructuring the lease and debt obligation, the Agency needs to see your business plan modeled with the relief you have requested. If that business plan demonstrates that the theater can successfully operate, the Agency Board will consider your proposal. The Agency Board is requesting that you provide financial information for Downey Street and the Cerrito Theater to the Agency's accounting consultants, JHS, no later than February 6, 2009 so that JHS can complete a financial statement for 2008. Additionally the Agency is requesting that you provide a business plan modeled with the relief you have requested no later than March 6, 2009. Upon Agency approval of the business plan, assuming that the business plan demonstrates that the Cerrito Theater is a financially viable business going forward, the Agency Board will consider restructuring the lease and debt obligations. The Agency staff is prepared to provide you with assistance in preparing the business plan, including working with you to find necessary technical assistance. The Agency Board has also appointed an ad hoc Agency subcommittee to work with staff and Downey Street on resolution of these issues. Agency staff will contact you to schedule a time when you can meet with the subcommittee. At that time, the subcommittee can discuss with you any of the issues raised by this letter.

The Agency Board is hopeful that the Agency and Downey Street will be able to restructure the Agreement in order to keep Downey Street as the operator of the Cerrito Theater. However, if for any reason, you fail to meet these deadlines, the Agency Board will have no choice but to consider terminating the Lease and pursuing its remedies pursuant to the Lease and the Disposition, Development and Loan Agreement regarding the defaults, including full repayment of the loan.

If Downey Street is not interested in pursuing the above option the Agency is willing to work with Downey Street to find a new theater operator following the provisions of Section 9 of the Lease regarding Assignment and Subletting.

Again, the intention of the Agency Board is to continue the relationship with Downey Street Productions by possibly revising the Cerrito Theater Lease Agreement and the DDLA. It is the hope of the El Cerrito Redevelopment Agency that terms can be agreed upon to ensure the continued successful operation of the Cerrito Theater, and we are optimistic that the relationship between the Agency and Downey Street will be successful for years to come.

Very truly yours,

A handwritten signature in cursive script, appearing to read "William C. Jones III".

William C. Jones III, Chairperson
El Cerrito Redevelopment Agency