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October 27, 2010

**VIA E-MAIL AND U.S. MAIL**

Mr. Steven Otera  
 Mr. Ken Mattfeld  
 Deputy City Attorneys  
 The Port of Los Angeles  
 425 South Palos Verdes Street  
 San Pedro, CA 90731

Re: Our Client: Gambol Industries Inc.;  
POLA's Failure to Properly Process Application to Placement of Dredge  
Material at POLB's Middle Harbor Redevelopment Project ("MHRP")

Dear Mr. Otera and Mr. Mattfeld:

We received your October 20, 2010 letter, which enclosed the October 18, 2010 letter from the Port of Long Beach ("POLB") to the Port of Los Angeles ("POLA") in connection with POLA's application to place dredged material in the MHRP. POLB's October 18, 2010 letter is quite disturbing and further supports Gambol's fears that, from the inception of the Gambol-POLA Memorandum of Understanding ("MOU"), POLA has failed to work cooperatively with Gambol in implementing the terms of the MOU and, quite to the contrary, has undermined the process and prevented Gambol's development of a modern, jobs-producing, and community supported shipyard at the former Southwest Marine facility. This is a most unfortunate situation. Gambol has incurred significant damages as a result of POLA's actions.

In or about early summer 2010, Gambol learned of the MHRP's permitting status and POLB's timetable for implementing its MHRP project. It quickly became apparent that the placement of dredge materials generated by POLA's Main Channel Deepening Project ("MCDP") at the MHRP would save POLA in excess of \$30 million since POLA would not need to construct a rock dike CDF across Berths 243-245 if it places sediments from the MCDP in the MHRP instead of within Berths 243-245. In addition, the MHRP constitutes a beneficial reuse of all MCDP-generated dredge materials. All stake holders, including the members of the Contaminated Sediments Task Force, support the beneficial reuse of such dredge materials. In addition, Gambol confirmed with POLB officials that the MHRP construction schedule coincided with that of the MCDP such that POLA could easily and timely dispose of MCDP-generated dredge materials within the MHRP. Thus, the MHRP presented POLA, POLB, and Gambol with a clear win-win situation: POLA could move forward with its much-needed MCDP

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project, POLB would receive quality, local fill for the MHRP, and Gambol could move forward with its broadly supported shipyard project at an appropriate site with sufficient open water area.

Instead, for reasons only known to POLA executives and staff, POLA failed to comply with the request for information from POLB and, in so doing, prevented POLB from even considering the acceptance of all MCDP-generated dredge materials at the MHRP. Specifically, POLA received a letter from POLB dated August 26, 2010 requesting POLA to submit a dredge design so that, to the extent any dredged materials from POLA's former Southwest Marine slip area could be classified as "hazardous", POLA could provide guidance or determine a design to allow POLB to place the subject materials at the MHRP without any adverse consequences or effects. As you know, in-slip testing by POLA's contractor in 2005 and/or 2007 revealed approximately 5 samples that could be classified as "hazardous". Testing by Gambol's contractor in 2010 revealed no such "hazardous" samples. POLA's failure to submit a dredge design to POLB is inexplicable.

POLB's October 18, 2010 letter to POLA states:

"The Port of Los Angeles was given an opportunity to submit a dredged design plan that isolates hazardous materials and was notified that in order for the material to be considered further, the information must be provided by September 10, 2010. The Port of Long Beach did not receive any information regarding the isolation of hazardous material."

Clearly, POLA knew that, if it failed to submit any dredged design, POLB could not accept POLA-originated dredged materials in MHRP. In so doing, POLA insured that in-slip materials from Berths 243-245 and other dredge materials associated with MCDP would not be accepted by the MHRP.

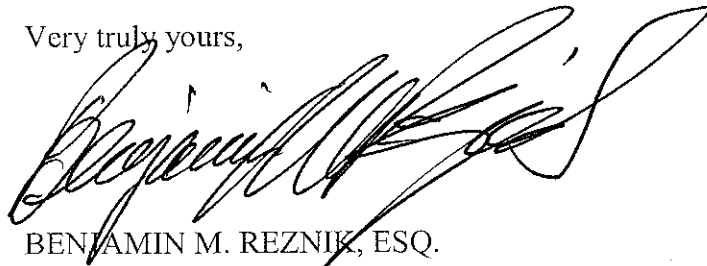
In reliance on the Gambol-POLA MOU, Gambol has invested millions of dollars in developing a modern, jobs-generating shipyard at the former Southwest Marine site. Gambol has committed significant engineering, maritime, economic, and legal resources to the task. Among other completed tasks, Gambol: 1) designed (and redesigned to appease POLA) a vertical wall CDF at Berths 243-245 to allow disposal of all MCDP-generated dredged materials and the future viable use of these berths as a shipyard; 2) completed a thorough and extensive market study and business plan detailing the economic viability of the shipyard proposal and Gambol's unique operations; 3) engineered the redesign of the former Southwest Marine site to accommodate a modern shipyard; 4) developed a comprehensive strategy to permit and entitle the proposed shipyard; and 5) conducted in-slip sampling of Berths 243-245 to further study its proposed shipyard plan and to benefit POLA's continuing obligation to remediate historic contamination at the site.

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Nonetheless, at almost every juncture, POLA executives and staff have sought to undermine Gambol's progress. They frequently cite ill-conceived and untrue concerns over the proposed shipyard's effects on the MCDP schedule. In reality, the MCDP has incurred significant delays wholly unrelated to the Gambol shipyard project. When presented with a clear win-win solution that would enable POLA to complete the now-permitted MCDP at a cost savings to the taxpayers of over \$30 million and house a modern, job creating shipyard, POLA (either through ineptitude, negligence, or willfulness) failed to properly process the MHRP application. This is an outrage.

Gambol intends to pursue all of its available remedies as a result of POLA's conduct, actions and/or inactions, and multiple breaches of the MOU. Gambol reserves all of its rights, and waives none.

Very truly yours,



BENJAMIN M. REZNIK, ESQ.  
KENNETH A. EHRLICH, ESQ.  
Jeffer Mangels Butler & Mitchell LLP

KAE:dpc

cc: Thomas Russell, POLA General Counsel  
Linda Dishman, LA Conservancy