

**Panama City-Bay County  
International Airport**  
Foreign Trade Zone #65



January 26, 2010

**VIA Fax and Certified Mail**

Mr. James Finch  
Phoenix Construction Service  
1805 Tennessee Avenue  
Lynn Haven, Florida 32444

Re: Outstanding Issues Concerning Construction Contract for the Airfield  
Development, Paving and Marking Package dated October 19, 2007 (“Contract”)  
between Phoenix Construction Services (“PCS”) and Panama City - Bay County  
Airport and Industrial District (“Authority”)

Dear Mr. Finch:

This letter is intended to identify the outstanding issues that have arisen under the Contract that remain unresolved and discuss how those issues might be resolved moving forward.

As you know, with respect to any disputes arising out of or relating to the Contract, the Contract requires the parties to first negotiate in an attempt to resolve the dispute by means of discussions between the parties, first between the respective onsite managers and then between PCS’s president and the Authority’s executive director (i.e. you and me). If no resolution is agreed upon, the parties are then required to submit the dispute to non-binding mediation. The Authority believes we have reached the point in this dispute resolution process where these outstanding issues should be submitted to mediation. In an effort to facilitate and make that process meaningful, the Authority believes the issues in dispute, along with each party’s respective positions, need to be expressed with more specificity. Accordingly, following is a summary of the issues the Authority currently believes to be outstanding along with our position as to those issues:

1. **Site Stabilization**: PCS is obligated to comply with the site stabilization specifications and related permitting under the Contract. The Authority believes PCS has failed to properly comply with these obligations. As such, the Authority has incurred damages including the assessment of fines by the FDEP.
2. **Permanent Seeding**: The Authority also believes PCS has failed to comply with the specifications regarding permanent seeding. Our understanding is that PCS claims that the specifications were inappropriate. The Authority believes the specifications are clear and sufficient and that PCS has refused to fully perform its obligations under those specifications. In addition, PCS has used sod not in compliance with the specifications without proper authorization from the Authority.

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3. Permits: Because of PCS's failure to comply with the permitting requirements under the Contract and to avoid a cease and desist order from FDEP, immediate actions were necessary in order to comply with FDEP's requirements. PCS failed to take the necessary actions and thereby forced the Authority to utilize other contractors in order to do so. The Authority intends to backcharge PCS for all costs and fines incurred by the Authority as a result of all PCS permit compliance failures.
4. Overpayments: The Authority has made payments to PCS based upon certain quantities that recently have been brought into question and may have resulted in overpayments to PCS.

To the best of the Authority's knowledge and belief, other than the completion of the remaining Work under the Contract, the above list is a complete list of the major outstanding issues, existing as of the date of this letter, which the Authority and PCS need to resolve. We respectfully request that PCS, within five business days of your receipt of this letter, (i) advise the Authority of any other issues PCS feels need to be added to the above list; and (ii) provide to the Authority a detailed explanation of PCS's position as to all issues.

It is the Authority's intent to evaluate the outstanding issues (including any new issues in PCS's response), along with PCS's position as to each of those issues, and make a determination, taking PCS's response into consideration, as to whether any or all of those issues need to be mediated. The Authority and PCS will then be in a position to move forward and commence the mediation process by appointing a mutually agreeable mediator to oversee the discussions.

Nothing contained in this letter is intended to waive any of the Authority's rights or remedies, or any of PCS's obligations, under the Contract. The Authority is offering this letter as a means of facilitating the resolution of the major outstanding issues so that we can move forward in the completion of the project. We sincerely hope PCS likewise is interested in bringing these issues and the project to a successful conclusion.

I look forward to your prompt response so that we can attempt to resolve these major issues amicably.

Sincerely,



Randall S. Curtis, A.A.E.  
Executive Director

cc: Surety Company – Continental Casualty  
Mr. Jeff Dealy, KBR  
Board Members

Mr. Mike Duncan, Airport Attorney  
Mr. Darin Larson, PBS&J



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January 29, 2010

Panama City-Bay County International Airport  
3173 Airport Road, Box A  
Panama City, Florida 32405

Attn: Randall S. Curtis, A.A.E., Executive Director

Re: Airfield Development, Paving, & Lighting Project  
Panama City/Bay County International Airport  
Mediation

Dear Mr. Curtis,

In response to your letter of January 26, 2010, please be advised that we will be happy to mediate with the Airport. Our issues are as follows:

**Late Payments**

The Airport has failed to pay in a timely fashion. This has impacted us in lost interest on late payments, and in unnecessary hardships placed on us to finance the project.

**Stabilization**

The plans and specifications have proven to be insufficient to provide for the stabilization required to construct the project and keep in compliance with the permits. Further problems have been encountered with the on-site soils. This has resulted in fines from the FDEP, and has caused us to rework several areas of the project.

**Limited Notices To Proceed**

The Airport has issued Limited Notices to Proceed throughout the project. This has eliminated our ability to effectively plan the work, and negatively impacted our production.

**Delayed Access to Owner's Source of Borrow**

The Airport delayed our access to the Owner's Source of Borrow for several months, causing us to perform additional work, rework areas of the project, incur additional overheads, loss of productivity, and downtime for equipment.

**Incorrect Project Phasing**

The utilities portion of this project was bid separately a year after the Sitework project had started. This is contrary to the normal sequence and has led to rework in several areas and further problems with site stabilization.

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Attn: Randall S. Curtis, A.A.E., Executive Director

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Mediation

**Designer's Supplemental Instructions**

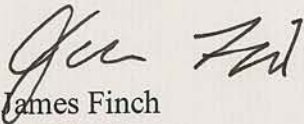
The Designer has issued numerous supplemental instructions affecting most areas of the work. These instructions have resulted in interruptions, delays, and loss of production.

**Errors in the Plans and Specifications**

There are errors in the plans and specifications that have resulted in additional costs, rework in several areas, and additional indirect costs.

This list is not necessarily all inclusive of all issues associated with this project. We reserve the right to add to this list as other issues arise. I look forward to meeting with you.

Sincerely,



James Finch  
President

PHOENIX CONSTRUCTION SERVICES, INC.

0706-CC-72

xc: Mr. Joe Tannehill, Airport Board Chairman  
Mr. Jeff Dealy, KBR Program Manager  
Mr. Mike Duncan, Airport Attorney  
James Finch, President, PCS  
Ron Golinowsky, Vice-President, PCS  
Contract Correspondence File