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February 21, 2008

*Preliminary Draft*

**DELIVERED VIA ELECTRONIC MAIL**

John Wood Bolton, Jr.  
Executive Vice President  
Perseus Realty, LLC  
2099 Pennsylvania Avenue, N.W.  
Washington, DC 20006

Re: 2215 M Street, N.W.  
Washington, D.C. 20007

Dear Woody:

This follows up our meeting yesterday. RS Sandi Holdings, LLC ("Sandi") will withdraw its opposition to the application for consolidated approval of a planned unit development (Case No. 07-21 (the "PUD")) and in turn Perseus Realty, L.L.C. / PerStar M Street Partners, L.L.C. ("Perseus") and Sandi have agreed as follows:

1. Formation of Partnership.

Sandi and Perseus will enter into a joint venture agreement (the "Partnership") on the Closing Date (defined below) to redevelop the D.C. fire station site on the corner of 23<sup>rd</sup> and M Street (the "Fire Station") contingent on Perseus (i) acquiring the Fire Station or redevelopment rights thereto and (ii) exercising an option whereby Sandi contributes 2215 M Street, N.W. to the Partnership in return for a credit to Sandi's capital account (the "Sandi Partnership Contribution") which shall be equal to (A) the Purchase Price (defined below), less (B) the Nonrefundable Deposit (defined below) received by Sandi.

2. Option to Purchase 2215 M Street.

Sandi will grant Perseus an option to purchase 2215 M Street, N.W. from Sandi for \$10,000,000 (the "Purchase Price") payable on the Closing Date (defined below) by either (i) all cash by wire transfer of funds delivered to the title company or attorney handling settlement or (ii) crediting the Sandi Partnership Contribution to the Sandi's capital account in the Partnership. The option will be exercisable at any time within the six month period (the "Option Term") following execution of an option agreement (the "Option Agreement") to be negotiated and memorialized by Sandi and Perseus no later than 11:00 a.m., Monday, February 25, 2008 (the

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“Termination Date”). The option to purchase shall automatically terminate upon the sale of the Fire Station, if not exercised by Perseus prior to such sale.

3. Nonrefundable Cash Deposit.

Concurrently upon execution of the Option Agreement, Perseus shall deliver a nonrefundable cash deposit to Sandi in the amount of \$ \_\_\_\_\_ [\$500,000] (the “Initial Cash Deposit”). Perseus shall have the right to extend the Option Term for one additional six month period by delivering an additional nonrefundable cash deposit to Sandi in the amount of \$ \_\_\_\_\_ [\$500,000] (the “Additional Cash Deposit”) prior to expiration of the Option Term. The Initial Cash Deposit and Additional Cash Deposit, if made, shall constitute the “Nonrefundable Deposit” and be credited toward the Purchase Price at closing.

4. Closing Date.

The Closing Date shall occur within sixty days following the date on which Perseus exercises its option to purchase 2215 M Street, N.W., but in no event later than the sale of the Fire Station.

5. Withdrawal of Opposition to PUD.

Provided Perseus has delivered the Initial Cash Deposit to Sandi by the Expiration Date, Sandi will withdrawal its opposition to the PUD and execute any reasonable letter in support of the PUD for delivery to the Zoning Commission at or prior to the public hearing scheduled Monday, February 25, 2008.

This letter of understanding shall serve to document our discussion on February 20, 2008. Please countersign and return to my attention by \_\_\_\_\_. Upon receipt, we will begin drafting the Option Agreement for execution by the parties.

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James R. Hagerty, Esq.  
General Counsel, R.S. Sandi Holdings, LLC

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John Wood Bolton, Jr., EVP  
Perseus Realty, LLC