



REPORT TO COUNCIL

City of Sacramento

23

915 I Street, Sacramento, CA 95814-2604
www.CityofSacramento.org

STAFF
September 7, 2010

**Honorable Mayor and
Members of the City Council**

**Title: Ratify Amendments to Agreements that Relate to 1997 Lease Revenue
Bonds (Arco Arena Acquisition)**

Location/Council District: Citywide

Recommendation: Adopt both a City Council **Resolution** and a Sacramento City Financing Authority **Resolution**, each ratifying (1) the 2003 Subordination Agreement between the Sacramento City Financing Authority and U.S. Bank National Association; and (2) the 2003 Letter Agreement between the National Basketball Association, the City, Sacramento City Financing Authority, U.S. Bank National Association, and the Sacramento Kings Limited Partnership.

Contacts: Russell T. Fehr, City Treasurer, 808-5168

Presenters: Russell T. Fehr

Department: Treasurer

Division: Debt

Organization No: 05001011

Description/Analysis:

Issue: In 1997, the Sacramento City Financing Authority ("the Authority") issued lease-revenue bonds that the City used to acquire ARCO Arena from Sacramento Kings Limited Partnership ("the Kings Partnership"). In December 2002, the Kings Partnership asked the City to amend the Subordination Agreement executed in 1997 as part of the ARCO Arena financing, so it could take advantage of the NBA's efficient credit facility for NBA franchises. Specifically, the Kings Partnership and the NBA asked the City and the Authority to sign the following two documents:

1. A revised Subordination Agreement dated May 5, 2003, between the Kings Partnership, U.S. Bank National Association (“U.S. Bank”), and the Authority.
2. A letter agreement dated April 10, 2003, between the NBA, the Kings Partnership, U.S. Bank, the Authority, and the City. This agreement amends the 1997 letter agreement by which the NBA approved the City’s taking a security interest in the team to secure the Kings Partnership’s payment of the outstanding bonds if the team relocates to another city before the bonds are retired. The security interest was granted by a Security Agreement between the Kings Partnership and the trustee of the bonds, U.S. Bank.

The amendments have two primary provisions: (1) the Kings Partnership agrees to increase the City’s security interest in the team from \$20 million to \$25 million; and (2) the City agrees to subordinate that security interest to the NBA’s \$75 million security interest in the team, which secures payment of loans to the Kings Partnership through the NBA’s new credit facility (previously the City’s \$20 million security interest was subordinated to a \$30 million senior lien).

These documents were approved administratively in early 2003. During a recent review, however, uncertainties arose regarding the approvals. To remove any uncertainty, staff recommends that City Council and the Authority adopt the attached resolutions ratifying the revised subordination agreement and the amendatory letter agreement.

Policy Considerations: The affected parties have incurred obligations consistent with the provisions outlined within the amended agreements.

Committee/Commission Action: Not applicable

Environmental Considerations: Not applicable

California Environmental Quality Act (CEQA): Not applicable

Sustainability Considerations: Not applicable

Rationale for Recommendation: Adopting the resolution will ratify, confirm, and approve the two amendments, thus removing any uncertainties regarding the documents and ensuring continued protection of the City’s \$25 million security interest.

Financial Considerations: Ratification does not impact the debt-service obligation on the bonds, which are secured by lease payments from the Kings Partnership for the use of ARCO Arena. Since 1997, the Kings have met all obligations regarding ARCO Arena (i.e., the Kings have paid all lease payments in full and on time) and have willingly

provided all necessary information. We believe that any additional risk to the City from the amended agreements is minimal and thus not material.

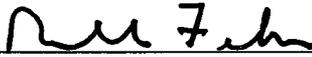
Emerging Small Business Development (ESBD): Not applicable

Respectfully submitted by: _____



Janelle Gray
Debt Manager

Recommendation Approved:



Russell T. Fehr
City Treasurer

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Attachment 1

RESOLUTION NO. 2010-XXXX

Adopted by the Sacramento City Council

September 7, 2010

**RATIFYING AMENDMENTS TO AGREEMENTS THAT RELATE TO
1997 LEASE REVENUE BONDS (ARCO ARENA)**

BACKGROUND

- A. On April 15, 1997, the City Council adopted Resolution No. 97-180, approving several agreements and other documents related to the Sacramento City Financing Authority's issuance, sale, and delivery of bonds in an amount not to exceed \$75 million for the purpose of financing the City's acquisition of certain real property and the facilities thereon constituting a sports arena known as ARCO Arena ("the Acquisition Bonds").
- B. By approving Resolution No. 97-180, the City Council authorized and directed the officers, agents, and employees of the City, jointly and severally, to do any and all things and to execute and deliver any and all documents they deemed necessary or advisable to carry out, give effect to, and comply with the resolution.
- C. In May 2003, relying on the above-stated provision of Resolution No. 97-180, the City executed the following agreements:
 - (1) A letter agreement dated April 10, 2003, between the City, Sacramento Kings Limited Partnership ("the Kings Partnership"); the National Basketball Association ("the NBA"); and U.S. Bank National Association ("U.S. Bank"), successor to First Trust of California, N.A. ("First Trust") as trustee for the Acquisition Bonds. This letter agreement amended a letter agreement dated July 30, 1997, between the City, the Kings Partnership, the NBA, and First Trust, by which the NBA approved a Team Owner's Relocation Assurance Agreement dated July 1, 1997, between the City and the Kings Partnership. The Team Owner's Relocation Assurance Agreement obligates the Kings Partnership to pay the City an amount equal to the outstanding principal and interest on the Acquisition Bonds if the Sacramento Kings NBA franchise relocates to another city before the Acquisition Bonds have been retired. To secure the performance of this obligation, the Kings Partnership and First Trust entered into a Security Agreement that granted First Trust, as trustee for the Acquisition Bonds, a security interest of \$20 million in the Sacramento Kings NBA franchise. With the amended letter agreement, the NBA approved an increase in the security interest from \$20 million to \$25 million. The Security Agreement was also amended to reflect this increase.

- (2) A revised Subordination Agreement, dated May 5, 2003, between the Sacramento City Financing Authority and U.S. Bank, successor to First Trust as trustee of the Acquisition Bonds. Under the original Subordination Agreement, the Sacramento City Financing Authority and the trustee of the Acquisition Bonds, which by assignment is the holder of the City's rights under the Team Owner's Relocation Assurance Agreement, agreed to subordinate the security interest created by the Security Agreement to a senior lien of \$30 million. The revised Subordination Agreement increased that amount of the senior lien (which secures the NBA's loans to the Kings Partnership under the credit facility) to \$75 million.
- D. In 2010, during a review of the legal documents associated with the Acquisition Bonds, staff determined that Resolution No. 97-180 did not clearly grant administrative authority to amend terms and documents once the bonds had been issued.
- E. Because it has been determined that Resolution No. 97-180 does not clearly reflect an intent by the City Council to grant staff on-going administrative authority to amend the documents after bonds have been issued, and because all involved parties have relied upon the 2003 amendments, the City Council desires to ratify the letter agreement dated April 10, 2003, and the revised Subordination Agreement dated May 5, 2003.

BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:

Section 1. The City Council hereby ratifies (a) the revised Subordination Agreement dated May 5, 2003, described in paragraph C(1) above; and (b) the letter agreement dated April 10, 2003, described in paragraph C(2) above.

Section 2. In accordance with California law, the City Council intends that this ratification relate back to the 2003 date of each document.

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Attachment 2

RESOLUTION NO. 2010-XXXX

Adopted by the Sacramento City Financing Authority

September 7, 2010

RATIFYING AMENDMENTS TO AGREEMENTS THAT RELATE TO 1997 LEASE REVENUE BONDS (ARCO ARENA)

BACKGROUND

- A. On April 15, 1997, the Sacramento City Financing Authority (“the Authority”) adopted Resolution No. 97-001, thereby authorizing the issuance, sale, and delivery of bonds in an amount not to exceed \$75 million for the purpose of financing the acquisition of certain real property and the facilities thereon constituting a sports arena known as ARCO Arena (“the Acquisition Bonds”).
- B. By approving Resolution No. 97-001, the Authority authorized and directed its officers and agents, jointly and severally, to do any and all things and to execute and deliver any and all documents they deemed necessary or advisable to in order to carry out, give effect to, and comply with the resolution.
- C. In May 2003, relying on the above-stated provision of Resolution No. 97-001, staff executed the following documents:
 - (1) A letter agreement dated April 10, 2003, between the City, Sacramento Kings Limited Partnership (“the Kings Partnership”); the National Basketball Association (“the NBA”); and U.S. Bank National Association (“U.S. Bank”), successor to First Trust of California, N.A. (“First Trust”) as trustee for the Acquisition Bonds. This letter agreement amended a letter agreement dated July 30, 1997, between the City, the Kings Partnership, the NBA, and First Trust, by which the NBA approved a Team Owner’s Relocation Assurance Agreement dated July 1, 1997, between the City and the Kings Partnership. The Team Owner’s Relocation Assurance Agreement obligates the Kings Partnership to pay the City an amount equal to the outstanding principal and interest on the Acquisition Bonds if the Sacramento Kings NBA franchise relocates to another city before the Acquisition Bonds have been retired. To secure the performance of this obligation, the Kings Partnership and First Trust entered into a Security Agreement that granted First Trust, as trustee for the Acquisition Bonds, a security interest of \$20 million in the Sacramento Kings NBA franchise. With the amended letter agreement, the NBA approved an increase in the security interest from \$20 million to \$25 million. The Security Agreement was also amended to reflect this increase.

- (2) A revised Subordination Agreement, dated May 5, 2003, between the Authority and U.S. Bank successor to First Trust as trustee of the Acquisition Bonds. Under the original Subordination Agreement, the Authority and the trustee of the Acquisition Bonds, which by assignment is the holder of the City's rights under the Team Owner's Relocation Assurance Agreement, agreed to subordinate the security interest created by the Security Agreement to a senior lien of \$30 million. The revised Subordination Agreement increased that amount of the senior lien (which secures the NBA's loans to the Kings Partnership under the credit facility) to \$75 million.
- D. In 2010, during a review of the legal documents associated with the ARCO Arena bonds, staff determined that Resolution No. 97-001 did not clearly grant administrative authority to amend terms and documents once the bonds had been issued.
- E. Because it has been determined that Resolution No. 97-001 does not clearly reflect an intent by the Authority to grant staff on-going administrative authority to amend the documents after the bonds have been issued, and because all involved parties have relied upon the 2003 amendments, the Authority desires to ratify the letter agreement dated April 10, 2003, and the revised Subordination Agreement dated May 5, 2003.

BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE AUTHORITY RESOLVES AS FOLLOWS:

Section 1. The Authority hereby ratifies (a) the revised Subordination Agreement dated May 5, 2003, described in paragraph C(1) above; and (b) the letter agreement dated April 10, 2003, described in paragraph C(2) above.

Section 2. In accordance with California law, the Authority intends that this ratification relate back to the 2003 date of each document.

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SUBORDINATION AGREEMENT

THIS SUBORDINATION AGREEMENT (the "Agreement") is made as of May 5, 2003 (the "Effective Date"), by U.S. BANK NATIONAL ASSOCIATION (formerly named "First Trust of California, N.A."), a national banking association ("U.S. Bank") and SACRAMENTO CITY FINANCING AUTHORITY (the "Authority") in favor of the holders of the Primary Obligations (as defined below).

WHEREAS Sacramento Kings Limited Partnership, a California limited partnership (the "Borrower"), may incur indebtedness for borrowed money or reimbursement obligations in respect of letters of credit pursuant to (i) the Note Purchase Agreement dated as of the Effective Date (as amended, modified, supplemented, restated, extended or renewed from time to time, the "Note Purchase Agreement") among the Borrower, various other members of the National Basketball Association, Basketball Funding LLC, as lender, as JPMorgan Chase Bank ("JPMCB"), as agent for the lender thereunder, (ii) a term loan facility to be entered into among the Borrower and institutional lenders (as the same may be amended, modified, supplemented, restated, extended or renewed from time to time, the "Term Loan Facility"), and (iii) a bank loan agreement that may be entered into among the Borrower and one or more banks or other lenders (as the same may be amended, modified, supplemented, restated, extended or renewed from time to time, the "Bank Loan Agreement"), provided that all such indebtedness and other obligations will be secured by liens on and security interests in substantially all the assets of the Borrower;

WHEREAS the Authority has certain claims against the Borrower arising under a Team Owner's Relocation Assurance Agreement (as the same may be modified, amended, supplemented or restated from time to time, the "Relocation Agreement") dated as of July 1, 1997 between the Borrower and the City of Sacramento (the "City"); and

WHEREAS, pursuant to a Security Agreement (as the same may be modified, amended, supplemented or restated from time to time, the "Security Agreement") dated as of July 1, 1997 among the Borrower, U.S. Bank and the Authority, the Borrower has granted security interests in certain of its assets to U.S. Bank on behalf of the Authority in order to secure its obligations owing to the City arising under the Relocation Agreement;

WHEREAS the lenders under the Note Purchase Agreement, Term Loan Facility and Bank Loan Agreement would not be willing to extend credit to the Borrower under such agreements unless U.S. Bank and the Authority enter into this Subordination Agreement;

NOW, THEREFORE, in consideration of the premises, the terms, covenants and conditions contained herein, U.S. Bank and the Authority agree and covenant, for the benefit of the Agent and the holders from time to time of the Primary Obligations, as follows:

SECTION 1. Definitions. As used in this Agreement, the terms defined in the recitals hereto have the meanings assigned to them in such recitals and the following terms have the meanings set forth below:

"Agent" means JPMorgan Chase Bank, and any successor thereto, acting as agent for the holders of the Primary Obligations under the Primary Obligation Security Documents.

"Collateral" means all assets, properties or rights of the Borrower, whether tangible or intangible, in respect of which any lien or security interest is granted or provided to secure any Primary Obligations.

"Person" means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, governmental authority or other entity.

"Primary Obligation Credit Agreements" means the Note Purchase Agreement, the Term Loan Facility and any Bank Loan Agreement.

"Primary Obligations" means (a) the due and punctual payment by the Borrower of (i) the principal of and interest (including interest accruing during the pendency of any bankruptcy, insolvency, receivership or other similar proceeding, regardless of whether allowed or allowable in such proceeding) on all loans and advances to the Borrower under the Note Purchase Agreement, the Term Loan Facility and any Bank Loan Agreement and (ii) all other monetary obligations of the Borrower under the Note Purchase Agreement, the Term Loan Facility, any Bank Loan Agreement or the Primary Obligation Security Documents, including obligations to pay fees, expense and reimbursement obligations and indemnification obligations and including reimbursement obligations in respect of letters of credit, in each case whether primary, secondary, direct, contingent, fixed or otherwise (including monetary obligations incurred during the pendency of any bankruptcy, insolvency, receivership or similar proceeding, regardless of whether allowed or allowable in such proceeding), (b) the due and punctual payment by the Borrower of all obligations of the Borrower under any interest rate swap or hedging agreement that (i) exists on the Effective Date, with a counterparty that is a liquidity lender (or affiliate thereof) on such date in connection with the credit facility established pursuant to the Note Purchase Agreement or (ii) is entered into after the Effective Date with a counterparty that is such a liquidity lender (or affiliate thereof) at the time such interest rate swap or hedging agreement is entered into, and (c) the due and punctual payment to the National Basketball Association or controlled affiliates thereof of all assessments, fines, charges, obligations and other levies imposed by the National Basketball Association, its controlled affiliates, the NBA Board of Governors or the NBA Commissioner on the Borrower or otherwise due to any such entities from the Borrower; provided, however, that for purposes hereof and the subordination effected hereby (x) the principal amount of loans and advances referred to in clause (a) above shall not in any event exceed and shall be limited to \$75,000,000 in the aggregate and (y) the aggregate amount of Primary Obligations referred to in clause (c) above due and payable in any calendar year shall not in any event exceed and shall be limited to \$4,000,000.

“Primary Obligation Security Documents” means all agreements entered into by the Borrower with the Agent for the purpose of granting or perfecting security interests in assets of the Borrower securing any Primary Obligations.

“Subordinated Obligations” means all loans, advances, debts, liabilities and obligations, howsoever arising, owed by the Borrower to the City, the Authority or U.S. Bank of every kind and description (whether or not evidenced by any note or instrument and whether or not for the payment of money), direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising pursuant to the terms of the Relocation Agreement or any of the other documents referred to in the definition of City Obligation contained therein, including without limitation all interest, fees, charges, expenses, attorneys’ fees and accountants’ fees chargeable to the Borrower or payable by the Borrower thereunder.

SECTION 2. Subordination. (a) The payment and performance of each of the Subordinated Obligations is and shall be expressly subordinate and junior in right of payment to each of the Primary Obligations, and any liens or security interests of U.S. Bank or the Authority in the Collateral now existing or hereafter created, whether or not created in violation of this Agreement, and securing payment of the Subordinated Obligations, are and will be expressly subordinated and junior to each of the liens and security interests in such Collateral created by the Primary Obligation Security Documents, without regard to the time or order of attachment or perfection of such liens or security interests or the time or order of filing or recording.

(b) So long as any part of the Primary Obligations remain outstanding and until each of the Primary Obligation Credit Agreements shall have been terminated with respect to the Borrower and the Primary Obligations have been fully and finally paid and satisfied, neither U.S. Bank nor the Authority will, without the prior written consent of the Agent, or without 180 days prior written notice to the Agent, either accept payment in any manner whatsoever of the Subordinated Obligations or take any action (i) to accelerate any of the Subordinated Obligations, (ii) to collect payment of any of the Subordinated Obligations, or (iii) to foreclose, take any action or otherwise realize (whether by judicial action, under power of sale or by self-help repossession or otherwise) on any security or guaranty given by any Person to secure or guarantee any of the Subordinated Obligations including without limitation any actions or remedies of U.S. Bank or the Authority set forth in Sections 5 and 6 of the Relocation Agreement.

(c) Each of U.S. Bank and the Authority agrees that it will not after the date hereof accept, assert or permit to be created a lien or security interest in any property of Borrower as security for the payment or performance of any of the Subordinated Obligations.

(d) Except as provided in Section 2(b), the Agent shall have the exclusive right to collect, foreclose upon, sell, transfer, liquidate or otherwise dispose of the Collateral as provided in the Primary Obligation Security Documents or by applicable law, in the manner deemed appropriate by the Agent, without regard to any liens or security interests of U.S. Bank or the Authority in such Collateral, and neither U.S. Bank

nor the Authority will hinder Agent's actions in enforcing its remedies with respect to such Collateral.

(e) In the event of any distribution, division or application, partial or complete, voluntary or involuntary, by operation of law or otherwise, of all or any part of the assets of Borrower or the proceeds thereof to creditors of Borrower or upon any indebtedness of Borrower, by reason of the liquidation, dissolution or other winding up of Borrower or any of their business, or in the event of any sale, receivership, insolvency or bankruptcy proceeding, or assignment for the benefit of creditors, or any proceeding by or against Borrower for any relief under any bankruptcy or insolvency law or laws relating to the relief of debtors, readjustment of indebtedness, reorganizations, compositions or extensions, then and in any such event any payment or distribution of any kind or character, either in cash, securities or other property, which shall be payable or deliverable upon or with respect to any or all of the Subordinated Obligations shall be paid or delivered directly to the Agent for application on any Primary Obligations, due or not due, until all such Primary Obligations shall have been finally and fully paid and satisfied. Subject to the limitation set forth in Section 2(b) each of U.S. Bank and the Authority agrees that it will not file any claim in bankruptcy or an involuntary proceeding, receivership or other similar action without expressly acknowledging and agreeing in writing in any filing or proceeding that its claim is subordinate in all respects to the Primary Obligations.

(f) Except as provided in Section 2(b), should any payment or distribution or security or proceeds thereof be received by either U.S. Bank or the Authority upon or with respect to any of the Subordinated Obligations prior to the full and final payment and satisfaction of all Primary Obligations, such party will forthwith deliver the same to the Agent in precisely the form received (except for the endorsement or assignment of such party where necessary) for application on any Primary Obligations, due or not due, and, until so delivered, the same shall be held in trust by such party as property of the Agent and shall not be commingled with any other funds or property of such party or any other Person. In the event of the failure of U.S. Bank or the Authority to make any such endorsement or assignment, the Agent, or any of its officers or employees on behalf of the Agent, is hereby irrevocably authorized and appointed attorney-in-fact to make the same.

(g) Each of U.S. Bank and the Authority agrees not to pledge, sell, assign or transfer to others any claim it has or may have against the Borrower while any Primary Obligations remain outstanding.

(h) All notes or other evidences of indebtedness accepted by either U.S. Bank or the Authority from Borrower shall contain a specific statement therein that the indebtedness thereby evidenced is subordinated to the Primary Obligations pursuant to the provisions of this Agreement.

SECTION 3. Continuing Agreement. This is a continuing agreement and the holders of the Primary Obligations may continue, without notice to U.S. Bank or the Authority, to extend credit or other accommodation or benefit as provided in the Primary

Obligation Credit Agreements and loan moneys, on a revolving basis or otherwise, to or for the account of the Borrower on the faith hereof. U.S. Bank and the Authority agree that, without their consent or approval, the Primary Obligation Credit Agreements can be amended, modified, renewed, restated, supplemented or extended from time to time, and agree that this Agreement and the subordination provided for herein will remain effective and continue in force after any such action.

SECTION 4. Binding Nature. This Agreement shall be immediately binding upon each of U.S. Bank and the Authority, and the executors, administrators, successors and assigns of each of U.S. Bank and the Authority and shall inure to the benefit of the successors and assigns of the Agent and the holders of the Primary Obligations; provided, however, this Agreement may not be assigned or delegated in whole or in part by either of U.S. Bank or the Authority without the prior written consent of the Agent in each instance.

SECTION 5. Waivers. No waiver shall be deemed to be made by the Agent or any holder of Primary Obligations of any of its rights hereunder unless the same shall be in writing signed on behalf of the Agent or such holder by a duly authorized officer, and each such waiver, if any, shall be a waiver only with respect to the specific matter or matters to which the waiver relates and shall in no way impair the rights of the Agent or the obligations of U.S. Bank or the Authority to the Agent in any other respect or at any other time.

SECTION 6. Notice. Any notice, if mailed by certified mail return receipt requested and properly addressed as set forth below with postage prepaid or sent by an overnight delivery service (Federal Express or other nationally recognized overnight delivery service) or sent by telefacsimile to the number set forth below shall be deemed given when received:

(a) if to U.S. Bank,

U.S. Bank National Association
One California Street, Suite 2550
San Francisco, California 94111
Attention: Corporate Trust Department

Telecopy: (415) 273-4547
Telephone: (415) 273-4500

(b) if to the Authority,

Sacramento City Financing Authority
926 J Street, Suite 300
Sacramento, California 95814-2709
Attention: City Treasurer

Telecopy: (916) 448-3139
Telephone: (916) 264-5168

(c) if to the Agent,

JPMorgan Chase Bank
270 Park Avenue
New York, NY 10017
Attention:

Telecopy:
Telephone:

SECTION 7. CONSENT TO JURISDICTION. EACH OF THE PARTIES HERETO, BY ITS EXECUTION HEREOF, (A) HEREBY IRREVOCABLY SUBMITS TO THE NONEXCLUSIVE JURISDICTION OF THE SUPREME COURT OF THE STATE OF NEW YORK SITTING IN NEW YORK COUNTY AND TO THE NONEXCLUSIVE JURISDICTION OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK FOR THE PURPOSE OF ANY SUIT, ACTION OR OTHER PROCEEDING ARISING OUT OF OR BASED UPON THIS AGREEMENT OR THE SUBJECT MATTER HEREOF AND (B) HEREBY WAIVES TO THE EXTENT NOT PROHIBITED BY APPLICABLE LAW, AND AGREES NOT TO ASSERT, BY WAY OF MOTION, AS A DEFENSE OR OTHERWISE, IN ANY SUCH PROCEEDING, ANY CLAIM THAT IT IS NOT SUBJECT PERSONALLY TO THE JURISDICTION OF THE ABOVE-NAMED COURTS, THAT ITS PROPERTY IS EXEMPT OR IMMUNE FROM ATTACHMENT OR EXECUTION, THAT ANY SUCH PROCEEDING BROUGHT IN ONE OF THE ABOVE-NAMED COURTS IS IMPROPER, OR THAT THIS AGREEMENT MAY NOT BE ENFORCED IN OR BY SUCH COURT. EACH OF U.S. BANK AND THE AUTHORITY HEREBY CONSENTS TO SERVICE OF PROCESS IN ANY SUCH PROCEEDING IN ANY MANNER PERMITTED BY THE GENERAL STATUTES OF NEW YORK, AND AGREES THAT SERVICE OF PROCESS BY REGISTERED OR CERTIFIED MAIL, RETURN RECEIPT REQUESTED, AT ITS ADDRESS AS IT APPEARS IN SECTION 6 HEREIN IS REASONABLY CALCULATED TO GIVE ACTUAL NOTICE.

SECTION 8. GOVERNING LAW. THIS AGREEMENT WILL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF NEW YORK APPLICABLE TO CONTRACTS MADE AND TO BE PERFORMED WHOLLY WITHIN SUCH STATE.

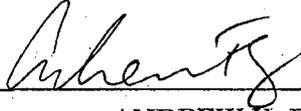
SECTION 9. WAIVER OF JURY TRIAL. TO THE EXTENT NOT PROHIBITED BY APPLICABLE LAW WHICH CANNOT BE WAIVED, EACH OF THE PARTIES HERETO HEREBY WAIVES, AND COVENANTS THAT IT WILL NOT ASSERT (WHETHER AS PLAINTIFF, DEFENDANT OR OTHERWISE), ANY RIGHT TO TRIAL BY JURY IN ANY FORUM IN RESPECT OF ANY ISSUE, CLAIM, DEMAND, ACTION OR CAUSE OF ACTION ARISING OUT OF OR BASED UPON OR RELATING TO THIS AGREEMENT, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING AND WHETHER IN CONTRACT OR TORT OR OTHERWISE. EACH OF U.S. BANK AND THE

AUTHORITY ACKNOWLEDGES THAT THE PROVISIONS OF THIS SECTION 9 CONSTITUTE A MATERIAL INDUCEMENT UPON WHICH THE AGENT AND THE HOLDERS OF THE PRIMARY OBLIGATIONS ARE RELYING AND WILL RELY IN ENTERING INTO THIS AGREEMENT OR EXTENDING CREDIT TO THE BORROWER. ANY OF THE PARTIES HERETO MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION 9 WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF SUCH PARTY TO THE WAIVER OF ITS RIGHTS TO TRIAL BY JURY.

[Signature pages follow]

IN WITNESS WHEREOF, the parties have duly executed this Agreement on the day and year first written above.

U.S. BANK NATIONAL ASSOCIATION

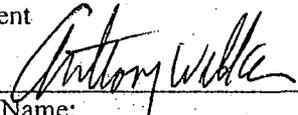
By 
Name: **ANDREW K. FUNG**
Title: **Asst. Vice President**

SACRAMENTO CITY FINANCING AUTHORITY

By 
Name: **Thomas P. Emery**
Title: **Treasurer**

Accepted and Consented to as of the date first above written:

JPMORGAN CHASE BANK,
as Agent

By 
Name:
Title: **ANTHONY WILKENS, VP**

ACKNOWLEDGMENT AND AGREEMENT

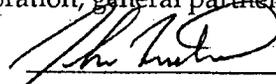
The undersigned hereby acknowledges and agrees to the provisions of the foregoing Subordination Agreement and agrees to not make any distributions, payments or take any other actions in violation of the terms thereof.

This the 5th day of May, 2003.

SACRAMENTO KINGS LIMITED PARTNERSHIP, a
California limited partnership

By: Royal Kings Limited Partnership, a
California limited partnership, general
partner

By: Maloof Sports Inc., a California
corporation, general partner

By: 

Title: Chief Financial Officer



National Basketball Association

April 10, 2003

First Trust of California, National Association
One California Street
Suite 400
San Francisco, CA 94111
Attn.: Corporate Trust Department

City Sacramento
Sacramento City Financing Authority
City Hall
915 I Street
Sacramento, CA 95814
Attn.: City Manager

Sacramento Kings Limited Partnership, LP
Arco Arona
One Sports Parkway
Sacramento, CA 95834
Attn.: Rick Benner

Re: Team Owner's Relocation Assurance Agreement dated as of July 1, 1997 (the "Assurance Agreement") between the City of Sacramento (the "City") and Sacramento Kings Limited Partnership ("Team"), and Security Agreement dated as of July 1, 1997 (the "Security Agreement") between Team and First Trust of California, National Association, as trustee (the "Trustee")

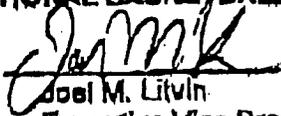
Ladies and Gentlemen:

Reference is hereby made to our letter addressed to each of you dated July 30, 1997 relating to the Team Owner's Relocation Assurance Agreement referred to above.

Please be advised that we hereby amend Section A.1. by deleting the words "\$20,000,000 (the 'Release Price')" and by substituting in its place the words "\$25,000,000 (the 'Release Price')". In all other respects, our letter dated July 30, 1997 remains in effect.

Very truly yours,

NATIONAL BASKETBALL ASSOCIATION

By: 

Joel M. Litvin
Executive Vice President

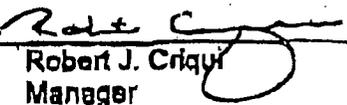
NBA PROPERTIES, INC.

By: 

Harvey E. Benjamin
Senior Vice President

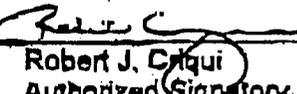
NBA MEDIA VENTURES, LLC

(as Successor to NBA Market Extension Partnership)

By: 

Robert J. Crisci
Manager

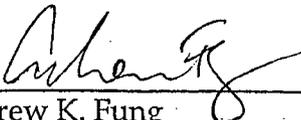
NBA DEVELOPMENT, LLC

By: 

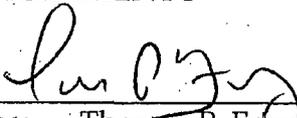
Robert J. Crisci
Authorized Signatory

First Trust of California, National Association, et al.
(NBA Letter of April 10, 2003)

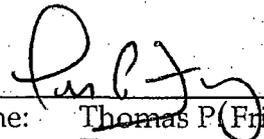
ACCEPTED AND AGREED:
U.S. BANK NATIONAL ASSOCIATION, as successor Trustee to
First Trust of California, National Association

By: 
Name: Andrew K. Fung
Title: Assistant Vice President

CITY OF SACRAMENTO

By: 
Name: Thomas P. Friery
Title: Treasurer

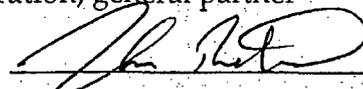
SACRAMENTO CITY FINANCING AUTHORITY

By: 
Name: Thomas P. Friery
Title: Treasurer

SACRAMENTO KINGS LIMITED PARTNERSHIP, a
California limited partnership

By: Royal Kings Limited Partnership, a
California limited partnership, general partner

By: Maloof Sports Inc., a California
corporation, general partner

By: 
Title: Chief Financial Officer



National Basketball Association

July 30, 1997

First Trust of California, National Association
One California Street
Suite 400
San Francisco, California 94111
Attn: Corporate Trust Department

City of Sacramento
Sacramento City Financing Authority
City Hall
915 I Street
Sacramento, California 95814
Attn: City Manager

Sacramento Kings Limited Partnership
Arco Arena
One Sports Parkway
Sacramento, California 95834
Attn: Rick Benner

Re: Team Owner's Relocation Assurance Agreement dated as of July 1, 1997 (the "Assurance Agreement") between the City of Sacramento (the "City") and Sacramento Kings Limited Partnership ("Team"), and Security Agreement dated as of July 1, 1997 (the "Security Agreement") between Team and First Trust of California, National Association, as trustee (the "Trustee")

Gentlemen:

You have advised the National Basketball Association ("NBA") of the following:

(i) Pursuant to the Assurance Agreement, Team has agreed to purchase the Property if it relocates its NBA membership and the City Obligation has not been Satisfied; and

First Trust of California, National Association, et al.
Page 2

(ii) to secure that obligation (such obligation and all other amounts, whether or not secured, that may be due to the City, the Trustee, the Sacramento City Financing Authority (the "Authority") or any other party by Team, Kings Arco Arena Limited Partnership or any other party under or in connection with the Assurance Agreement, the Bonds or the Subordinate Notes being collectively referred to as the "Secured Obligations"), but subject to the limitations set forth in this agreement, Team wishes to grant to the Trustee, for the benefit of the City and the Authority, a second priority security interest in the Collateral (as defined in the Security Agreement).

You have asked that, subject to the terms of this agreement, the NBA, NBA Properties, Inc., a New York corporation ("NBAP"), the NBA Market Extension Partnership, a New Jersey general partnership ("NBAMEP"), and NBA Development, LLC, a Delaware limited liability company ("NBAD"), consent to the grant to the Trustee of a second priority security interest in the Collateral.

Unless otherwise defined, all capitalized terms used in this agreement have the meanings given to them in the Assurance Agreement. Whether or not expressly stated in any provision of this agreement, the representations, warranties and agreements of the Trustee in this agreement shall be deemed made on behalf of itself and each of the City and the Authority, each of which shall be bound by the provisions of this agreement applicable to the Trustee.

A. In reliance upon the agreements, representations and warranties of the Trustee, the City, the Authority and Team contained in this agreement, the NBA, NBAP, NBAMEP and NBAD (together, the "NBA Entities") hereby acknowledge and agree as follows:

1. The NBA, by authority duly given and action duly taken, has approved the grant by Team to the Trustee of a second priority security interest in the Collateral provided that the maximum aggregate amount of Secured Obligations for which the Collateral shall serve as security shall not exceed \$20,000,000 (the "Release Price").

2. The NBA acknowledges that the City and the Trustee are relying on this agreement in entering into the Assurance Agreement and the Security Agreement (together, the "Team Agreements") with Team.

3. NBAP hereby consents to the pledge and grant to the Trustee of a second priority security interest in the Collateral. This pledge and security interest shall be subject to, and by virtue of NBAP's consent shall not

violate, the terms and conditions of the Shareholders Agreement by and among Team, the other members of the NBA and NBAP (the "NBAP Agreement").

4. NBAMEP hereby consents to the pledge and grant to the Trustee of a second priority security interest in the Collateral. This pledge and security interest shall be subject to, and by virtue of NBAMEP's consent shall not violate the terms and conditions of the NBA Market Extension Partnership Agreement by and among Team and all other members of the NBA (the "NBAMEP Agreement").

5. NBAD hereby consents to the pledge and grant to the Trustee of a second priority security interest in the Collateral. This security interest shall be subject to, and by virtue of NBAD's consent shall not violate, the terms and conditions of the Limited Liability Company Agreement of NBAD by and among Team and all other members of the NBA (the "NBAD Agreement").

B. In consideration of the foregoing agreements by the NBA Entities, the Trustee, the City, the Authority and Team hereby acknowledge and agree as follows:

1. The consents and agreements of the NBA Entities contained in this agreement do not constitute a waiver by the NBA Entities of, and are subject to, their rights under the NBA Constitution and By-Laws, the governing documents of the NBA Entities, and such present and future rules, regulations, memoranda, resolutions and directives of the NBA Board of Governors or the NBA Commissioner as may be applicable to Team, in each case as they may be amended from time to time and including the custom and practice thereunder (together, the "NBA Rules"), including, but not limited to, the right to terminate, suspend, revoke or require divestiture of Team's NBA Membership (as defined in the NBA Rules), and the Trustee, the City and the Authority hereby disclaim and waive any right of recourse or claim, whether legal or equitable, against the NBA Entities in the event they exercise any of such rights. The Trustee acknowledges that it has been furnished a copy of the NBA Constitution and By-Laws and that the NBA Joint Venture Agreement, NBA Operations Manual, NBAP Agreement, NBAMEP Agreement and NBAD Agreement and such other NBA documents and written NBA Rules are available for confidential inspection by the Trustee in the offices of the NBA in New York, that Trustee has the right to review those documents, will hold the contents of those documents confidential and shall not challenge the enforceability of the NBA Rules or this agreement.

2. Notwithstanding anything to the contrary in this agreement or any other agreement (including, but not limited to, either of the Team Agreements) at no time shall the maximum aggregate amount of all Secured Obligations secured by the Collateral exceed the Release Price.

3. (a) Notwithstanding the occurrence of a default or an event of default under either of the Team Agreements, any attempt by the Trustee, the City or the Authority to transfer (either to itself or another party) ownership of or control over or otherwise to exercise control over or to realize upon (whether by way of foreclosure, sale, possession or otherwise) all or any portion of the Collateral (each of the foregoing actions being referred to as a "Foreclosure" or an attempt to "Foreclose"), shall constitute a proposed transfer of an interest in a Member within the meaning of the NBA Constitution, which proposed transfer requires the prior approval of the NBA (which may be withheld in the NBA's sole discretion) pursuant to Article 5 of the Constitution. Without limiting the generality of the preceding sentence, prior to receiving written confirmation of the NBA's approval of any such Foreclosure or attempt to Foreclose, neither the Trustee, the City nor the Authority shall (i) restrict Team's ability to operate or deal with any of its assets (including, but not limited to, the contracts of players and coaches) in the manner required by NBA Rules or in the manner in which such assets are operated or dealt with by NBA teams in the ordinary course of their business, (ii) attempt to exercise any voting or management rights with respect to Team, (iii) attempt to exercise any of Team's rights as a stockholder of NBAP, a partner of NBAMEP, a member of NBAD or of the NBA, or the holder of any other interest constituting Collateral, including, but not limited to, its right to appoint a member of the NBA Board of Governors and to vote on matters brought before members, or (iv) attempt to exercise any right with respect to any of the Collateral (including, but not limited to, the trademarks, copyrights or other intellectual property constituting Collateral). The Trustee shall notify the NBA immediately if any event of default or other event shall occur that results in the Trustee giving notice of its intent to seek to exercise its rights or remedies or otherwise to Foreclose (or attempt to Foreclose) under either of the Team Agreements.

(b) If the Trustee wishes to Foreclose upon any portion of the Collateral, the Trustee shall, after obtaining the approval of the NBA Entities, Foreclose upon and sell all of the Collateral as a package and shall not attempt to Foreclose upon or sell all or any portion of the Collateral individually.

(c) If at any time the Trustee shall attempt to Foreclose upon or, following the approval of the NBA Entities, shall Foreclose upon, all or any

portion of the Collateral, the Trustee shall, upon the payment by the NBA or any person or entity approved or designated by the NBA (together with the NBA, an "Approved Purchaser") to the Trustee and/or the City of an amount equal to the lesser of the Release Price or the amount of the Secured Obligations then owed to the City or the Authority by Team, release, terminate or assign to the Approved Purchaser, in accordance with the directions of the NBA, all of its liens and other rights with respect to the Collateral. The Trustee, the City, the Authority and Team shall execute such releases, assignments, instruments of transfer, termination statements and other documents and take other such other actions as the NBA may request to convey to the Approved Purchaser all right, title and interest in and to the Collateral and security documents, free and clear of any liens or rights of any kind of the Trustee, the City, the Authority, Team or any other person. Notwithstanding anything to the contrary in the Team Agreements, neither the Trustee, the City, Team, the Authority nor any other party shall have any right to consent or object to any transaction effected pursuant to this paragraph with respect to the Collateral if the proceeds of that transaction equal or exceed the lesser of the Release Price or the amount of the Secured Obligations then owed to the City or the Authority by Team. Without limiting the materiality of each of the other provisions of this agreement, Team, the City, the Authority and the Trustee acknowledge that their agreement to the terms of this paragraph B.3(c) was a material factor in the approval by the NBA Entities of the granting of a security interest in the Collateral to the Trustee.

(d) Except for the pledge of the Collateral to the Trustee in accordance with this agreement and the pledge of Team's assets to NationsBank, N.A., as agent, pursuant to the Revolving Credit Agreement dated today (the "Credit Agreement"), Team shall not sell, assign, pledge or otherwise transfer any of its assets without the prior approval of the NBA Entities to the extent required by the NBA Rules.

4. (a) Without limiting the generality of paragraph B.3, and notwithstanding anything to the contrary in either of the Team Agreements, Team shall be permitted to make Permitted Transactions at all times. For purposes of this agreement, "Permitted Transactions" shall mean (i) the entering into, renegotiation, extension, amendment, waiver, assignment or other disposition of a player contract in accordance with NBA Rules, (ii) the hiring or termination of the employment of any coach or executive officer, and (iii) the payment of compensation and benefits to Team's players, coaches and other employees, and the payment of all obligations to the NBA Entities and the

NBA's affiliates and member clubs (collectively with such compensation and benefits payments, the "NBA Obligations").

(b) In the event the Trustee attempts to Foreclose upon the Collateral or to exercise any other rights with respect to the Collateral under the Team Agreements, the Trustee, the City and the Authority shall at all times cooperate with the NBA in preserving Team's ability to meet its NBA Obligations, but the Trustee, the City and the Authority shall not be required to lend any funds to Team.

5. The Trustee shall not assign any of its rights or delegate any of its duties under the Security Agreement without the prior written consent of the NBA, and any assignment or delegation in violation of this provision shall be void. The preceding sentence shall not, however, prevent a successor trustee from being appointed in accordance with the terms of the Security Agreement provided that such successor trustee confirms in writing to the NBA that it is bound by the terms of this agreement to the same extent as the Trustee. Neither of the Team Agreements (or any of the documents delivered in connection therewith) shall be amended, modified or waived in any respect which changes in a material way the business transaction presented to and approved by the NBA Entities or the obligations of Team under or in connection with the Team Agreements, or changes in any way any provision (including, but not limited to, a limitation on the Secured Obligations) for the benefit of the NBA Entities, without the prior written consent of the NBA.

6. The security interest of the Trustee in Team's share of the revenues derived by Team from network, national and international television contracts, together with all other security interests held by all parties (other than the NBA) in such revenues, shall at all times remain limited in the aggregate to a maximum of 85% of such revenues. The Trustee, the City and the Authority acknowledge that pursuant to the NBA Rules, Team has granted to the NBA a first priority security interest in the remaining 15% of Team's share of revenues from network, national and international television contracts, and that neither the Trustee, the City nor the Authority shall have any right to proceed on any basis against those revenues.

7. Any attempt by the Trustee to Foreclose upon Team's NBAP shares shall also constitute a proposed transfer of shares of NBAP within the meaning of the NBAP Agreement and shall be subject to the provisions of Paragraphs 4, 5 and 7 of the NBAP Agreement.

8. Any attempt by the Trustee to Foreclose upon Team's partnership interest in NBAMEP shall also constitute a proposed transfer of an interest or rights in NBAMEP within the meaning of the NBAMEP Agreement, which transfer requires the prior consent of the partners of NBAMEP (which they may withhold in their sole discretion) pursuant to section 7.2 and 9.1 of the NBAMEP Agreement.

9. Any attempt by the Trustee to Foreclose upon Team's membership interest in NBAD shall also constitute a proposed transfer of an interest in NBAD within the meaning of the NBAD Agreement, which transfer requires the prior consent of the members of NBAD (which they may withhold in their sole discretion) pursuant to Article XI of the NBAD Agreement.

10. Notwithstanding anything to the contrary in the Team Agreements, Team shall have the right (i) to amend, modify, rescind or restate all governing, constitutive, operating and other agreements or documents relating to the NBA Entities and any of their respective subsidiaries or affiliates, whether now existing or formed in the future, and to liquidate, dissolve or merge any of those entities, (ii) to vote in favor of any of the actions set forth in clause (i), and (iii) to invest or acquire an interest in any entity in which NBA teams generally are investing or acquiring interests.

11. Nothing in this agreement shall be deemed a consent by the NBA Entities or any current or future affiliate of the NBA Entities to the grant of a security interest in any interest Team may hold or acquire in any entity that may be formed by the NBA teams generally after the date of this agreement. The Trustee agrees that any security interest it may be permitted to acquire in any such interest shall be subject to the governing, constitutive, operating and other agreements or documents relating to such entity and, if required by such agreements or documents, the consent of such entity.

C. The Trustee, the City, the Authority and Team jointly and severally represent and warrant to the NBA Entities as follows:

1. The Team Agreements have been executed substantially in the form of the drafts delivered to the NBA Entities and there are no other arrangements, agreements or understandings, whether written or oral, among the parties to the Team Agreements that have not been provided in writing to the NBA Entities.

2. The only documents executed or delivered in connection with the Bond financing that relate to or affect Team or the Collateral are the Assurance Agreement, the Security Agreement, the Use Agreement and a Subordination, Nondisturbance and Attornment Agreement.

3. Neither the Trustee, the City nor the Authority has any security interest or other secured rights with respect to Team or the Collateral, other than the security interest granted to the Trustee under the Security Agreement.

D. Team further represents and warrants to the NBA Entities that neither Team nor any of its direct or indirect owners is liable for the repayment of any debt or obligation secured, directly or indirectly, by any of the assets of or ownership interests in Team, other than pursuant to the Assurance Agreement, the Security Agreement, the Credit Agreement and [identify Bank of America/Thomas pledge agreement].

E. Team, the City, the Authority and the Trustee acknowledge and agree that the provisions of this agreement are fair and reasonable, that they shall not challenge the enforceability of those provisions on any basis, whether legal or equitable, that they shall not vote for or support any plan of reorganization of Team that is inconsistent with this agreement and shall agree to waive the automatic stay provisions of any applicable bankruptcy or insolvency law to the extent necessary to effectuate the terms of this agreement, and that they shall execute and deliver such instruments and documents and take such actions as may be necessary to carry out fully each of those provisions.

F. In the event any of the terms and provisions of the Team Agreements conflict or are inconsistent with any applicable term or provision of this agreement, the applicable term or provision of this agreement shall control. This agreement is the "NBA Approval" referred to in the Team Agreements.

G. This agreement shall not be construed in any respect as a guaranty or indemnity by the NBA Entities, or any of the affiliates or member clubs of the NBA, of any debts, liabilities or obligations whatsoever of Team or any other party. The NBA Entities have reviewed the agreements referred to in paragraph C.2 only for certain limited purposes and shall not be charged with knowledge of, or be deemed to have any independent obligations under, any of those agreements or any other document delivered in connection with the Bond financing.

H. This agreement contains a complete statement of all arrangements among the parties with respect to its subject matter, supersedes all previous agreements among them concerning that subject matter, and cannot be changed or terminated except by a writing duly signed by each of the parties. No waiver by any party of any of its rights on any one occasion shall constitute a waiver of that right on any other occasion and any waiver must be in writing. This agreement is solely for the benefit of the parties hereto and their respective successors and assigns, and no other person shall have any rights or benefits under this agreement.

I. This agreement shall be governed by and construed in accordance with the laws of the State of New York applicable to agreements made and to be performed entirely in New York. This agreement shall be interpreted neutrally and without regard to which party drafted it; in particular, no rule of construction shall be applied that would result in the resolution of any ambiguity in this agreement against the drafting party.

J. Team, the City, the Authority and the Trustee acknowledge and agree that if any of them breaches any of the provisions of this agreement the NBA Entities will suffer immediate and irreparable harm, that the remedy at law for breach of such provisions will be inadequate, and that, in addition to any other remedies the NBA Entities may have, they shall be entitled to an injunction and decree for specific performance in the event of any breach or threatened breach, without any bond or other security being required and without the necessity of showing actual damages or irreparable harm.

K. Any notice, request, demand or other communication permitted or required to be given under this agreement shall be in writing, shall be signed by the party giving it, shall be sent to the addressee at the address set forth above (or at such other address as shall be designated by notice to the other parties) and shall be deemed given when delivered personally or by a reputable overnight delivery service, or four days after being mailed by certified or registered mail.

L. This agreement may be executed in two or more counterparts, which together shall constitute the same instrument, but this agreement shall not be binding on the NBA Entities until executed by all parties.

NATIONAL BASKETBALL ASSOCIATION

By: Jeffrey A. Mishkin
Name: Jeffrey A. Mishkin
Title: Executive Vice President and
Chief Legal Officer

NBA PROPERTIES, INC.

By: Jeffrey A. Mishkin
Name: Jeffrey A. Mishkin
Title: Secretary

NBA MARKET EXTENSION PARTNERSHIP

By: _____
Name: Robert Criqui
Title: Manager

NBA DEVELOPMENT, LLC

By: _____
Name: Robert Criqui
Title: Authorized Person

L. This agreement may be executed in two or more counterparts, which together shall constitute the same instrument, but this agreement shall not be binding on the NBA Entities until executed by all parties.

NATIONAL BASKETBALL ASSOCIATION

By: _____
Name: Jeffrey A. Mishkin
Title: Executive Vice President and
Chief Legal Officer

NBA PROPERTIES, INC.

By: _____
Name: Jeffrey A. Mishkin
Title: Secretary

NBA MARKET EXTENSION PARTNERSHIP

By: _____
Name: Robert Ciriqi
Title: Manager

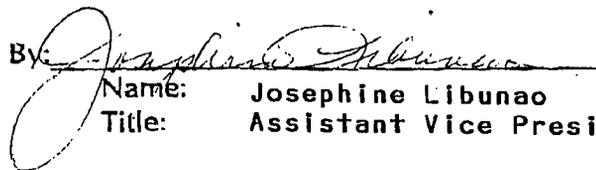
NBA DEVELOPMENT, LLC

By: _____
Name: Robert Ciriqi
Title: Authorized Person

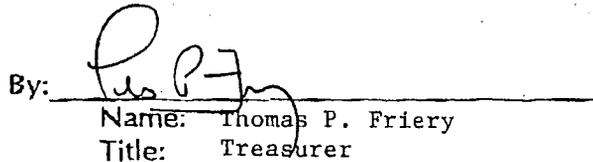
First Trust of California, National Association, et al.
Page 11

ACCEPTED AND AGREED:

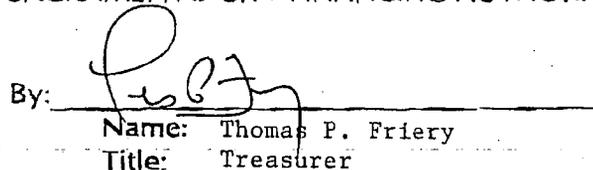
FIRST TRUST OF CALIFORNIA, NATIONAL ASSOCIATION

By: 
Name: Josephine Libunao
Title: Assistant Vice President

CITY OF SACRAMENTO

By: 
Name: Thomas P. Friery
Title: Treasurer

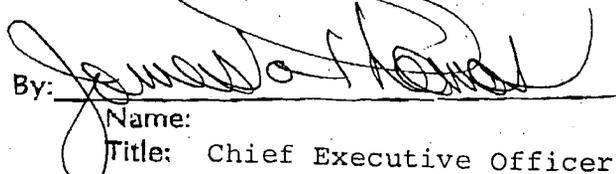
SACRAMENTO CITY FINANCING AUTHORITY

By: 
Name: Thomas P. Friery
Title: Treasurer

SACRAMENTO KINGS LIMITED PARTNERSHIP

By: Royal Kings Limited Partnership,
its general partner

By: Capitol Sports Team, Inc.,
its general partner

By: 
Name:
Title: Chief Executive Officer

AMENDMENT NO. 1
TO
SECURITY AGREEMENT

THIS AMENDMENT NO. 1 TO SECURITY AGREEMENT ("this Amendment"), dated as of April 28 2003, is executed by SACRAMENTO KINGS LIMITED PARTNERSHIP (the "Team Owner"), in favor of U.S. Bank, National Association, as trustee, a national banking association, organized and existing under the laws of the United States of America, as trustee (the "Trustee") under and pursuant to an indenture, dated as of July 1, 1997 (the "Indenture"), between the Sacramento City Financing Authority (the "Authority") and the Trustee.

RECITALS

A. Team Owner desires to amend that certain Security Agreement, dated as of July 1, 1997, executed by the Team Owner in favor of the Trustee (the "Security Agreement") in order to increase the amount of the Obligations secured by the Collateral subject to the pledge of the Security Agreement, and to increase the amount of permitted senior loans on the Collateral securing loans to or obligations of the Team Owner (or a general partner of the Team Owner), to reflect changes in the value of the Collateral since the Security Agreement was executed.

AGREEMENT

NOW, THEREFORE, in consideration of the above recital and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Team Owner hereby agrees with the Trustee, for the benefit of the Authority and the City, as follows:

1. Section 2 of the Security Agreement is hereby amended to read as follows:

Grant of Security Interest. As security for the Obligations, subject to all the terms and conditions of the NBA Approval, the Team Owner hereby pledges and assigns to the Trustee and grants to the Trustee a security interest in all right, title and interest of the Team Owner in and to the property described in Attachment 1 hereto, whether now owned or hereafter acquired (collectively and severally, the "Collateral"), which Attachment 1 is incorporated herein by this reference; such security interest shall be limited as follows: (1) the amount of the Obligations secured by the Collateral subject to this pledge shall not exceed \$25,000,000 and (2) this security interest shall be subordinate to one or more pledges of or senior liens on the Collateral securing loans to or obligations of the Team Owner (or a general partner of the Team Owner) in the aggregate principal amount outstanding at any one time of up to seventy-five million dollars (\$75,000,000), as adjusted for CPI ("Permitted Liens"). The Trustee agrees to enter into such

agreements evidencing and effecting the subordination of the pledge hereunder, from time to time, as may be requested by the Team Owner or any lender to or obligee of the Team Owner.

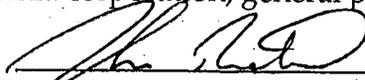
2. All other terms and conditions of the Security Agreement shall remain in full force and effect, and the Representations and Warranties of the Team Owner in Section 3 of the Security Agreement shall apply to this Amendment.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed as of the day and year first above written.

SACRAMENTO KINGS LIMITED PARTNERSHIP, a
California limited partnership

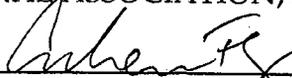
By: ROYAL KINGS LIMITED PARTNERSHIP, a
California limited partnership, general partner

By: MALOOF SPORTS, INC., a
California corporation, general partner

By: 

Title: Chief Financial Officer.

U.S. BANK, NATIONAL ASSOCIATION, as Trustee

By: 
Assistant Vice President

SECURITY AGREEMENT

THIS SECURITY AGREEMENT, dated as of July 1, 1997, is executed by SACRAMENTO KINGS LIMITED PARTNERSHIP, a California limited partnership (the "Team Owner"), in favor of First Trust of California, National Association, as trustee, a national banking association, organized and existing under the laws of the United States of America, as trustee (the "Trustee") under and pursuant to an indenture, dated as of July 1, 1997 (the "Indenture"), between the Sacramento City Financing Authority (the "Authority") and the Trustee.

RECITALS

A. Pursuant to the Indenture, the Authority has issued its Sacramento City Financing Authority 1997 Lease Revenue Bonds (ARCO Arena Acquisition) (the "Bonds") to assist the City of Sacramento (the "City") in obtaining record title to the existing sports and entertainment arena and related parking facilities commonly known as ARCO Arena (the "Facility") from the Kings Arco Arena Limited Partnership, a California limited partnership (the "Arena Owner"), an affiliate of the Team Owner, upon the terms and subject to the conditions set forth in the Team Owner Relocation Assurance Agreement.

B. The City's obligation to obtain record title to the Facility from Arena Owner from the proceeds of the Bonds is subject, among other conditions, to receipt by the Trustee of both this Security Agreement and the Team Owner's Relocation Assurance Agreement, both, duly executed by the Team Owner.

AGREEMENT

NOW, THEREFORE, in consideration of the above recitals and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Team Owner hereby agrees with the Trustee, for the benefit of the Authority and the City, as follows:

1. **Definitions and Interpretation.** When used in this Security Agreement, the following terms shall have the following respective meanings:

"Arena Owner" shall have the meaning given to that term in Recital A hereof.

"CPI" means the Consumer Price Index All Urban Consumers (base year 1982-1984=100) for San Francisco-Oakland-San Jose CMSA for the United States, published by the United States Department of Labor, Bureau of Labor Statistics (the "Index"), which is in effect on the August 1, 1997. If the Index is changed so that the base year differs from that in effect on August 1, 1997, the Index shall be converted in accordance with the conversion factor published by the United States Department of Labor, Bureau of Labor

Statistics. If the Index is discontinued or revised during the period between August 1, 1997 through July 31, 2037, such other government index or computation with which it is replaced shall be used in order to obtain substantially the same result as would be obtained if the Index had not been discontinued or revised.

"Collateral" shall have the meaning given to that term in paragraph 2 hereof.

"Indenture" shall have the meaning given to that term in the introductory paragraph hereof.

"Obligations" means and includes all obligations, howsoever arising, owed by Team Owner to the City or the Trustee now existing or hereafter arising pursuant to the terms of the Team Owner's Relocation Assurance Agreement and this Security Agreement.

"NBA" means the National Basketball Association.

"NBA Approval" means a specific document in form and content required by the NBA evidencing the approval of the NBA to this Security Agreement and the Team Owner's Relocation Assurance Agreement.

"Permitted Liens" shall have the meaning given to that term in paragraph 2 hereof.

"Team Owner" means the meaning given to that term in the introductory paragraph hereof.

"Team Owner's Relocation Assurance Agreement" means that certain Team Owner's Relocation Assurance Agreement, dated as of July 1, 1997, between the Team Owner and the City.

"Trustee" shall have the meaning given to that term in the introductory paragraph hereof.

"UCC" means the Uniform Commercial Code as in effect in the State of California from time to time.

Unless otherwise defined herein, all other capitalized terms used herein and defined in the Team Owner's Relocation Assurance Agreement shall have the respective meanings given to those terms in the Team Owner's Relocation Assurance Agreement, and all terms defined in the UCC shall have the respective meanings given to those terms in the UCC.

2. **Grant of Security Interest.** As security for the Obligations, subject to all the terms and conditions of the NBA Approval, the Team Owner hereby pledges and assigns to the Trustee and grants to the Trustee a security interest in all right, title and interest of the Team Owner in and to the property described in Attachment 1 hereto, whether now owned or hereafter acquired (collectively and severally, the "Collateral"), which Attachment 1 is incorporated herein by this reference; such security interest shall be limited as follows: (1)

the amount of the Obligations secured by the Collateral subject to this pledge shall not exceed \$20,000,000 and (2) this security interest shall be subordinate to one or more pledges of or senior liens on the Collateral securing loans to or obligations of the Team Owner (or a general partner of the Team Owner) in the aggregate principal amount outstanding at any one time of up to thirty million dollars (\$30,000,000), as adjusted for CPI ("Permitted Liens"). The Trustee agrees to enter into such agreements evidencing and effecting the subordination of the pledge hereunder, from time to time, as may be requested by the Team Owner or any lender to or obligee of the Team Owner.

3. Representations and Warranties. The Team Owner represents and warrants to the Trustee as follows:

(a) The Team Owner is the legal and beneficial owner of the Collateral. No other Person has any right, title, claim or interest (by way of any lien, purchase option or otherwise) in, against or to the Collateral, other than Permitted Liens.

(b) The Trustee has a second priority perfected security interest in the Collateral subordinate only to Permitted Liens.

(c) The Team Owner keeps all records concerning the Collateral at its chief executive office located at the address of "Buyer" set forth in the Team Owner's Relocation Assurance Agreement.

(d) The information set forth herein and in the Team Owner's Relocation Assurance Agreement is true, correct and accurate.

4. Covenants. Subject to the obligations of the Team Owner under Permitted Liens and to the rights of the holders of or obligees under such Permitted Liens, the Team Owner hereby agrees as follows:

(a) The Team Owner, at its own expense, shall promptly procure, execute and deliver to the Trustee all documents, instruments and agreements and perform all acts which are necessary or desirable, or which the Trustee may request, to establish, maintain, preserve, protect and perfect the Collateral, the lien granted to the Trustee herein and the second priority of such lien (subject only to Permitted Liens) or to enable the Trustee to exercise and enforce its rights and remedies hereunder with respect to the Collateral. Without limiting the generality of the preceding sentence, the Team Owner shall procure, execute and deliver to the Trustee all financing statements requested by the Trustee in order to perfect and maintain the Trustee's security interest in the Collateral and deliver to the Trustee promptly upon receipt all originals of the Collateral consisting of instruments and documents.

(b) The Team Owner shall not use or permit any Collateral to be used in violation of (i) any provision of this Security Agreement or any other document to which the Team Owner is a party or (ii) any applicable law where such use might have a material adverse effect upon the Collateral.

(c) The Team Owner shall pay promptly when due all taxes and other governmental charges, all liens and all other charges now or hereafter imposed upon, relating to or affecting any Collateral.

(d) Without thirty (30) days' prior written notice to the Trustee, the Team Owner shall not (i) change its name or place of business (or, if the Team Owner has more than one place of business, its chief executive office), or the office in which the Team Owner's records relating to the Collateral are kept or (ii) keep the Collateral consisting of chattel paper and documents at any location other than its chief executive office.

(e) The Team Owner shall appear in and defend any action or proceeding which may affect its title to or the Trustee's interest in the Collateral.

(f) If the Trustee gives value to enable the Team Owner to acquire rights in or the use of the Collateral, the Team Owner shall use such value for such purpose.

(g) The Team Owner shall keep separate, accurate and complete records of the Collateral and shall provide the Trustee with such records and such other reports and information relating to the Collateral as the Trustee may reasonably request from time to time.

(h) The Team Owner shall not surrender or lose possession of (other than to the Trustee), sell, encumber, lease, rent, license, option, or otherwise dispose of or transfer the Collateral or right or interest therein except as permitted herein, and, the Team Owner shall keep the Collateral free of all liens except Permitted Liens.

(i) The Team Owner shall type, print or stamp conspicuously on the face of all original copies of all Collateral consisting of chattel paper and documents not in the possession of the Trustee a legend satisfactory to the Trustee indicating that such chattel paper is subject to the security interest granted hereby.

(j) The Team Owner shall comply with all material requirements of law applicable to the Team Owner which relate to the production, possession, operation, maintenance and control of the Collateral (including, without limitation, the Fair Labor Standards Act).

5. Authorized Action by the Trustee. The Team Owner hereby irrevocably appoints the Trustee as its attorney-in-fact and agrees that the Trustee, subject to the terms and conditions of the NBA Approval, may perform (but the Trustee shall not be obligated to and shall incur no liability to the Team Owner or any third party for failure so to do) any act which the Team Owner is obligated by this Security Agreement to perform, and to exercise such rights and powers as the Team Owner might exercise with respect to the Collateral, including, without limitation, the right to (a) collect by legal proceedings or otherwise and endorse, receive and receipt for all dividends, interest, payments, proceeds and other sums and property now or hereafter payable on or on account of the Collateral; (b) enter into any extension, reorganization, deposit, merger, consolidation or other agreement pertaining to, or

deposit, surrender, accept, hold or apply other property in exchange for the Collateral; (c) insure, preserve and enforce the Collateral; (d) make any compromise or settlement, and take any action it deems advisable, with respect to the Collateral; (e) pay the City Obligation from the Collateral; and (f) execute UCC financing statements and other documents, instruments and agreements required hereunder; provided, however, that the Trustee may exercise such powers only after the occurrence and during the continuance of a default by the Team Owner under the Team Owner's Relocation Assurance Agreement. The Team Owner agrees to reimburse the Trustee upon demand for all reasonable costs and expenses, including attorneys' fees, that the Trustee may incur while acting as the Team Owner's attorney-in-fact hereunder, all of which costs and expenses are included in the Obligations. The Team Owner agrees that such care as the Trustee gives to the safekeeping of its own property of like kind shall constitute reasonable care of the Collateral when in the Trustee's possession; provided, however, that the Trustee shall not be required to make any presentment, demand or protest, or give any notice and need not take any action to preserve any rights against any prior party or any other person in connection with the Obligations or with respect to the Collateral.

6. **Default and Remedies.** The Team Owner shall be deemed in default under this Security Agreement upon the occurrence and during the continuance of a default by the Team Owner under the Team Owner's Relocation Assurance Agreement. In addition to all other rights and remedies granted to the Trustee by this Security Agreement, the Team Owner's Relocation Assurance Agreement, the UCC and other applicable laws, the Trustee may, subject to the terms and conditions of the NBA Approval, upon the occurrence and during the continuance of a default by the Team Owner under the Team Owner's Relocation Assurance Agreement, exercise any one or more of the following rights and remedies, subject to the rights of the holders of or obligees under Permitted Liens: (a) collect, receive, appropriate or realize upon the Collateral or otherwise foreclose or enforce the Trustee's security interests in any or all Collateral in any manner permitted by law or in this Security Agreement; (b) sell or otherwise dispose of any or all Collateral at one or more public or private sales, whether or not such Collateral is present at the place of sale, for cash or credit or future delivery, on such terms and in such manner as the Trustee may determine; (c) require the Team Owner to make the Collateral available to the Trustee at a place to be designated by the Trustee; (d) enter onto any property where any Collateral is located and take possession thereof with or without judicial process; and (e) prior to the disposition of the Collateral, perform any obligations and enforce any rights of the Team Owner under any Contracts (as defined in Attachment 1) or otherwise prepare and preserve Collateral for disposition in any manner and to the extent the Trustee deems appropriate. In furtherance of the Trustee's rights hereunder, subject to the terms and conditions of the NBA Approval and subject to the rights of holders of or obligees under Permitted Liens, the Team Owner hereby grants to the Trustee an irrevocable, non-exclusive license (exercisable without royalty or other payment by the Trustee) to use, license or sublicense any patent, trademark, tradename, copyright or other intellectual property in which the Team Owner now or hereafter in the Collateral, together with the right of access to all media in which any of the foregoing may be recorded or stored. In any case where notice of any sale or disposition of any Collateral is required, the Team Owner hereby agrees that seven (7) days notice of such sale or disposition is reasonable.

7. **NBA Approval.** Each of the parties hereto acknowledges that the provisions of this Security Agreement and the Team Owner's Relocation Assurance Agreement shall be subject to the provisions of the NBA Approval, which the Team Owner and the Trustee have accepted as reasonable and appropriate. Without limiting the generality of the preceding sentence, the Trustee shall not exercise, enforce or attempt to exercise or enforce any of its rights or remedies under the Security Agreement or the Team Owner's Relocation Assurance Agreement except in accordance with and subject to the NBA Approval.

8. **Termination.** Upon termination of the Team Owner Relocation Assurance Agreement, this Security Agreement shall automatically terminate and the Trustee shall promptly execute and file and record such documents in the records of the Sacramento County Recorder, and shall file such other instruments (such as UCC-2 statements), as may be necessary to evidence the termination of this Security Agreement and the Team Owner Relocation Assurance Agreement to the reasonable satisfaction of Team Owner.

9. **Miscellaneous.**

(a) **Notices.** Except as otherwise specified herein, all notices, requests, demands, consents, instructions or other communications to or upon the Team Owner or the Trustee under this Security Agreement shall be given as provided in paragraph 17 of the Team Owner's Relocation Assurance Agreement.

(b) **Amendments; Waivers.** Any term, covenant, agreement or condition of this Security Agreement may be amended in a document signed by the parties hereto. No failure or delay by the Trustee in exercising any right hereunder shall operate as a waiver thereof or of any other right nor shall any single or partial exercise of any such right preclude any other further exercise thereof or of any other right. Unless otherwise specified in any such waiver or consent, a waiver or consent given hereunder shall be effective only in the specific instance and for the specific purpose for which given.

(c) **Successors and Assigns.** This Security Agreement shall be binding upon and inure to the benefit of the Trustee, the Team Owner and their respective successors and assigns.

(d) **Partial Invalidity.** If at any time any provision of this Security Agreement is or becomes illegal, invalid or unenforceable in any respect under the law or any jurisdiction, neither the legality, validity or enforceability of the remaining provisions of this Security Agreement nor the legality, validity or enforceability of such provision under the law of any other jurisdiction shall in any way be affected or impaired thereby.

(e) **Cumulative Rights, Etc.** The rights, powers and remedies of the Trustee under this Security Agreement shall be in addition to all rights, powers and remedies given to the Trustee by virtue of any applicable law, the Team Owner's Relocation Assurance Agreement, or any other agreement, all of which rights, powers, and remedies shall be cumulative and may be exercised successively or

concurrently without impairing the Trustee's rights hereunder. The Team Owner waives any right to require the Trustee to proceed against any person or to exhaust the Collateral or to pursue any remedy in the Trustee's power.

(f) Payments Free of Taxes, Etc. All payments made by the Team Owner under this Security Agreement shall be made by the Team Owner free and clear of and without deduction for any and all present and future taxes, levies, charges, deductions and withholdings. In addition, the Team Owner shall pay upon demand any stamp or other taxes, levies or charges of any jurisdiction with respect to the execution, delivery, registration, performance and enforcement of this Security Agreement. Upon request by the Trustee, the Team Owner shall furnish evidence satisfactory to the Trustee that all requisite authorizations and approvals by, and notices to and filings with, governmental authorities and regulatory bodies have been obtained and made and that all requisite taxes, levies and charges have been paid.

(g) Team Owner's Continuing Liability. Notwithstanding any provision of this Security Agreement or the Team Owner's Relocation Assurance Agreement or any exercise by the Trustee of any of its rights hereunder or thereunder (including, without limitation, any right to collect or enforce against the Collateral), (i) the Team Owner shall remain liable to perform its obligations and duties in connection with the Collateral (including, without limitation, the Contracts and all other agreements relating to the Collateral) and (ii) the Trustee shall not assume any liability to perform such obligations and duties or to enforce any of the Team Owner's rights in connection with the Collateral (including, without limitation, the Contracts and all other agreements relating to the Collateral), without being first indemnified to its satisfaction from any loss, cost, liability or expense related thereto, including, without limitation, the reasonable fees and expenses of its attorneys and additional fees and expenses of the Trustee.

(h) Governing Law. This Security Agreement shall be governed by and construed in accordance with the laws of the State of California without reference to conflicts of law rules (except to the extent otherwise provided in the UCC).

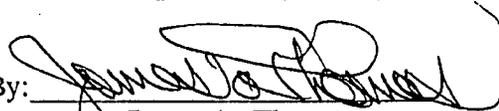
IN WITNESS WHEREOF, the parties hereto have caused this Security Agreement to be executed as of the day and year first above written.

SACRAMENTO KINGS LIMITED PARTNERSHIP, a
California limited partnership

By: ROYAL KINGS LIMITED PARTNERSHIP, a
California limited partnership, general partner

By: CAPITOL SPORTS TEAM, INC., a
California corporation, general partner

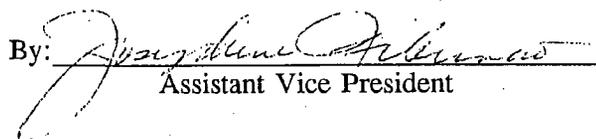
By:



James A. Thomas
Chief Executive Officer

FIRST TRUST OF CALIFORNIA, NATIONAL
ASSOCIATION, as Trustee

By:



Assistant Vice President

ATTACHMENT 1
TO SECURITY AGREEMENT

All right, title and interest of the Team Owner, whether now owned or hereafter acquired, in and to the following:

(a) Team Owner's National Basketball Association franchise (the "NBA Franchise") and all rights pertaining thereto, all right, title and interest that the Team Owner may now or hereafter have in or under any contract or agreement relating to the use of the existing sports and entertainment arena and related parking facilities commonly known as ARCO Arena, located in Sacramento, California and, to the extent permitted at any time under the Constitution and Bylaws of the National Basketball Association (the "NBA"), any and all agreements pursuant to which the Team Owner, directly or indirectly (e.g. by reason of the Team Owner's NBA Franchise) is entitled to receive any payments whatsoever in respect of any broadcast or other report of the Team Owner's team's games or those of any other member of the NBA or in respect of advertising revenues relating to any such broadcast or other report (collectively, "Media Agreements") in or under which the Team Owner may now have or hereafter have any right, title or interest to any agreement relating to the terms of payment of performance thereof (collectively "Contracts"); and

(b) All other general intangibles relating to the NBA Franchise, the Media Agreements and the Contracts not otherwise described above (including, without limitation, (i) customer and supplier lists and contracts, books and records, insurance policies, tax refunds, contracts for the purchase of real or personal property; (ii) all patents, copyrights, trademarks, tradenames and service marks, (iii) all licenses to use, applications for, and other rights to, such patents, copyrights, trademarks, tradenames and service marks, and (iv) all goodwill of the Team Owner); and

(c) All proceeds of the foregoing (including, without limitation, whatever is receivable or received when the Collateral or proceeds is sold, collected, exchanged, returned, substituted or otherwise disposed of, whether such disposition is voluntary or involuntary, including rights to payment and return premiums and insurance proceeds under insurance with respect to any Collateral, and all rights to payment with respect to any cause of action affecting or relating to the Collateral).