

LETTER AGREEMENT - ARENA DEVELOPMENT

This Letter Agreement is entered into as of the 3rd day of August, 2000. It is a binding agreement among the Parties set out below with respect to the development, construction, financing, use and occupancy of a new multi-purpose arena to be developed in Houston, Harris County, Texas to provide a new home facility for the Houston Rockets and a home facility for a National Hockey League ("NHL") franchise if one is brought to Houston, Texas (the "NHL Team").

Parties

The Parties are the Harris County-Houston Sports Authority (the "Sports Authority") and Rocket Ball, Ltd. (the "NBA Club"). It is intended that the City of Houston (the "City") will satisfy its obligations under this Letter Agreement by entering into an agreement (the "Interlocal Agreement") with the Sports Authority with regard to such obligations. The City may delegate the performance of its obligations under the Interlocal Agreement to its Convention & Entertainment Facilities Department or other City-created entity, but the City and the Sports Authority will remain responsible for performance of such obligations. The failure of the City and the Sports Authority to enter into such an Interlocal Agreement (approved by the NBA Club as provided below) with regard to the City's obligations under this Letter Agreement within sixty (60) days after the date of this Letter Agreement will entitle the Sports Authority and/or the NBA Club to terminate this Letter Agreement, at such Party's option, as set out below.

Recognizing the need to properly coordinate all aspects of the development and construction of the Arena project, the Sports Authority will afford the NBA Club the opportunity to be present at meetings regarding, and to review and provide input with respect to the Interlocal Agreement to be entered into by the Sports Authority and the City. The NBA Club shall be expressly designated as a third party beneficiary of the Interlocal Agreement, entitled to fully enforce the terms thereof. The NBA Club will have the right to approve the Interlocal Agreement, such approval not to be unreasonably withheld and to be limited to confirming that such agreement conforms in all material respects to the requirements of this Letter Agreement and provides adequate assurances of the City's commitment to perform and ability to fund its obligations under the Interlocal Agreement and appropriate remedies for non-performance.

Arena

The Arena will be constructed as a state-of-the-art, multipurpose sports and entertainment facility designed to support the occupancy of the Rockets and an NHL Team, as well as to host other sporting events (such as WNBA and NCAA basketball), family shows, concerts, the circus and similar entertainment and floor events (the "Arena"). The Arena will contain a gross area of not more than 800,000 square feet and have a seating capacity of between 18,000 and 19,000 for basketball, including approximately 100 luxury suites as well as a club seating area with adjacent clubhouse facilities. The Arena will also include office space for the NBA Club and the Arena Operator (as defined below), appropriate concession areas, locker room facilities and an NBA-quality practice facility. At no additional cost to the City or Sports Authority, the Arena will include a suite (with all rights incident to the ownership of such a suite in the Arena) for use by the Convention & Entertainment Facilities Department of the City for promotional and economic development activities and for other public and civic purposes. The Arena will have skybridge or other enclosed access (the "Enclosed Access") at premium seating and regular entrances to the adjacent Parking Garage (as defined below).

Although the Arena plans and the Arena Budget (as defined below) will include certain base-building work necessary to accommodate NHL hockey at the Arena, the Arena plans and Arena Budget do not include the cost of build-out of the NHL Team's locker rooms, its specific equipment needs such as hockey scoreboards or a professional hockey dasher board system, a second Zamboni machine, etc.

Arena Location

The Arena will be constructed on the site in Downtown Houston, Texas bounded on the North by Polk, on the South by Bell, on the East by Jackson and the West by La Branch, comprising all of Blocks 289, 290, 311 and 312, S.S.B.B., together with all street rights of way within such site, or on another site mutually acceptable to the Sports Authority and the NBA Club (the "Arena Site"). The Arena Site will be owned by the City and leased from the City by the Sports Authority (the "Ground Lease") for a term coterminous with the NBA Club's lease of the Arena (the "Arena Lease"), excluding any renewals thereof. The Sports Authority will own the Arena during the term of the Ground Lease, with ownership of the Arena reverting to the City upon the expiration of the Ground Lease.

The Sports Authority or the City will perform all requisite soils and environmental, traffic, parking, utility, security, infrastructure, regulatory and other related studies necessary in connection with the construction and operation of the contemplated Arena and Parking Garage (the "Studies"). The Studies shall address both on-site and off-site issues relating to the Arena and the Parking Garage. The scope of the Studies, and the selection of the consultants for such Studies, shall be subject to the mutual approval of the Parties, not to be unreasonably withheld. Within 90 days following the date of this Letter Agreement, the Sports Authority or the City will perform such Studies as may be reasonably required for the Sports Authority and the NBA Club to confirm the general suitability of the Arena Site and the Garage Site and to obtain at least a preliminary analysis of the on-site and off-site work to be performed in connection with the construction of the Arena and the Parking Garage, together with any other Studies that may reasonably be completed through the exercise of diligent efforts in good faith. In the event the Sports Authority or the City fail to perform the Studies, as provided above, the NBA Club will have the Self-Help Rights described below. The definitive agreements will contain a process for the performance of additional or updated Studies and for determining the scope of work to be performed pursuant to the Studies, and the approved scope of work is herein called the "Approved Scope of Work."

Site Acquisition And Infrastructure

The City will proceed with expedience after the passage of the Referendum (defined below) to acquire and deliver the Arena Site.

Work

The Sports Authority will proceed with expedience after the passage of the Referendum to acquire the Garage Site (as defined below) together with the use of a reasonably suitable construction staging area (provided the cost of acquiring the use of such a construction staging area will be included $\frac{1}{2}$ in the Arena Budget and $\frac{1}{2}$ in the budget for the Parking Garage) (the acquisition of the Arena Site, Garage Site and staging area is herein collectively called the "Site Acquisition").

The City and the Sports Authority, as applicable, will proceed with expedience after the passage of the Referendum to perform (i) all on-site work to prepare the Arena Site and the Garage Site for construction including, without limitation, site clearing and demolition of existing improvements, environmental remediation, utility relocation and street abandonment, (ii) all on-site and off-site work to cause utilities to be available at the Arena Site and the Garage Site, as necessary for the construction and operation of the Arena and the Parking Garage, as applicable, and (iii) all other on-site and off-site work to be performed as part of the Approved Scope of Work (collectively, the work to be performed pursuant to this paragraph (b) is herein called the "Infrastructure Work")

The NBA Club will have approval rights, not to be unreasonably withheld, with respect to any of the Infrastructure Work to be performed on the Arena Site. Furthermore, recognizing the need to properly coordinate all aspects of the development and construction of the Arena project, the City and the Sports Authority will afford the NBA Club the opportunity to review, attend all meetings regarding, and provide input with respect to, the design and construction of the remaining Infrastructure Work. Furthermore, all such work shall be designed and constructed to satisfy the approved design requirements of the Arena and Parking Garage.

Arena Parking

The Sports Authority will construct (or cause to be constructed) a new event parking garage, including the Enclosed Access to the Arena and a below grade loading dock facility connected to and serving the Arena at the event floor level (collectively, the "Parking Garage"); provided the incremental cost in excess of \$3 million reasonably allocable to the design and construction of the loading dock must be funded within the Arena Budget (described below), with the NBA Club responsible for paying for any excess incremental costs that cannot be absorbed within the Arena Budget. The Parking Garage will be designed to complement the design of the Arena.

The Parking Garage will be constructed on (i) the 2-block site located adjacent to the Eastern boundary of the Arena Site, bounded by Polk to the North, Bell to the South, Chenevert to the East and Jackson to the West (comprising all of Blocks 288 and 310, S.S.B.B.) together with all street rights of way within such site and the Jackson Street right of way adjacent to such site, (ii) the 2-block site located adjacent to the Southern boundary of the Arena Site, bounded by Bell to the North, Leeland to the South, Jackson to the East and LaBranch to the West (comprising all of Blocks 328 and 329 S.S.B.B.) together with all street rights of way within such site and the Bell Street right of way (or the right to construct the loading dock beneath such right of way) adjacent to such site or (iii) such other location approved by the Parties (the "Garage Site").

The Parking Garage shall contain 2,500 parking spaces (the "Capacity") to serve the Arena and the George R. Brown Convention Center ("GRBCC"). The design and construction procedures for the construction of the Parking Garage are set forth on Schedule 2 attached hereto.

The Parking Garage will be completed and available for use not later than September 1, 2003.

The Sports Authority or its designee (either of which is referred to herein as the "Garage Operator") will operate and maintain the Parking Garage and will have the right to all revenues and income from the Parking Garage, subject to the NBA Club Garage Rights (as defined below) and to the rights of the NHL Team as described below. The Garage Operator will operate and maintain the Parking Garage in a manner consistent with arena parking garages of similar age, size and design, ordinary wear and tear excepted.

The Garage Operator will be entitled to establish reasonable parking fees for the Parking Garage subject to the NBA Club Garage Rights (as defined below) and the rights of the NHL Team as provided below; provided, however, that such parking fees established for Arena events (other than Protected Events [as defined below] and NHL Team games) will be commercially reasonable and will not exceed the highest rates charged by the NBA Club for Protected Events. The Garage Operator will also establish and enforce rules and regulations governing ingress and egress, maintenance and security for the Parking Garage, which rules and regulations shall be subject to the reasonable approval of the NBA Club insofar as the same affect the NBA Club Garage Parking Rights.

Throughout the term of the Arena Lease (and any extensions thereof), the Sports Authority or the City, as applicable, will also cause the Parking Garage to be open and fully staffed, including, without limitation, appropriate security and traffic control, and will make available the entire Parking Garage (other than the Reserved Spaces and the Operator's Spaces) for all Arena events (regardless of whether the same involve the NBA Team or its affiliates) for Arena event parking no later than 2 hours prior to the scheduled start of, and at least until 1 hour after, any Arena event (an "Event Period"). Notwithstanding the foregoing, except for (i) nationally recognized arena events and (ii) up to five (5) additional Arena events per year, no Arena events shall be scheduled to commence prior to 6:30 p.m. Houston time on any weekday which is not a recognized holiday.

The Sports Authority (or its designee) will be responsible for all costs and expenses for the Site Acquisition and Infrastructure Work relating to the Parking Garage. The Sports Authority (or its designee) will be responsible for all costs and expenses with respect to the construction, operation, maintenance and capital repairs and improvements of the Parking Garage. In the event the Sports Authority elects to retain a contractor to operate the Parking Garage, the selection of such Garage Operator shall be subject to certain standards applicable to comparable arena parking garages to be mutually agreed upon.

The Garage Operator will be entitled to use, at no charge, 20 reserved parking spaces in the Parking Garage, in locations mutually agreeable to the Parties, 365 days a year, 24 hours per day, for its employees and guests (the "Operator's Spaces").

NBA Club Garage Rights

In addition to the rights described above, throughout the term of the Arena Lease and any extensions thereof, the NBA Club will have the following rights with respect to the Parking Garage (collectively, the "NBA Club Garage Rights"), which will be real property interests granted by the Sports Authority and other necessary third parties, as applicable, superior to the rights, liens and claims of any other person or entity during the entire term of the Arena Lease, and any extensions thereof (provided that the NBA Club will agree to subordinate such rights pursuant to a subordination, non-disturbance and attornment agreement in form reasonably acceptable to the NBA Club):

(a) Exclusive right to use at no charge (and to establish parking rates for, and receive all revenue from) all parking spaces in the Parking Garage (other than the Operator's Spaces) during all Event Periods with respect to Arena events involving or sponsored by the NBA Club and its affiliates (the NBA Rockets, WNBA Comets and AFL Thunderbears) including without limitation, all exhibition, regular season and postseason games and any all-star games and related all-star events, and up to 20 additional events per year which are either other sporting events related to the Rockets, Comets and Thunderbears, charity events (e.g., the Clutch City Foundation annual Tux's and Tennies banquet) or similar sports-related exhibitions customarily sponsored by NBA, WNBA and AFL franchises (all of which events are herein called "Protected Events");

(b) Exclusive right to use at no charge 200 parking spaces, in locations designated by the NBA Club, 365 days a year, 24 hours per day, for the NBA Club, Arena Operator, Arena employees, media and other parties authorized by the NBA Club (the "Reserved Spaces");

(c) Exclusive right to use at no charge such number of parking spaces in the Parking Garage (other than the Reserved Spaces and the Operator's Spaces) during all Event Periods for all Arena events which are not Protected Events, NHL Team events or City Dates (unless otherwise agreed) as shall be sufficient to satisfy the NBA Club's parking obligations to Arena

suite holders and club seat holders, such spaces to be in locations in the Parking Garage designated by the NBA Club. It is understood, however, that in the event any Arena club seat holders do not elect to purchase tickets for a particular event which is not a Protected Event or NHL Team event, then the NBA Club will not have the exclusive right to use the space(s) allocated to such club seat holders;

(d) Exclusive right to use at all times at no charge the loading dock and the Enclosed Access (it being understood that the loading dock shall be designed so that the same will not unreasonably interfere with the use of the Parking Garage for parking purposes);

(e) The right to enforce the Sports Authority's obligations described in the section above entitled "Arena Parking."

(f) Exclusive rights to (and to receive all revenues from) the naming and advertising rights associated with the Parking Garage; provided, however, that upon completion of the Parking Garage, the NBA Club will pay to the Sports Authority a one-time payment of \$50,000.00 for such exclusive naming and advertising rights; and

(g) In the event the Parking Garage is not operated in accordance with the required standards, the NBA Club will have the Self-Help Rights described below as well as the right, upon reasonable cause and following applicable notice and curative opportunity to require the replacement of any employees, agents or subcontractors with immediate responsibility for the operation of the Parking Garage with persons reasonably acceptable to the NBA Club.

Except for parking, the use of the Enclosed Access and the loading dock and the naming and advertising rights associated with the Parking Garage, neither the NBA Club, the Sports Authority nor any third party will be permitted to use the Parking Garage for retail or commercial uses without the consent of the Sports Authority and the NBA Club.

Financing

The Sports Authority will secure financing and other public and/or private funding sources in an amount sufficient to meet all of its obligations under this Letter Agreement on a timely basis, which obligations include, without limitation, (i) the full amount of the Arena Budget, (ii) the full amount of the budget for the Parking Garage and (iii) all costs associated with financing and capitalized interest related thereto. The City or the Sports Authority will fund all costs associated with performing the Studies. The City will fund all costs associated with the Site Acquisition and Infrastructure Work to be paid by the City pursuant to the terms of this Letter Agreement and the Sports Authority will fund the remainder of such costs (subject to the limited exceptions set out herein).

The Sports Authority acknowledges and agrees that its ability to fund the obligations of the Sports Authority hereunder is critical to the successful development of the Arena project. Accordingly, the Sports Authority agrees to provide (or cause to be provided) financing as provided herein. Any changes to the plan for financing the Sports Authority's obligations that could have a negative affect on the NBA Club shall require the mutual approval of the Sports Authority and the NBA Club, not to be unreasonably withheld.

The NBA Club will reasonably cooperate with the Sports Authority in satisfying the requirements of MBIA in connection with the proposed financing of the Arena and the Parking Garage; provided the same does not increase the liabilities or obligations of the NBA Club in any material respect.

Arena Budget

The Arena has a targeted budget of \$175 million (the "Arena Budget"), which includes a contingency of \$6 million, as well as provision for full payment and performance bonds and appropriate insurance, architectural and engineering fees and expenses, and the fees and expenses of the Development Representative (as defined on Schedule 1 hereto). Except for the Excluded Costs (as defined below), the Arena Budget is intended to include everything necessary to provide a fully finished, furnished and equipped Arena (including all offices, suites, locker rooms, press areas, retail areas, restaurant areas, basketball floor and related equipment, ice making equipment, a Zamboni machine, a dasher board system, state-of-the-art basketball scoreboard, Arena concert-quality sound system, all base building work (as described below) and Concession Build-Out in excess of \$8 million, but not offices or locker rooms for an NHL Team or its specific equipment needs such as hockey scoreboards or a professional hockey dasher board system, etc.) that will allow the NBA Club to operate the Arena as a first-class, state-of-the-art arena comparable to other NBA arenas completed during the two years prior to this Letter Agreement. The Arena Budget does not, however, include the Excluded Costs (as defined below).

The following costs are excluded from the Arena Budget (the "Excluded Costs"):

(a) Financing costs and capitalized interest;

(b) Up to \$8 million in Concession Build-Out costs;

- (c) Costs relating to the Studies and the Site Acquisition and Infrastructure Work;
- (d) All costs relating to the Garage Site and the Parking Garage (except as otherwise specifically described herein);
- (e) Costs related to change orders initiated by the Sports Authority, or delays initiated, requested or caused, as applicable, by the Sports Authority or the City; provided, however, that costs resulting from the actions of the City in its regulatory capacity shall not constitute Excluded Costs unless such costs result from acts or omissions of the Sports Authority or the City in the performance of their obligations under this Letter Agreement, the definitive agreements or the Interlocal Agreement, as applicable; and
- (f) Administrative and legal expenses incurred by the Sports Authority, the City or the NBA Club (which amounts shall be paid by the entity incurring such costs, except as provided herein).
- (g) Costs to construct tunnel and/or skybridge access and connections to connect the Arena and the Parking Garage to either the Downtown tunnel and skybridge system and/or the GRBCC, to the extent the same are desired by the Sports Authority or the City (which amounts shall be paid by the Sports Authority or the City).

Any unused contingency and all savings from the Arena Budget shall be used to make additions and enhancements to the Arena, to buy additional furniture, fixtures and equipment, or to pay for concession build-out costs that otherwise would be an Excluded Cost, as designated by the NBA Club, subject to the approval of the Sports Authority, such approval not to be unreasonably withheld.

In addition to being responsible for cost overruns as set out below, the NBA Club will be responsible for Concession Build-Out costs of up to \$8 million. As used herein, the term "Concession Build-Out" shall mean: (i) concession stand tenant work beyond base building work (as described below); and (ii) food service equipment for concession stands and public restaurants, and portable concession equipment. Concession Build Out will not include base building work, which will include, without limitation, the provision of sealed concrete floors, sealed CMU walls, stubbed-in utilities, required vents, air handling systems, sprinkler systems, front counters, roll-down security gates, and entrance doors at each proposed concession stand location.

Cost Overrun Responsibility

The NBA Club will be responsible for cost overruns related to the construction, design and equipping of the Arena in excess of the Arena Budget, provided, however, that the NBA Club shall have no responsibility for cost overruns that are an Excluded Cost. Any contingency amounts contained in the Arena Budget may be allocated by the NBA Club in its sole discretion to pay design and consulting costs, hard costs and furniture, fixtures and equipment costs related to Arena construction (including, without limitation, any portion of the Concession Build-Out that would otherwise be an Excluded Cost). The NBA Club shall have the sole and exclusive right to pursue all claims and receive all recoveries, damages and penalties from contractors and sureties to the extent of any overruns paid by the NBA Club. The Sports Authority shall have the sole and exclusive right to pursue all claims and receive all recoveries, damages and penalties from contractors and sureties to the extent of any costs paid by the Sports Authority. To the extent of costs paid by both Parties, both Parties shall have the right to pursue claims and receive recoveries, damages and penalties from contractors and sureties in proportion to their respective losses.

Arena Design

The process for design and construction of the Arena is described in Schedule 1. In order to achieve the schedule for the design and construction of the Arena, the NBA Club agrees to incur expenses of up to \$2 million in connection with the design of the Arena prior to the date of the Referendum, which shall be reimbursed as provided below.

Pre-Development Expenses

The NBA Club will be entitled to reimbursement for all architectural, engineering, and consulting and Development Representative fees and expenses and other costs in connection with the Arena, with such reimbursement to be paid upon the earlier to occur of (i) the closing of the bond financing relating to the construction of the Arena or (ii) January 15, 2001; provided, however, if this Letter Agreement is terminated as set out below, the Sports Authority will pay to the NBA Club such reimbursement within thirty (30) days after such termination; provided further, however, that if the Referendum is not approved by the voters on November 7, 2000, the maximum reimbursement the NBA Club will be entitled to receive is \$3 million. The obligations of the Sports Authority under this provision will survive any termination of this Letter Agreement.

MWDBE Participation

The Parties agree to make a good faith effort to maximize diversity and community involvement and participation in the design, development and construction of the Site Acquisition and Infrastructure Work, the Arena and the Parking Garage. The Parties will comply with all applicable MWDBE requirements in connection with their performance under this Letter Agreement.

Project Schedule/Target Completion Date

The Arena and the Parking Garage will be completed not later than September 1, 2003. Accordingly, the Sports Authority and the City, as applicable, agree to meet the milestone dates established on Schedule 3. The Parties will mutually develop additional design and construction milestone dates to be followed during the course of the design and construction of the Arena and the Parking Garage.

Rent

In consideration of the NBA Club's rights with respect to the Arena and the Parking Garage, the NBA Club will pay to the Sports Authority annual rental (the "Annual Arena Rent") of \$8.5 million, inclusive of the Naming Rights Payment as described below, and gross of the deposits to the Maintenance Fund and the Capital Fund as described below. Annual Arena Rental shall be payable in semi-annual installments on January 31 of each year and June 30 of each year during the lease term; provided, however, that the rent for any partial first year of the Arena Lease term shall be prorated according to the number of days in such term prior to the next regularly scheduled installment of rent and such amount shall be payable within 10 days following the Commencement Date (defined below). The Annual Arena Rental for any partial final year shall be similarly prorated.

Naming Rights

With respect to naming rights for the Arena, the NBA Club will pay as part of Annual Arena Rent an amount equal to 5% of the naming rights fees payable to the NBA Club; provided that such amount payable shall not exceed \$200,000 per year (the "Naming Rights Payment"). Pursuant to the Interlocal Agreement, the Sports Authority shall agree to pay the City an amount equal to the Naming Rights Payment.

Operations

Subject to the Sports Authority funding Excluded Capital Expenses (as defined below) as required herein, the NBA Club will operate and maintain the Arena so as to cause it to remain in a condition comparable to that of other multipurpose professional sports and entertainment facilities of similar size, design and age, ordinary wear and tear excepted.

The NBA Club will be responsible for all operating, maintenance and capital repair expenses related to the Arena except for costs associated with Excluded Capital Expenses, the Renovation and funds required to be deposited in the Maintenance Fund and the Capital Fund (upon payment of the NBA Club's Annual Arena Rent as herein provided). The Sports Authority will be responsible for the payment of all Excluded Capital Expenses.

As used herein, "Excluded Capital Expenses" shall mean the cost of capital repairs or replacements:

- (a) which are at least \$10 million more than available net proceeds of any applicable insurance; provided that with respect to any such repairs or replacements only 50% of such cost in excess of \$10 million more than available net insurance proceeds will be considered an Excluded Capital Expense;
- (b) which are required as a result of changes in applicable laws, codes or ordinances which are enacted following the date hereof by the City, any subdivision thereof or any other entity controlled by the City;
- (c) which have a useful life in excess of the remaining term of the Arena Lease, in which case: (i) the portion of the expense of such item amortized on a straight line basis over the useful life of such item which is attributable to the period which is not included in the then-current term of the Arena Lease shall be considered an Excluded Capital Expense, and (ii) if such item is also one that is described in paragraph (a) above, 50% of such amortized amount which is attributable to the period

included in the then-current term of the Arena Lease shall be considered an Excluded Capital Expense. Notwithstanding the foregoing, if the Sports Authority or the City contributes to the cost of any such item pursuant to this paragraph (c), then the NBA Club must reimburse the Sports Authority or the City, as applicable, for any such sums expended by the Sports Authority or the City, as applicable, to the extent the useful life of the applicable item will not extend beyond the expiration of the Arena Lease term after the exercise by the NBA Club of any of its options to renew the Arena Lease term; and

(d) which arise in connection with any restoration following any condemnation of all or any part of the Arena or Arena Site.

Arena Operator

Arena operations and management shall be conducted by a qualified operator (the "Arena Operator") to be selected by the NBA Club, which may be an affiliate of the NBA Club.

The Arena will be operated in a manner substantially similar to and consistent with that of other similarly situated multipurpose sports and entertainment arenas operated by NBA or NHL clubs or their affiliates.

In the event the Arena is not operated in accordance with the standards described above, the Sports Authority will have the right, upon reasonable cause and following applicable notice and curative opportunity to require the replacement of any employees, agents or subcontractors with immediate responsibility for the operation of the Arena (but not officers of the NBA Club or its affiliates) with persons reasonably acceptable to the Sports Authority.

Municipal Services

Customary police, traffic control, fire prevention, directional signage and other similar City-based services for all Arena events will be provided by the City at a general level and manner appropriate for Arena events and not less than those provided to Enron Field, and at a cost, if any, not in excess of that charged with respect to Enron Field.

Cooperation in Cost Savings

The Sports Authority and the City shall use reasonable efforts to assist the NBA Club in minimizing the costs for goods and services related to the operation and maintenance of the Arena on the same basis as for public facilities, such as electricity, chilled water, other utilities and similar services; provided, however, that right to choose such providers of goods and services and the prorata portion of any rights fees or similar incentive payments made in connection with such services and relating to the Arena shall belong to the NBA Club.

Maintenance Fund

The Sports Authority agrees to contribute into a segregated and dedicated fund to pay costs relating to the Arena, including, but not limited to, the cost of operating and maintaining the Arena (the "Maintenance Fund") as follows. Upon approval of the Referendum, the Sports Authority will deposit into the Maintenance Fund (which may be drawn on by the NBA Club) the amount of \$1.5 million annually in semi-annual installments commencing on January 31, 2001 and June 30, 2001 and on each succeeding January 31 and June 30 thereafter through the expiration of the term of the Arena Lease. The NBA Club will have the right to draw on the Maintenance Fund to pay Arena related expenses designated by the NBA Club. Any surplus in the Maintenance Fund upon termination of the Arena Lease (including any renewals thereof) shall belong to the NBA Club. This obligation of the Sports Authority is subordinate only to the payment of debt service on the Rent Supported Debt.

Capital Repair and Replacement Fund

The Sports Authority agrees to contribute an amount equal to \$1.6 million annually into a segregated and dedicated capital repair and replacement fund for capital repairs, replacements and improvements to the Arena (the "Capital Fund"). Such contribution shall be made in semi-annual installments upon the receipt of Annual Arena Rent as provided below. All capital repairs, replacements and improvements shall be designated by the NBA Club with the approval of the Sports Authority, which approval shall not be unreasonably withheld. Any surplus in the Capital Fund upon termination of the Arena Lease

(including any renewals thereof) shall belong to the NBA Club. This obligation of the Sports Authority is subordinate only to the payment of debt service on the Rent Supported Debt.

Payment of Maintenance Fund and Capital Fund

It is understood that the payments of Annual Arena Rent shall be pledged by the Sports Authority solely to support a separate issue of Sports Authority indebtedness to finance the design and construction of the Arena (the "Rent Supported Debt"). Annual Arena Rent shall be payable directly to the trustee for such Rent Supported Debt and such payments shall be immediately applied to the payment of (a) principal and interest on such Rent Supported Debt then due; (b) amounts required to be contributed to the Capital Fund as described above; (c) amounts required to be contributed to the Maintenance Fund described above and (d) the amount of the Naming Rights Payment to be paid to the City. Any remaining amounts shall be contributed to the Capital Fund. No Rent Supported Debt shall be permitted that would result in the Annual Arena Rent not being sufficient to cover the entire amount of the Capital Fund contribution described in clause (b) and the Maintenance Fund contribution described in clause (c) in addition to the debt service described in clause (a) and the Naming Rights Payment. Annual Arena Rent may not be pledged by the Sports Authority to support any indebtedness other than the Rent Supported Debt and the Rent Supported Debt may not be cross-defaulted with any other debt. To the extent that any portion of Annual Arena Rent is used for any purpose other than payment of the Rent Supported Debt (or any refinancing thereof), the Naming Rights Payment, the Maintenance Fund, the Capital Fund, the Renovation or to satisfy other obligations of the Sports Authority or the City to the NBA Club pursuant to this Letter Agreement or the definitive agreements, then the Sports Authority will pay or credit the NBA Club an amount equal to the portion of Annual Arena Rent used for such other purpose. Subject to applicable law and to the payment of the Rent Supported Debt, the Sports Authority will provide the NBA Club with security interests in accounts related to the Rent Supported Debt and the Capital Fund and Maintenance Fund to secure the Sports Authority's obligations to the NBA Club.

Renovation

To the extent of available funds from the sources described below, the Sports Authority will, prior to the expiration of the 15th year of the term of the Arena Lease (or at such other time as may be mutually agreed upon by the NBA Club and the Sports Authority), renovate the Arena so as to cause the same to comply with the then-existing standards for a state of the art arena of a comparable size and location (the "Renovation"). The plans and budget for the Renovation must be approved by the NBA Club and the Sports Authority, which approval shall not be unreasonably withheld. The schedule for the Renovation shall also be subject to the approval of the NBA Club and any such Renovation shall be conducted in a manner so as to minimize, to the greatest extent reasonably practicable, any interference with the operation of the Arena and Parking Garage and in no event shall be conducted during any NBA season.

The cost of the Renovation shall be funded by the Sports Authority out of any proceeds of a refinancing of the debt incurred in connection with the construction of the Arena (and the Sports Authority agrees to use diligent efforts in good faith to undertake such a refinancing prior to the expiration of the 15th year of the term of the Arena Lease and to maximize the proceeds thereof) and out of any additional excess revenues which may be available to the Sports Authority at the time. No proceeds of any refinancing of the Sports Authority's debt issued in connection with the Arena may be used for any purpose other than the costs of such refinancing and the Renovation. The Sports Authority shall have no obligation to undertake the Renovation except to the extent of funds available as set out above. The NBA Club shall have no obligation to undertake such Renovation unless the NBA Club agrees in writing to do so.

Following the initial construction thereof, the NBA Club shall have the right to make additions and changes to the Arena (and to the Parking Garage in connection with the NBA Club Garage Rights described above) at the NBA Club's expense (or, as to the Arena, out of the Capital Fund and/or the Maintenance Fund subject to the provisions governing the withdrawal of such funds from the Capital Fund and/or the Maintenance Fund, as applicable), subject to the approval of the Sports Authority of the plans therefor, which approval shall not be unreasonably withheld.

NBA Club's Long Term Lease/Non-Relocation

The NBA Club will enter into the Arena Lease with regard to the Arena and the NBA Club Garage Rights having an initial term commencing as described below and ending one month after the completion of the Houston Rockets games (including playoffs) in the 2032-2033 NBA season. The NBA Club will have the option to extend the term for up to three consecutive periods of five years each at a rental to be negotiated at the appropriate time. Furthermore, if the NBA Club does not exercise, or if the NBA Club and the Sports Authority or City, as applicable, cannot agree on the rental to be paid during a

renewal term and as a result the NBA Club withdraws its exercise of a renewal option, then in either event the City or Sports Authority, as applicable, may not enter into a lease of the Arena or other similar agreement on terms more favorable than those first offered to the NBA Club without first offering the NBA Club the opportunity to accept such more favorable terms.

The NBA Club will enter into an appropriate non-relocation agreement with the Sports Authority in order to provide an enforceable prohibition against the playing of more than five (5) "home" regular season games of the NBA Club, as applicable, per year anywhere other than in the Arena (other than games played elsewhere when the Arena is not available due to reasons beyond the control of the NBA Club, such as following a casualty) and against the relocation of the Rockets franchise during the Arena Lease term.

City Dates

Provided no default by the City or the Sports Authority has occurred and is then continuing with respect to the Arena or Parking Garage, the City, at no cost other than for direct event, set-up and breakdown costs, will be permitted to use (and lease out for use by others) the Arena for non revenue generating public or civic ceremonies, forums or similar non-revenue generating uses on not more than twenty (20) days during each year (the "City Dates"), not including more than four days each year that are either Fridays or Saturdays, subject to the event schedule of the Arena published in advance. The process for selecting the City Dates will be subject to the mutual approval of the Parties as part of the definitive agreements. Notwithstanding the foregoing prohibition on revenue generating uses, (i) the City may utilize one or more of the City Dates for purposes related to national conventions at the George R. Brown Convention Center ("Convention Uses"); and (ii) not more than five (5) of such City Dates may be used for revenue generating charitable or educational purposes ("Charity Uses"); provided, however, the Arena may not be used by the City, Sports Authority or any third party pursuant to this paragraph for any use which could be in competition with the Arena Operator or the NBA Club, as applicable, including, without limitation, for concerts, performances or other revenue generating events typically held at comparable arenas. The foregoing shall convey no right to use the NBA Club's or Arena Operator's offices, training facilities, practice areas or locker rooms.

The City or its designee will have the right to issue tickets to the events to be held on such City Dates, and to receive net ticket revenues with respect to Charity Uses as provided above, but the NBA Club and not the City will be entitled to any other revenues generated at the Arena in connection with any such events, including without limitation, ticket revenues (except from such five (5) dates for Charity Use as provided above), concessions, advertising and broadcast rights.

All Arena agreements with vendors, suppliers, sponsors, concessionaires and advertisers will remain in effect during any of the foregoing events, as will all policies established by the NBA Club for the Arena regarding crowd control, maintenance, ticketing, access, building operations, broadcasting and other operational matters. As to suites, neither the City nor the suite holders will be entitled to use the suites unless otherwise agreed.

NHL Team

The Sports Authority's approval of an NHL Team may be made subject to payment of a one time fee to the Sports Authority in exchange for an annual operating consideration from the Sports Authority on terms to be negotiated when such approval is requested. Notwithstanding the foregoing, the NBA Club will have the right to cause an NHL team affiliated with the NBA Club to play its games at the Arena. Furthermore, the Sports Authority and the City will not provide any other owners or prospective owners of an NHL Team any advantage (economic or otherwise) over the NBA Club in bringing an NHL Team to Houston.

NHL Team's Rights

The NHL Team will be entitled to play all of its preseason, regular season and post-season home games (and any awarded all-star games) in the Arena (subject to (i) dates reserved by the NBA Club for NBA related events and (ii) other dates reserved at least nine (9) months in advance), subject to the terms of this Section.

All Arena agreements (including without limitation exclusive arrangements) with vendors, suppliers, sponsors, concessionaires, advertisers, suite holders, club seat holders and other parties will remain in effect during all NHL Team events, as will all policies established by the NBA Club for the Arena regarding crowd control, maintenance, ticketing, access, building operations, broadcasting and other operational matters.

Unless the NHL Team is owned by the NBA Club or its affiliates, the City or the Sports Authority, as applicable, may charge the NHL Team an appropriate rental in connection with the NHL Team's use of the Arena.

Except for the rights of the NHL Team as described below, the use of the Arena by the NHL Team shall have no negative impact on the revenues to be received by the NBA Club with respect to the Arena and Parking Garage.

The NHL Team or the Sports Authority will be responsible for reimbursing the NBA Club at cost for all costs (but not overhead or, except as provided below, capital repairs or replacements) in connection with the NHL Team's use of the Arena, including without limitation, all event-day personnel and other expenses, other direct costs such as ice set-up, removal and maintenance costs, costs associated with ticket sales and concessions, such as ticket promotion, and ticket agent and concessionaire commissions, and all costs for maintenance, capital repair and replacement for ice making machinery and systems and Zamboni machines.

The NHL Team will receive with respect to its Arena events ticket revenue, parking revenue from the Parking Garage (together with the right to establish parking rates in the Parking Garage for such events), concession revenue, club seat premiums, game-day in-ice, dasher board and other in arena bowl temporary advertising (provided in all cases that any exclusive arrangements entered into by the NBA Club or its affiliates are protected), and any incremental amounts paid by suiteholders attributable directly and solely to the presence of the NHL Team in the Arena.

The NHL Team or the Sports Authority must fund the cost of any build-out of any NHL Team facilities (including without limitation any space designated for the exclusive use of the NHL Team) in the Arena not previously built out and must fund the acquisition of necessary equipment that will not be included in the Arena plans, such as professional hockey scoreboards and dasher boards and a second Zamboni machine and must pay all costs in connection with the maintenance, repair and replacement thereof.

NBA Club Rights

Subject to the rights of the City (as to the City Dates), the Garage Operator (as to the Parking Garage) and an NHL Team as described in this Letter Agreement, the NBA Club and its affiliates will have exclusive use of the Arena and the NBA Club Garage Rights and all revenues generated thereby and rights appurtenant thereto.

Subject to the rights of the City (as to the City Dates), the Garage Operator (as to the Parking Garage) and the NHL Team as described in this Letter Agreement, the NBA Club and its affiliates will have the exclusive right to all revenues related to the operation of the Arena and all rights appurtenant thereto, including, without limitation, all revenues related to rent, concessions, merchandise, tickets, club seats, suites, sponsorships, telecommunications, broadcast by any and all methods, internet rights, advertising rights, naming rights, grants, prepayments, supplies, utility and energy supply agreements or rights, pourage rights, equipment or loans from concessionaires, vendors and other parties, and other rights, revenues and benefits generated by or through the Arena or in connection with the NBA Club Garage Rights.

NBA Club shall have the right to determine all vendors and suppliers associated with or providing products or services to the Arena upon completion thereof, in the NBA Club's sole discretion, to negotiate and enter into agreements with all such vendors and suppliers and to receive all revenues therefrom (except with respect to revenues attributable to Arena events of the NHL Team as provided herein).

The NBA Club shall have the exclusive right to schedule any and all events in the Arena (subject to the priorities described below), to determine the terms upon which such events may take place in the Arena, and to receive all revenues therefrom unless otherwise specifically provided herein. Except with respect to NHL Team games, as to which only the NBA Club's NBA related events and events scheduled at least nine months in advance will have scheduling priority, the NBA Club and its affiliates will have scheduling priority over all other events.

The NBA Club may choose to exercise some or all of its rights through an affiliated entity or the Arena Operator. All other users of the Arena and Parking Garage shall be bound by the terms of any supply, broadcast, distribution or similar agreements entered into by the NBA Club or its affiliates with respect to the Arena and Parking Garage, including without limitation, with respect to the supply of utilities and broadcasting services.

Taxes

A ticket tax or other targeted tax is not required to finance the design, development and construction of the Arena and it is not contemplated that such taxes will be imposed. Accordingly, none of the NBA Club, any entity now or hereafter affiliated with it during the period of such affiliation, any separate entity operating the Arena, or any promoter of any event at the Arena will be responsible for any targeted taxes (including, without limitation, an admissions tax, ticket tax, parking tax, locker tax or other tax that either by its terms or the effect of its application is not of general application but rather is directed at professional sports franchises, venues, operators or promoters in Houston or Harris County or specifically at the NBA Club, its affiliates, Arena events, activities, operators or promoters, or Arena patrons) imposed by any of the Sports

Authority, the City or the County or any other governmental or quasi-governmental entity controlled by any of them, other than any sales and use tax or other tax (except for ticket taxes and the like) imposed uniformly throughout its respective jurisdiction by any such entity over a broad range of goods and services not principally comprised of those available at the Arena. If any such targeted tax or any leasehold interest tax is imposed by any such governmental or quasi-governmental entity, the Sports Authority will be obligated to pay or credit to the NBA Club or other party charged with such tax the amount paid as a result of such targeted tax or any leasehold interest tax together with interest thereon at the Applicable Rate from the date such tax payment is made until such amount is repaid. As used herein, the "Applicable Rate" shall mean the lesser of 10% per annum or the highest lawful rate.

Self Help Rights

In the event the Sports Authority or the City fails to pay or perform any obligations set forth herein, then following written notice and a reasonable opportunity to cure and without limiting the NBA Club's other remedies under the Arena Lease, the NBA Club will have the right to seek to perform such obligations (the "Self-Help Rights") and to charge the cost thereof to the Sports Authority or the City, as applicable, together with interest thereon at the Applicable Rate.

Commencement of Lease

The term of the Arena Lease shall commence (the "Commencement Date") upon the earlier of (i) the date of the first regular season or official pre-season Rockets game played in the Arena; and (ii) the latest to occur of (x) 60 days following completion of the Arena (subject to minor punch list items which do not interfere with the operation of the Arena as contemplated hereby) and (y) October 1, 2003. The NBA Club shall have access to the Arena during the 60 day period preceding the Commencement Date for stocking, employee training and other pre-opening "shakedown" events prior to commencement of the Arena Lease.

Compaq Center

The Rockets will continue to play their home games in the Compaq Center through the end of the 2002-2003 NBA season (including playoffs).

The Sports Authority releases, the City will as part of the Interlocal Agreement release, and the Sports Authority and City will use best efforts to obtain from necessary third parties a release (the "Release") of, the NBA Club from any obligation to play its home games at the Compaq Center after the end of the 2002/2003 NBA season (including playoffs).

The NBA Club and its affiliates will be entitled to continue to play their home games in the Compaq Center following the expiration or termination of the NBA Club's current lease at the Compaq Center. Following the expiration or termination of the current lease at the Compaq Center in favor of Arena Operating Company (which neither the City nor the Sports Authority will permit to be extended), the NBA Club and its affiliates will be entitled (but not obligated) to lease the Compaq Center for \$1 per year so long as the NBA Club and its affiliates continue to play home games at the Compaq Center (the "Interim Compaq Center Lease"); provided, however, that (i) if the Referendum does not pass, the term of the Interim Compaq Center Lease shall not exceed one year following the end of the 2003-2004 NBA Season for a rent to be negotiated at the appropriate time but not to exceed \$1 million per year or, (ii) if the Referendum passes, the NBA Club will pay rent of \$1 per year and the Interim Compaq Center Lease shall terminate upon completion of the Arena and Parking Garage. Pursuant to such Interim Compaq Center Lease, the NBA Club will have the same rights and be entitled to the same revenues from Compaq Center as it would be entitled to receive with respect to the Arena when completed pursuant to this Letter Agreement. During the term of the Interim Compaq Center Lease, the NBA Club will be responsible for the cost of day to day maintenance and operation of the Compaq Center, and the Sports Authority or the City will be responsible for all capital repairs, replacements and improvements to the Compaq Center. The Sports Authority will obtain the City's agreement to the foregoing as part of the Interlocal Agreement and the provisions of this section (and the Interim Compaq Center Lease) shall survive any termination of this Letter Agreement, the Interlocal Agreement or any of the definitive documents .

Non-Compete

Prior to and during the term of the NBA Club's lease of the Arena, the Sports Authority and the City, shall not, directly or indirectly, finance, subsidize, provide any incentives for, or otherwise assist any venue, including the Compaq Center

(except as provided in the preceding section), which could compete with the Arena for events of a type appropriate for the Arena and generally targeted at audiences in excess of 5,000, except for the GRBCC (and any expansions thereof), Enron Field, the new Rodeo/Football stadium, and school and university facilities and except for other facilities while the same are being used during the Olympics or Pan-American Games or similar events, which the Parties agree are not and will not be considered in competition with the Arena.

It is further understood that following the opening of the Arena, the Compaq Center will not be permitted to be used for events that could be in competition with the Arena; provided, however, that the Compaq Center may be used for non-revenue generating public or civic ceremonies or forums and the Houston Aeros will be permitted to play their games at the Compaq Center if they are not accommodated at the Arena. The Sports Authority will obtain the City's agreement to the foregoing as part of the Interlocal Agreement.

Cooperation/Use by Houston Comets

The NBA Club covenants to cooperate with the City and the Sports Authority in attracting to the Arena, on commercially reasonable terms comparable to those offered by other NBA/NHL venues, events such as political conventions, concerts, ice shows, the circus, NCAA sporting events and other events which have been historically held at the Compaq Center. Nothing in this Section shall imply that the City or the Sports Authority will receive any Arena revenue generated by such events, such revenue being the property of the NBA Club unless the NBA Club and the Sports Authority or the City, as applicable, otherwise agree in writing.

To the extent permitted by NBA/WNBA rules, the NBA Club will cause the Houston Comets to play substantially all of their home games at the Arena.

Aeros

Unless an NHL Team agrees to play its home games in the Arena, the NBA Club will permit the Houston Aeros to play their home games in the Arena on fair market terms similar to those offered to unaffiliated minor league hockey teams in comparable arena facilities. In the event of a dispute regarding the determination of fair market terms, such dispute will be resolved, at the election of the Sports Authority (prior to any mediation or arbitration) either (i) by mediation or binding arbitration between the Aeros and the NBA Club as provided below or (ii) by the Aeros playing in Compaq Center as provided above.

Olympics

The Sports Authority and the NBA Club will use reasonable efforts to accommodate the use of the Arena for the Olympic Games if awarded to Houston, Harris County, Texas.

Should the Arena require physical modifications in order to accommodate the Olympics, the Sports Authority and/or the City shall be responsible for funding the costs associated with such modifications and costs associated with returning the Arena to its original condition on an expedited basis. Construction of the modifications and returning the Arena to its original condition shall be performed on an expedited basis so as to minimize disruption to Arena activities and mitigate any adverse impact with respect to the rights of the NBA Club hereunder.

The parties will work together in good faith with respect to scheduling matters related to the Olympics including, without limitation, working with the NBA and WNBA on the scheduling of home games so as to accommodate use of the Arena for Olympic events.

The City will receive the benefit of all revenue generated at the Arena by Olympic events; provided, however, that reasonable compensation will be paid to the NBA Club for use of the Arena on terms to be negotiated at the appropriate time.

All Arena agreements (including without limitation exclusive arrangements) with vendors, suppliers, sponsors, concessionaires and advertisers will remain in effect for all Olympic events provided, however, that the parties will use reasonable efforts to address matters as raised by the Olympic Committee (i.e., Arena bowl signage) and provided, further, all such agreements will contain the customary protections and exclusions to accommodate the Olympics.

Referendum

Subject to the entering into of the Interlocal Agreement described above, the Sports Authority agrees to submit for consideration of the voters at the November 7, 2000 election a ballot proposition designating the Arena as an approved venue project and authorizing the expenditure of the Sports Authority's revenues for its design, development and construction (the "Referendum"); provided no objection has been received from the United States Department of Justice.

Third Party Beneficiary

The Interlocal Agreement and all other agreements entered into by the City or Sports Authority in connection with the Arena, Parking Garage or Site Acquisition and Infrastructure Work or otherwise in connection with this Letter Agreement will be consistent with the terms of this Letter Agreement and in the event of any conflict between the terms of this Letter Agreement and the terms of any such agreements, the terms of this Letter Agreement will control. The NBA Club shall have the right to approve any agreements between the Sports Authority and any third parties, such approval not to be unreasonably withheld and to be limited to confirming that such agreements satisfy the requirements of this Letter Agreement. The NBA Club and its affiliates shall also be expressly designated as third party beneficiaries of any such agreements entered into by the Sports Authority or the City, entitled to fully enforce the terms of any such arrangement. There shall be no third party beneficiaries under this Letter Agreement (or any definitive agreements among the parties) other than the City or, except for the NBA Club, under the Interlocal Agreement or under any other agreements entered into by the Sports Authority or the City to fulfill their respective obligations under this Letter Agreement, the Interlocal Agreement or under any of the definitive agreements, without in each case the prior written consent of the NBA Club.

Termination of Letter Agreement

This Letter Agreement will automatically terminate in the event that the Referendum is not approved by the voters on November 7, 2000, or if it is determined that the Referendum will not be held on such date.

In addition, either Party may terminate this Letter Agreement (and any of the definitive agreements, if applicable) by notice to the other Party within forty-five (45) days after any of the following: (i) the failure of the Sports Authority and the City to enter into the Interlocal Agreement within sixty (60) days after the date of this Letter Agreement, approved by the NBA Club as required herein; (ii) the failure of the Sports Authority or the City to obtain the Studies within ninety (90) days following the date of this Letter Agreement to the extent required above; (iii) the failure of the Sports Authority, the City and the NBA Club to execute and deliver the definitive agreements within sixty (60) days following the date of the Referendum; (iv) prior to commencement of construction of the Arena (as defined on Schedule 3 attached hereto) the failure of the Sports Authority or the City to satisfy any of the milestone dates set forth on Schedule 3 attached hereto; and (v) a material breach by the other Party (or by the City under the Interlocal Agreement).

The Sports Authority and the City agree that in the event of a termination of this Letter Agreement for any reason other than a material breach by the NBA Club, neither the Sports Authority nor the City shall file, join in, support (financially or otherwise) or prosecute any action or lawsuit to inhibit or prevent the relocation of the NBA Club or its affiliates away from the Houston area following the end of the 2002-2003 NBA season (including playoffs).

Anti-Discrimination

In accordance with applicable law, the Parties acknowledge that the appropriate definitive agreements will include provisions to prohibit discrimination based on race, sex, religion, national or ethnic origin, age or disability.

Dispute Resolution

In the event of any dispute among the Parties regarding the terms hereof, or any dispute under the definitive agreements, the parties shall first attempt in good faith to resolve such dispute through mediation in Houston, Texas. Except as otherwise provided herein, in the event the parties are unable to so resolve such dispute, then the dispute shall be resolved by binding arbitration to be held in Houston, Texas pursuant to the commercial arbitration rules of the American Arbitration Association or as otherwise agreed to by the parties; provided, however, that all arbitrators shall be unaffiliated with the Sports Authority, the City and the NBA Club (and each of their respective affiliates and their respective officers, directors, employees and agents) and shall reside outside of Texas to avoid any appearance of impropriety. Although any dispute over the existence of an event giving rise to any remedy provided herein shall be subject to mediation or binding arbitration as provided herein,

the availability of a remedy specifically provided herein (including, without limitation, any right of termination set forth herein) shall not be subject to mediation or binding arbitration.

Exclusivity

The NBA Club and the Sports Authority agree to commence the negotiation of definitive agreements immediately. To the extent such definitive agreements are completed prior to the Referendum, the non-relocation provisions contained therein shall control. To the extent such definitive agreements are not completed prior to the Referendum, then the NBA Club will work exclusively with the Sports Authority and the City in pursuing the design, development and construction of a new home team facility for the Houston Rockets for a period of 60 days following the passage of the Referendum in order to give the Parties sufficient time (while negotiating in good faith) to complete the definitive agreements.

Remedies

In the event this Letter Agreement is terminated prior to the execution of the definitive agreements, the NBA Club will not be entitled to pursue an action for damages or any other remedy against the Sports Authority or the City except to enforce the Release, the no contest provisions described above, the right to lease Compaq Center as provided above and to compel payment of reimbursements following termination as set out above and/or in the event of exercise of the NBA Club's Self Help Rights as set forth above, together with interest on any such amounts at the Applicable Rate from the date due until paid. It is understood that neither the City nor the Sports Authority shall have any remedies against the NBA Club in the event of any such termination.

In addition to any other remedies to be provided in the definitive agreements, following the execution of the definitive agreements, and prior to the commencement of construction of the Arena in the event of any failure of the Sports Authority or the City, as applicable, to comply with their obligations under the definitive agreements or the Interlocal Agreement or to meet any of the milestone dates set forth on Schedule 3, the NBA Club shall have the right to exercise the Self Help Rights or to terminate this Letter Agreement and the definitive agreements.

In addition to any other remedies to be provided in the definitive agreements, following the commencement of construction of the Arena, in the event the Arena, the Parking Garage and the Infrastructure Work are not completed by the applicable completion date, the NBA Club will have the right to (i) recover liquidated damages from the applicable construction contractors (it being understood that all such contracts for the construction of the Arena, Parking Garage and Infrastructure Work shall provide for liquidated damages in the event of delayed performance payable solely to the NBA Club in an amount and on terms acceptable to the NBA Club); (ii) exercise the Self-Help Rights provided above; (iii) utilize the Compaq Center as provided above; and (iv) delay the commencement of Annual Arena Rent (regardless of whether the Commencement Date has occurred) pursuant to the Arena Lease until such work is completed; provided, however, if all of such work is not completed by March 1, 2004 (which date is subject to extension for delays caused by the NBA Club), then the NBA Club will have the additional right to terminate the Arena Lease and related agreements.

Without limiting the foregoing, any amounts payable by a Party (or the City) to another party (or the City) under this Letter Agreement, the Interlocal Agreement or the definitive agreements, as applicable, which are not paid when due shall bear interest at the Applicable Rate from the date due until paid and the obligation to pay the same shall survive any termination or expiration hereof or of the definitive agreements. The Sports Authority shall maintain an operating reserve with sufficient funds to fulfill its obligations to the NBA Club hereunder and under the definitive agreements (other than the contributions to the Maintenance Fund and the Capital Fund which will be subordinated to Rent Supported Debt as provided above).

The Parties acknowledge that the above-described terms have been agreed to as the principal terms for the design, development, construction and use of the Arena. Based upon this Letter Agreement, the Parties shall reasonably proceed in good faith to negotiate and enter into a definitive final agreement or a series of definitive final agreements, which definitive agreement(s) shall be satisfactory to the Parties and any of such Parties' lenders and shall conform to the provisions set forth herein and provide for such other matters as are consistent with and customary for a transaction of this type. This Letter Agreement constitutes the entire agreement of the Parties hereto with respect to the subject matter hereof and supersedes all prior and contemporaneous written or oral agreements among the Parties. This Letter Agreement shall be construed without regard to any presumption or rule requiring construction against the Party responsible for the drafting hereof. This Letter Agreement may be amended, modified, waived or supplemented only by a written instrument executed by each of the Parties.

Executed as of the date first written above.

HARRIS COUNTY-HOUSTON SPORTS AUTHORITY

By:

William F. "Billy" Burge, III, Chair
ROCKET BALL, LTD.,
a Texas limited partnership

By:

George N. Postolos,
Chief Operating Officer

Attachments:

Schedule 1 Process for Design and Construction of Arena
Schedule 2 Process for Design and Construction of Parking Garage
Schedule 2-A Parking Garage Design Standards
Schedule 3 Milestone Dates

SCHEDULE 1

PROCESS FOR DESIGN AND CONSTRUCTION OF ARENA

1. General Intent

It is the intent of the NBA Club and the Sports Authority to work together in all aspects of the design, development and construction of the Arena. The Sports Authority and the NBA Club will have full access to all design and construction professionals retained by the Sports Authority and the NBA Club in connection with the design, development and construction of the Arena. It is the intent of such Parties to keep each other fully informed as part of a collaborative effort as the Arena is designed and constructed. Each such Party will be given an opportunity to have representatives present at meetings and briefings with such design and construction professionals, with the intent being that each such Party is entitled to full disclosure of, and participation in, the process of designing, developing and constructing the Arena. It is intended that local participation in the design and construction of the Arena by contractors and design professionals with sufficient experience and capacity will be encouraged. Within ten (10) days following the date of this Letter Agreement, each of the Sports Authority and the NBA Club will designate one or more persons to serve as its authorized representatives with respect to this process. Each Party shall be permitted to rely on the actions taken by the authorized representatives of the other Party, or any of them, in connection with the design and construction of the Arena.

2. Selection Process

(a) Development Representative. The NBA Club and the Sports Authority agree to utilize an experienced development representative with a national reputation and substantial experience in the development of similar arena projects (the "Development Representative") as the manager and coordinator of the Arena design, bid and construction process.

The Development Representative shall make recommendations to the Sports Authority and the NBA Club, but will not be entitled to make final decisions on behalf of the Parties or to legally bind the Parties, except as mutually agreed upon by the NBA Club and the Sports Authority. The NBA Club and the Sports Authority hereby select International Facilities Group, Inc. to serve as the Development Representative for the Arena.

The NBA Club will enter into a contract with the Development Representative as soon as practicable following the date hereof, which contract will be subject to the approval, not to be unreasonably withheld, of the Sports Authority and will be assumed by the Sports Authority upon passage of the Referendum, if the Referendum passes.

In addition, each of the Sports Authority and NBA Club may retain, at its sole expense and not as a charge against the Arena Budget, such other consultants as such Party may desire to assist such Party in making decisions in connection with the Arena. Any such separate consultant retained by the Sports Authority (the "Owner's Representative") to provide the

services described below shall be subject to the approval of the NBA Club, not to be unreasonably withheld and such approval to be limited to confirming that such consultant is qualified to perform the services to be provided. The Parties will cause the Development Representative, the Owner's Representative and any consultants retained by the Parties as provided above to cooperate with each other in order to administer the design and development process in a cost effective and efficient manner.

(b) Architect. The architect for the Arena (the "Architect") will be selected by the NBA Club and the Sports Authority pursuant to the following processes: A team (the "Selection Team") will be established for the sole purpose of selecting the Architect. The Selection Team will consist of eight members, with four members appointed by the Sports Authority and four members appointed by the NBA Club. Each of the Sports Authority and the NBA Club will designate its respective members on the Selection Team within 5 days following the date of this Letter Agreement.

Within 7 days following the date of this Letter Agreement the Selection Team will send a letter to a list of architectural firms with experience in designing similar arenas, which list will be approved by the Selection Team. The letter will request the architectural firms to provide, within 5 days of receipt of the letter, a statement of interest and qualifications. As soon as possible following the date of such responses, but not later than 14 days following the date of this Letter Agreement, the Selection Team will meet to select the respondent architectural firms to be interviewed, conduct such interviews and select the Architect by majority vote of the members of the Selection Team.

If the Selection Team is unable to agree on the selection of the Architect within 30 days following the date of this Letter Agreement, then either Party may terminate this Letter Agreement by written notice which must be given, if at all, within 10 days following such 30-day period.

3. Administration of Design and Construction

The plans and specifications for the Arena will be prepared at the direction of the NBA Club, subject to the approval of the Sports Authority, such approval not to be unreasonably withheld or delayed and to be limited in scope to confirming that the Arena will be a first-class state-of-the-art arena and can be constructed within the approved schedule at a cost not to exceed the Arena Budget. The Development Representative and the Architect will each be required to promptly respond to requests for information and make periodic reports to the Sports Authority during the design process and keep the Sports Authority fully informed and involved in the design process.

The construction contract for the Arena shall be bid to a group of general contractors to be pre-qualified by both the Sports Authority and the NBA Club, such bid process to be administered by the Development Representative. Bids shall be solicited on the basis of construction-ready plans and specifications (the "Final Arena Plans").

The construction contract for the Arena shall be awarded on a fixed price or, if the NBA Club and Sports Authority mutually agree, a guaranteed maximum price basis. The construction contract will provide for substantial liquidated damages payable to the NBA Club for late completion. The construction contract for the Arena will include, as an expense of the Arena Budget, appropriate cost overrun and completion protections as determined by the NBA Club subject to the approval of the Sports Authority, not to be unreasonably withheld or delayed.

The Sports Authority shall enter into all contracts for the construction of the Arena through a process coordinated by the Development Representative, provided, however, that all such contractors and the terms of all such contracts are subject to the approval of the Sports Authority and the NBA Club (in each case not to be unreasonably withheld or delayed).

Following the execution of the general contractor's construction contract, the administration of the construction of the Arena will be done at the direction of the Sports Authority, subject, however, to the approval of the NBA Club, such approval not to be unreasonably withheld or delayed, and provided that in all instances the Arena must continue to be able to be constructed within the approved schedule at a cost not to exceed the Arena Budget (except as otherwise approved in writing by the NBA Club).

The Development Representative, the Owner's Representative, the Architect and the general contractor will each be required to promptly respond to requests for information and make periodic reports to the NBA Club during construction and keep the NBA Club fully informed and involved in the process.

In addition, all draw requests, schedule changes, changes in allowance items and alternates are subject to the mutual approval (not to be unreasonably withheld or delayed) of the Sports Authority and the NBA Club, with the understanding that it is the Parties' intent to cause the Arena to be constructed within the approved schedule and within the Arena Budget.

Any dispute between the Sports Authority and the NBA Club with regard to the approval of any of the aforementioned matters will be resolved pursuant to a mutually acceptable "fast-track" arbitration procedure before an independent third-party arbitrator mutually acceptable to the Sports Authority and the NBA Club, with the understanding that such disputes must be resolved so as to not cause any delay in construction and so as not to cause the construction of the Arena to exceed the Arena Budget. Notwithstanding the foregoing, with respect to the design of the Arena, the selection of the

Architect, will not be subject to arbitration and it is understood that the arbitration shall only be applicable to disputes as to (i) whether the Arena design provides for a first-class, state of the art arena, (ii) whether the Arena can be constructed within the Arena Budget (except as otherwise approved in writing by the NBA Club) and (iii) whether the Arena can be constructed within the approved schedule. All other matters relating to the design of the Arena shall be within the reasonable discretion of the NBA Club. The ruling of the arbitrator will be final and binding on the parties.

The Sports Authority will cause and require each of the consultants and contractors with respect to the Arena, Parking Garage and Infrastructure Work to cooperate with each other in order to facilitate the timely and cost-effective completion of such work. The Interlocal Agreement between the Sports Authority and the City will include this requirement.

4. Change Orders

The Arena will be built within the approved schedule, Arena Budget and in accordance with the terms hereof and Final Arena Plans unless the Sports Authority and the NBA Club mutually agree otherwise in writing. The NBA Club shall be permitted to "value engineer" the design of the Arena, subject to approval of the City and the Sports Authority, not to be unreasonably withheld or delayed.

The Sports Authority will have the right to request change orders during the construction of the Arena, subject to the approval of the NBA Club, such approval not to be unreasonably withheld or delayed, provided that the Sports Authority must pay for all costs associated with such change order as and when such costs are incurred (unless required to rectify a defect in the plans, in which event the cost of such change order will be included in the Arena Budget or payable by the NBA Club as a cost overrun, if necessary) and provided further that such changes will not result in (i) any extension of, or any inability to achieve, the schedules and deadlines for completion of the construction of the Arena, (ii) any increase in any anticipated levels of maintenance, capital repairs or other operating expenses of the Arena, (iii) any failure of the Arena to be a first-class, state of the art arena or to conform to NBA/NHL rules and regulations, (iv) any violation of an applicable governmental rule or (v) any negative impact on the cost overrun protections to be implemented or any cost overruns for which the NBA Club will be responsible. No savings or contingency may be allocated to pay for any change orders requested by the Sports Authority.

The NBA Club will be entitled to make change orders and may allocate savings and contingency to pay the same, subject to the NBA Club's obligation to pay cost overruns, and provided that the approval of the Sports Authority will be required with respect to any change orders which would result in (i) any extension of, or any inability to achieve, the schedules and deadlines for completion of the construction of the Arena as to which the NBA Club has not agreed in writing to appropriate adjustments in its remedial rights under the Arena Lease, (ii) any material increase in any anticipated levels of capital repairs, (iii) any failure of the Arena to be a first-class, state of the art arena or conform to NBA/NHL rules and regulations, or (iv) any violation of an applicable governmental rule.

SCHEDULE 2

PROCESS FOR PERFORMANCE OF INFRASTRUCTURE WORK AND FOR DESIGN AND CONSTRUCTION OF PARKING GARAGE

1. General Intent

It is understood that the Arena will be designed and constructed pursuant to the terms of Schedule 1 to the Letter Agreement to which this Schedule is attached and that the Parking Garage will be designed and constructed pursuant to the terms of this Schedule 2. Pursuant to an Interlocal Agreement to be entered into between the Sports Authority and the City, the City will be responsible for the design and construction of the Infrastructure Work. Capitalized terms used but not defined herein shall have the meanings given such terms in the Letter Agreement.

It is the intent of the NBA Club, the City and the Sports Authority to work together in all aspects of the design, development and construction of the Infrastructure Work. The Sports Authority and the NBA Club will have full access to all design and construction professionals retained by the City in connection with the design, development and construction of the Infrastructure Work. It is the intent of such parties to keep each other fully informed as the Infrastructure Work is designed and constructed. Each of the NBA Club and the Sports Authority will be given an opportunity to have representatives present

at meetings and briefings with such design and construction professionals, with the intent being that each of the NBA Club and Sports Authority is entitled to full disclosure of, and participation in, the process of designing, developing and constructing the Infrastructure Work. Within ten (10) days following the date of the Interlocal Agreement, the City will designate one or more persons to serve as its authorized representatives with respect to this process. The NBA Club, the City and the Sports Authority shall be permitted to rely on the actions taken by such authorized representatives, or any of them, in connection with the design and construction of the Infrastructure Work.

It is also the intent of the NBA Club and the Sports Authority to work together in all aspects of the design, development and construction of the Parking Garage. The Sports Authority and the NBA Club will have full access to all design and construction professionals retained by the Sports Authority in connection with the design, development and construction of the Parking Garage. It is the intent of such parties to keep each other fully informed as the Infrastructure Work is designed and constructed. Each of the NBA Club and the Sports Authority will be given an opportunity to have representatives present at meetings and briefings with such design and construction professionals, with the intent being that each of the NBA Club and Sports Authority is entitled to full disclosure of, and participation in, the process of designing, developing and constructing the Parking Garage.

2. Selection of Design Team

The architect for the Parking Garage (the "Garage Architect") will be selected by the Selection Team (as defined on Schedule 1). In the event the same architect is selected to design the Arena and the Parking Garage, the fees and expenses of such work shall be segregated and performed under separate contracts. The City will select design professionals and engineers for the Infrastructure Work pursuant to a competitive bidding process designed to select highly qualified persons with substantial experience on similar projects. It is intended that local participation in the construction of the Infrastructure Work and the Parking Garage will be encouraged.

3. Administration of Design and Construction

The plans and specifications for the Infrastructure Work will be prepared at the direction of the City, subject to the approval of the NBA Club and the Sports Authority, such approval not to be unreasonably withheld. The plans and specifications for the Parking Garage will be prepared at the direction of the Sports Authority, subject to the approval of the NBA Club, such approval not to be unreasonably withheld. The Garage Architect and the design team with respect to the Infrastructure Work will make periodic reports to the NBA Club and the Sports Authority during the design process so as to keep the NBA Club and the Sports Authority fully informed and involved in the design process.

The Parking Garage will be specifically designed and constructed to complement the design of the Arena and fully accommodate the parking requirements for the Arena, including, without limitation, expedited ingress and egress and will comply with the design parameters described on Schedule 2-A. It is further understood that the NBA Club will be entitled to lead the design of the loading dock and Enclosed Access to ensure that the same conform to the Arena design and proposed functionality.

The construction of the Infrastructure Work will be done at the direction of the City subject to the approval of the Sports Authority and the NBA Club with respect to the Infrastructure Work, such approval not to be unreasonably withheld or delayed. The construction of the Parking Garage will be done at the direction of the Sports Authority subject to the approval of the NBA Club, such approval not to be unreasonably withheld or delayed. If the Sports Authority and the NBA Club agree, the same general contractor will be retained by the Sports Authority to construct the Arena and the Parking Garage; provided, however, in all events the fees and expenses of the construction of the Parking Garage shall be segregated from expenses of construction of the Arena and shall be performed under separate contracts. The Garage Architect, the design team for the Infrastructure Work and the general contractors for the Parking Garage and the Infrastructure Work will respond to requests for information and make periodic reports to the NBA Club and the Sports Authority during construction so as to keep the NBA Club and the Sports Authority fully informed and involved in the process.

The construction contractors for the Infrastructure Work shall be selected by the City, subject to the approval of the Sports Authority and the NBA Club, not to be unreasonably withheld. The construction contractors for the Parking Garage shall be selected by the Sports Authority, subject to the approval of the NBA Club, not to be unreasonably withheld. It is intended that local participation in the design of the Parking Garage and Infrastructure Work by architects and engineers with sufficient experience and capacity will be encouraged.

The City will enter into all contracts for the construction of the Infrastructure Work pursuant to a competitive bidding process designed to select highly qualified persons with substantial experience on similar projects. The Sports Authority will enter into all contracts for the construction of the Parking Garage, provided, however, that all such contractors and the terms of all such contracts relating to the Parking Garage are subject to the approval of the NBA Club (not to be unreasonably withheld).

Any dispute between the City, the Sports Authority and/or the NBA Club with regard to the approval of any of the aforementioned matters will be resolved pursuant to a mutually acceptable "fast-track" arbitration procedure before an independent third-party arbitrator mutually acceptable to the City, Sports Authority and the NBA Club, with the understanding that such disputes must be resolved so as to not cause any delay in construction. The ruling of the arbitrator will be binding on the parties.

The City and the Sports Authority will cause and require each of the consultants and contractors with respect to the Parking Garage and the Infrastructure Work to cooperate with each other, and with the consultants and contractors for the Arena in order to facilitate the timely and cost-effective completion of such work.

4. Change Orders

The Infrastructure Work will be built within the approved schedule, the approved plans and specifications therefor and in accordance with the terms hereof unless the City, the Sports Authority and the NBA Club mutually agree otherwise in writing. The Parking Garage will be built within the approved schedule, the approved plans and specifications therefor and in accordance with the terms hereof unless the Sports Authority and the NBA Club mutually agree otherwise in writing.

The City, Sports Authority and the NBA Club will have the right to request change orders during the construction of the Infrastructure Work, subject to the approval of the other parties, such approval not to be unreasonably withheld or delayed, provided that the Sports Authority, the NBA Club, or the City, as applicable, must pay for all costs associated with such change orders requested by such party (unless required to rectify a defect in such plans, in which event such change order shall be paid by the City), as and when such costs are incurred and provided further that such changes will not result in (i) any extension of, or any inability to achieve, the schedules and deadlines for completion of the construction of the Arena or Parking Garage as to which the NBA Club has not agreed in writing to appropriate adjustments in its remedial rights under the Arena Lease, (ii) any increase in any anticipated levels of maintenance, capital repairs or other operating expenses of the Arena or Parking Garage, (iii) any failure of the Arena or Parking Garage to conform to NBA/NHL rules and regulations, (iv) any violation of an applicable governmental rule or (v) any negative impact on the cost overrun protections as to the Arena to be implemented or any cost overruns for which the NBA Club will be responsible.

The Sports Authority and the NBA Club will have the right to request change orders during the construction of the Parking Garage, subject to the approval of the other Party, such approval not to be unreasonably withheld or delayed, provided that the Sports Authority or the NBA Club, as applicable, must pay for all costs associated with such change orders requested by such party (unless required to rectify a defect in such plans, in which event such change order shall be paid by the Sports Authority), as and when such costs are incurred and provided further that such changes will not result in (i) any extension of, or any inability to achieve, the schedules and deadlines for completion of the construction of the Arena or Parking Garage as to which the NBA Club has not agreed in writing to appropriate adjustments in its remedial rights under the Arena Lease, (ii) any increase in any anticipated levels of maintenance, capital repairs or other operating expenses of the Arena or Parking Garage, (iii) any failure of the Arena or Parking Garage to conform to NBA/NHL rules and regulations, (iv) any violation of an applicable governmental rule or (v) any negative impact on the cost overrun protections as to the Arena to be implemented or any cost overruns for which the NBA Club will be responsible.

SCHEDULE 2-A

PARKING GARAGE DESIGN STANDARDS

- Concrete Parking Structure designed to match arena aesthetics
- Maximum possible amount of flat floor space adjacent to arena
- 2,500 spaces for arena events, efficiency of 360 square feet per space
- Maximum seven levels above grade, 100% of spaces for Arena parking to be on flat floors
- Circulation system to be one-way flow with maximum 70-degree angled parking
- Minimum space width to be 8'-6"
- All parking to be clear span, no parking between columns
- Design to accommodate reversible usage of ramps for event ingress/egress
- 5 Truck dock staging area below grade under garage with access through garage
- Entrance and exit driveways from three separate roadways and multiple speed ramps
- Plaza area between garage and arena that will be closed to vehicular traffic before, during and after events
- Enhanced vertical pedestrian transportation systems possibly including escalators

- Access system and entrance/exit geometrics designed to accept AVI system
- Accommodations for multi-level elevated pedestrian walkways to arena
- Segregated VIP parking capability
- Ability to segregate levels to develop premium parking areas

SCHEDULE 3

MILESTONE DATES

January 15, 2001 Sports Authority to issue bonds to finance the development of the Arena and to obtain financing for the Parking Garage

January 15, 2001 City to present evidence of its ability to fund the Site Acquisition and the Infrastructure Work to be paid for by the City

March 1, 2001 Acquisition of possession (as to tracts subject to pending condemnation proceedings) of or title to Arena Site

April 1, 2001 Acquisition of possession (as to tracts subject to pending condemnation proceedings) of or title to Garage Site

April 1, 2001 Commencement of on-site Infrastructure Work

July 20, 2001 Delivery of Arena Site in construction-ready condition (with applicable site clearing work and environmental remediation completed)

August 1, 2001 Commencement of construction of Arena (which shall mean commencement and continuance of major excavation for the Arena)

August 1, 2002 Commencement of construction of Parking Garage (which shall mean commencement and continuance of major excavation for the Parking Garage)

September 1, 2003 Completion of Arena and Parking Garage and all Infrastructure Work