

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:

SPORTS AUTHORITY HOLDINGS, INC., *et al.*,¹

Debtors.

Chapter 11

Case No. 16-____ (____)

(Joint Administration Requested)

DEBTORS’ MOTION FOR ENTRY OF (A) AN ORDER (I) AUTHORIZING DEBTORS TO HONOR AND CONTINUE CERTAIN CUSTOMER PROGRAMS AND CUSTOMER OBLIGATIONS IN THE ORDINARY COURSE OF BUSINESS, AND (II) APPROVING AGREEMENT BY AND BETWEEN DEBTORS AND ZURICH AMERICAN INSURANCE COMPANY RELATING TO PREPETITION BONDS, ON AN INTERIM BASIS; AND (B) A SUPPLEMENTAL ORDER APPROVING SUCH BONDING AGREEMENT ON A FINAL BASIS AND GRANTING RELATED RELIEF

Sports Authority Holdings, Inc. and its affiliated debtors and debtors in possession in the above-captioned chapter 11 cases (collectively, the “Debtors”) hereby move this Court (this “Motion”) for the entry of an order (the “Proposed Order”), substantially in the form annexed hereto as Exhibit A, pursuant to sections 105(a), 363, 1107(a), and 1108 of title 11 of the United States Code (the “Bankruptcy Code”), Rules 6003 and 6004 of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”), and Rule 9013-1(m) of the Local Rules of Bankruptcy Practice and Procedure of the United States Bankruptcy Court for the District of Delaware (the “Local Rules”), authorizing the Debtors to honor and continue their Customer Programs and Customer Obligations (each as defined below) in the ordinary course of the Debtors’ business, and, upon entry of a supplemental order (the “Supplemental Order”), a copy of which is attached hereto as Exhibit B, approving that certain *Amended and Restated Agreement to Provide Surety*

¹ The Debtors and the last four digits of their respective taxpayer identification numbers are as follows: Sports Authority Holdings, Inc. (9008); Slap Shot Holdings, Corp. (8209); The Sports Authority, Inc. (2802); TSA Stores, Inc. (1120); TSA Gift Card, Inc. (1918); TSA Ponce, Inc. (4817); and TSA Caribe, Inc. (5664). The headquarters for the above-captioned Debtors is located at 1050 West Hampden Avenue, Englewood, Colorado 80110.



Capacity as a Financial Accommodation, dated as of February 18, 2016, by and among the Debtors and Zurich American Insurance Company (“Zurich” and such agreement, the “Bonding Agreement”), a copy of which is annexed as Exhibit 1 to the Supplemental Order. In support of this Motion, the Debtors rely on the *Declaration of Jeremy Aguilar in Support of the Debtors’ Chapter 11 Petitions and Requests for First Day Relief* (the “First Day Declaration”) and respectfully represent as follows:

JURISDICTION AND VENUE

1. The Court has jurisdiction over this matter pursuant to 28 U.S.C. §§ 1334(b) and 157, and the *Amended Standing Order of Reference* from the United States District Court for the District of Delaware dated as of February 29, 2012. This is a core proceeding pursuant to 28 U.S.C. § 157(b), and pursuant to Local Rule 9013-1(f), the Debtors consent to the entry of a final order by the Court in connection with this Motion to the extent that it is later determined that the Court, absent consent of the parties, cannot enter final orders or judgments in connection herewith consistent with Article III of the United States Constitution. Venue is proper before this Court pursuant to 28 U.S.C. §§ 1408 and 1409. The statutory predicates for the relief requested herein are sections 105(a), 363, 1107(a), and 1108 of the Bankruptcy Code, Bankruptcy Rules 6003 and 6004, and Local Rule 9013-1(m).

BACKGROUND

A. General Background

2. On the date hereof (the “Petition Date”), each of the Debtors commenced a voluntary case under chapter 11 of the Bankruptcy Code. Pursuant to sections 1107(a) and 1108 of the Bankruptcy Code, the Debtors are continuing to manage their financial affairs as debtors in possession.

3. Contemporaneously herewith, the Debtors filed a motion seeking joint administration of their chapter 11 cases (collectively, the “Chapter 11 Cases”) pursuant to Bankruptcy Rule 1015(b) and Local Rule 1015-1. No trustee, examiner, or official committee of unsecured creditors has been appointed in these Chapter 11 Cases.

4. Information regarding the Debtors’ history and business operations, capital structure and primary secured indebtedness, and the events leading up to the commencement of these Chapter 11 Cases can be found in the First Day Declaration.

B. The Debtors’ Customer Programs

5. Prior to the Petition Date, both in the ordinary course of the Debtors’ business and as is customary in the industry, the Debtors offered and engaged in certain customer and other programs and practices (collectively, the “Customer Programs”). The Customer Programs include, but are not limited to, the following (as described in detail below): (1) The League by Sports Authority rewards program; (2) gift cards; (3) returns, exchanges, and refunds; (4) complimentary certificates; (5) customer deposits; (6) merchant credit card agreements; (7) extended warranties and service contracts; (8) assembly and delivery program; (9) price match policy; (10) posted bonds related to the issuance of licenses and permits; and (11) promotions and all such other similar policies, programs, and practices of the Debtors.

6. In order to effectuate a smooth transition into chapter 11, the Debtors must maintain customer loyalty and goodwill by maintaining and honoring the Customer Programs. Indeed, the Debtors implemented the Customer Programs in the ordinary course of business prior to the Petition Date as a means by which to maintain positive, productive, and profitable relationships with their customers, encourage new purchases, enhance customer satisfaction, and ensure that the Debtors remain competitive in their industry. All of the Customer Programs are designed and implemented to encourage the Debtors’ customers to increase their purchasing

frequency and volume, resulting in larger net revenues for the Debtors and, in return, greater satisfaction for the customers.

7. Accordingly, the Debtors' ability to honor the Customer Programs in the ordinary course of business is necessary to retain their customer base and reputation within their industry. On account of the Customer Programs, the Debtors may owe certain obligations to their customers as well as other third parties, arising both before and after the Petition Date (collectively, the "Customer Obligations").

8. The success and viability of the Debtors' business, and ultimately the Debtors' ability to maximize the value of the Debtors' estates, are dependent upon the patronage and loyalty of their customers. In this regard, the Customer Programs are critical, and any delay in honoring Customer Obligations will severely and irreparably impair customer relations and drive away valuable customers, thereby harming the Debtors' efforts to maximize value for all interested parties.

9. Accordingly, the Debtors seek authority to continue, in their discretion, to honor the Customer Programs, including, in their discretion, Customer Obligations arising therefrom, at each of the Debtors' retail locations, including any stores that may be undergoing store liquidation sales.² Significant Customer Programs are described in more detail below.

(1) The League by Sports Authority Rewards Program

10. In the ordinary course of business, the Debtors offer promotional points (the "Points") in a loyalty program called "The League by Sports Authority" (the "Rewards

² The Debtors filed concurrently herewith the *Debtors' Emergency Motion for Interim and Final Orders (A) Authorizing the Debtors to Assume Closing Store Agreement; (B) Authorizing and Approving Closing Sales Free and Clear of All Liens, Claims and Encumbrances; (C) Authorizing the Implementation of Customary Employee Bonus Program and Payments to Non-Insiders Thereunder; (D) Approving Rejection Procedures; (E) Approving Dispute Resolution Procedures; and (F) Approving the Debtors' Store Closing Plan* (the "Store Closing Motion"), pursuant to which the Debtors are seeking, among other things, authorization to conduct store closing sales (the "Store Closing Sales").

Program”). As of the Petition Date, there were approximately 28,800,000 customers enrolled as Rewards Program members (collectively, the “Members”).³ Members of the Rewards Program get one point for every \$1 they spend at any of the Debtors’ retail stores or online on the Debtors’ website. The Debtors often offer bonus points (e.g., double points, triple points, or extra free points) to drive traffic and support marketing efforts or various sale campaigns. Members can earn additional points by using the MapMyFitness app on their mobile devices for tracking and completing certain activities. Points accumulate throughout the calendar year but expire on December 31 of each year. Members earn 5% back on purchases for every \$100 spent in any given calendar year at the Debtors’ retail stores or online on the Debtors’ website. Once a Member reaches the \$100 threshold, the Points are converted to a reward certificate (each such certificate, a “Reward Certificate”), which is issued and sent to such Member via email and U.S. first-class mail for redemption in the Debtors’ retail stores or online on the Debtors’ website. Additionally, the Debtors issue \$5 “welcome” Reward Certificates to new Members, \$10 birthday and “half-birthday” Reward Certificates, \$10 anniversary Reward Certificates, “surprise and delight” Reward Certificates, and \$5-\$10 “grand opening” Reward Certificates to drive more business. During the period January 1 through January 22, 2016, the Debtors estimate that approximately 128,395,000 Points accrued and remained outstanding. The Debtors estimate, based on historical redemption rates,⁴ that they may be liable for approximately \$1,100,000 on account of such Points. In addition, as of January 25, 2016, approximately \$22,000,000 worth of

³ The Debtors do not believe that the Members of the Rewards Program are creditors. Therefore, the Debtors will not be mailing the Members notices during the bankruptcy proceeding except as they deem appropriate or as otherwise ordered by the Court.

⁴ Historically, 83% of members reach the \$100 threshold that is required to earn a Reward Certificate, and of those members who earn a Reward Certificate, only 19% actually redeem such certificate.

Reward Certificates were outstanding under the Rewards Program. For the avoidance of doubt, the Reward Certificates are not redeemable for cash.

11. The Rewards Program also offers Members who purchase a bicycle from any of the Debtors' retail stores, or online on the Debtors' website, one to three (depending on the price of the bicycle) free tune-up services (the "Bike Service Plan").

12. The Rewards Program is managed by Epsilon Data Management, LLC, which was recently acquired by Alliance Data Systems Inc. (the "Rewards Program Manager"). The Debtors and the Rewards Program Manager entered into a certain Master Services Agreement, dated as of November 13, 2013. Among other things, the Rewards Program Manager maintains the website dedicated to the Rewards Program and arranges marketing communications to Members. The Rewards Program Manager charges the Debtors specified fees on a monthly basis in arrears for managing the Rewards Program and providing other related marketing and customer relationship management services (collectively, the "CRM Fees"). Until very recently, the Company has been paying all CRM Fees on a timely basis. As of the Petition Date, the Debtors owe the Rewards Program Manager approximately \$38,000 in CRM Fees for the months of January and February 2016. The Rewards Program Manager is critical to the Debtors' efforts to continue to drive customer traffic and manage the Rewards Program. Without the Rewards Program Manager, the Debtors would have to invest or divert significant resources in an attempt to manage the Rewards Program internally or seek another third party to fill the void that would necessarily result if the Rewards Program Manager were to cease its management of the Rewards Program. During this critical stage in these Chapter 11 Cases, the Debtors simply cannot afford to lose the services provided by the Rewards Program Manager. The cost of the CRM Fees pales

in comparison to the loss to the Debtors in the event that the Rewards Program Manager ceases to manage the Rewards Program.

13. The Debtors believe that continuing the Rewards Program, continuing to award and honor the Reward Certificates, and continuing to offer and service the Bike Service Plan are all essential to maintaining customer relationships and driving sales. Accordingly, the Debtors request authorization to continue the Rewards Program, to continue to award and honor Reward Certificates, to continue the Bike Service Plan, and to pay, in their discretion, any outstanding CRM Fees for services rendered before the Petition Date.

(2) Gift Cards

14. A substantial portion of the Debtors' revenue is derived from the sale of prepaid gift cards (the "Gift Cards") to their customers. Bank of America Merchant Services ("BAMS") processes the Gift Cards directly and maintains records associated with activity related to the redemption of Gift Cards. BAMS monitors and processes Gift Card activations, redemptions, adjustments, and inquiries regardless of the channel or activity source. Each business day, BAMS transmits data from to BAMS about Gift Card activity to the Debtors for the previous day. BAMS charges the Debtors transactions fees (the "BAMS Fees") on a monthly basis in connection with the processing of Gift Cards. Until very recently, the Company has been paying all BAMS Fees on a timely basis. As of the Petition Date, the Debtors owe approximately \$60,000 in transaction fees to BAMS as for the months of January and February 2016.

15. Gift Cards may be purchased at the Debtors' retail stores, online on the Debtors' website, or from various other resellers that are authorized to issue Gift Cards. Once purchased, a Gift Card may be used like cash for purchases at the Debtors' retail stores and online on the Debtors' website, but may not be redeemed for cash or monetary credit except under limited

circumstances as required by law. There is no limit on the number of Gift Cards that can be purchased or the dollar amount that may be loaded on an individual Gift Card. Upon purchase, the gift cards are “activated” and may then be redeemed at any time with no expiration date. For the avoidance of doubt, Gift Cards are not redeemable for cash.

16. The Debtors do not possess much information about holders of Gift Cards. If a Member of the Rewards Program purchased a Gift Card, the Debtors have this information and whatever information the Member provided to the Debtors upon registration. Otherwise, the Debtors do not track and have no information about the holders of Gift Cards.

17. As of the Petition Date, approximately \$5,000,000 in Gift Cards issued online on the Debtors’ website is outstanding, approximately \$69,00,000 in Gift Cards issued in the Debtors’ retail stores and by qualified resellers is outstanding, and approximately \$19,000,000 in Gift Cards issued by third parties (including warranty providers and helpdesk representatives), for a total of approximately \$93,000,000 in all outstanding Gift Cards. The Debtors seek the authority to continue to honor the Gift Cards in the ordinary course of business during the pendency of these Chapter 11 Cases, whether purchased before or after the Petition Date, consistent with past practices.⁵

(3) Returns, Exchanges, and Refunds

18. Certain customers hold contingent claims against the Debtors for refunds, returns, exchanges, substitutions, issuance of store credit, price adjustments (including sales price adjustments to billing) and other credit balances (collectively, the “Refunds” and individually each a “Refund”) relating to goods sold or services rendered to customers in the ordinary course of business prior to the Petition Date. Subject to certain restrictions and requirements, customers

⁵ To the extent that the Debtors issue gift cards postpetition, the Debtors propose to implement a procedure that will enable them to distinguish between gift cards that were purchased and issued before the Petition Date and those that were purchased and issued after the Petition Date.

have 30 days to return goods purchased from the Debtors' retail stores and on the Debtors' website. An original receipt is required to receive a Refund, and absent such receipt, a customer may only receive store credit for the lowest selling price of the returned item. The Debtors' customers undoubtedly rely on the existence of the Refunds when they shop in the Debtors' retail stores or online at the Debtors' website. In addition, the Debtors typically issue Refunds in the ordinary course of business for damaged or faulty goods. As of the Petition Date, the current monthly returns reserve is approximately \$14,000,000. The ability to continue to provide the Refunds is vital to the Debtors' ongoing relationship with their customers. The Debtors believe that the increase in customer loyalty generated by the Refunds far outweighs the costs of the Refunds. Accordingly, the Debtors seek authorization to continue to, in their discretion, issue Refunds in the ordinary course of business, whether related to purchases made before or after the Petition Date.

(4) Complimentary Certificates

19. In the ordinary course of business, the Debtors have authorized their call-in customer service department, which is managed by third-party provider GSI Commerce Solutions, Inc., to issue complimentary certificates in the form of gift cards (the "Complimentary Certificates"). During fiscal year 2016, the Debtors estimate that they will allocate up to \$50,000 in Complimentary Certificates that are distributed across the Debtors' various stores for issuance to customers who file claims or significant complaints with the Debtors. These Complimentary Certificates are issued in the form of Gift Cards and may be redeemed by customers toward online or in-store purchases, have no expiration date, and are included in the Debtors' outstanding Gift Cards balance (see discussion regarding Gift Cards above). For the avoidance of doubt, the Complimentary Certificates, like Gift Cards, are not redeemable for cash. The

Debtors believe that continuing to honor the Gift Cards program (which includes issuing and honoring the Complimentary Certificates) in accordance with their terms is an important component to maintaining customer satisfaction. Accordingly, the Debtors seek the authority to continue to, in their discretion, to issue and honor Complimentary Certificates in the ordinary course of business.

(5) *Customer Deposit Program*

20. The Debtors maintain a customer deposit program (the “Customer Deposit Program”), which specifically enables certain schools to make deposits (the “Deposits”) toward the purchase of jerseys for their sports teams. As of the Petition Date, the Debtors have received deposit amounts for purchases and have reserved items corresponding to such purchases, but the schools involved have not remitted the remaining purchase price to complete the sale. As of the Petition Date, the Debtors have received approximately \$200,000 in Deposits. The Debtors believe that the Customer Deposit Program is a valuable resource for the schools that participate in it, and aids in building customer relationships because it establishes a bond between the Debtors and the communities in which they operate. The Debtors seek the authority to continue to, in their discretion, honor the Debtors’ obligations under the Customer Deposit Program in the ordinary course of business, whether such obligations have arisen before or after the Petition Date, consistent with past practices.

(6) *Credit Card Agreements*

21. Many of the Debtors’ sales are paid with credit or debit cards. To facilitate such transactions, the Debtors entered into certain agreements with credit card companies and processors (collectively, the “Credit Card Agreements”), including agreements with (a) American Express (“AmEx”), (b) Discover Card (“Discover”), (c) Visa, and (d) Mastercard

(collectively, such credit card companies and processors, the “Credit Card Companies”). The Credit Card Agreements enable the Debtors to accept credit and debit card purchases, subject to customer refunds, returns, exchanges, substitutions, price adjustments, and other credit balances. Under the terms of the Credit Card Agreements, the Debtors are required to pay the Credit Card Companies certain fees for their services (collectively, the “Credit Card Fees”).

22. When customers return merchandise to the Debtors following a purchase made using a credit card, or when customers dispute certain charges with their credit card issuer, the Debtors may be obligated to refund to such issuer the purchase price of the returned or disputed merchandise, subject to certain adjustments (collectively, “Chargebacks” and, together with the Credit Card Fees, the “Credit Card Obligations”). Generally, Chargebacks are satisfied by netting the amount charged back against pending payments owed by a Credit Card Company to the Debtors under the Credit Card Agreements (the “Credit Card Processor Payments”).

23. It is possible that certain Chargebacks incurred by the Debtors immediately prior to the Petition Date may not have been fully netted out against the Credit Card Processor Payments received by the Debtors prior to the Petition Date. Moreover, although the Debtors believe that Chargebacks arising after the Petition Date are postpetition obligations of the Debtors, it may be argued that such Chargebacks nevertheless are prepetition obligations where the merchandise returned or disputed was purchased from the Debtors prior to the Petition Date. In such circumstances, to the extent that the netting of the parties’ obligations would not constitute recoupment, the Debtors seek the Court’s approval to allow the Credit Card Companies to setoff Chargebacks against Credit Card Processor Payments pursuant to section 362(d) of the Bankruptcy Code.

24. The Debtors request authority to continue to pay the Credit Card Companies the Credit Card Fees, whether arising before or after the Petition Date, in the ordinary course of their business to avoid disrupting vital credit card processing services. As a result of additional holdbacks by the Credit Card Companies during the prepetition period, the Debtors believe that there remain no accrued and unpaid Credit Card Fees as of the Petition Date. The Debtors' ability to honor and process credit and debit card transactions is essential to the Debtors' ability to sell their merchandise and maintain customer loyalty. Without this ability, the Debtors would lose their main source of revenue for sales transactions in the ordinary course of business. The Credit Card Companies that provide services to the Debtors should continue to perform under the Credit Card Agreements. The Debtors request that the Court provide that no new or extraordinary offsets will be imposed (including, without limitation, Chargebacks), and that the relationships with the Credit Card Companies that provide services to the Debtors be handled using the same prepetition procedures.

(7) Extended Warranties and Service Contracts

25. In the ordinary course of business, the Debtors offer their customers the opportunity to purchase extended warranties and service contracts (collectively, the "Warranties"). Customers may buy an extended warranty for specific product classes that include hard goods or equipment, such as skis or basketball hoops. The Warranties are sold by the Debtors but provided by third-party provider, Asurion Services, LLC (f/k/a/ National Electronics Warranty, LLC) and Icon Health & Fitness, Inc. (collectively, the "Warranty Providers"). The Debtors sell the Warranties upon request by their customers, collect the fees for the Warranties, and then remit such fees less a premium charged by the Debtors (the "Warranty Commissions") to the Warranty Providers (such remitted fees, the "Warranty Fees").

In the event that a customer returns a defective product to the Debtors, the Debtors may replace such defective product and remit a claim to the Warranty Providers for the cost of such product.

26. Until very recently, the Company has been paying all Warranty Fees on a timely basis. As of the Petition Date, the Debtors owe approximately \$715,000 in Warranty Fees to the Warranty Providers, which include only a few weeks of past due payments plus the amount that has accrued and has not yet come due in the ordinary course of business. The Debtors believe that their ability to continue to offer and honor the Warranties is critical to the satisfaction of their customers and the maintenance of customer relationships. The Debtors seek authorization to continue to, in their discretion, offer and honor their obligations in connection with the Warranties, including the payment of the Warranty Fees for Warranties purchased after the Petition Date.

(8) Assembly and Delivery Program

27. The Debtors offer an assembly and delivery program (the “Assembly and Delivery Program”), whereby the Debtors offer their customers the opportunity to have their sporting goods (e.g., treadmills, bicycles, etc.) delivered in a fully-assembled condition. The Debtors contract with various third parties (collectively, the “Assembly/Delivery Providers”) to assemble and deliver goods to customers who elect to purchase this service (the “Assembly/Delivery Service”). In the ordinary course of business, the Debtors collect fees from their customers for the Assembly/Delivery Service and remit to the Assembly/Delivery Providers certain agreed-upon amounts (the “Assembly/Delivery Commissions”) to fulfill such Assembly/Delivery Service.

28. Until very recently, the Company has been paying all Assembly/Delivery Commissions on a timely basis. The Debtors estimate that they owe approximately \$400,000 in

Assembly/Delivery Commissions to Assembly/Delivery Providers as of the Petition Date. The Debtors believe that their ability to continue to offer and honor the Assembly and Delivery Program is critical to the satisfaction of their customers and to the maintenance of customer relationships. The Debtors seek authorization to continue to, in their discretion, offer and honor their obligations in connection with the Assembly and Delivery Program, including remitting Assembly/Delivery Commissions to Assembly/Delivery Providers, whether arising before or after the Petition Date.

(9) Price Match Policy

29. In 2015, to promote sales and increase their competitive edge, the Debtors launched their new “Price Match Promise” policy (the “Price Match Policy”). Pursuant to the Price Match Policy, the Debtors are committed to match the price offered by another retailer for an identical product, subject to certain restrictions and exclusions, if the customer requesting the price match provides evidence of the lower price (in the form of a printed advertisement or printout from a website). The Debtors’ ability to continue to honor the Price Match Policy is critical to the satisfaction of their customers, the maintenance of customer relationships, and the Debtors’ ability to compete in the marketplace on an ongoing basis. Accordingly, the Debtors seek authorization to continue, in their discretion, to honor their obligations in connection with the Price Match Policy.

(10) Bonds Related to Licenses and Permits

30. In the ordinary course of their business, the Debtors hold hunting and fishing permits and licenses (collectively, the “Licenses and Permits”) issued by various agencies and departments across multiple states (collectively, the “Licensing Agencies”) whereby, among other things, the Debtors are permitted to issue such Licenses and Permits to their customers on

behalf of the Licensing Agencies. To retain their Licenses and Permits, the Debtors must post and maintain a specified bond with each Licensing Agency. As of the Petition Date, the Debtors had posted approximately 110 bonds with Licensing Agencies in approximately 25 states in an aggregate amount of \$1,900,000 (collectively, the “Bonds”). As also described in the *Debtors’ Motion for Interim and Final Orders (A) Prohibiting Utility Providers from Altering, Refusing or Discontinuing Service; (B) Approving the Debtors’ Proposed Adequate Assurance of Payment for Postpetition Services; and (C) Establishing Procedures for Resolving Requests for Additional Adequate Assurance of Payment* (the “Utilities Motion”), filed concurrently herewith, the Debtors have posted similar bonds with utility service providers and customs agents in furtherance of, respectively, obtaining utility service and complying with customs requirements implicated by the receipt of certain inventory and other goods. Prior to the Petition date, Zurich made certain bonding capacity available to the Debtors under and pursuant to a *General Agreement of Indemnity* dated November 14, 2006 (the “Bonding Program”), which related to the Bonds described herein and those posted with respect to utilities and customs requirements. The Debtors believe that their capability to issue Licenses and Permits is important to the satisfaction of their customers and the maintenance of customer relationships given the convenience for customers such capability offers. The Debtors seek authorization to continue to, in their discretion, maintain the Bonds and to pay any fees owed to the Licensing Agencies, to be able to continue to hold and issue the Licenses and Permits to their customers.

31. Prior to the Petition, in January 2016, Zurich issued Notices of Cancellation for the bonds issued pursuant to the Bonding Program, with cancellation dates mostly on or after February 22, 2016. Given the importance of the Bonds described herein, as well as those implicated by the Debtors’ utilities consumption and customs regulation compliance, as

described in the Utilities Motion, the Debtors requested that Zurich provide replacement bonds and certain other related bonds. As set forth in the Bonding Agreement, Zurich was willing to meet these requests, but only under special enumerated conditions, which include (a) entry of the Proposed Order approving the Bonding Agreement on an interim basis and (b) entry of the Supplemental Order approving the Bonding Agreement and its provisions on a final basis. As detailed in the Bonding Agreement, as consideration for the extension of significant replacement bonding capacity, certain Debtors caused Bank of America, N.A. to deliver a Letter of Credit in the amount of \$2,800,000 to Zurich, which was accomplished on or about February 18, 2016. As set forth in the Proposed Order, the Debtors seek approval of the Bonding Agreement on an interim basis, and, pursuant to the Supplemental Order, approval of the Bonding Agreement and its provisions on a final basis and a finding that the collateral received by Zurich in consideration for extending new bonding capacity—and thereby allowing the Debtors’ business to go forward uninterrupted—is not a preferential transfer under section 547 of the Bankruptcy Code. Upon entry of the Proposed Order, the Debtors will serve the proposed form of Supplemental Order on the notice parties indicated below and schedule a hearing with respect to the Supplemental Order at a second day hearing on a date to be determined.

(11) Promotions and Other Customer Programs

32. In the ordinary course of their business, the Debtors issue additional promotions, offers, and discount codes (collectively, the “Promotions”) to be presented by customers at the time of purchase of goods at the Debtors’ retail stores or online on the Debtors’ website. Examples of these promotions include coupons and “buy one, get one” (BOGO) programs. During various times of the year (e.g., holiday season), the Debtors offer special store value

cards that can be redeemed within a short window of time (usually within 45 days or sooner), like coupons, towards the purchase of a specific item or for a specific minimum amount.

33. Additionally, the Debtors offer other Customer Programs, including for instance, an equipment exchange promotion, pursuant to which customers can redeem certain used equipment in exchange for credit towards the purchase of new equipment (e.g., golf clubs).

34. The Debtors believe that continuing to honor the Promotions along with all other Customer Programs is essential to maintaining their relationships with their customers. Accordingly, the Debtors seek the authority to continue to, in their discretion, administer and honor the Promotions and other Customer Programs in the ordinary course of business, consistent with past practices.

RELIEF REQUESTED

35. By this Motion, the Debtors seek entry of the Proposed Order (a) authorizing the Debtors, in their sole discretion, to maintain and administer all Customer Programs and to honor the Customer Obligations in the ordinary course of business, and (b) and approving the Bonding Agreement on an interim basis.

36. The Debtors also seek authority for banks and other financial institutions to receive, process, honor, and pay checks or electronic transfers used by the Debtors to pay the foregoing and to rely on the representations of such Debtors as to which checks are issued and authorized to be paid in accordance with this Motion.

37. Finally, the Debtors seek entry of the Supplemental Order, upon further notice and hearing, approving the Bonding Agreement on a final basis.

BASIS FOR RELIEF REQUESTED

A. Continuation of the Customer Programs is Warranted Pursuant to Section 363 of the Bankruptcy Code

38. Courts have authorized payment of prepetition obligations under section 363(b) of the Bankruptcy Code where a sound business purpose exists for doing so. *See, e.g., In re Ionosphere Clubs, Inc.*, 98 B.R. 174, 175 (Bankr. S.D.N.Y. 1989) (finding that a sound business justification existed to justify payment of prepetition wages); *see also Armstrong World Indus., Inc. v. James A. Phillips, Inc., (In re James A. Phillips, Inc.)*, 29 B.R. 391, 397 (S.D.N.Y. 1983) (relying on section 363 to authorize a contractor to pay prepetition claims of some suppliers who were potential lien claimants because payments were necessary for general contractors to release funds owed to the debtors). In addition, section 363(c) allows a debtor-in-possession to enter into transactions involving property of the estate in the ordinary course of business without an order of the court. *See, e.g., In re James A. Phillips*, 29 B.R. at 395 n.2 (“Insofar as transactions are actually in the ordinary course, they are authorized automatically by § 363(c)(1) and § 1107(a), and do not require Bankruptcy Court approval.”). Indeed, where retaining the loyalty and patronage of customers is critical to a successful reorganization, courts have not hesitated to grant the relief requested. In *In re Federated Dep’t Stores, Inc.*, 1990 Bankr. LEXIS 102 (Bankr. S.D. Ohio Jan. 15, 1990), the court authorized debtors to treat deposits or prepayments on goods and services “in the same manner as Debtors treated Deposits prior to the commencement of [the] cases.”

39. The relief requested herein is appropriate under each of the foregoing standards. The Debtors seek to continue their Customer Programs and to honor any Customer Obligations without interruption during the pendency of the Chapter 11 Cases. The Customer Programs are an integral part of the Debtors’ business and enable the Debtors to attract and retain customers.

If the Debtors do not honor their Customer Programs in the ordinary course of business, the Debtors would be significantly less competitive, which undoubtedly would lead to an impactful decline in business.

40. Moreover, the Debtors would risk isolating certain customer constituencies or, possibly, even encouraging them to initiate business relationships with the Debtors' competitors. The failure to honor the Customer Programs could erode the Debtors' hard-earned reputation and brand loyalty, which, in turn, could adversely affect the Debtors' ability to maximize the value of their estates. Accordingly, in the exercise of their sound business judgment, the Debtors believe that a sound business purpose exists for the relief requested herein because it will pay dividends with respect to the value of the Debtors' business, both in terms of profitability and the engendering of goodwill, especially at this critical time following the filing of the Chapter 11 Cases.

41. In addition, because the Debtors pay the Customer Obligations in the ordinary course of business, the Debtors submit that Court approval of the Debtors' payment of postpetition Customer Obligations is not necessary because of the authority granted to them by section 363(c) of the Bankruptcy Code. Indeed, most, if not all, of the Customer Programs are standard practice in the Debtors' industry. Nonetheless, out of an abundance of caution, the Debtors request that the Court grant the relief requested herein and enter an order authorizing them to pay the Customer Obligations in the ordinary course of the Debtors' business.

B. Continuation of the Customer Programs is Warranted Pursuant to Section 105(a) of the Bankruptcy Code and Under the Doctrine of Necessity

42. The Debtors' proposed maintenance of the Customer Programs and payment of the Customer Obligations should also be authorized pursuant to section 105(a) of the Bankruptcy Code and the "doctrine of necessity."

43. Section 105(a) of the Bankruptcy Code empowers the Court to “issue any order, process, or judgment that is necessary or appropriate to carry out the provisions of [the Bankruptcy Code].” 11 U.S.C. § 105(a). A bankruptcy court’s use of its equitable powers to “authorize the payment of pre-petition debt when such payment is needed to facilitate the rehabilitation of the debtor is not a novel concept.” *In re Ionosphere Clubs, Inc.*, 98 B.R. 174, 175 (Bankr. S.D.N.Y. 1989). “Under [section] 105, the court can permit pre-plan payment of a pre-petition obligation when essential to the continued operation of the debtor.” *In re NVR L.P.*, 147 B.R. 126, 127 (Bankr. E.D. Va. 1992) (citing *Ionosphere Clubs*, 98 B.R. at 177); *accord In re Just for Feet, Inc.*, 242 B.R. 821, 825 (D. Del. 1999) (“To invoke the necessity of payment doctrine, a debtor must show that payment of the prepetition claims is ‘critical to the debtor’s reorganization.’”) (quoting *In re Fin. News Network, Inc.*, 134 B.R. 732, 736 (Bankr. S.D.N.Y. 1991)); *see also In re Eagle-Picher Indus., Inc.*, 124 B.R. 1021, 1023 (Bankr. S.D. Ohio 1991) (“[T]o justify payment of a pre-petition unsecured creditor, a debtor must show that the payment is necessary to avert a serious threat to the Chapter 11 process.”)

44. In a long line of well-established cases, federal courts have consistently permitted postpetition payment of prepetition obligations where necessary to preserve or enhance the value of a debtor’s estate for the benefit of all creditors. *See, e.g., Miltenberger v. Logansport Ry.*, 106 U.S. 286, 311-12 (1882) (payment of pre-receivership claim prior to reorganization permitted to prevent “stoppage of [crucial] business relations”); *In re Lehigh & New Eng. Ry. Co.*, 657 F.2d 570, 581 (3d Cir. 1981) (holding that “if payment of a claim which arose prior to reorganization is essential to the continued operation of the . . . [business] during reorganization, payment may be authorized even if it is made out of [the] corpus”); *Dudley v. Mealey*, 147 F.2d 268 (2d Cir. 1945), *cert. denied*, 325 U.S. 873 (1945) (extending doctrine for payment of prepetition claims

beyond railroad reorganization cases); *Michigan Bureau of Workers' Disability Comp. v. Chateaugay Corp. (In re Chateaugay Corp.)*, 80 B.R. 279 (S.D.N.Y. 1987) (approving lower court order authorizing payment of prepetition wages, salaries, expenses, and benefits).

45. The “doctrine of necessity” functions in a chapter 11 case as a mechanism by which the bankruptcy court can exercise its equitable power to allow payment of critical prepetition claims not explicitly authorized by the Bankruptcy Code. See *In re Boston & Me. Corp.*, 634 F.2d 1359, 1382 (1st Cir. 1980) (recognizing the existence of a judicial power to authorize trustees to pay claims for goods and services that are indispensably necessary to the debtors’ continued operation); *In re Just for Feet, Inc.*, 242 B.R. 821, 824 (D. Del. 1999) (“[C]ourts have used their equitable power under section 105(a) of the Code to authorize the payment of pre-petition claims when such payment is deemed necessary to the survival of a debtor in a chapter 11 reorganization.”). The doctrine is frequently invoked early in a chapter 11 proceeding, particularly in connection with payment of prepetition claims. The court in *In re Structurelite Plastics Corp.*, 86 B.R. 922, 931 (Bankr. S.D. Ohio 1988), noted that the decisional authority that supports “the principle that a bankruptcy court may exercise its equity powers under section 105(a) to authorize payment of prepetition claims where such payment is necessary to ‘permit the greatest likelihood of survival of the debtor and payment of creditors in full or at least proportionately’” (quoting *In re Chateaugay Corp.*, 80 B.R. at 287). The court stated that “a per se rule proscribing the payment of prepetition indebtedness may well be too inflexible to permit the effectuation of the rehabilitative purposes of the Code.” *Id.* at 932. The rationale for the doctrine of necessity rule is consistent with the paramount goal of chapter 11: “facilitating the continued operation and rehabilitation of the debtor” *Ionosphere Clubs*, 98 B.R. at 176.

46. As stated above, maintenance of the Customer Programs and fulfillment of the Customer Obligations are critical to preserving the Debtors' relationships with their customers, who are essential to the Debtors' business. In turn, the ability of the Debtors to maximize profitability and the value of their business during the Chapter 11 Cases is crucial to the Debtors' ability to maximize value for the benefit of all stakeholders. Thus, this Court should exercise its equitable powers to grant the relief requested herein.

47. Moreover, if the Debtors do not honor the Customer Obligations, the Debtors would risk isolating certain customer constituencies or, possibly, even encouraging them to shop with the Debtors' competitors. The failure to honor the Customer Programs could erode the Debtors' hard-earned reputation and brand loyalty, which, in turn, could adversely affect the Debtors' ability to maximize value for the estates, including with respect to proceeds generated by the Store Closing Sales. Accordingly, in the exercise of their sound business judgment, the Debtors believe that a sound business purpose exists for the relief requested herein because it will pay dividends with respect to the Debtors' ability to maximize value for all interested parties, both in terms of profits and goodwill, especially at this critical time following the filing of these Chapter 11 Cases.

C. The Court Should Authorize Applicable Banks to Honor Checks and Electronic Fund Transfers in Accordance with the Motion

48. In connection with the foregoing, the Debtors respectfully request that the Court (a) authorize all applicable banks and other financial institutions (collectively, the "Banks") to receive, process, honor, and pay all checks and transfers issued by the Debtors in accordance with this Motion, without regard to whether any checks or transfers were issued before or after the Petition Date; (b) provide that all Banks may rely on the representations of the Debtors with respect to whether any check or transfer issued or made by the Debtors before the Petition Date

should be honored pursuant to this Motion (such banks and other financial institutions having no liability to any party for relying on such representations by the Debtors provided for herein); and (c) authorize the Debtors to issue replacement checks or transfers to the extent any checks or transfers that are issued and authorized to be paid in accordance with this Motion are dishonored or rejected by the Banks.

D. Immediate Relief is Justified

49. Pursuant to Bankruptcy Rule 6003, the Court may grant relief within 21 days after the filing of the petition regarding a motion to “use, sell, lease, or otherwise incur an obligation regarding property of the estate” only if such relief is necessary to avoid immediate and irreparable harm. Fed. R. Bankr. P. 6003(b). Immediate and irreparable harm exists where the absence of relief would impair a debtor’s ability to reorganize or threaten the debtor’s future as a going concern. *See In re Ames Dep’t Stores, Inc.*, 115 B.R. 34, 36 n.2 (Bankr. S.D.N.Y. 1990) (discussing the elements of “immediate and irreparable harm” in relation to Bankruptcy Rule 4001).

50. Moreover, Bankruptcy Rule 6003 authorizes the Court to grant the relief requested herein to avoid harm to the Debtors’ customers and other third parties. Unlike Bankruptcy Rule 4001, Bankruptcy Rule 6003 does not condition relief on imminent or threatened harm to the estate alone. Rather, Bankruptcy Rule 6003 speaks of “immediate and irreparable harm” generally. *Cf.* Fed. R. Bankr. P. 4001(b)(2), (c)(2) (referring to “irreparable harm to the estate”). Indeed, the “irreparable harm” standard is analogous to the traditional standards governing the issuance of preliminary injunctions. *See* 9 Alan N. Resnick & Henry J. Sommer, *Collier on Bankruptcy* ¶ 4001.07[b][3] (16th ed.) (discussing source of “irreparable harm” standard under Rule 4001(c)(2)). Courts will routinely consider third-party interests when

granting such relief. *See, e.g., Capital Ventures Int'l v. Argentina*, 443 F.3d 214, 223 n.7 (2d Cir. 2006); *see also Linnemeir v. Bd. of Trs. of Purdue Univ.*, 260 F.3d 757, 761 (7th Cir. 2001).

51. As described herein and in the First Day Declaration, the Debtors will suffer immediate and irreparable harm without Court authorization to continue the Customer Programs uninterrupted. Accordingly, Bankruptcy Rule 6003 has been satisfied and the relief requested herein should be granted.

REQUEST FOR WAIVER OF STAY

52. To implement the foregoing, the Debtors seek a waiver of any stay of the effectiveness of the order approving this Motion. Pursuant to Bankruptcy Rule 6004(h), any “order authorizing the use, sale, or lease of property other than cash collateral is stayed until the expiration of 14 days after entry of the order, unless the court orders otherwise.” Fed. R. Bankr. P. 6004(h). The Debtors submit that the relief requested in this Motion is necessary to avoid immediate and irreparable harm to the Debtors for the reasons set forth herein. Accordingly, the Debtors submit that ample cause exists to justify a waiver of the 14-day stay imposed by Bankruptcy Rule 6004(h).

53. To implement the foregoing immediately, the Debtors respectfully request a waiver of the notice requirements of Bankruptcy Rule 6004(a) to the extent they are deemed to apply.

DEBTORS' RESERVATION OF RIGHTS

54. Nothing contained herein is intended or should be construed as an admission of the validity of any claim against the Debtors; a waiver of the Debtors' rights to dispute any claim; or an approval, assumption, or rejection of any agreement, contract, or lease under section 365 of the Bankruptcy Code. The Debtors expressly reserve their rights to contest any invoice or

claim on account of any Customer Obligation. Likewise, if this Court grants the relief sought herein, any payment made pursuant to the Court's order is not intended and should not be construed as an admission as to the validity of any claim or a waiver of the Debtors' rights to dispute such claim subsequently.

NOTICE

55. The Debtors have provided notice of this Motion to: (a) the Office of the United States Trustee for the District of Delaware; (b) holders of the 50 largest unsecured claims on a consolidated basis against the Debtors; (c) Riemer & Braunstein LLP (attn: Donald Rothman) as counsel for (i) Bank of America, N.A., in its capacity as Administrative Agent and Collateral Agent under the Second Amended and Restated Credit Agreement, dated as of May 17, 2012, and (ii) certain DIP Lenders under the Debtors' proposed postpetition financing facility; (d) Brown Rudnick LLP (attn: Robert Stark and Bennett Silverberg) as counsel for (i) Wilmington Savings Fund Society, FSB as Administrative Agent and Collateral Agent under the Amended and Restated Credit Agreement, dated as of May 3, 2006 and amended and restated as of November 16, 2010 and (ii) certain Term Lenders under the Amended and Restated Credit Agreement, dated as of May 3, 2006 and amended and restated as of November 16, 2010; (e) Choate, Hall & Stewart LLP (attn: Kevin Simard) as counsel for (i) Wells Fargo Bank, National Association, in its capacity as FILO Agent under the Second Amendment to Second Amended and Restated Credit Agreement, dated as of November 3, 2015, and (ii) certain DIP Lenders under the Debtors' proposed postpetition financing facility; (f) O'Melveny & Meyers LLP (attn: John Rapisardi) as counsel for certain holders of 11.5% Senior Subordinated Notes Due February 19, 2018 under the Securities Purchase Agreement, dated as of May 3, 2006; (g) all holders of 11.5% Senior Subordinated Notes Due February 19, 2018 under the Securities

Purchase Agreement, dated as of May 3, 2006; (h) the Banks; and (i) all parties that have filed a notice of appearance and request for service of papers pursuant to Bankruptcy Rule 2002. Notice of this Motion and any order entered hereon will be served in accordance with Local Rule 9013-1(m). In light of the nature of the relief requested herein, the Debtors submit that no other or further notice is necessary.

[Remainder of Page Intentionally Left Blank]

WHEREFORE, the Debtors respectfully request that the Court grant the relief requested herein and such other and further relief as the Court may deem just and proper.

Dated: March 2, 2016
Wilmington, Delaware

/s/ Andrew L. Magaziner
Michael R. Nestor (No. 3526)
Kenneth J. Enos (No. 4544)
Andrew L. Magaziner (No. 5426)
YOUNG CONAWAY STARGATT & TAYLOR, LLP
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amagaziner@ycst.com

- and -

Robert A. Klyman (CA No. 142723)
Matthew J. Williams (NY No. 3019106)
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*Proposed Counsel to the Debtors and
Debtors in Possession*

EXHIBIT A

PROPOSED ORDER

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

In re:

SPORTS AUTHORITY HOLDINGS, INC., *et al.*,¹

Debtors.

Chapter 11

Case No. 16-____ (____)

(Jointly Administered)

Ref. Docket No. ____

**ORDER (A) AUTHORIZING DEBTORS TO HONOR AND CONTINUE
CERTAIN CUSTOMER PROGRAMS AND CUSTOMER OBLIGATIONS IN
THE ORDINARY COURSE OF BUSINESS, AND (B) APPROVING THE
BONDING AGREEMENT ON AN INTERIM BASIS**

Upon the *Debtors' Motion for Entry of (A) an Order (I) Authorizing Debtors to Honor and Continue Certain Customer Programs and Customer Obligations in the Ordinary Course of Business, and (II) Approving Agreement by and Between Debtors and Zurich American Insurance Company Relating to Prepetition Bonds, on an Interim Basis; and (B) a Supplemental Order Approving Such Bonding Agreement on a Final Basis and Granting Related Relief* (the "Motion")² filed by the above-captioned debtors and debtors in possession (collectively, the "Debtors"); and the Court having reviewed the Motion; and the Court having found that it has jurisdiction over this matter pursuant to 28 U.S.C. §§ 1334(b) and 157, and the *Amended Standing Order of Reference* from the United States District Court for the District of Delaware dated as of February 29, 2012; the Court having found that venue of these cases and the Motion in this district is proper pursuant to 28 U.S.C. §§ 1408 and 1409; and the Court having found that

¹ The Debtors and the last four digits of their respective taxpayer identification numbers are as follows: Sports Authority Holdings, Inc. (9008); Slap Shot Holdings, Corp. (8209); The Sports Authority, Inc. (2802); TSA Stores, Inc. (1120); TSA Gift Card, Inc. (1918); TSA Ponce, Inc. (4817); and TSA Caribe, Inc. (5664). The headquarters for the above-captioned Debtors is located at 1050 West Hampden Avenue, Englewood, Colorado 80110.

² All capitalized terms used and not defined herein shall have the meanings ascribed to them in the Motion.

this matter is a core proceeding pursuant to 28 U.S.C. § 157(b); and the Court having determined that it may enter a final order consistent with Article III of the United States Constitution; and it appearing that notice of the Motion has been given as set forth in the Motion and that such notice is adequate and no other or further notice need be given; and the Court having considered the First Day Declaration; and the Court having determined that the legal and factual basis set forth in the Motion establish just cause for the relief granted herein; and the Court having determined that the relief sought in the Motion is in the best interests of the Debtors and their estates; and after due deliberation and sufficient cause appearing therefor,

IT IS HEREBY ORDERED THAT:

1. The Motion is GRANTED as set forth herein.
2. The Debtors are authorized, but not directed, to maintain and administer, in the ordinary course of business and in a manner consistent with past practices, the Customer Programs and to honor the Customer Obligations thereunder in the ordinary course of business as set forth in the Motion.
3. Specifically, the Debtors are authorized, but not directed, (a) to continue to issue and honor the Reward Certificates, the Gift Cards, and the Complimentary Certificates; (b) to continue to honor the Deposits, Refunds, Warranties, the Bike Service Plan, and the Assembly and Delivery Program; (c) to pay the CRM Fees, the BAMS Fees, the Credit Card Obligations, the Warranty Fees, and the Assembly/Delivery Commissions; and (d) to continue to honor the Price Match Policy and all other promotions.
4. To the extent that the Debtors issue gift cards postpetition, the Debtors shall implement a procedure that will enable them to distinguish between gift cards that were

purchased and issued before the Petition Date and those that were purchased and issued after the Petition Date.

5. Each of the Banks is authorized to honor checks presented for payment and all fund transfer requests made by the Debtors, to the extent that sufficient funds are on deposit in the applicable accounts, in accordance with this Order and any other order of this Court.

6. The Debtors are authorized to issue postpetition checks, or to effect postpetition fund transfer requests, in replacement of any checks or fund transfer requests in connection with the Customer Programs and the Customer Obligations that are dishonored or rejected.

7. The Debtors, their officers, employees, and agents are authorized to take or refrain from taking such acts as are necessary and appropriate to implement and effectuate the relief granted herein.

8. Notwithstanding the relief granted in this Order and any actions taken pursuant to such relief, nothing in this Order shall be deemed (a) an admission as to the validity or priority of any claim against the Debtors or their estates; (b) a waiver of the Debtors' right to dispute any claim on any grounds; (c) a promise or requirement to pay any claim; (d) an implication or admission that any particular claim is of a type specified or defined in this Order or the Motion; (e) a request or authorization to assume any agreement, contract, or lease pursuant to section 365 of the Bankruptcy Code; or (f) a waiver of the Debtors' rights under the Bankruptcy Code or any other applicable law.

9. The Bonding Agreement, a copy of which was attached as Exhibit 1 to the Supplemental Order, attached to the Motion as Exhibit B thereto, is approved on an interim basis. A final hearing solely with respect to approval of the Bonding Agreement and entry of the Supplemental Order shall be held on March ____, 2016 at ____ (ET). Objections to the entry of

the Supplemental Order shall be filed and served on the Debtors' counsel and Zurich's counsel, Karen Lee Turner, Eckert Seamans, 222 Delaware Avenue, 7th Floor, Wilmington, Delaware 19801, by March _____, 2016 at 4:00 p.m. (ET).

10. The requirements set forth in Bankruptcy Rule 6003(b) are satisfied.

11. Notwithstanding Bankruptcy Rule 6004(h), the terms and conditions of this Order shall be immediately effective and enforceable upon its entry.

12. This Court shall retain jurisdiction over any matters arising from or related to the implementation, interpretation, and enforcement of this Order.

Dated: March ____, 2016
Wilmington, Delaware

UNITED STATES BANKRUPTCY JUDGE

EXHIBIT B

SUPPLEMENTAL ORDER

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

In re:

SPORTS AUTHORITY HOLDINGS, INC., *et al.*,¹

Debtors.

Chapter 11

Case No. 16-____ (____)

(Jointly Administered)

Ref. Docket Nos. ____ & ____

**SUPPLEMENTAL ORDER APPROVING THE BONDING
AGREEMENT AND THE PROVISIONS THEREIN**

Upon the *Debtors' Motion for Entry of (A) an Order (I) Authorizing Debtors to Honor and Continue Certain Customer Programs and Customer Obligations in the Ordinary Course of Business, and (II) Approving Agreement by and Between Debtors and Zurich American Insurance Company Relating to Prepetition Bonds, on an Interim Basis; and (B) a Supplemental Order Approving Such Bonding Agreement on a Final Basis and Granting Related Relief* (the "Motion")² filed by the above-captioned debtors and debtors in possession (collectively, the "Debtors"); and the Court having reviewed the Motion; and the Court having found that it has jurisdiction over this matter pursuant to 28 U.S.C. §§ 1334(b) and 157, and the *Amended Standing Order of Reference* from the United States District Court for the District of Delaware dated as of February 29, 2012; the Court having found that venue of these cases and the Motion in this district is proper pursuant to 28 U.S.C. §§ 1408 and 1409; and the Court having found that this matter is a core proceeding pursuant to 28 U.S.C. § 157(b); and the Court having determined

¹ The Debtors and the last four digits of their respective taxpayer identification numbers are as follows: Sports Authority Holdings, Inc. (9008); Slap Shot Holdings, Corp. (8209); The Sports Authority, Inc. (2802); TSA Stores, Inc. (1120); TSA Gift Card, Inc. (1918); TSA Ponce, Inc. (4817); and TSA Caribe, Inc. (5664). The headquarters for the above-captioned Debtors is located at 1050 West Hampden Avenue, Englewood, Colorado 80110.

² All capitalized terms used and not defined herein shall have the meanings ascribed to them in the Motion.

that it may enter a final order consistent with Article III of the United States Constitution; and it appearing that notice of the Motion has been given as set forth in the Motion and that such notice is adequate and no other or further notice need be given; and the Court having considered the First Day Declaration; and the Court having determined that the legal and factual basis set forth in the Motion establish just cause for the relief granted herein; and the Court having determined that the relief sought in the Motion is in the best interests of the Debtors and their estates; and after due deliberation and sufficient cause appearing therefor,

IT IS HEREBY ORDERED THAT:

1. The Motion is GRANTED as set forth herein.
2. The Bonding Agreement, a copy of which is attached hereto as Exhibit 1, and the provisions therein are approved on a final basis.
3. The collateral received by Zurich as consideration for extending new bonding capacity, as described in and pursuant to the Bonding Agreement, allowed the Debtors' business to go forward uninterrupted and not shall not be deemed to have been a preferential transfer under section 547 of the Bankruptcy Code. This finding by the Court with respect to the absence of a preference as related to the Bonding Agreement shall be binding on the Debtors, their estates, successors, the Official Committee of Unsecured Creditors, and any trustee (including a chapter 7 trustee) subsequently appointed in these Chapter 11 Cases.
4. The types of bonds issued by Zurich are contracts to extend financial accommodations within the meaning of section 365(c)(2) of the Bankruptcy Code. Zurich is hereby deemed to have waived its right to terminate coverage as to postpetition obligations that are bonded. To the extent that Zurich pays a postpetition obligation on a bond, Zurich shall be entitled to an administrative expense priority claim under section 503 of the Bankruptcy Code.

5. Notwithstanding the relief granted in this Order and any actions taken pursuant to such relief, nothing in this Order shall be deemed (a) an admission as to the validity or priority of any claim against the Debtors or their estates; (b) a waiver of the Debtors' right to dispute any claim on any grounds; (c) a promise or requirement to pay any claim; (d) an implication or admission that any particular claim is of a type specified or defined in this Order or the Motion; (e) a request or authorization to assume any agreement, contract, or lease pursuant to section 365 of the Bankruptcy Code; or (f) a waiver of the Debtors' rights under the Bankruptcy Code or any other applicable law.

6. This Court shall retain jurisdiction over any matters arising from or related to the implementation, interpretation, and enforcement of this Order.

Dated: _____, 2016
Wilmington, Delaware

UNITED STATES BANKRUPTCY JUDGE

EXHIBIT 1

BONDING AGREEMENT

(see attached)

**AMENDED AND RESTATED AGREEMENT TO PROVIDE SURETY
CAPACITY AS A FINANCIAL ACCOMMODATION**

This Agreement (the “Amended Agreement”) is made as of February 18, 2016 by and among Zurich American Insurance Company on its own behalf and on behalf of certain of its affiliates, including without limitation, Fidelity & Deposit Company of Maryland (collectively “Zurich”), TSA Stores, Inc. (“Sports Authority”), a Delaware Corporation, and Sports Authority Holdings, Inc., Slap Shot Holdings, Corp., and The Sports Authority, Inc. (collectively with Sports Authority, the “Indemnitors”).

WHEREAS, Zurich has made available to Sports Authority, The Sports Authority, Inc. and other affiliates certain bonding capacity under and pursuant to a General Agreement of Indemnity dated November 14, 2006 (the “Bonding Program”); and

WHEREAS, in January, 2016 Zurich issued Notices of Cancellation for the bonds issued pursuant to the Bonding Program, with cancellation dates mostly on or after February 22, 2016; and

WHEREAS, the Indemnitors have requested that Zurich provide replacement bonds for the bonds that it cancelled and new bonds to replace certain other bonds cancelled by an unrelated surety; and

WHEREAS, Zurich has indicated its willingness to do so on the terms and conditions set forth herein; and

WHEREAS, Zurich and the Indemnitors (together, the “Parties”) previously executed that certain Agreement to Provide Surety Capacity as a Financial Accommodation, dated February 18, 2016 (the “Original Agreement”); and

WHEREAS, the Parties wish to amend and restate the Original Agreement as set forth herein.

NOW THEREFORE, be it agreed and it hereby is agreed as follows:

1. The Original Agreement is hereby superseded in its entirety by this Amended Agreement.

2. Issuance of new bonds. Because of time constraints it is physically impossible to issue new bonds before the pending expiration dates. Therefore Zurich agrees that as to the bonds with respect to which it has issued Notices of Cancellation, it will, upon receipt of the collateral described herein, rescind the notices of cancellation. For any bond where the cancellation date has occurred it will rescind those cancellations but will issue a replacement bond if the obligee so requests.

3. Upon receipt of the collateral described herein, Zurich will make available new bonding capacity in an amount not to exceed \$500,000.00 to support additional license, utility and custom bonds (the "New Bonds") with a sub-limit of no more than \$120,000.00 for utility and custom bonds.

4. In consideration of the total bonding capacity of approximately \$5,000,000.00 under the Bonding Program and as set forth in Paragraphs 1 and 2 above, the Indemnitors will cause a Letter of Credit in form and substance satisfactory to Zurich to be delivered by a financial institution satisfactory to Zurich in the amount of \$2,800,000.00. No reinstatements or issuance of New Bonds will occur until the Letter of Credit is delivered.

5. In connection with the Original Agreement, the Indemnitors executed the new General Agreement of Indemnity attached hereto as Exhibit A.

6. In the event Sports Authority and/or any of its affiliates (collectively, the "Debtors") files a voluntary petition under title 11 of the United States Code (a "Chapter 11 Proceeding"), the Debtor(s) agree to take commercially reasonable steps to procure the following

relief from the bankruptcy court with jurisdiction over the Chapter 11 Proceeding, in connection with the commencement of a Chapter 11 Proceeding; such relief a “First Day Order” if obtained at the outset of the Chapter 11 Proceeding, and a “Second Day Order,” if obtained twenty-one days or later following the commencement of the Chapter 11 Proceeding:

- (a) A First Day Order permitting the payment of all licensing fees or other amounts due to state authorities, as they come due, which have been bonded by Zurich.
- (b) A First Day Order authorizing payment of all prepetition customs duties.
- (c) A First Day Order approving this Amended Agreement, on an interim basis.
- (d) A Second Day Order finding, on a final basis, that the collateral received by Zurich is not a preference and specifically approving the provisions of Paragraph 7 below.

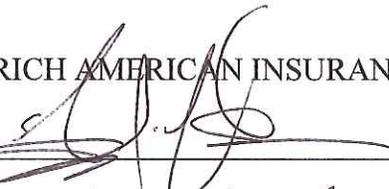
7. The Second Day Order as described in Paragraph 6(d) above shall also acknowledge that the types of bonds issued by Zurich are contracts to extend financial accommodations within the meaning of 11 U.S.C. § 365(c)(2); provide that Zurich upon court approval is waiving its right to terminate coverage as to post-petition obligations bonded; and provide that to the extent Zurich pays a post-petition obligation on a bond it, will be entitled to an administrative expense priority claim under 11 U.S.C. § 503.

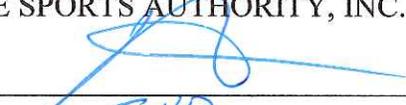
8. Indemnitors specifically acknowledge that Zurich had the legal right to cancel the bonds; that the decision by Zurich to reinstate the bonds by rescinding the cancellation and the decision to extend additional bonding capacity is new value and does not constitute an obligation substituted for an existing obligation; and that without Zurich’s willingness to reinstate and issue

new bonds, the Indemnitors would have needed to post approximately \$5,000,000.00 in cash to substitute for the bonds.

9. This Amended Agreement, the General Agreement of Indemnity and any bonds issued by Zurich for the benefit of Indemnitors, constitute the full contract and agreements between the Parties and there are no oral understandings that modify the same.

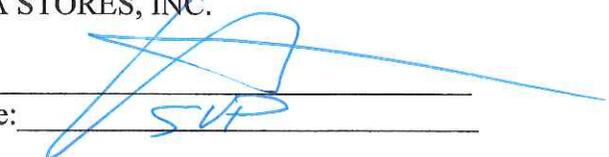
Intending to be legally bound the Parties hereto hereunto set their hands and seals as of the date first above written.

ZURICH AMERICAN INSURANCE COMPANY
By: 
Title: VP National Accounts C

THE SPORTS AUTHORITY, INC.
By: 
Title: SVP

SPORTS AUTHORITY HOLDINGS, INC.
By: 
Title: SVP

SLAP SHOT HOLDINGS CORP.
By: 
Title: SVP

TSA STORES, INC.
By: 
Title: SVP