

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

In re:	)	Chapter 11
LOS ANGELES DODGERS LLC, <i>et al.</i> , <sup>1</sup>	)	Case No. 11- <u>12010</u> (____)
Debtors.	)	Joint Administration Requested
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**LOS ANGELES DODGERS LLC 'S MOTION FOR ORDER AUTHORIZING  
PAYMENT OF CERTAIN PREPETITION TAXES  
AND OTHER GOVERNMENT ASSESSMENTS PURSUANT TO  
SECTIONS 105(a), 363(b), 507(a) AND 541 OF THE BANKRUPTCY CODE**

Los Angeles Dodgers LLC, a debtor and debtor in possession in these chapter 11 cases (“LAD”), hereby requests by this motion (the “Motion”) entry of an order, substantially in the form of an order attached hereto as Exhibit A, pursuant to sections 105(a), 363(b), 507(a) and 541 of title 11 of the United States Code (the “Bankruptcy Code”) and Rule 6003 of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”), authorizing LAD to pay prepetition amounts owing in respect of certain taxes. In support of this Motion, LAD relies upon and incorporates by reference the *Declaration of Jeffrey J. Ingram in Support of Debtors’ Chapter 11 Petitions and First Day Motions* (the “Ingram Declaration”), which was filed with the Court concurrently herewith. In further support of the Motion, LAD, by and through its undersigned proposed co-counsel, respectfully represents as follows:

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<sup>1</sup> The Debtors, together with the last four digits of each Debtor’s federal tax identification number are: Los Angeles Dodgers LLC (3133); Los Angeles Dodgers Holding Company LLC (4851); LA Holdco LLC (2567); LA Real Estate Holding Company LLC (4850); and LA Real Estate LLC (3029). The location of the Debtors’ corporate headquarters and the service address for the Debtors is: 1000 Elysian Park Avenue, Los Angeles, California 90012.

## JURISDICTION AND VENUE

1. This Court has jurisdiction to consider the Motion pursuant to 28 U.S.C. §§ 157 and 1334. This is a core proceeding pursuant to 28 U.S.C. § 157(b). Venue of LAD's chapter 11 case and this Motion in this District is proper pursuant to 28 U.S.C. §§ 1408 and 1409. The statutory predicates for the relief requested herein are sections 105(a), 363(b), 507(a) and 541 of the Bankruptcy Code.

2. No previous request for the relief requested herein has been made to this Court or any other court.

## BACKGROUND

3. On June 26, 2011 (the "Commencement Date"), LAD filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code.

4. LAD intends to continue in the possession of its properties and the management of its businesses as a debtor in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code.

5. As of the date hereof, no trustee or examiner has been appointed in this chapter 11 case, and no committees have been appointed or designated.

### **A. Ownership Structure**

6. LAD operates a professional major league baseball club located in the Los Angeles metropolitan area. The club's membership in Major League Baseball ("MLB") is described in the Major League Constitution (the "Major League Constitution"), as assumed by LAD pursuant to an Assumption Agreement, dated as of February 13, 2004.<sup>2</sup>

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<sup>2</sup> None of the other Debtors are a party to the Major League Constitution nor do they have any role in the operation of the baseball club.

7. LAD is a Delaware limited liability company, whose sole member is debtor Los Angeles Dodgers Holding Company LLC (“LAD Holding”), also a Delaware limited liability company. LAD Holding’s sole member is debtor LA Holdco LLC (“HoldCo”), also a Delaware limited liability company. Both LAD Holding and HoldCo are holding companies with no operating assets. As described further below, HoldCo is the sole member of debtor LA Real Estate Holding Company LLC (“RealCo Holding”), a Delaware limited liability company. RealCo Holding is the sole member of LA Real Estate LLC (“RealCo”), a Delaware limited liability company that owns Dodger Stadium and the real estate upon which it is located, as well as Dodger Tickets LLC (“Tickets”), a Delaware limited liability company that owns the right to receive future ticket revenue from Dodger games at Dodger Stadium. HoldCo is a wholly owned subsidiary of LA Partners LLC (“LA Partners”), which in turn is a wholly owned subsidiary of The McCourt-Broderick Limited Partnership (“TMBLP”), a Massachusetts limited partnership. TMBLP is the sole member of Blue Landco LLC (“Blue Land”), a Delaware limited liability company that owns the parking lots surrounding Dodgers Stadium. Frank H. McCourt, Jr. (“Mr. McCourt”) is the sole limited partner of TMBLP and owns a 90% interest, with the remaining 10% interest owned by TMBLP’s sole general partner, The McCourt Company, Inc., a Delaware corporation. None of the parents of HoldCo are debtors in these chapter 11 cases.

**B. Major League Baseball**

8. The Office of the Baseball Commissioner (the “Commissioner’s Office”) is an unincorporated association also doing business as Major League Baseball (“MLB”) that has as its members thirty baseball clubs. Those clubs are divided into two leagues, the American League and the National League (the Dodgers are in the West division of the National League).

The commissioner of baseball, Allan H. “Bud” Selig (the “Commissioner”), serves as the chief executive officer of Major League Baseball.

**C. The Los Angeles Dodgers Baseball Club**

9. The Los Angeles Dodgers have a storied history that dates back to the late 1800’s. Originally located in Brooklyn, New York, the Dodgers moved to Los Angeles in 1958. Before doing so, the Dodgers broke baseball’s color barrier by signing Jackie Robinson in 1945. In 1962, the Los Angeles Dodgers moved into their new home at Dodger Stadium, where they continue to play. The Dodgers have won six World Series championships (five in Los Angeles), the most recent of which occurred in 1988.

**D. The 2004 Acquisition**

10. The Dodgers were acquired by Fox Entertainment Group, Inc. (“Fox Group”) in 1998. After creating a Regional Sports Network (“RSN”) associated with the Dodgers, Fox Group made the decision in 2003 to sell the team and the real estate where the stadium and parking lots are located.

11. Following a sale process, the winning bidder for the assets was Mr. McCourt, who in early 2004 became the owner of the Los Angeles Dodgers, as well as the other assets owned by Fox Group (the “Acquisition”). The purchase by Mr. McCourt, which was unanimously approved by Major League Baseball and supported by the Commissioner, was consummated under two separate agreements. Pursuant to one agreement, Mr. McCourt paid \$330 million to purchase the Los Angeles Dodgers. Under a separate agreement, Mr. McCourt paid \$100 million to acquire the real estate consisting of Dodger Stadium, the land under the stadium, and about 250 acres of land surrounding the stadium that includes the parking lots.

12. Under the terms of the Acquisition, the land purchased by Mr. McCourt, including Dodger Stadium and the surrounding parking lots, became an asset of RealCo. Pursuant to a lease agreement between RealCo and LAD executed in 2004, RealCo agreed to lease both the land and the stadium, along with granting associated rights, for a term of 38 years.

13. A portion of the purchase price for the Acquisition (\$125 million) was financed by Fox Group pursuant to a two year loan made to an affiliate of Mr. McCourt. To secure repayment, Mr. McCourt provided, as collateral, 24 acres of undeveloped real estate in the Boston seaport district. The contribution of that property was, at the time of the Acquisition, treated as an equity contribution to fund a large portion of the aggregate purchase price paid under the Acquisition. Two years after the Acquisition, Mr. McCourt transferred that valuable real property to Fox Group in satisfaction of the \$125 million repayment obligation.

#### **E. Subsequent Financing Transactions**

14. In May 2005, HoldCo reorganized its subsidiary operations and formed Tickets, which became a subsidiary of RealCo. RealCo and LAD amended their lease agreement to provide for RealCo to lease Dodger Stadium and the underlying land to Tickets, which then subleased the stadium to LAD with the notable exception of the general admission seats. Those seats are not subleased, and tickets for these seats are sold by Tickets, thereby enabling Tickets to earn revenue from Dodger home games.

15. As part of the reorganization, Tickets entered into two securitization financing transactions. The first, in 2005, generated \$250 million that were used to permanently refinance debt incurred under the Acquisition on favorable terms. The second transaction, in 2007, generated \$140 million, which was primarily used to pay the cost of upgrading Dodger Stadium and to reimburse LAD for costs that it had incurred to upgrade the stadium. The improvements

made included (a) replacement of all of the seats in the stadium, (b) a new playing surface, (c) drainage improvements, (d) expansion of concession space, (e) reconfiguration of parking lots to improve traffic flow, (f) expansion of the Dugout Club, (g) renovation of the Stadium Club, (h) creation of two new Baseline Box Clubs, (i) significant upgrades to the video in-game experience, and (j) completion of numerous structural and seismic upgrades. Both financing transactions involved the securitization of the income stream from future ticket sales.

Importantly, the Commissioner and Major League Baseball approved the formation of Tickets as a wholly owned subsidiary of HoldCo, as well as the securitization of the ticket income stream.

16. In 2006, RealCo transferred the parking lots and other land surrounding Dodger Stadium (but not Dodger Stadium itself or the land on which the stadium is located) to Blue Land.<sup>3</sup>

#### **F. Improved On Field and Off Field Performance Since 2004**

17. Under Mr. McCourt's stewardship, the 2004 Dodgers won their first playoff game in sixteen years, advanced to back-to-back National League Championship Series (2008 and 2009) for the first time in over 30 years, and appeared in the post-season four times in a six year period for the first time ever since moving to Los Angeles in 1958. During this time period, benefitting from the team's success and the renovation of the stadium, the Dodgers enjoyed consistently high attendance for home games. During the 2009 season, the Dodgers drew 3.8 million fans, the highest attendance in Major League Baseball.

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<sup>3</sup> To facilitate that transaction, the boundary lines of the existing parcels were changed in order to enable the stadium and the land under the stadium to be a single parcel that continued to serve as collateral for the financing provided to Tickets. The surrounding land was released from that mortgage. Blue Land borrowed \$60 million, secured by the surrounding property, of which \$10 million was contributed to LAD. Subsequently, Blue Land borrowed an additional \$10 million to purchase an additional parcel of land, which is owned by Blue Land's wholly owned subsidiary, McCourt College Street LLC. Blue Land currently owes \$67 million in debt which is scheduled to mature on June 30, 2011.

18. The Dodgers also recently opened a new state-of-the-art spring training facility in Arizona – a 13,000 person stadium that it shares with the Chicago White Sox. LAD and Chicago White Sox Ltd. are equal members in Camelback Spring Training LLC, a Delaware limited liability company, which operates the facility.

**G. Sources of Revenue**

19. LAD's primary sources of revenues from the operation of the baseball club consist of the following:

Entertainment Fee. LAD is paid an entertainment fee by RealCo in connection with providing entertainment at Dodger home games. The entertainment fee is paid from proceeds of ticket sales by Tickets.

Broadcasting Rights. LAD receives payments for the licensing of rights to broadcast their games on television (both over the air and by cable television) and on the radio. Currently, LAD is party to a telecast agreement (the "Fox Telecast Agreement") with Fox Sports Net West 2, LLC ("Fox Sports 2"), under which Fox Sports 2 has been granted exclusive cable television rights until the end of the 2013 baseball season. LAD has separate agreements to broadcast games on television and radio.

Sponsorship and Advertising. A substantial portion of revenues is derived from sponsorship and advertising. LAD's major corporate sponsors include Best Buy, Anheuser-Busch, Coca-Cola, Bank of America, United Airlines, and Time Warner.

Concession Income. LAD receives substantial revenue from concessionaires who are authorized to sell food/beverages and souvenirs, both at Dodger Stadium and online.

Major League Central Fund. LAD also is entitled to receive payments indirectly from the Major League central fund ("MLCF"), which generates income primarily through national

telecasting and radio broadcasting revenue. LAD's interest in that revenue is owned by Dodgers Club Trust, a Delaware statutory trust that is 90% owned by LAD and 10% owned by Major League Baseball. The Dodgers Club Trust is party to various credit agreements, evidencing loans secured by the monies payable by MLCF to Dodgers Club Trust and by Dodgers Club Trust to LAD. The outstanding balance of the loans to the Dodgers Club Trust is about \$55 million. Distributions from MLCF are subject to approval of the Commissioner as to timing and amount.

Other Significant Revenue Sources. LAD also receives revenue from premium seating, parking, national licensing, spring training, and in some years, sales of postseason tickets.

20. LAD is required to contribute a substantial amount of its revenue to Major League Baseball for the purpose of revenue sharing with other baseball clubs that receive less revenue than LAD. For example, in 2009, LAD paid about 12.5% of its revenue to other baseball clubs.

21. For RealCo, the source of its revenue, which comes from Tickets, are sublease payments by LAD and ticket sales by Tickets.

#### **H. Events Leading to LAD's Chapter 11 Filing**

22. In 2010, LAD experienced cash flow difficulties. During 2010, LAD lost money as a result of declines in attendance, failed to reach the playoffs, and paid substantial deferred compensation totaling about \$22 million. LAD was also required to contribute a large portion of its revenue to revenue sharing. In 2010, this amounted to approximately 10% of total revenue.

23. To ensure the availability of sufficient capital to pay expenses as they become due, LAD entered into an agreement with Fox Sports in 2010 to obtain a \$25 million advance of the payment due under the Fox Telecast Agreement (described below) for the 2011 season. Subsequently, in early 2011, Mr. McCourt obtained a \$30 million personal loan from Fox Sports,

of which \$23.5 million has been contributed by Mr. McCourt over the past several months to fund LAD's payroll and other expenses.

24. To date, LAD has remained current in its obligations. However, LAD is now on the verge of running out of cash, the result of a perfect storm of events. First, under its financing agreements, Tickets is required to reserve a large portion of its revenues this year because the Collective Bargaining Agreement (the "CBA") with the MLB Players Association is scheduled to expire, which occurs about every five years. So far, Tickets has reserved about \$17 million and expects to reserve as much as an additional \$6 million. Assuming the CBA is extended, that reserved cash will become available to contribute to LAD's operations, but in the meantime, that cash is unavailable.

25. Second, LAD, which has already paid \$10 million in deferred compensation this year, is required to make another payment of \$10.5 million in deferred compensation on June 30, 2011. Making matters even more difficult, on July 1, 2011, LAD is, under the terms of the CBA, required to reserve more than \$18 million to prefund deferred compensation that is not payable to the players at issue until 2012.

26. Third, LAD has experienced a significant decline in attendance this year. This decline may be attributable in part to the Commissioner's appointment of a "monitor" in April 2011, which generated adverse publicity. Despite the Commissioner's questionable authority under the Major League Constitution to appoint a monitor and require the monitor's approval of expenditures, LAD has, through the Commencement Date, voluntarily cooperated with the monitor.

27. For more than a year, LAD has been actively pursuing alternatives to generate sufficient cash to address the liquidity timing challenges described above. In particular, LAD

has focused on monetizing the exclusive cable television rights for periods after the expiration of the existing Fox Telecast Agreement. The value of those rights is enormous, and when it is able to unlock that value, LAD will be in a position to satisfy all of its existing claims, pay debts as they become due, and generate a substantial return for its equity holder.

28. Section 2(c) of the Fox Telecast Agreement contains a “Right of First Negotiation” provision, which states that “[f]rom October 15, 2012 through November 30, 2012 (the “Exclusive Negotiating Period”), [LAD] and FOX Sports shall negotiate confidentially, exclusively and in good faith with respect to the terms and conditions on which FOX Sports may retain exclusive Cable Television Rights to Exhibit future Games for a subsequent term of at least five years beginning with the 2014 MLB season.” The provision further states that LAD “shall not solicit offers from or negotiate with any person or entity (other than Fox Sports) for Cable Television Rights with respect to any future Games at any time preceding November 30, 2012.”

29. In an effort to monetize the value of the right to telecast future games on cable without jeopardizing its rights under the existing Fox Telecast Agreement, LAD and its parent companies, led by Mr. McCourt, entered into negotiations with Fox Sports. The transaction, as proposed (the “Proposed Fox Transaction”), contemplated an agreement under which Fox Sports would retain the exclusive cable television rights for a period of 17 years, at rates in excess of the rates currently paid under the Fox Telecast Agreement. Using what the Commissioner has acknowledged are terms that share similar features to transactions by certain other clubs in Major League Baseball, the Proposed Fox Transaction provided that a current Fox Sports subsidiary (“Prime Ticket”) will thereafter be owned in part by TMBLP through a wholly owned subsidiary, LA Media LLC (“LA Media”).

30. To address the pressing liquidity issues, the Proposed Fox Transaction provided for a \$385 million loan by Fox Sports or one of its affiliates to Prime Ticket, which will be distributed to LA Media. Mr. McCourt agreed not only to guarantee collection of that loan, but also to personally guarantee repayment of the loan in the event the new agreement with Fox Sports was terminated for reasons other than a material breach by Fox Sports. As contemplated, a majority of those proceeds were to be used to pay obligations of LAD and provide sufficient working capital, while a substantial portion was to be used to repay outstanding obligations of subsidiaries of TMBLP, including the \$67 million owed by Blue Land on its loan, which is scheduled to mature at the end of this month.

31. The ability of LAD and its parent companies to reach a final agreement with Fox Sports has, however, been complicated by ongoing divorce proceedings between Mr. McCourt and his former wife, Jamie McCourt (“Ms. McCourt”). In those divorce proceedings, Ms. McCourt asserts an ownership interest in the assets of TMBLP and its subsidiaries, including those of LAD, Blue Land, RealCo, and Tickets. She has also sought an order in those proceedings to compel the sale of the assets of TMBLP. Although Mr. McCourt disputes that Ms. McCourt has any ownership interest in those assets, Fox Sports was unwilling to enter into the Proposed Fox Transaction with LAD absent the consent of Ms. McCourt.

32. Throughout the process of the negotiations with Fox Sports, LAD kept the Commissioner and his senior officers fully apprised regarding the status of those negotiations and the terms that were being negotiated. LAD repeatedly sought the Commissioner’s approval of the terms proposed by LAD. In response, the Commissioner postponed any decision, citing both the unwillingness of Ms. McCourt to consent to the proposed terms, and the unwillingness of Fox Sports to proceed forward absent the consent of Ms. McCourt.

33. With LAD facing the June 30 deadline to meet its extraordinary non-recurrent payroll and future reserve obligations, the McCourts were able to reach a settlement in their divorce proceeding pursuant to which Ms. McCourt agreed to consent to the Proposed Fox Transaction. Under the terms of the divorce settlement, announced on June 16, 2011, the McCourts agreed that a one day trial would occur in August to determine ownership of the Dodgers. If Mr. McCourt prevailed, then Ms. McCourt would receive a payment of \$100 million, which was to be funded in part (\$55 million) from the \$385 million loan. If Ms. McCourt prevailed, then LAD and the assets owned by TMBLP would be sold with the proceeds to be divided by the Court. The settlement was conditioned upon consummation of the Proposed Fox Transaction, which in turn was conditioned upon the consent of the Commissioner's Office.

34. In addition, the divorce settlement required that the \$385 million in loan proceeds to be received by LA Media under the Proposed Fox Transaction be distributed in a certain manner. Notably, the vast majority of the proceeds, totaling more than \$310 million, would be used and distributed as follows: 1) \$211.5 million for LAD's operations and working capital; 2) \$23.5 million to return the proceeds loaned by Fox Sports to Mr. McCourt which were used to fund payroll and other operational expenses of LAD; and 3) \$80 million to repay debt obligations of subsidiaries of the TMBLP, including Blue Land. Of the remaining funds, \$50 million would be available to pay Ms. McCourt if Mr. McCourt prevailed in his argument that she lacked an ownership interest in the assets, and the remaining \$20 million was to be distributed to the McCourts for legal expenses (\$5 million each) and personal use (\$5 million each).

35. As explained above, Fox Sports required the consent of Ms. McCourt in order for it to move forward with the Proposed Fox Transaction. Without the consummation of the Proposed Fox Transaction, LAD would not have access to the cash needed to pay its players and other expenses. Having obtained Ms. McCourt's consent on June 16, 2011, LAD renewed its request that the Commissioner promptly approve the Proposed Fox Transaction.

36. On June 20, 2011, the Commissioner advised Mr. McCourt that he would not approve the Proposed Fox Transaction. The first reason offered by the Commissioner for his refusal to approve the transaction was the Commissioner's preference that LAD wait until after the expiration of the Right of First Negotiation in December 2012, and negotiate with potential suitors other than Fox Sports prior to entering into any new television rights agreement. But given LAD's immediate cash flow difficulties, and faced with the potential risk that Fox Sports would seek to enforce the Right of First Negotiation, LAD simply did not have the luxury of waiting 18 months until the end of 2012.

37. The Commissioner also criticized the use of a portion of the \$385 million to fund a divorce settlement with Ms. McCourt. In that regard, the Commissioner did not take into account Fox Sports' unwillingness to move forward with any agreement absent Ms. McCourt's consent, which in turn required either a payment to Ms. McCourt or the liquidation of the assets of LAD and the other subsidiaries owned by TMBLP.

38. Next, the Commissioner criticized the creation of a separate entity not owned by LAD to receive a 35% interest in the RSN. But even the Commissioner acknowledged that "other clubs have entered into transactions that share similar features with the Proposed Transaction."

39. Finally, the Commissioner complained about the manner in which the sale of the Dodgers to Mr. McCourt was structured, as well as the securitization that occurred shortly thereafter, notwithstanding the fact that: a) both he and Major League Baseball approved those transactions; and b) using the funds generated by the securitization, the existing debt of Holdco's subsidiaries, including LAD, was refinanced on favorable terms and Dodger Stadium was substantially renovated.

40. Based on the Commissioner's refusal to approve the Proposed Fox Transaction, LAD does not have sufficient cash on hand to meet substantial payroll expenses that come due on June 30, 2011, including the deferred payments owed to former players in 2011 and to be reserved for 2012, or to pay expenses as they become due over the next several weeks.

41. Accordingly, LAD and the other Debtors negotiated a debtor in possession financing commitment and commenced this chapter 11 case.

#### **I. Business Plan**

42. Through this bankruptcy case, LAD will explore and implement any and all options to maximize the value of the future exclusive cable television rights that have not been granted beyond 2013. Specifically, LAD will propose and, to the extent authorized by this Court, implement procedures that are designed to promote a competitive sale process with respect to those exclusive cable television rights, one that results in the highest and best offer being acceptable to all parties. In fashioning procedures, LAD will give due consideration to Fox Group and the provisions of the Existing Fox Agreement. LAD expects, and the terms of the recently negotiated Fox transaction demonstrate, that a sale or license of exclusive cable television rights will fully resolve all of LAD's financial challenges as well as generate value for the holders of the equity interests in LAD.

43. In order to implement the above process and achieve its objectives, LAD and the other Debtors have filed for bankruptcy protection and are seeking first day relief from this Court designed to preserve going concern value while LAD implements its strategy. The most important relief sought by LAD is approval of sufficient debtor in possession bridge financing to pay expenses over the next 12 months, as well as compliance with its payment obligations to players and others under collective bargaining agreements. LAD also seeks additional relief that will avoid any interruption of the business that would otherwise adversely impact its operations.

### **RELIEF REQUESTED**

44. By this Motion, LAD seeks an order authorizing, but not directing, LAD to pay sales and use taxes (the “Sales and Use Taxes”), occupancy and business taxes levied by the City of Los Angeles (the “City Taxes”), personal property taxes (the “Property Taxes”), and franchise taxes (the “Franchise Taxes”, and together with the Sales and Use Taxes, the City Taxes, and the Property Taxes, the “Taxes”)<sup>4</sup> to various federal, state and local taxing and regulatory authorities (collectively, the “Taxing Authorities”) that were incurred in the ordinary course of business prior to the Commencement Date and are due and owing to the appropriate Taxing Authorities, including those amounts paid by check prior to the Commencement Date that have not yet cleared; and (ii) authorizing all banks and other financial institutions on which such checks or other fund transfers to the Taxing Authorities are drawn to receive, process, honor and pay any

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<sup>4</sup> LAD also remits taxes to taxing authorities in respect of federal, state, and local income taxes, Social Security, and Medicare, which taxes LAD withholds from employees’ wages. Remittance of these taxes to the applicable taxing authorities is addressed in the *Motion For Order (I) Authorizing Debtors To Pay Prepetition (A) Wages, Compensation, Payroll Taxes, And Employee Benefits, (B) Business Expenses, And (C) Contributions To, And Under, Employee Benefit Plans, (II) Authorizing LAD To Pay Prepetition Benefits Providers, And (III) Authorizing Financial Institutions To Honor And Process Checks And Transfers Related To Such Obligations* (the “Employee Wage Motion”), filed concurrently herewith. LAD does not, and should not be deemed by this Motion or by the Employee Wage Motion to: (i) admit to the validity or amount of any Taxes; (ii) waive its right to dispute any Taxes on any ground; (iii) promise to pay any Taxes; or (iv) request authorization to assume any executory contract or unexpired lease pursuant to section 365 of the Bankruptcy Code.

and all such checks or other transfers, whether issued or presented prior to or after the Commencement Date.

45. In the ordinary course of business, LAD is required to collect sales and use taxes (the “Sales and Use Taxes”) on the products that it sells directly to consumers and to remit such taxes to the Taxing Authorities on a monthly basis. The Sales and Use Taxes aggregate about \$3,000 per month. The taxes are paid in arrears, so while LAD is current on its payments, the Sales and Use Taxes accruing in June 2011 are not due to be paid until early July 2011. As a result, LAD has approximately \$3,000 in Sales and Use Taxes that it collected but that have not been remitted to the Taxing Authorities as of the Commencement Date.

46. LAD also pays several taxes to the City of Los Angeles (the “City Taxes”). City Business Tax is paid on an annual basis and the next payment, in the estimated amount of \$418,400, is not due until February 28, 2012. While the City Business Tax is assessed on an annual basis, a portion of that amount has accrued in the pre-petition period. In addition, LAD pays an Occupancy Tax of approximately \$7,500 per each game played at the stadium. The Occupancy Tax is due on the 27th day of each month and is paid one month in arrears. Thus, for the thirteen (13) games played in June 2011, LAD has accrued approximately \$97,500 in Occupancy Taxes that will be due and payable on July 27, 2011.

47. Taxing Authorities also impose taxes on LAD relating to the personal property that LAD owns for the operation of its business (the “Property Taxes”). The Property Taxes are payable annually, and the next payment, in the approximate amount of \$366,000, is due on August 31, 2011. A significant portion of the Property Taxes has accrued pre-petition.

48. Finally, LAD incurs and pays franchise taxes, including business licenses and fees (the “Franchise Taxes”) in the State of California in exchange for authority to conduct business.

Such taxes are paid on an annual basis and aggregate approximately \$32,000 per year. LAD is current on the payment of its Franchise Taxes. While LAD believes that it currently owes no prepetition Franchise Taxes, out of an abundance of caution, it hereby seeks authority to pay any Franchise Taxes assessed on LAD after the Commencement Date for prepetition periods. Payment of such taxes is critical to LAD's ability to continue operating in the State of California, and failure to pay could affect LAD's good standing and significantly impair its ability to reorganize.

49. While LAD believes that it is substantially current with respect to the payment of Taxes, LAD seeks to make such payments where (i) Taxes accrued or incurred prepetition were not paid prepetition or were paid in an amount less than actually owed, (ii) payments made prepetition by LAD were lost or otherwise not received in full by any of the Taxing Authorities, or (iii) Taxes incurred for prepetition periods may become due after the commencement of this chapter 11 case.

50. Payment of the Taxes is necessary for LAD to remain in good standing and continue its operations. Certain Taxing Authorities either have not been paid due to the time during the month at which such Taxes are normally remitted, or may have been sent checks for Taxes that may or may not have been presented or cleared as of the Commencement Date. In other cases, obligations may have accrued or are accruing, or are subject to audit or review, but may have not yet become due and payable. Accordingly, LAD seeks authorization for its banks to honor prepetition wire transfer requests and checks issued by LAD to the Taxing Authorities in payment of prepetition Taxes as described herein that, as of the Commencement Date, have not cleared or been transferred. To the extent that LAD has not yet remitted payment to the Taxing Authorities with respect to certain prepetition Taxes, LAD seeks authorization to issue

checks or provide for other means of payment to the Taxing Authorities to the extent necessary to pay such Taxes, including any amounts that may become due after an audit.

### **BASIS FOR RELIEF REQUESTED**

51. Numerous grounds exist to authorize the payment of the prepetition Taxes, which payments are critical to LAD's continued and uninterrupted operations. The grounds include the following: (i) certain Taxes may be entitled to priority status pursuant to section 507(a)(8) of the Bankruptcy code; (ii) certain Taxes are not property of the estate under section 541 of the Bankruptcy Code; (iii) governmental entities may sue LAD's directors and officers, which will distract them from LAD's reorganization efforts; and (iv) sections 105(a) and 363(b) of the Bankruptcy Code permit the Court to grant the relief sought.

#### **A. Certain of the Taxes Constitute Priority Claims**

52. Certain of the Taxes likely are afforded priority status under section 507(a)(8) of the Bankruptcy Code.<sup>5</sup> Section 507(a)(8)(E) of the Bankruptcy Code provides priority status to an excise tax on a transaction that occurred within three years immediately preceding the bankruptcy petition. *See* 11 U.S.C. § 507(a)(8)(E). The Bankruptcy Code does not define “excise tax.” The legislative history of section 507(a)(8)(E) contains an explanation of “excise tax,” which provides that “[a]ll Federal, State or local taxes generally considered or expressly treated as excises are covered by this category, including *sales taxes*, estate and gift taxes...” 124 Cong. Rec. H11113 (daily ed. Sept. 28, 1978); S17430 (daily ed. Oct. 6, 1978); remarks of Rep. Edwards and Sen. Deconcini (emphasis added).

53. An excise tax is commonly defined as “a tax imposed on the manufacture, sale, or use of goods... or on an occupation or activity...” BLACK'S LAW DICTIONARY 585 (7th ed. 1999).

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<sup>5</sup> Nothing contained herein shall be deemed an admission as to the appropriate classification of any Taxes and LAD reserves all rights to object to any claim, on any basis, with respect to the Taxes.

Numerous courts have adopted the definition of excise tax found in Black's Law Dictionary. *See, e.g., In re Marcucci*, 256 B.R. 685, 696 (D.N.J. 2000); *In re Templar*, 170 B.R. 562, 563 (Bankr. M.D. Pa. 1994); *New Neighborhoods, Inc. v. W. Va. Workers' Comp. Fund*, 886 F.2d 714, 719 (4th Cir. 1989); *In re Trism, Inc.*, 311 B.R. 509, 516 (8th Cir. B.A.P. 2004); *In re Nat'l Steel Corp.*, 321 B.R. 901, 908 (Bankr. N.D. Ill. 2005); *In re Voightman*, 236 B.R. 878, 881–82 (Bankr. D. N.D. 1999); *In re Chateaugay Corp.*, 153 B.R. 632, 638 (Bankr. S.D.N.Y. 1993).

54. Accordingly, it is likely that a significant portion of the Taxes that accrued or were incurred prior to the Commencement Date are priority claims pursuant to section 507(a)(8) of the Bankruptcy Code. Taxes entitled to priority under the Bankruptcy Code must be paid in full under any plan of reorganization before any general unsecured obligations of LAD may be satisfied. *See* 11 U.S.C. § 1129(a)(9)(C). Therefore, the proposed relief will only affect the timing of the payment of the Taxes, and will not prejudice the rights of general unsecured creditors or other parties in interest.

**B. Certain of the Taxes Are Not Property of the Estate**

55. LAD further submits that at least some of the Taxes may be considered “trust fund taxes” that are collected or withheld by LAD and then held in trust for the benefit of those third parties to whom payment is owed or on behalf of whom such payment is being made. Case law supports the proposition that trust fund taxes are not property of LAD's estate within the meaning of section 541 of the Bankruptcy Code. *See Begier v. IRS*, 496 U.S. 53, 55-67 (1990) (taxes such as excise taxes, FICA taxes and withholding taxes are property held by debtor in trust for another and, as such, do not constitute property of estate); *In re Al Copeland Enters., Inc.*, 133 B.R. 837 (Bankr. W.D. Tex. 1991) (debtor obligated to pay sales taxes plus interest, because such taxes were “trust fund” taxes), *aff'd*, 991 F.2d 233 (5th Cir. 1993); *In re Am. Int'l Airways*,

*Inc.*, 70 B.R. 102, 103 (Bankr. E.D. Pa. 1987) (funds held in trust for federal excise and withholding taxes are not property of debtor's estate and, therefore, not available for distribution to creditors); *Shipley Co., Inc. v. Darr (In re Tap, Inc.)*, 52 B.R. 271, 272 (Bankr. D. Mass. 1985) (funds paid by employer to debtor for payment of employer's federal taxes were returnable to employer and not part of debtor's estate). Accordingly, to the extent the Taxes are considered trust fund taxes, payment of those Taxes would not prejudice other unsecured creditors because such amounts would not be available for distribution.

**C. Bankruptcy Code Authorizes LAD to Pay the Taxes**

56. Under section 363(b) of the Bankruptcy Code, a debtor in possession may, in the exercise of its business judgment, use property of the estate outside of the ordinary course of business. *See* 11 U.S.C. § 363(b). Further, section 105(a) of the Bankruptcy Code, which codifies the equitable powers of bankruptcy courts, authorizes 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). This Court may authorize LAD's proposed payment of Taxes under sections 105(a) and 363(b)(1) of the Bankruptcy Code.

57. Specifically, section 363(b)(1) of the Bankruptcy Code authorizes this Court, after notice and a hearing, to authorize a debtor to “use, sell, or lease, other than in the ordinary course of business, property of the estate.” *See* 11 U.S.C. § 363(b)(1). Although stated various ways, courts generally hold that a debtor's decision to enter into a transaction outside of the ordinary course of business is governed by the business judgment standard. *See* 3 COLLIER ON BANKRUPTCY 363.02[1][f] (Lawrence P. King et al. 15th ed. 2007); *In re U.S. Airways Group, Inc.*, 287 B.R. 643, 645 (Bankr. E.D. Va. 2002).

58. When applying the “business judgment” rule, courts show great deference to the debtor’s decision making. *See, e.g., Myers v. Martin (In re Martin)*, 91 F.3d 389, 395 (3d Cir. 1996); *In re Castre, Inc.*, 312 B.R. 426, 430-31 (Bankr. D. Colo. 2004); *Murphy v. Howison (In re Murphy)*, 288 B.R. 1, 5 (D. Me. 2002); *In re Bakalis*, 220 B.R. 525, 532 (Bankr. E.D.N.Y. 1998). LAD submits that, because payment of the Taxes is not only critical to minimizing disruptions to LAD’s operations, but also necessary to prevent the immediate and irreparable harm that would result from nonpayment (in the event LAD had to cease doing business), it is clearly in the best interest of LAD’s estate for LAD to have discretion to pay such claims.

59. Further, it is well-established that bankruptcy courts have the equitable power to authorize the payment of prepetition claims where such payments are necessary to preserve the going concern value of a debtor’s business. *See, e.g., In re Lehigh & New England Ry. Co.*, 657 F.2d 570, 581 (3d Cir. 1981); *see also N.L.R.B. v. Bildisco & Bildisco*, 465 U.S. 513, 528 (1984) (allowing payment of prepetition claims pursuant to sections 363(b) and 105(a) of the Bankruptcy Code where payment was critical to preserve and protect debtor’s business). To do so, “the debtor must articulate some business justification, other than the mere appeasement of major creditors.” *Ionosphere*, 98 B.R. at 175. As discussed, LAD’s failure to pay Taxes could have a material adverse impact on their ability to operate their business.

60. The relief requested is also supported by the “necessity of payment” doctrine. Numerous courts have used their section 105(a) powers under the “doctrine of necessity” to authorize payment of a debtor in possession’s prepetition obligations where, as here, such payment is an essential element to the continuation of LAD’s business.<sup>6</sup> *See, e.g., Lehigh &*

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<sup>6</sup> The “doctrine of necessity” is an outgrowth of the “necessity of payment rule,” first articulated in *Miltenberger v. Logansport Ry. Co.*, 106 U.S. 286, 311-12 (1882) (payment of pre-receivership claim prior to completion of reorganization permitted to prevent “stoppage of... [crucial] business relations...”). While the “necessity of payment rule” was first applied to railroad reorganizations, the “doctrine of necessity” serves a similar function

*New England Ry. Co.*, 657 F.2d at 581 (noting that the “necessity of payment doctrine” provides that “if payment of a claim that arose prepetition is essential to the continued operation of the [debtor], payment may be authorized”); *see also In re Penn Central Transp. Co.*, 467 F.2d 100, 102 n. 1 (3d Cir. 1972) (holding that the necessity of payment doctrine permits “immediate payment of claims of creditors where those creditors will not supply services or material essential to the conduct of the business until their pre-reorganization claims have been paid”); *In re Columbia Gas Sys., Inc.*, 171 B.R. 189, 191-92 (Bankr. D. Del. 1994) (noting that in the Third Circuit, debtors may pay prepetition claims that are essential to continued operations).

61. Furthermore, LAD believes that some of the Taxing Authorities may cause LAD to be audited if the Taxes are not paid promptly. Such audits would divert attention from LAD’s reorganization process. Moreover, many Taxing Authorities may seek to impose personal liability on the officers and directors of LAD for Taxes collected but not paid to such Taxing Authorities. Thus, to the extent that any Taxes remain unpaid, LAD’s officers and directors may be subject to audits, lawsuits or even criminal prosecution on account of such nonpayment during the pendency of this chapter 11 case. Such proceedings obviously would constitute a significant distraction for such officers and directors at a time when they should be focused on stabilizing postpetition business operations and developing and implementing a successful reorganization strategy.

62. Authorizing, but not directing, LAD to pay the Taxes would eliminate any potential administrative claims for indemnification that officers would also assert against LAD if

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in chapter 11 cases. Each recognizes the existence of judicial power to authorize a debtor in possession to pay prepetition claims if vital to its continued operations.

held personally liable for such taxes (including penalties, interest and other related charges), as well as the time and expense of litigating such claims.

63. Moreover, prior to the commencement of this case, LAD diligently made every effort to pay the Taxes timely, and any remaining undisputed, unpaid Taxes not paid were a result of the chapter 11 filing. Accordingly, LAD submits that the equities weigh heavily in favor of authorizing LAD to pay the Taxes.

64. Relief similar to the relief requested in this Motion has been granted in numerous cases, including *In re Constar Int'l., Inc.*, Case No. 11-10109 (Bankr. D. Del. Jan. 13, 2011) (Sontchi, C.); *In re Building Materials Holding Corporation*, Case No. 09-12074 (Bankr. D. Del. June 17, 2009) (Carey, C.J.); *In re Aventine Renewable Energy Holdings, Inc.*, Case No. 09-11214 (Bankr. D. Del. Apr. 9, 2009) (Gross, J.); *In re Pliant Corporation*, Case No. 09-10443 (Bankr. D. Del. Feb. 12, 2009) (Walrath, J.); *In re Fluid Routing Solutions Intermediate Holding Corp.*, Case No. 09-10384 (Bankr. D. Del. Feb. 6, 2009) (Sontchi, J.); *In re Smurfit-Stone Container Corp.*, Case No. 09-10235 (Bankr. D. Del. Jan. 27, 2009) (Shannon, J.); *In re Merisant Worldwide, Inc.*, Case No. 09-10059 (Bankr. D. Del. Jan. 13, 2009) (Walsh, J.). LAD submits that the present circumstances warrant similar relief in this chapter 11 case.

65. LAD submits that because the relief requested in this Motion is necessary to avoid immediate and irreparable harm to LAD for the reasons set forth herein, Rule 6003 of the Bankruptcy Rules has been satisfied.

66. Nothing in this Motion shall be construed as impairing LAD's rights to contest the amount, classification or allowability of any Taxes asserted in this case.

**WAIVER OF BANKRUPTCY RULES 6004(a) AND 6004(h)**

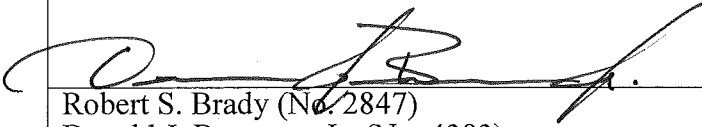
67. To successfully implement the foregoing, LAD seeks a waiver of the notice requirements under Bankruptcy Rule 6004(a) and the fourteen (14) day stay of an order authorizing the use, sale, or lease of property under Bankruptcy Rule 6004(h).

**NOTICE**

68. Notice of this Motion has been given to (i) the United States Trustee for the District of Delaware; (ii) LAD's forty (40) largest unsecured creditors; (iii) counsel to Major League Baseball; (iv) counsel to the Major League Baseball Players Association; (v) counsel to proposed postpetition secured lender; and (vi) cash management banks. Notice of this Motion and any order entered hereon will be served in accordance with Local Rule 9013-1(m). LAD submits that, under the circumstances, no other or further notice is required.

CONCLUSION

WHEREFORE, LAD respectfully requests that the Court enter the Proposed Order, substantially in the form attached hereto as Exhibit A, granting the relief requested in the Motion and such other and further relief as may be just and proper.

<p>Dated: June 27, 2011 Wilmington, Delaware</p>	<p>YOUNG CONAWAY STARGATT &amp; TAYLOR, LLP</p>  <p>Robert S. Brady (No. 2847) Donald J. Bowman, Jr. (No. 4383) Ryan M. Bartley (No. 4985) The Brandywine Building – 17th Floor 1000 West Street, Post Office Box 391 Wilmington, Delaware 19899 Telephone: (302) 571-6600 Facsimile: (302) 571-1253</p> <p>-and-</p> <p>DEWEY &amp; LEBOEUF LLP Bruce Bennett Sidney P. Levinson <i>(pro hac vice applications forthcoming)</i> 333 South Grand Avenue, Suite 2600 Los Angeles, California 90071 Telephone: (213) 621-6000 Facsimile: (213) 621-6100</p> <p>-and-</p> <p>DEWEY &amp; LEBOEUF LLP Martin J. Bienenstock Philip M. Abelson <i>(pro hac vice applications forthcoming)</i> 1301 Avenue of the Americas New York, New York 10019 Telephone: (212) 259-8000 Facsimile: (212) 259-6333</p> <p><i>Proposed Co-Counsel for LAD and LAD in Possession</i></p>
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