

UNITED STATES BANKRUPTCY COURT  
DISTRICT OF DELAWARE

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**In re** : **Chapter 11**
  
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**GOLFSMITH INTERNATIONAL** : **Case No. 16-12033 (LSS)**
  
**HOLDINGS, INC., et al.,** :
  
:
  
**Debtors.**<sup>1</sup> : **Jointly Administered**
  
:
  
: **Obj. Deadline: October 31, 2016 at 9:00 a.m. (ET)**
  
: **Hearing Date: October 31, 2016 at 10:00 a.m. (ET)**
  
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**MOTION OF DEBTORS FOR ORDER (I) APPROVING  
POSTPETITION FINANCING UNDER THE REPLACEMENT DIP FACILITY, (II)  
AUTHORIZING USE OF CASH COLLATERAL, (III) GRANTING LIENS AND  
PROVIDING SUPERPRIORITY ADMINISTRATIVE EXPENSE STATUS, (IV)  
AMENDING AND SUPERSEDING THE INTERIM DIP ORDER ENTERED ON  
SEPTEMBER 16, 2016 AND THE FINAL DIP ORDER ENTERED OCTOBER 17, 2016; (V)  
GRANTING ADEQUATE PROTECTION, AND (VI) MODIFYING AUTOMATIC STAY**

Golfsmith International Holdings, Inc. and its debtor affiliates in the above-captioned chapter 11 cases, as debtors and debtors in possession (collectively, the “**Debtors**” or “**Golfsmith**”), respectfully represent:

**Preliminary Statement**

1. Golfsmith and its non-Debtor affiliates operating as Golf Town (“**Golf Town**” and, together with Golfsmith, the “**Company**”), respectively commenced these chapter 11 cases and proceedings under the Companies’ Creditors Arrangement Act (the “**CCAA**”

<sup>1</sup> The Debtors in these chapter 11 cases, along with the last four digits of each Debtor’s federal tax identification number, as applicable, are: Golfsmith International Holdings, Inc. (4847); GMAC Holdings, LLC (3331); Golf Town USA Holdco Limited (5562); Golf Town USA Holdings Inc. (7038); Golf Town USA, LLC (0259); Golfsmith 2 GP, L.L.C. (2218); Golfsmith Europe, L.L.C. (2408); Golfsmith Incentive Services, L.L.C. (2730); Golfsmith International, Inc. (7337); Golfsmith International, L.P. (4257); Golfsmith Licensing, L.L.C. (5499); Golfsmith NU, L.L.C. (2404); and Golfsmith USA, L.L.C. (2405). The Debtors’ corporate headquarters is located at 11000 North IH-35, Austin, TX 78753.

**Proceeding**”) on a consensual basis with their prepetition First Lien Lenders,<sup>2</sup> who agreed to provide the Debtors’ with the postpetition financing needed to allow the Debtors to complete a sale of the businesses or assets of Golfsmith in an auction, currently scheduled for October 19, 2016 (the “**Auction**”).

2. However, as described at the Debtors’ “first day” hearing, the Company has endeavored to pursue a chapter 11 plan of reorganization as an alternative (the “**Golfsmith Reorganization**”), the terms of which are supported by two of its largest second lien creditors—CI Investments Inc., on behalf of certain funds managed by it, and an entity affiliated with Fairfax Financial Holdings Limited (collectively, the “**Supporting Noteholders**”).

3. In order to accomplish a Golfsmith Reorganization, the Company must replace its current debtor in possession financing facility provided by its prepetition First Lien Lenders (the “**Existing DIP Facility**”) because the obligations under the Existing DIP Facility must be refinanced or paid off by October 31, 2016. Furthermore, the Existing DIP Facility is tied to milestones in the DIP Credit Agreement (the “**Existing DIP Credit Agreement**”) that require Golfsmith to commence a liquidation of its assets by October 28, 2016 if it does not consummate a going concern sale of its assets following the Auction.

4. Accordingly, over the last several weeks, the Debtors and their advisors have been diligently seeking a source of replacement postpetition financing. Following a thorough marketing process, the Debtors are now pleased to announce that they have received a commitment from PNC Bank, National Association (“**PNC**” or the “**Replacement DIP**”).

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<sup>2</sup> The Debtors incorporate by reference (a) the *Motion of Debtors for Interim and Final Orders (I) Authorizing the Debtors to Obtain Postpetition Financing, (II) Authorizing Use of Cash Collateral, (III) Granting Liens and Superpriority Administrative Expense Status, (IV) Granting Adequate Protection, (V) Modifying Automatic Stay, and (VI) Scheduling a Final Hearing* [Docket No. 16] (the “**DIP Motion**”). Capitalized terms used but not defined herein shall have the meanings ascribed to them in the DIP Motion.

**Lender**”) to provide replacement postpetition financing that affords the Debtors the flexibility to pursue a Golfsmith Restructuring should they determine to following the Auction.

5. The Debtors now seek authority to enter into a new \$80 million senior secured debtor in possession revolving credit facility (the “**Replacement DIP Facility**”) with PNC to refinance the Existing DIP Facility and prepetition First Lien Facility (collectively with the Existing DIP Facility, the “**Antares Facilities**”) and amend and supersede the Existing DIP Orders (defined below). The term sheet attached to the commitment letter (collectively, the “**Commitment Letter**”), a copy of a draft of which is substantially final, is attached hereto as **Exhibit “A”**, sets forth the terms under which the Replacement DIP Lender will refinance the Debtors’ obligations under the Antares Facilities.

6. The Replacement DIP Facility will afford the Debtors greater flexibility in controlling the direction and timeline of their chapter 11 cases to maximize value for their stakeholders. At only a marginal incremental expense to the Debtors’ estates, the financing described the Commitment Letter will provide Golfsmith with an additional \$41.1 million in liquidity to bridge the proposal, negotiation, confirmation and consummation of a plan on a suitable timetable connected to agreed-upon milestones. Approximately \$38.9 million of the Replacement DIP Facility will be used to repay the Antares Facilities in full, while the remaining balance of the Replacement DIP Facility will be used to finance the Debtors’ operations and reorganization efforts, with the potential to be converted into an exit facility upon the consummation of a Golfsmith Restructuring. Pursuant to the Commitment Letter milestones, the Debtors will file a disclosure statement and plan by November 4, 2016.

7. After consulting with the key stakeholders in these chapter 11 cases, including Antares, the Supporting Noteholders, the Creditors’ Committee and the U.S. Trustee,

and comparing the terms of the Existing DIP Facility with the Replacement DIP Facility, the Debtors have concluded, in their business judgment, that entry into the Replacement DIP Facility and repayment of the Antares Facilities, is the best financing option available to them, and provides the liquidity and flexibility to achieve a successful reorganization through a chapter 11 plan, should the Debtors deem such a path to be in the best interests of their estates. Furthermore, repayment of the First Lien Facility was previously authorized by the Court through a “roll-up” into the Existing DIP Facility.

8. As such, the Debtors believe that authority to enter into the Replacement DIP Facility and repay the Antares Facilities is in the best interests of the Debtors, their estates, and their creditors, and respectfully request that the relief requested herein be granted.

#### **Background**

9. On September 14, 2016 (the “**Petition Date**”), each of the Debtors commenced with this Court a voluntary case under chapter 11 of title 11 of the United States Code (the “**Bankruptcy Code**”). The Debtors are authorized to continue to operate their businesses and manage their properties as debtors in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code. On September 23, 2016, the United States Trustee for the District of Delaware (the “**U.S. Trustee**”) appointed an official committee of unsecured creditors. No trustee or examiner has been appointed in these chapter 11 cases.

10. The Debtors’ chapter 11 cases are being jointly administered for procedural purposes only pursuant to Rule 1015(b) of the Federal Rules of Bankruptcy Procedure (the “**Bankruptcy Rules**”).

11. Simultaneously with the commencement of these chapter 11 cases, **Golf Town** commenced the CCAA Proceeding under the Companies' Creditors Arrangement Act in the Ontario Superior Court of Justice (Commercial List) in Canada (the "**Canadian Court**").

12. Information regarding the Debtors' businesses, capital structure, and the circumstances leading to the commencement of these chapter 11 cases is set forth in greater detail in the DIP Motion and the *Declaration of Brian Cejka in Support of the Debtors' Chapter 11 Petitions and First Day Relief*, sworn to and filed on the Petition Date (Docket No. 3) (the "**Cejka Declaration**").

13. On September 19, 2016, the Court entered its *Interim Order (I) Approving Postpetition Financing, (II) Authorizing Use of Cash Collateral, (III) Granting Liens and Providing Superpriority Administrative Expense Status, (IV) Granting Adequate Protection, (V) Modifying Automatic Stay, and (VI) Scheduling a Final Hearing* (Docket No. 89) (the "**Existing Interim DIP Order**").

14. On October 17, 2016, the Court entered its *Final Order (I) Approving Postpetition Financing, (II) Authorizing Use Of Cash Collateral, (III) Granting Liens and Providing Superpriority Administrative Expense Status, (IV) Granting Adequate Protection, and (V) Modifying Automatic Stay* (Docket No. 314)(the "**Existing Final DIP Order**" and together with the Existing Interim DIP Order, the "**Existing DIP Orders**"), which approved the Existing DIP Facility on a final basis.

### **Jurisdiction**

15. This Court has jurisdiction to consider this matter pursuant to 28 U.S.C. §§ 157 and 1334, and the *Amended Standing Order of Reference from the United States District Court for the District of Delaware* dated February 29, 2012. This is a core proceeding pursuant

to 28 U.S.C. § 157(b) and, pursuant to Rule 9013–1(f) of the Local Rules of Bankruptcy Practice and Procedure of the United States Bankruptcy Court for the District of Delaware (the “**Local Rules**”), 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 consistent with Article III of the United States Constitution. Venue is proper before this Court pursuant to 28 U.S.C. §§ 1408 and 1409.

**Relief Requested**

16. By this Motion, pursuant to sections 105(a), 361, 362, 363, 364 and 507 of the Bankruptcy Code, Bankruptcy Rules 2002, 4001 and 9014, and Local Rule 4001-2, the Debtors request entry of a final order that amends and supersedes the Final DIP Order, and among other things: (i) authorizes the Debtors to obtain \$80 million in senior secured, superpriority, postpetition financing; (ii) authorize the Debtors to use part of the proceeds of the Replacement DIP Facility to repay the Company’s outstanding obligations under the Antares Facilities; (iii) grants liens and provides superpriority administrative expense status to PNC; (iv) amends and supersedes the Existing DIP Orders; (v) grants adequate protection; and (vii) modifies the automatic stay imposed under section 362 of the Bankruptcy Code to the extent necessary to implement and effectuate the terms of such orders.

17. Both (i) a credit agreement documenting the terms of the Replacement DIP Facility (the “**Replacement DIP Credit Agreement**”), and (ii) a proposed form of order, to amend and supersede the Final DIP Order, granting the relief requested in this Motion (the “**Proposed Order**”), are currently being negotiated between the Debtors and the Replacement DIP Lender, and each will be filed with the Court as soon as they are available in advance of a hearing to approve this Motion on October 31, 2016.

18. For the avoidance of doubt, the Debtors are requesting such relief only with respect to Golfsmith, and not Golf Town. Pursuant to the transaction described in the Commitment Letter, the Golf Town entities will not be party to the Replacement DIP Facility.

**Summary of Principal Terms of Replacement DIP Facility**

19. Pursuant to Bankruptcy Rule 4001 and Local Rule 4001-2, the following are the material provisions of the Replacement DIP Facility:<sup>3</sup>

Summary of Material Terms	Replacement DIP Facility <sup>4</sup>
<b>Borrowers</b> Bankruptcy Rule 4001(c)(1)(B)	Golfsmith Europe, L.L.C., Golfsmith Licensing, L.L.C., Golfsmith Incentive Services, LLC, Golfsmith 2 GP, L.L.C., Golfsmith International, Inc., Golfsmith International, L.P., Golfsmith NU, L.L.C., Golfsmith USA, L.L.C., Golf Town USA, L.L.C., Golfsmith International Holdings, Inc., and Golf Town USA Holdco Limited (the " <b>Borrowers</b> "). Commitment Letter, p. 6.  The Canadian Borrowers under the Existing DIP Facility are not Borrowers.
<b>Guarantors</b> Bankruptcy Rule 4001(c)(1)(B)	Golf Town USA Holdings Inc. and all of its existing and future domestic subsidiaries that are not Borrowers, including GMAC Holdings, LLC (the " <b>Guarantors</b> ", and collectively with the Borrowers, the " <b>New DIP Credit Parties</b> "). Commitment Letter, p. 6.  Any Golf Town entities that are guarantors under the Existing DIP Facility are not Guarantors under the New Credit Facility.
<b>Agent and Lenders</b> Bankruptcy Rule 4001(c)(1)(B)	<u>Agent</u> : PNC (in such capacity, the " <b>Replacement DIP Agent</b> "). Commitment Letter, p. 6.  <u>Lenders</u> : PNC and such other financial institutions and other entities that may from time to time become a lender under the Replacement DIP Credit Agreement (the " <b>Replacement DIP Lenders</b> "). Commitment Letter, p. 6.
<b>Borrowing Limits</b> Bankruptcy Rule 4001(c)(1)(B)	The Replacement DIP Facility provides \$80 million in revolving credit loans (the " <b>New DIP Loans</b> "), including a \$10 million subfacility for the issuance of letters of credit and a \$5 million swingline subfacility. Commitment Letter, p. 7.  Aggregate borrowings under the Replacement DIP Facility shall not exceed the sum of the Borrowing Base outlined in the Commitment Letter. Commitment Letter, pp.

<sup>3</sup> To the extent the Motion and the Commitment Letter are inconsistent, the Commitment Letter shall control. The Debtors reserve the right to supplement the statements made pursuant to Bankruptcy Rule 4001 and Local Rule 4001-2 herein.

<sup>4</sup> Capitalized terms used in this column but not otherwise defined herein shall have the respective meanings ascribed to such terms in the Commitment Letter.

<b>Summary of Material Terms</b>	<b>Replacement DIP Facility<sup>4</sup></b>
	<p>7-8.</p> <p>The Debtors' current obligations under the Existing DIP Facility as of the date hereof amount to approximately \$25.5 million.</p>
<p><b>Interest Rates</b></p> <p>Bankruptcy Rule 4001(c)(1)(B)</p>	<p>Revolving loans under the Replacement DIP Credit Facilities shall bear interest, at the Borrowers' option, at a per annum rate based on 1, 2, or 3 month PNC LIBOR Rate (as adjusted for statutory LIBOR reserves) or the Base Rate plus, in each case, the Applicable Margin (as defined below); all swingline loans under the Replacement DIP Credit Facilities shall bear interest at the Base Rate plus the Applicable Margin. "<b>Applicable Margin</b>" means (x) as to Base Rate Loans (including all swingline loans), 1.50 percentage point (the "<b>Base Rate Margin</b>"), and (y) as to LIBOR Rate Loans, 2.50 percentage points (the "<b>LIBOR Rate Margin</b>").</p> <p>The "<b>Base Rate</b>" shall mean, for any day, a fluctuating per annum rate of interest equal to the highest of (i) the interest rate per annum announced from time to time by the Agent at its principal office as its then prime rate, which rate may not be the lowest rate then being charged commercial borrowers by the Agent, (ii) the Federal Funds Open Rate plus ½ of 1%, and (iii) the one month LIBOR rate plus 100 basis points (1%).</p> <p>The Default Rate is 2.00% over the applicable rate. LIBOR Rate pricing will be adjusted for any statutory reserves.</p> <p>Commitment Letter, pp. 9-10.</p>
<p><b>Maturity</b></p> <p>Bankruptcy Rule 4001(c)(1)(B)</p>	<p>April 13, 2017. Commitment Letter, p. 9.</p>
<p><b>Fees</b></p> <p>Bankruptcy Rule 4001(c)(1)(B)</p>	<p><u>Underwriting Fee</u>: \$10,000 earned and payable in full on the closing date.</p> <p><u>Closing Fee</u>: \$425,000, earned and payable in full on the closing date.</p> <p><u>Facility Fee</u>: 0.375% per annum on the unused portion of the Replacement DIP Facility, calculated on a 360 day year and payable quarterly in arrears.</p> <p><u>Collateral Monitoring Fee</u>: \$2,000 per month plus the cost of field examinations at PNC's applicable rate, which for examinations performed by PNC is currently an additional \$1,250 per person-day, plus expenses and administrative fees, and a \$1300 per examination supervisor review fee.</p> <p><u>Letter of Credit Fees</u>: The Borrowers shall pay Letter of Credit fees at a per annum rate equal to the LIBOR Rate Margin on the aggregate face amount of the Letters of Credit issued under the Replacement DIP Credit Facilities. In addition, the Borrower shall pay a Letter of Credit fronting fee of 0.25% per annum to PNC as the fronting bank, payable quarterly in arrears.</p> <p>Commitment Letter, pp. 10-11.</p>



<b>Summary of Material Terms</b>	<b>Replacement DIP Facility<sup>4</sup></b>
<b>Purposes for Use of New DIP Loans</b> Bankruptcy Rule 4001(c)(1)(B)	The Replacement DIP Facility shall be used to: <ul style="list-style-type: none"> <li>(i) provide (in part) the funds necessary to refinance and replace the Antares Facilities;</li> <li>(ii) pay fees and expenses related to pursuing a plan of reorganization;</li> <li>(iii) provide financing and working capital to the Debtors during these chapter 11 cases while Golfsmith seeks confirmation of a plan of reorganization.</li> </ul>
<b>Termination Events</b> Bankruptcy Rule 4001(c)(1)(B)	Events of default under the Replacement DIP Credit Agreement shall be identical in all material respects to the events of default set forth in the Existing DIP Credit Agreement, subject to any modifications mutually agreed as between the Debtors and PNC to reflect the fact that the Debtors will be pursuing a reorganization and confirmation of a plan during the term of the Replacement DIP Facility.  However, any events of default specified in the Existing DIP Credit Agreement requiring a sale of all or substantially all of the assets of the Debtors by any date certain, including the “Sale Transactions” events of default specified in the Existing DIP Credit Agreement, shall be deleted. Additionally, the definition of LC Draw Event set forth in the Existing DIP Credit Agreement shall be revised as follows: ““ <b>LC Draw Event</b> ” means (a) the occurrence of April 13, 2017, (b) any Event of Default has occurred and is continuing, or (c) an OMERS LC Event has occurred.”  Furthermore, a violation of the New Milestones (defined below) shall also constitute an event of default.  Commitment Letter, pp. 18-19.
<b>Cross-Collateralization</b> Local Rule 4001-2(a)(i)(A)	The Replacement DIP Facility is a joint and several obligation as to all Debtors and guarantors. <sup>5</sup>
<b>Stipulations</b> Local Rule 4001-2(a)(i)(B)	To be determined. The Debtors intend to make identical stipulations concerning the validity extent and priority of Prepetition Obligations as in the Existing DIP Orders.
<b>Effect of Stipulations</b> Local Rule 4001-2(a)(i)(B)	To be determined. The Debtors intend to bind the estate with respect to the stipulations concerning the validity extent and priority of the Prepetition Obligations to the same extent as set forth in the Existing DIP Orders.
<b>Section 506(c) Waiver</b> Local Rule 4001-2(a)(i)(C)	The Debtors intend to include a waiver under section 506(c) with respect to the Replacement DIP Collateral.
<b>Liens on Chapter 5 Causes of Action</b>	The New DIP Liens shall include liens on actions brought under section 549 of the Bankruptcy Code to recover any postpetition transfer of DIP Collateral, but shall not

<sup>5</sup> In advance of the hearing to approve this Motion, the Debtors will file supplemental pleadings to the extent necessary to describe the material terms of the New DIP Credit Agreement and Proposed Order in accordance with Bankruptcy Rule 4001 and Local Rule 4001-2.

<b>Summary of Material Terms</b>	<b>Replacement DIP Facility<sup>4</sup></b>
Local Rule 4001-2(a)(i)(D)	include liens on other actions brought under chapter 5 of the Bankruptcy Code.
<b>Provisions Deeming Prepetition Debt to be Postpetition Debt</b> Local Rule 4001-2(a)(i)(E)	Not applicable.
<b>Disparate Treatment of Professionals Under Carve-Out</b> Local Rule 4001-2(a)(i)(F)	The Proposed Order will provide for a Carve-Out as set forth in the Approved Budget (defined below).
<b>Non-Consensual Priming Liens</b> Local Rule 4001-2(a)(i)(G)	The Replacement DIP Liens will be priming liens on all assets of the Debtors. The right of a seller of goods to reclaim such goods under section 546(c) of the Bankruptcy Code are expressly subordinate and subject to the Replacement DIP Liens and Prepetition Secured Notes Liens. Notwithstanding the foregoing, the liens against the Debtors currently held by Bexar County, Dallas County, Harris County, Montgomery County and Tarrant County Texas shall not be primed by the Replacement DIP Liens. The Debtors do not anticipate an objection from the holder of Senior Secured Notes.
<b>Section 552(b)(1) Waiver</b> Local Rule 4001-2(a)(i)(H)	All waivers in the Existing DIP Orders shall be applicable to the Replacement DIP Facility.
<b>Other Essential Terms</b> Local Rule 4001-2(a)(ii)	<p>Conditions precedent to closing of Replacement DIP Facility are specified on pages of 12-17 of the Commitment letter, and include, <i>inter alia</i>:</p> <ol style="list-style-type: none"> <li>1) No material adverse change in the condition (financial or otherwise), business, operations, assets, nature of assets or liabilities of any Credit Party; <u>provided that</u>, PNC acknowledges that neither the commencement nor the continuance of the Chapter 11 Cases, nor the commencement nor the continuance of the CCAA Proceedings with respect to the Canadian Debtors, nor the consummation of the sale of substantially all of the assets of the Canadian Debtors that has been approved by the Canadian Court in the CCAA Proceedings shall constitute any grounds for declaration of such a material adverse effect.</li> <li>2) No material threatened or pending litigation or material contingent obligations.</li> <li>3) Execution of the Replacement DIP Credit Agreement and the other Replacement DIP Credit Documents (subject to the Documentation Principals) and legal opinions relating to the Replacement DIP Credit Documents, the Replacement DIP Liens and the Credit Parties reasonably acceptable to Agent.</li> <li>4) Satisfactory asset-based field examination to be completed by examiners selected by Agent.</li> <li>5) Evidence of (x) the due recording of UCC-1 financing statements (including, if applicable, fixture filings) against each of the Credit Parties in all applicable</li> </ol>

Summary of Material Terms	Replacement DIP Facility <sup>4</sup>
	<p>jurisdictions required for perfection under Article 9 of the UCC of the Replacement DIP Liens in the DIP Collateral and (y) the recording of a deed of trust or similar mortgage instrument in form and substance satisfactory to Agent (consistent with the Documentation Principals) required for perfection under Texas state and local real estate laws of the Replacement DIP Liens in the Texas Property.</p> <p>6) Satisfactory valuation of the Borrowers' inventory to be completed by appraiser selected by Agent.</p> <p>7) Satisfactory review of the Debtors' Schedules and SOFAs..</p> <p>8) After giving effect to all advances to be made at closing and the payment of all fees and expenses relating to the Transactions, the Borrower will have minimum excess revolving credit availability – calculated as the positive amount (if any) of (x) the lesser of (I) the maximum revolving credit commitment or (II) the Borrowing Base, minus (y) the aggregate outstanding amount of all revolving credit loans, swingline loans and letter of credit obligations, minus (z) the aggregate amount of all unpaid post-petition trade payables 30 days or more past due (“<b>Excess Availability</b>”) – of not less than \$12,500,000. Such Excess Availability to be evidenced by a Borrowing Base Certificate for the Replacement DIP Credit Facilities, satisfactory to the Agent and the Lender.</p> <p>9) The Golf Town Transaction shall have occurred pursuant to a Final Order of the Canadian Court (and also, a Final Order of the Bankruptcy Court authorizing the applicable Golfsmith Debtors to enter into and perform their obligations under the “Transition Services Agreement” being executed by certain of the Golfsmith Debtors in connection with the Golf Town Transaction) and shall have resulted in not less than [\$45,000,000]<sup>6</sup> of net cash proceeds payable upon the closing thereof, which proceeds shall have been applied towards repayment of the Existing First Lien Facility and/or the Existing DIP Facility.</p> <p>10) Entry of a Final Order of the Canadian Court in the CCAA Proceedings providing for (x) a secured claim in the CCAA Proceedings, attaching to any net cash proceeds of the Golf Town Transaction retained and/or escrowed by the Monitor in the CCAA Proceedings, with respect to amounts owing and/or to become owing to any of the Golfsmith Debtors under the “Transition Services Agreement” being executed by certain of the Golfsmith Debtors in connection with the Golf Town Transaction, and (y) a secured claim in the CCAA Proceedings, attaching to any net cash proceeds of the Golf Town Transaction retained and/or escrowed by the Monitor in the CCAA Proceedings, with respect to any such net cash proceeds that become eligible for release from such retentions and escrows from time to time, as payments owing by the Canadian Debtors to the Golfsmith Debtors in connection with the joint and several liability of the Canadian Debtors for the Prepetition Obligations and the Existing DIP Facility (such claims, collectively, the “<b>US Debtors CCAA Claims</b>”);</p>

<sup>6</sup> Subject to agreement by Golfsmith Debtors and PNC on final accounting with respect to proceeds of Golf Town Transaction

Summary of Material Terms	Replacement DIP Facility <sup>4</sup>
	<p>11) Entry of a Final Order of the Bankruptcy Court approving the Restructuring Support Agreement (as defined in the Existing DIP Credit Agreement).</p> <p>12) Entry of a Final Order of the Bankruptcy Court approving (on a final basis) the Expense Reimbursement Letter, and payment of all amount owing thereunder as of the closing date.</p> <p>13) Delivery to Agent of (x) the OMERS LC, as amended to reflect the transfer thereof from Existing DIP Agent to Replacement DIP Agent, or (ii) a replacement Sponsor LC.</p> <p>14) Evidence satisfactory to Agent, in its sole discretion, of the current trade terms offered to the Credit Parties by their various vendors, which such trade terms shall be satisfactory to Agent, in its sole discretion.</p> <p>15) Evidence that the Credit Parties are in compliance with all pertinent Federal, State, and local regulations including, but not limited to, those with respect to EPA, OSHA and ERISA</p> <p>16) Receipt by Agent of a 13-week projected budget (beginning with the week ending November 4, 2016), which shall include a weekly cash budget, including information on a line item basis for each week as to (w) projected cash receipts, (x) projected disbursements (including ordinary course operating expenses, bankruptcy-related expenses (including professional fees), capital expenditures, asset sales and fees and expenses of Agents and Lenders (including counsel therefor) and any other fees and expenses relating to the Replacement DIP Credit Documents), (y) net cash flow, and (z) the Borrowing Base and Excess Availability, to be in form and substance acceptable to the Agent and the Lenders in their discretion (the “<b>Approved Budget</b>”), provided that the form and detail of the approved budget provided under the Existing DIP Facility shall be the Agent and the Lender;</p> <p>17) Receipt by Agent of a projected week-by-week “wind-down budget” (in form and detail similar in all material respects to the Approved Budget) setting forth the budget necessary following the occurrence of any Milestone Breach (as defined below) to fund and complete (within sixty (60) days of the commencement thereof) Wind-Down GOB Sales (as defined below) with respect to all the Golfsmith Debtors, which shall include a weekly cash budget, including information on a line item basis for each week as to (w) projected cash receipts, (x) projected disbursements (including ordinary course operating expenses, bankruptcy-related expenses (including professional fees), asset sales and fees and expenses of Agents and Lenders (including counsel therefor) and any other fees and expenses relating to the Replacement DIP Credit Documents), (y) net cash flow, and (z) the Borrowing Base and Excess Availability, to be in form and substance acceptable to the Agent and the Lenders in their discretion (the “<b>Wind-Down Budget</b>”);</p> <p>18) Either (x) if the Transactions are accomplished by means of a Replacement DIP Documentation, receipt of satisfactory evidence of cancellation of all commitments from the First Lien Agent, the First Lien Lenders, the Existing DIP Agent, and the Existing DIP Lenders, repayment in full of the First Lien Facility</p>

Summary of Material Terms	Replacement DIP Facility <sup>4</sup>
	<p>and the Existing DIP Facility, and termination of all security interests, liens and administrative claims in favor of the First Lien Agent, the First Lien Lenders, the Existing DIP Agent, and the Existing DIP Lenders, including delivery of one or more letter(s) confirming such terminations and repayments if requested by the Agent, or (y) if the Transactions are accomplished by means of a DIP Buyout, the purchase by PNC of all of the right, title and interest of the First Lien Lenders in the First Lien Facility and the First Lien Documents and appointment of PNC as the successor to the First Lien Agent and the purchase by PNC of all of the right, title and interest of the DIP Lenders in the Existing DIP Facility and the existing DIP Credit Documents and appointment of PNC as the successor to the Existing DIP Agent, in each case on terms and conditions and pursuant to documentation acceptable to PNC in its discretion;</p> <p>19) Delivery of evidence of insurance coverage satisfactory to Agent, and a lender's loss payee endorsement, naming the Agent as loss payee or an additional insured, as applicable;</p> <p>20) If the Texas Property is located in an area designated as a flood hazard area by any governmental agency, the Borrower will provide the Agent, at the Borrower's expense, with a policy of flood insurance in an amount equal to the value of the Texas Property or the maximum amount available under the federal flood insurance program, whichever is less.;</p> <p>21) Completion of satisfactory background checks and other "know your customer" compliance checks;</p> <p>22) Either (x) if the Transactions are accomplished by means of a Replacement DIP Documentation, entry by the Bankruptcy Court of a Final Order approving the Replacement DIP Credit Facilities and the Transactions consistent with the terms of this Commitment Letter (including this Term Sheet) and the Replacement DIP Credit Documents which shall be on terms no less favorable to Agent and Lenders than the terms of the Final Existing DIP Order are favorable to Existing DIP Agent and Existing DIP Lenders and otherwise satisfactory and acceptable to Agent in its discretion, or (y) if the Transactions are accomplished by means of a DIP Buyout, entry by the Bankruptcy Court of a Final Order approving the DIP Buyout and the Replacement DIP Credit Facilities and confirming that the terms and provisions of the Final Existing DIP Order shall continue in full force and effect for the benefit of PNC as the successor in interest to the First Lien Agent and First Lien Lenders and the successor in interest to the Existing DIP Agent and Existing DIP Lender and otherwise satisfactory and acceptable to Agent in its discretion (any such Final Order under the preceding clause (x) or (y), as applicable, the "<b>Final Replacement DIP Order</b>"); provided that, in either such case, such Final Replacement DIP Order shall provide that (A) (i) the Replacement DIP Credit Facilities are "Senior ABL Claims" (as defined in the Intercreditor Agreement) for all purposes, (ii) the Intercreditor Agreement is and remains in full force and effect, and (ii) the Replacement DIP Credit Facilities and the Replacement DIP Credit Documents (and the holders thereof and agents thereunder) shall succeed to, and be legally entitled to, without limitation, all of the benefits, priorities, rights and remedies provided by the Intercreditor Agreement to the "Senior ABL Claims" and the holders thereof, and (B) shall provide that the Carve-Out as well as any reimbursement obligations for the fees,</p>

Summary of Material Terms	Replacement DIP Facility <sup>4</sup>
	costs and expenses of the Indenture Trustee and the Collateral Agent shall be limited to the amounts set forth in the Approved Budget.

**Debtors' Need to Access Replacement DIP Financing**

20. The orderly continuation of Golfsmith's operations, the preservation of the value of its assets, and its ability to implement a Golfsmith Reorganization are dependent upon Golfsmith's ability to arrange replacement DIP financing. Accordingly, access to the Replacement DIP Facility on the terms described in the Commitment Letter is critical to preserve the going concern value of the Debtors' estates, and to maintain the flexibility of the Debtors to pursue a transaction that ensures that such value is realized by the Debtors' key stakeholders.

21. At the Petition Date, the Existing DIP Facility offered the best terms available to Company, and in fact, was the only commercially viable financing available. On September 16, 2016, the Court entered the Existing Interim DIP Order approving the Debtors' DIP Motion and authorizing the Debtors to access postpetition financing and use cash collateral. Similar relief was also granted by the Canadian Court with respect to Golf Town pursuant that Initial Order dated September 14, 2016 (the "**CCAA Initial Order**"). Since then, the Company has used the Existing DIP Facility to stabilize its businesses, implement GOB Sales at nineteen (19) of the Debtors' underperforming stores, implement a sale of substantially all the assets of Golf Town to pay down their obligations under the Antares Facilities in part, and simultaneously pursue either a (i) sale of Golfsmith's business, or (ii) a Golfsmith Restructuring.

22. Furthermore, the Existing DIP Facility is tied to sale process milestones in the Existing DIP Credit Agreement, which provide that if Golfsmith fails to consummate a sale of Golfsmith's assets by October 31, 2016, it must commence a liquidation of its assets.

Although the Debtors are currently undertaking a thorough review of bids received today in connection with the Auction, and are preparing for the Auction, the Debtors are concerned that the Existing DIP Facility's inexorable connection to the sale process forecloses the possibility of pursuing a Golfsmith Reorganization should the Debtors ultimately, in their reasonable business judgment, believe that path forward is in the best interests of its creditors and estates.

23. Accordingly, in order to maintain its operations and maintain the flexibility to pursue a Golfsmith Reorganization, the Debtors must replace the Existing DIP Facility no later than October 31, 2016.

**Marketing and Negotiation of the Replacement DIP Facility**

24. Following the commencement of these chapter 11 cases, the Debtors asked their DIP Lenders to amend the milestones under the Existing DIP Credit Agreement to give the Debtors the flexibility to pursue a Golfsmith Reorganization. However, the DIP Lenders were unwilling to extend the Existing DIP Facility past October 31, 2016. However, they did express a willingness to work with a new lender that would refinance or buy out the Antares Facilities by that date. Accordingly, over the last several weeks, the Debtors and their advisors have been diligently seeking sources of replacement postpetition financing.

25. In marketing the financing opportunity, the Debtors sought to obtain a replacement DIP facility that would (i) enhance their liquidity position on competitive terms and (ii) provide them sufficient liquidity and time to pursue the Golfsmith Restructuring and obtain a commitment for exit financing. While a number of parties expressed an interest in potentially providing replacement financing, discussions with PNC were most productive and included the possibility of obtaining exit financing from PNC. Accordingly, the Debtors determined that

negotiations with PNC best furthered its objective of confirming and consummating a consensual chapter 11 plan or plans.

26. On October 14, 2016, the Debtors filed a motion with the Court to reimburse PNC for its expenses up to a cap of \$400,000 (including an initial deposit of \$250,000) in the event the refinancing does not close. On the date hereof, the Court entered an order approving the motion on an interim basis. At a hearing on October 17, 2016, the Court indicated that it would grant the relief requested, pending receipt of a revised proposed order, which the Debtors anticipate will be finalized in the near term.

27. The Debtors have determined that PNC is able to provide the required replacement financing on better terms than the Debtors' current financing facility or any other proposed financing from other sources. The broad terms of the Commitment Letter are on competitive, market-based terms, and are less costly than preliminary proposals discussed with potential alternative postpetition financing sources. Furthermore, many of the material terms of the Commitment Letter, including the interest rate, are substantially similar to the terms of the Existing DIP Credit Agreement, meaning the incremental cost of entering into the Replacement DIP Facility is relatively minimal.

28. Given the pending maturity of the Existing DIP Facility, the terms and flexibility offered by the Replacement DIP Facility, and the benefits that may be derived by the Debtors' estates through the potential exit financing, entering into the Replacement DIP Facility is the best financing option available to the Debtors.

29. The Debtors' use of the proceeds of the Replacement DIP Facility will be governed by the terms of the Replacement DIP Credit Agreement, the Proposed Order, and a DIP budget, each of which the Debtors expect will be fully negotiated with PNC before October



31, 2016, and will be filed with the Court and served upon the applicable parties in parties in interest in advance of the hearing scheduled for that date. Although the form of such documents, as well as the mechanics of the Replacement DIP Facility, are subject to negotiation, it is anticipated that the Replacement DIP Agent, on behalf of the Replacement DIP Lenders, will receive the following security interests in and liens upon (the “**Replacement DIP Liens**”) the following property (collectively, the “**DIP Collateral**):

- (i) First Lien on Unencumbered Property. Pursuant to section 364(c)(2) of the Bankruptcy Code, a fully perfected first priority security interest in all unencumbered property and assets of the Debtors and the proceeds thereof (other than the Avoidance Actions).
- (ii) Liens Junior to Certain Existing Liens. Pursuant to section 364(c)(3) of the Bankruptcy Code, a fully perfected junior security interest in all property and assets of the Debtor subject to certain “Permitted Prior Liens”.
- (iii) Liens Priming the Liens of the Senior Notes Secured Parties. Pursuant to section 364(d)(1) of the Bankruptcy Code, a fully perfected senior priming lien in all property and assets of the Debtors, senior to the liens securing the Second Priority Obligations.
- (iv) Superpriority Charge over Canadian Property. Pursuant to the CCAA Initial Order, including any amendment thereto, or further order of the Canadian Court, a superpriority charge on any Prepetition Collateral owned by any Golf Town entity, or similar provision acceptable to the Replacement DIP Lenders.

30. The Debtors also anticipate that the Proposed Order will grant to the DIP Agent and DIP Lenders allowed superpriority administrative expense claim status in respect of all obligations owing under the Replacement DIP Facility.

31. The Replacement DIP Facility also provides for the following milestones related to the achievement of a Golfsmith Reorganization (the “**New Milestones**”), which provide the Debtors with flexibility and ample time to achieve a consensual restructuring

transaction with the support of their key creditor constituencies, in the best interest of their estates. The New Milestones are as follows:<sup>7</sup>

- File a plan of reorganization and disclosure statement by November 4, 2016
- Obtain entry of an order approving the disclosure statement by December 12, 2016
- Complete service of plan solicitation packages by December 16, 2016
- Obtain entry of an order confirming the plan by January 19, 2017
- The plan shall be effective by January 20, 2017.

32. In accordance with the New Milestones, in the event the effective date of a plan shall not have occurred by January 20, 2017, the New DIP Credit Parties shall commence going out of business sales (“**GOB Sales**”) at all of their retail stores for all inventory, and shall notify all affected landlords of the GOB Sales and the Debtors’ intention to reject all leases with respect to retail store locations. The GOB Sales shall then be commenced no later than February 11, 2017 in order to assure an adequate period for the GOB Sales prior to the expiration of the current deadline for the Debtors to assume or assign their leases of non-residential real property.

33. The Debtors are satisfied that the New Milestones are achievable and that the availability under the Replacement DIP Facility will provide ample liquidity through to the effective date of a plan. Building on the restructuring support agreement entered into with the Supporting Noteholders on the Petition Date, the Debtors are working constructively with their

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<sup>7</sup> Any summary of the New Milestones is subject to further negotiation of the New DIP Credit Agreement and Proposed Order. To the extent this summary of the New Milestones and the Proposed Order or New DIP Credit Agreement are inconsistent, the Proposed Order or New DIP Credit Agreement, as applicable, shall control.

key creditor constituencies and expect they can meet the first New Milestone by filing a plan of reorganization and disclosure statement on or before November 4, 2016.

34. The Replacement DIP Obligations shall succeed to, and be legally entitled to, without limitation, all of the benefits, priorities, rights and remedies provided by the Intercreditor Agreement to the “Senior ABL Claims”. Pursuant to Intercreditor Agreement Section 11.14(b), and Indenture Section 4.09(b), the Replacement DIP Facility will constitute a replacement of the Prepetition ABL Documents and Obligations and are automatically treated as “Senior ABL Claims” for all purposes.

35. The other material terms and conditions of the DIP Facility are summarized in the table at the beginning of this Motion. The broad terms and conditions of the Replacement DIP Facility, including the New Milestones and the Replacement DIP Liens, are commercially reasonable. Such terms and conditions have been, and will continue to be, negotiated at length and in good faith by well-represented, independent parties, in consultation with key stakeholders in these chapter 11 cases. The Debtors have negotiated the best terms available to obtain the funding they need to continue to run these chapter 11 cases and pursue a plan of reorganization.

36. Furthermore, pursuant to this Motion, the Debtors intend to provide the Senior Notes Secured Parties with adequate protection pursuant to sections 361, 363(c)(2), 363(e), and 364(d)(1) of the Bankruptcy Code to protect them from any diminution in value of their interests in the Prepetition Collateral. Although the terms of the Proposed Order have yet to be fully negotiated, the Debtors anticipate that the terms of the Proposed Order will provide the Senior Notes Secured Parties with substantially the same adequate protection package provided

for under the Interim Order – notably, replacement liens and allowed superpriority claims for each, all as more fully described in the DIP Motion.

**Basis for Relief Requested**

**A. The Replacement DIP Facility Should Be Approved**

37. Approval of the Replacement DIP Facility will provide the Debtors with continued access to liquidity that will allow them to pay ongoing operating expenses, operate their business in the ordinary course, and continue to pursue a value maximizing sale transaction or restructuring. Without approval of the Replacement DIP Facility, the obligations under the Existing DIP Credit Agreement may become due and payable on October 31, 2016, disrupting or ending the Debtors' restructuring efforts.

38. Section 364(c) of the Bankruptcy Code provides, among other things, that if a debtor is unable to obtain unsecured credit allowable as an administrative expense under section 503(b)(1) of the Bankruptcy Code, the court may authorize the debtor to obtain credit or incur debt (a) with priority over any and all administrative expenses as specified in section 503(b) or 507(b) of the Bankruptcy Code, (b) secured by a lien on property of the estate that is not otherwise subject to a lien, or (c) secured by a junior lien on property of the estate that is subject to a lien. 11 U.S.C. § 364(c). Section 364(d) of the Bankruptcy Code allows a debtor to obtain credit secured by a senior or equal lien on property of the estate that is subject to a lien, provided that (a) the debtor is unable to obtain such credit otherwise, and (b) there is adequate protection of the interest of the holder of the lien on the property of the estate on which such senior or equal lien is proposed to be granted. 11 U.S.C. § 364(d).

39. As described herein, Despite their efforts, the Debtors were unable to (a) procure sufficient financing (i) in the form of unsecured credit allowable under section 503(b)(1),

(ii) as an administrative expense under section 364(a) or (b), (iii) in exchange for the grant of a superpriority administrative expense claim pursuant to section 364(c)(1), or (iv) without granting priming liens pursuant to section 364(d), or (b) obtain postpetition financing or other financial accommodations from any alternative prospective lender or group of lenders on more favorable terms and conditions than those for which approval is sought herein.

40. Given that all of the Debtors' assets are encumbered by prepetition liens and DIP liens, no party was willing to extend unsecured financing or financing supported only by an administrative expense claim or a junior lien. Accordingly, the only replacement financing available to the Debtors was through the refinancing or buyout of the Existing DIP Facility.

41. Having determined that financing was available only under sections 364(c) and (d) of the Bankruptcy Code, the Debtors, in their best business judgment, negotiated the Replacement DIP Facility with PNC extensively, at arm's length and in good faith. Provided that a debtor's business judgment does not run afoul of the provisions of, and policies underlying, the Bankruptcy Code, courts grant a debtor considerable deference in acting in accordance therewith. *See, e.g., Bray v. Shenandoah Fed. Sav. & Loan Ass'n (In re Snowshoe Co.)*, 789 F.2d 1085, 1089–90 (4th Cir. 1986); *In re Ames Dep't Stores, Inc.*, 115 B.R. 34, 40 (Bankr. S.D.N.Y. 1990) (“[C]ases consistently reflect that the court's discretion under section 364 is to be utilized on grounds that permit reasonable business judgment to be exercised so long as the financing agreement does not contain terms that leverage the bankruptcy process and powers or its purpose is not so much to benefit the estate as it is to benefit a party-in-interest.”); *see also In re Simasko Prod. Co.*, 47 B.R. 444, 449 (D. Colo. 1985); *Funding Sys. Asset Mgmt. Corp. v. Key Capital Corp. (In re Funding Sys. Asset Mgmt. Corp.)*, 72 B.R. 87, 88 (Bankr. W.D. Pa. 1987); *In re Curlew Valley Assocs.*, 14 B.R. 506, 513–14 (Bankr. D. Utah 1981).

42. Section 364(d) does not require that a debtor seek alternative financing from every possible lender; rather, the debtor simply must demonstrate sufficient efforts to obtain financing without the need to grant a senior lien. *In re Snowshoe Co.*, 789 F.2d at 1088 (demonstrating that credit was unavailable absent the senior lien by establishment of unsuccessful contact with other financial institutions in the geographic area); *In re 495 Central Park Ave. Corp.*, 136 B.R. 626, 631 (Bankr. S.D.N.Y. 1992) (debtor testified to numerous failed attempts to procure financing from various sources, explaining that “most banks lend money only in return for a senior secured position”); *In re Aqua Assocs.*, 123 B.R. 192, 197 (Bankr. E.D. Pa. 1991) (debtor’s “evidence of a credit quest” adequately established that some degree of priming loan was necessary for the debtor to obtain funding).

43. As described herein, Debtors and their professionals have worked hard to negotiate in good faith with various parties for replacement postpetition financing. The result of such efforts is the Replacement DIP Facility, entry into which is necessary to preserve the Debtors’ ability to pursue a restructuring. The Replacement DIP Facility offers the Debtors postpetition financing on terms that are either improved or substantially similar to the Existing DIP Facility, and on terms superior to alternative proposals received. Given the circumstances and exigencies of these chapter 11 cases, and the optionality offered by the Replacement DIP Facility, the Debtors believe that they have dutifully exercised their business judgment and fiduciary obligations to successfully negotiated postpetition financing on the best terms available. Furthermore, approval of the Replacement DIP Facility will be viewed favorably by the Debtors’ employees, vendors and customers, as it permits the Debtors to continue normal operation of their businesses pending the consummation of a value maximizing sale transaction or reorganization.

44. Because the terms and conditions of the Replacement DIP Facility are fair and reasonable, and were negotiated extensively at arm's length and in good faith, the Replacement DIP Lenders and all obligations incurred in connection with the Replacement DIP Facility should be afforded the benefits of section 364(e) of the Bankruptcy Code.

**B. The Debtors Should Be Authorized to Repay the Existing DIP Facility and First Lien Facility in Full**

45. Pursuant to section 363(b)(1) of the Bankruptcy Code, the Debtors request authorization to repay the Existing DIP Facility and First Lien Facility in full with the proceeds of the Replacement DIP Facility. Following the roll-up of the Company's postpetition receipts, including the proceeds of the Company's GOB Sales, and the proceeds of the sale of the Golf Town business to an entity owned by the Supporting Noteholders, the outstanding balance under the First Lien Facility is approximately \$60.9 million, and the balance under the Existing DIP Facility is approximately \$25.5 million. Repaying the Antares Facilities in full with the proceeds of the Replacement DIP Facility is supported by the Debtors' business judgment, and is consistent with the previous orders of this Court that authorized the roll-up of the First Lien Facility.

46. Under section 363(b)(1) of the Bankruptcy Code, "[t]he [debtor], after notice and a hearing, may use, sell, or lease, other than in the ordinary course of business, property of the estate." 11 U.S.C. § 363(b)(1). This provision grants a court broad flexibility to authorize a debtor to pay prepetition claims where a sound business purpose exists. *See In re Ionosphere Clubs, Inc.*, 98 B.R. 174, 175 (Bankr. S.D.N.Y. 1989). In addition, under section 105(a) of the Bankruptcy Code, "[t]he court may issue any order, process, or judgment that is necessary or appropriate to carry out the provisions of this title." 11 U.S.C. § 105(a). Pursuant to section 105(a) and the doctrine of necessity, the bankruptcy court may exercise its broad

equitable powers to authorize the payment of prepetition obligations when such payment is essential to the continued operation of a debtor's business. *See, e.g., In re Just for Feet, Inc.*, 242 B.R. 821, 824–25 (D. Del. 1999) (holding that section 105(a) of the Bankruptcy Code provides a statutory basis for the payment of prepetition claims under the doctrine of necessity and noting that “[t]he Supreme Court, the Third Circuit and the District of Delaware all recognize the court's power to authorize payment of pre-petition claims when such payment is necessary for the debtor's survival during chapter 11”); *In re Columbia Gas Sys., Inc.*, 171 B.R. 189, 191–92 (Bankr. D. Del. 1994) (confirming that the doctrine of necessity is the standard in the Third Circuit for enabling a court to authorize the payment of prepetition claims prior to the confirmation of a reorganization plan).

47. Bankruptcy courts regularly rely on their authority under section 105(a) and the doctrine of necessity to grant debtors the discretionary authority to pay certain prepetition claims “where the payment is necessary to permit the effectuation of the rehabilitative purposes of the Bankruptcy Code.” *In re Sharon Steel Corp.*, 159 B.R. 730, 736 (Bankr. W.D. Penn. 1993); *see also In re Lehigh & New England Ry. Co.*, 657 F.2d 570, 581 (3d Cir. 1981) (holding that a court may authorize payment of prepetition claims if such payment is essential to continued operation of the debtor); *Ionosphere Clubs*, 98 B.R. at 175 (authorizing the payment of prepetition claims and explaining that the “ability of a Bankruptcy Court 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”). The rationale for making payments to prepetition creditors under the doctrine of necessity is consistent with the paramount goal of chapter 11: “the continued operation and rehabilitation of the debtor . . . .” *Ionosphere Clubs*, 98 B.R. at 176. To that end, approval of such payments often benefits, rather than harms, the Debtors' other



creditors. *See, e.g., Sharon Steel*, 159 B.R. at 737 (approving payments of prepetition wages under the doctrine of necessity where doing so would maximize the value of the Debtors' assets and noting that payments made pursuant to the doctrine of necessity "must not only be in the best interest of the debtor but also in the best interest of its other creditors").

48. As set forth herein, the Debtors and Replacement DIP Lenders negotiated the terms of the Replacement DIP Facility in good faith and at arms' length. The authority requested herein is necessary for the Debtors to implement the transactions contemplated by the Replacement DIP Facility, and for the Debtors to have access to the liquidity needed to preserve their business and pursue a Golfsmith Reorganization, should that they determine, in their reasonable judgement, that such a path is preferable to implementing a sale transaction following the Auction. Repayment of the Antares Facilities in full will allow the Debtors to move forward in these chapter 11 cases in accordance with the milestones and conditions of the Replacement DIP Facility.

49. Furthermore, repayment of the First Lien Facility pursuant to the roll-up was already approved by the Court pursuant to the Final DIP Order. Accordingly, it is in the Debtors' sound business judgment, and consistent with previous orders of this court, to repay the Antares Facilities in full.

50. Moreover, because the validity of the liens under the First Lien Facility are subject to review by the Creditors' Committee, no parties in interest will be prejudiced by the repayment of the obligations thereunder. Accordingly, the Debtors respectfully request the authority to repay the Antares Facilities on an accelerated basis.

**C. The Automatic Stay Should Be Modified on a Limited Basis.**

51. The relief requested herein contemplates a modification of the automatic stay to permit the Debtors to grant the liens and superpriority claims described above to the Replacement DIP Agent, to permit the Replacement DIP Agent to perform such acts as may be requested to assure the perfection and priority of such liens, and to permit the Debtors and the Replacement DIP Agent to take any other actions necessary and appropriate to implement the terms of the Replacement DIP Facility. Stay modifications of this kind are ordinary and standard features for access to DIP financing, and in the Debtors' business judgment, are reasonable and fair under the present circumstances.

**Notice**

52. Notice of this Motion will be provided to (i) the Office of the United States Trustee for the District of Delaware, 844 King Street, Suite 2207, Wilmington, Delaware 19801 (Attn: Jane Leamy, Esq.); (ii) Cooley LLP 1114 Avenue of the Americas, New York, NY 10036 (Attn: Lawrence C. Gottlieb, Esq., Jeffrey L. Cohen, Esq., Michael Klein, Esq., and Richelle Kalnit, Esq.) and Polsinelli PC, 222 Delaware Avenue, Suite 1101, Wilmington, DE 19801 (Christopher A. Ward, Esq. and Shanti M. Katona, Esq.) counsel to the Official Committee of Unsecured Creditors; (iii) Morgan, Lewis & Bockius LLP, One Federal Street, 32nd Floor, Boston, MA 02110 (Attn: Sandra J. Vrejan, Esq., Julia Frost-Davies, Esq., and Amelia C. Joiner, Esq.) and Reed Smith LLP, 1201 Market Street, Suite 1500, Wilmington, Delaware 19801 (Attn: Kurt F. Gwynne, Esq. and J. Cory Falgowski, Esq.), counsel to Antares Capital LP, as (a) successor in interest to the Agent under the Debtors' prepetition ABL Credit Facility, and (b) DIP Agent under the Debtors' DIP Facility; (iv) Carter Ledyard & Milburn LLP, Two Wall Street, New York, New York 10005 (Attn: James Gadsden, Esq.), as counsel for

The Bank of New York Mellon, as U.S. Co-Trustee and U.S. Collateral Agent under the Senior Secured Note Indenture and BNY Trust Company of Canada, as Canadian Co-Trustee and Canadian Collateral Agent under the Senior Secured Note Indenture (together with The Bank of New York Mellon, the “**Indenture Trustees**”); (v) the Indenture Trustees; (vi) OCPI GT SPV Limited, 100 University Avenue, Toronto, Ontario M5H 4H2 (Attn: Andrew Prodanyk), as guarantor under the SPV Holdco Guarantee; (vii) Goodmans LLP, 333 Bay Street, Suite 3400, Toronto, Ontario M5H 2S7 (Attn: Robert J. Chadwick and Melaney Wagner), as counsel to Golf Town in the CCAA Proceeding; (viii) FTI Consulting Canada Inc., the Canadian Court-appointed monitor in the CCAA Proceeding (the “**Monitor**”), TD South Tower, 79 Wellington Street West, Toronto Dominion Centre, Suite 2010, P.O. Box 104, Toronto, ON M5K 1G8 (Attn: Paul Bishop and Jim Robinson); (ix) Osler, Hoskin & Harcourt LLP, 100 King Street West, 1 First Canadian Place, Suite 6200, P.O. Box 50, Toronto, Ontario M5X 1B8 (Attn: Tracy Sandler), as counsel for the Monitor; (x) Kasowitz, Benson, Torres & Friedman LLP, 1633 Broadway, New York, New York, 10019 (Attn: Andrew K. Glenn, Esq., Daniel A. Filman, Esq., and P. Nii-Amar Amamoo, Esq.) and Stikeman Elliot LLP, 5300 Commerce Court West, 199 Bay Street, Toronto, Ontario M5L1B9 (Att: Elizabeth Pillon), as counsel for Fairfax Financial Holdings, Ltd.; (xi) the Securities and Exchange Commission; (xii) the Internal Revenue Service; (xiii) the United States Attorney’s Office for the District of Delaware; (xiv) Blank Rome, LLP, 1201 N. Market Street, Suite 800, Wilmington Delaware 19801 (Attn: Regina Stango Kelbon, Esq. and Josef W. Mintz, Esq.), as counsel for PNC Bank, National Association, as Lender; and (xv) all parties who have requested service of notices pursuant to Bankruptcy Rule 2002.

53. The Debtors respectfully submit that, in view of the facts and circumstances surrounding this Motion and the nature of the relief requested herein, no other or further notice need be provided.

**No Previous Request**

54. No previous request for the relief sought herein has been made by the Debtors to this or any other court.

WHEREFORE the Debtors respectfully request entry of the Proposed Order granting the relief requested herein and such other and further relief as the Court may deem just and proper.

Dated: October 17, 2016  
Wilmington, Delaware

*/s/ Brett M. Haywood*

RICHARDS, LAYTON & FINGER, P.A.

Mark D. Collins (No. 2981)

John H. Knight (No. 3848)

Zachary I. Shapiro (No. 5103)

Brett M. Haywood (No. 6166)

One Rodney Square

920 North King Street

Wilmington, Delaware 19801

Telephone: (302) 651-7700

Facsimile: (302) 651-7701

-and-

WEIL, GOTSHAL & MANGES LLP

Michael F. Walsh (admitted *pro hac vice*)

David N. Griffiths (admitted *pro hac vice*)

Charles M. Persons (admitted *pro hac vice*)

767 Fifth Avenue

New York, New York 10153

Telephone: (212) 310-8000

Facsimile: (212) 310-8007

*Attorneys for the Debtors  
and Debtors in Possession*

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

	)	
<b>In re:</b>	)	<b>Chapter 11</b>
	)	
<b>GOLFSMITH INTERNATIONAL HOLDINGS, INC., et al.,</b>	)	<b>Case No. 16-12033 (LSS)</b>
	)	
<b>Debtors.<sup>1</sup></b>	)	<b>Jointly Administered</b>
	)	
	)	<b>Hearing Date: October 31, 2016 at 10:00 a.m. (ET)</b>
	)	<b>Obj. Deadline: October 31, 2016 at 9:00 a.m. (ET)</b>
	)	

**NOTICE OF MOTION AND HEARING**

PLEASE TAKE NOTICE that, on October 17, 2016, Golfsmith International Holdings, Inc. and its affiliated debtors in the above-captioned chapter 11 cases, as debtors and debtors in possession (collectively, the “**Debtors**”), filed the *Motion of Debtors for Order (I) Approving Postpetition Financing Under the Replacement DIP Facility, (II) Authorizing Use of Cash Collateral, (III) Granting Liens and Providing Superpriority Administrative Expense Status, (IV) Amending and Superseding the Interim DIP Order Entered on September 16, 2016 and the Final DIP Order Entered October 17, 2016, (V) Granting Adequate Protection, and (IV) Modifying the Automatic Stay* (the “**Motion**”) with the United States Bankruptcy Court for the District of Delaware (the “**Bankruptcy Court**”).

PLEASE TAKE FURTHER NOTICE that any responses or objections to the Motion must be in writing, filed with the Clerk of the Bankruptcy Court, 824 North Market Street, 3rd Floor,

<sup>1</sup> The Debtors in these chapter 11 cases, along with the last four digits of each Debtor’s federal tax identification number, as applicable, are: Golfsmith International Holdings, Inc. (4847); GMAC Holdings, LLC (3331); Golf Town USA Holdco Limited (5562); Golf Town USA Holdings Inc. (7038); Golf Town USA, LLC (0259); Golfsmith 2 GP, L.L.C. (2218); Golfsmith Europe, L.L.C. (2408); Golfsmith Incentive Services, L.L.C. (2730); Golfsmith International, Inc. (7337); Golfsmith International, L.P. (4257); Golfsmith Licensing, L.L.C. (5499); Golfsmith NU, L.L.C. (2404); and Golfsmith USA, L.L.C. (2405). The Debtors’ corporate headquarters is located at 11000 North IH-35, Austin, TX 78753.

Wilmington, Delaware 19801, and served upon and received by the undersigned counsel for the Debtors on or before **October 31, 2016 at 9:00 a.m. (ET)**.

PLEASE TAKE FURTHER NOTICE that if any objections to the Motion are received, the Motion and such objections shall be considered at a hearing before The Honorable Laurie Selber Silverstein, United States Bankruptcy Judge for the District of Delaware, at the Bankruptcy Court, 824 North Market Street, 6th Floor, Courtroom 2, Wilmington, Delaware 19801 on **October 31, 2016 at 10:00 a.m. (ET)**.

Dated: October 17, 2016  
Wilmington, Delaware

/s/ Brett M. Haywood

RICHARDS, LAYTON & FINGER, P.A.

Mark D. Collins (No. 2981)

John H. Knight (No. 3848)

Zachary I. Shapiro (No. 5103)

Brett M. Haywood (No. 6166)

One Rodney Square

920 North King Street

Wilmington, Delaware 19801

Telephone: (302) 651-7700

Facsimile: (302) 651-7701

-and-

WEIL, GOTSHAL & MANGES LLP

Michael F. Walsh (admitted *pro hac vice*)

David N. Griffiths (admitted *pro hac vice*)

Charles M. Persons (admitted *pro hac vice*)

767 Fifth Avenue

New York, New York 10153

Telephone: (212) 310-8000

Facsimile: (212) 310-8007

*Attorneys for the Debtors and Debtors in Possession*

**Exhibit A**

**Commitment Letter**





October 17, 2016

Golfsmith International Holdings, Inc.  
11000 North IH-35  
Austin, Texas 78753

Dear Ladies & Gentlemen:

In connection with the pending jointly-administered cases under Chapter 11 of the US Bankruptcy Code (11 U.S.C. §§101 et seq.) (collectively, the “**Chapter 11 Cases**”) commenced by Golfsmith International Holdings, Inc. (“**Golfsmith**”) and certain of its affiliates organized under the laws of jurisdictions located in the United States (all such United States affiliates that are the debtors under the Chapter 11 Cases, including Golfsmith, collectively, the “**Golfsmith Debtors**”) in the United States Bankruptcy Court for the District of Delaware (the “**Bankruptcy Court**”), you have requested that PNC Bank, National Association (“**PNC**”) provide certain of the Golfsmith Debtors (such Golfsmith Debtors, as contemplated by the Term Sheet, the “**Borrowers**”) with certain secured debtor-in-possession financing facilities in an aggregate amount of \$80,000,000 (the “**Replacement DIP Credit Facilities**”) (which Replacement DIP Credit Facilities may be provided, at the option of PNC, either (x) by means of newly documented debtor-in-possession financing facilities provided by PNC (a “**Replacement DIP Documentation**”) or (y) by the purchase by PNC of the existing First Lien Facility (as defined in the Final Existing DIP Order referenced below) (the “**Existing First Lien Facility**”) and the purchase by PNC from the existing “DIP Agent” identified in the Final Existing DIP Order referenced below (the “**Existing DIP Agent**”) and the existing “DIP Lenders” identified in the Final Existing DIP Order referenced below (the “**Existing DIP Lenders**”) and subsequent amendment or amendment and restatement of the existing DIP Facility (as defined in the Final Existing DIP Order referenced below) (the “**Existing DIP Facility**”) (a “**DIP Buyout**”), the proceeds of which Replacement DIP Credit Facilities would be used to refinance and replace the Existing First Lien Facility and the Existing DIP Facility and to provide financing and working capital to the Golfsmith Debtors during the Chapter 11 Cases while the Golfsmith Debtors seek confirmation of a plan of reorganization (the foregoing transactions and the other transactions contemplated hereby or referenced herein, the “**Transactions**”). Capitalized terms used herein and defined in the Term Sheet referenced below shall have the respective meanings given thereto in the Term Sheet, and capitalized terms used but not otherwise defined herein or in the Term Sheet referenced below shall have the respective meanings given thereto in that certain Final Order (I) Approving Postpetition Financing, (II) Authorizing Use of Cash Collateral, (III) Granting Liens and Providing Superpriority Administrative Expense Status, (IV) Granting Adequate Protection, and (V) Modifying Automatic Stay entered by the Bankruptcy Court in the Chapter 11 Cases on October 17, 2016 (the “**Final Existing DIP Order**”).

PNC is pleased to present a commitment (the “**DIP Financing Commitment**”) to provide the Replacement DIP Credit Facilities in an aggregate amount of \$80,000,000 for the purposes set forth above as more fully described in the attached Memorandum of Terms and Conditions (the “**Term Sheet**”). The Term Sheet includes only a brief description of the principal terms of the Replacement DIP Credit Facilities. The definitive terms of the Replacement DIP Credit Facilities will be documented in a new loan and security agreement (in the case of a Replacement DIP Documentation) or an amended/amended and restated version of the existing DIP Credit Agreement currently evidencing the Existing DIP Facility (the “**Existing DIP Credit Agreement**”) (in the case of a DIP Buyout) in each case,

Golfsmith International, Inc.

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consistent with the Documentation Principles (as defined in the Term Sheet) (such new loan and security agreement or amended/amended and restated version of the Existing DIP Credit Agreement, as applicable, the “**Replacement DIP Loan Agreement**”) and the other agreements, instruments, certificates and documents called for by the Replacement DIP Loan Agreement or which PNC may otherwise require.

PNC reserves the right, in consultation with you, to syndicate the Replacement DIP Credit Facilities (either before or after execution of the Replacement DIP Loan Agreement and the other definitive documentation for the Replacement DIP Credit Facilities (which other definitive documentation may consist of new ancillary loan documents and security documents (in the case of a Replacement DIP Documentation) or the existing ancillary loan documents and security documents executed in connection with the Existing DIP Credit Agreement, as required to be amended/amended and restated by PNC in connection with the Replacement DIP Credit Facilities (in the case of a DIP Buyout) (as applicable, collectively, the “**Replacement DIP Credit Documents**”)) with a financial institution or group of financial institutions satisfactory to PNC and acceptable to you, provided that, any such syndication shall not be a condition precedent to the DIP Financing Commitment. Accordingly, each Borrower hereby represents, warrants and covenants that all written information and data concerning the Borrowers, the other Credit Parties, Golfsmith Holdco and the Replacement DIP Credit Facilities (other than forward looking information, information of a general economic and industry nature and projections of future financial performance, including without limitation the Approved Budget and any proposed updated, modified or supplemented budget(s) prepared by or on behalf of the Borrowers in connection with the Transactions (the “**Information**”) which has been or is made available in writing to PNC by or on behalf of the Credit Parties or by any authorized representative of the Credit Parties in connection with the Transactions (as subsequently updated or corrected), is and will be, taken as a whole, complete and correct in all material respects and does not and will not contain any untrue statement of a material fact or omit to state a material fact, in each case, necessary to make the statements contained therein, taken as a whole and in light of the circumstances under which such statements were made, not misleading in any material respect. All projections, and any Approved Budget and/or proposed updated, modified or supplemented budget(s), that have been or are hereafter made available by or on behalf of the Credit Parties are, or when delivered shall be, prepared in good faith on the basis of information and assumptions that are believed by you to be reasonable at the time such projections, Approved Budget or updated, modified or supplemented budget(s) were prepared; it being recognized by PNC that projections of future results and forecasted budgets are not to be viewed as facts and actual results may vary significantly from projected results. In arranging and syndicating the Replacement DIP Credit Facilities, PNC will be using and relying on the Information without independent verification thereof.

PNC may terminate its obligations under this letter (together with the Term Sheet, this “**Commitment Letter**”) (i) if the terms of the Transactions are changed in any material respect, (ii) if any material information submitted to PNC proves to have been inaccurate or incomplete in any material respect, or (ii) if any material adverse change occurs, or any material additional information is disclosed to or discovered by PNC, whether prior to Borrower’s acceptance of this Commitment Letter or during the period of such acceptance until the execution of the Replacement DIP Credit Documents, which PNC deems materially adverse in respect of the condition (financial or otherwise), business, operations, assets, nature of assets or liabilities of any Credit Party; provided that, PNC acknowledges that neither the commencement nor the continuance of the Chapter 11 Cases, nor the commencement nor the continuance of the CCAA Proceedings with respect to the Canadian Debtors, nor the consummation of the sale of substantially all of the assets of the Canadian Debtors that has been approved by the Canadian Court in the CCAA Proceedings shall constitute any grounds for termination of the DIP Financing Commitment,

Golfsmith International, Inc.

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and further provided that, Borrowers acknowledge that the DIP Financing Commitment is subject to the satisfactory review (as determined by PNC in its discretion) of the Schedules and Statements of Financial Affairs filed by the Golfsmith Debtors in the Chapter 11 Cases on October 14, 2016 (the “**Schedules and SOFAs**”).

The Borrowers, each jointly and severally, hereby agree to indemnify and hold harmless PNC, its affiliates, and its and their respective directors, officers, employees, attorneys, advisors and agents (each, an “**Indemnified Person**”), from and against any and all losses, claims, damages, expenses and liabilities incurred by any Indemnified Person that arise out of or relate to any investigation or other proceeding (including any threatened investigation or litigation or other proceedings and whether or not such Indemnified Person is a party thereto) relating to this Commitment Letter, the Term Sheet or the Transactions, including without limitation the reasonable fees and disbursements of counsel incurred in connection with any such investigation or other proceeding, but excluding any of the foregoing claimed by any Indemnified Person to the extent incurred by reason of the gross negligence or willful misconduct of such Indemnified Person as determined by a final nonappealable judgment of a court of competent jurisdiction; provided that, you shall not be required to reimburse the legal fees and expenses of more than one outside counsel (in addition to any reasonably necessary local counsel in each applicable local jurisdiction and any necessary bankruptcy “conflicts counsel(s)”) for all Indemnified Persons; provided further, all obligations of the Borrowers to reimburse PNC for its out-of-pocket costs and expenses incurred by PNC in connection with the Transactions other than as arising out of or relating to any such investigation or proceeding, including out-of-pocket costs and expenses incurred by PNC in connection with the legal and business due diligence for and negotiation, execution and delivery of this Commitment Letter and the Term Sheet and the Replacement DIP Credit Documents shall be governed by the terms of that certain letter agreement dated as of October 17, 2016 among PNC and the Borrowers regarding such reimbursement obligations (the “**Expense Reimbursement Letter**”) rather than by the terms of this paragraph or any other provision of this letter. None of the parties hereto shall be responsible or liable to any other party hereto or any other person for any special, indirect, punitive or consequential damages which may be alleged as a result of this Commitment Letter, the Term Sheet or any of the Transactions. The obligations of the Borrowers under this paragraph shall survive any termination of this Commitment Letter, except that upon the execution of the New DIP Credit Documents the terms thereof shall supersede these provisions.

This Commitment Letter is for the Borrowers’ benefit only, and no other person may obtain any rights under this Commitment Letter or be entitled to rely or claim reliance on this Commitment Letter’s terms and conditions. This Commitment Letter may not be assigned by the Borrowers, and none of the Borrowers’ rights under this Commitment Letter may be transferred, without PNC’s prior written consent.

This Commitment Letter shall be governed by, and construed in accordance with, the law of the State of New York. This Commitment Letter sets forth the entire agreement between the parties with respect to the matters addressed herein and supersedes all prior communications, written or oral, with respect hereto. This Commitment Letter may be executed in any number of counterparts, each of which, when so executed, shall be deemed to be an original and all of which, taken together, shall constitute one and the same Commitment Letter. Delivery of an executed counterpart of a signature page to this Commitment Letter by telecopier shall be as effective as delivery of an original, executed counterpart of this Commitment Letter.

PNC and Borrowers hereby waive any right to trial by jury on any claim, demand, action, or cause of action arising under this Commitment Letter, the Term Sheet, any of the Transactions, or any other

Golfsmith International, Inc.

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instrument, document or agreement executed or delivered in connection herewith, whether sounding in contract, tort or otherwise.

With respect to all matters relating to this Commitment Letter, PNC and Borrowers hereby irrevocably (i) submit to the exclusive jurisdiction of the Bankruptcy Court, and any appellate court from any thereof, (ii) agree that all claims related hereto may be heard and determined in such courts, (iii) waive, to the fullest extent you may effectively do so, the defense of an inconvenient forum, (iv) agree that a final judgment of such courts shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law, (v) waive any immunity (sovereign or otherwise) from jurisdiction of any court or from any legal process or setoff to which you or your properties or assets may be entitled and (vi) consent to the service of any and all process with respect to all matters relating to this Commitment Letter in any manner permitted by law.

To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each customer, including organizations and businesses that opens an account. What this means for you: When you open an account, we will ask for your name, address, taxpayer identifying number and other information that will allow us to identify you, such as articles in incorporation. For some businesses and organizations, we may also need to ask for identifying information and documentation relating to certain individuals associated with the business or organization.

We look forward to working with you on successfully completing this transaction.

PNC's offer of the DIP Financing Commitment hereunder is contingent upon the entry of a Final Order of the Bankruptcy Court, satisfactory to Agent in its discretion, approving the entry into by the Borrowers of, and performance of all obligations of the Borrowers under, this Commitment Letter (a "**Commitment Authorization Order**"). If this offer is acceptable to you, please indicate your acceptance by signing and returning this Commitment Letter and a copy of the entered Commitment Authorization Order. This offer will expire on October 31, 2016 unless previously accepted in the manner specified above. If this offer is accepted, the Replacement DIP Credit Documents must be executed and funds disbursed by November 2, 2016, in the absence of which the DIP Financing Commitment will expire; provided that, notwithstanding anything to the contrary provided for in the foregoing, in the event that, prior to your acceptance of this offer and/or to the closing and initial funding under the Replacement DIP Credit Documents (as applicable) (x) the Golfsmith Debtors shall move for the entry by the Bankruptcy Court of an order approving any Sale Transaction (as defined in the Existing DIP Credit Agreement) (other than a motion to approve any bid for a Sale Transaction as a backup to the Replacement DIP Credit Facilities in the case of any failure of the Replacement DIP Credit Facilities to close for any reason) and/or the Bankruptcy Court shall enter any such order (subject to the foregoing exception), (y) any one or more of the Chapter 11 Cases shall be converted to a case under Chapter 7 of the Bankruptcy Code and/or shall be dismissed, or (z) either an order of the Bankruptcy Court authorizing and approving the entry into the Expense Reimbursement Letter by the Golfsmith Debtors on an interim basis and payment of the Initial Deposit by Golfsmith shall not have been entered by October 18, 2016, or the Initial Deposit under the Expense Reimbursement Letter shall not have been paid within one (1) Business Day following the entry of such an order of the Bankruptcy Court authorizing and approving the entry into and performance of the Expense Reimbursement Letter by the Golfsmith Debtors on an interim basis, this offer and/or the DIP Financing Commitment shall immediately, automatically and permanently terminate.

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Golfsmith International, Inc.

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Sincerely,

**PNC BANK, NATIONAL ASSOCIATION**

By: \_\_\_\_\_

Name: Zachary Doctor

Title: AVP, BDO

[Signature Page to PNC/Golfsmith DIP Commitment Letter]

[SIGNATURE PAGE TO COMMITMENT LETTER (DIP FINANCING)]

Golfsmith International, Inc.

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Agreed and accepted with the intent to be legally bound:

**GOLFSMITH INTERNATIONAL HOLDINGS, INC.**

By: \_\_\_\_\_

Name: Brian Cejka

Title: Chief Restructuring Officer

**GOLFSMITH INTERNATIONAL, INC.**

By: \_\_\_\_\_

Name: Brian Cejka

Title: Chief Restructuring Officer

**GOLFSMITH EUROPE, L.L.C.**

By: \_\_\_\_\_

Name: Brian Cejka

Title: Chief Restructuring Officer

**GOLFSMITH LICENSING, L.L.C.**

By: \_\_\_\_\_

Name: Brian Cejka

Title: Chief Restructuring Officer

**GOLFSMITH NU, L.L.C.**

By: \_\_\_\_\_  
Name: Brian Cejka  
Title: Chief Restructuring Officer

**GOLFSMITH USA, L.L.C.**

By: \_\_\_\_\_  
Name: Brian Cejka  
Title: Chief Restructuring Officer

**GOLFSMITH INTERNATIONAL, L.P.**

By: GOLFSMITH 2 GP, L.L.C., as its General Partner

By: \_\_\_\_\_  
Name: Brian Cejka  
Title: Chief Restructuring Officer

**GOLFSMITH 2 GP, L.L.C.**

By: \_\_\_\_\_  
Name: Brian Cejka  
Title: Chief Restructuring Officer

**GOLFSMITH INCENTIVE SERVICES, L.L.C.**

By: \_\_\_\_\_  
Name: Brian Cejka  
Title: Chief Restructuring Officer

**GOLF TOWN USA LLC**

By: \_\_\_\_\_  
Name: Brian Cejka  
Title: Chief Restructuring Officer



**GOLF TOWN USA HOLDCO LIMITED**

*(formerly known as Accolade Reaction Promotion Group USA Inc.)*

By: \_\_\_\_\_

Name: David Bushland

Title: Chief Financial Officer

[Signature Page to PNC/Golfsmith DIP Commitment Letter]

**MEMORANDUM OF TERMS AND CONDITIONS  
DATED OCTOBER 17, 2016 FOR  
GOLFSMITH INTERNATIONAL HOLDINGS, INC. (“GOLFSMITH”)**

Initially capitalized terms used herein without definition shall have the meanings given in the Commitment Letter to which this Memorandum of Terms and Conditions is attached.

- Borrower(s):** (i) Golfsmith and its existing and future domestic operating subsidiaries, including, Golfsmith International, Inc. (“**Golfsmith International**”), Golfsmith Europe, L.L.C. (“**GS Europe**”), Golfsmith Licensing L.L.C. (“**GS Licensing**”), Golfsmith NU, L.L.C. (“**Golfsmith NU**”), Golfsmith USA, L.L.C. (“**Golfsmith USA**”), Golfsmith International, L.P. (“**Golfsmith LP**”), Golfsmith 2 GP, L.L.C. (“**Golfsmith 2 GP**”) and Golfsmith Incentive Services, L.L.C. (“**GS Incentive**”), (ii) Golf Town USA LLC (“**GT USA**”), and (iii) Golf Town USA Holdco Limited (“**GT Holdco**”) (collectively, “**Borrowers**”). The ultimate borrower structure shall be determined following legal review of the corporate structure of GT USA Holdco and its affiliates.
- Guarantor(s):** Golf Town USA GT Holdings Inc. (“**GT USA Holdco**”) and all of its existing and future domestic subsidiaries that are not Borrowers, including GMAC Holdings, LLC (“**GMAC**”) (collectively, “**Guarantors**” and together with the Borrower, each a “**Credit Party**” and collectively the “**Credit Parties**”); provided, that, for the avoidance of doubt, the Credit Parties shall not include Golf Town Canada Inc. (“GT Canada”) or any other subsidiary of Golfsmith International Holdings LP, the ultimate parent company of GT USA Holdco (“**Golfsmith Holdco**”), which is organized under the laws of Canada or any jurisdiction located in Canada and whose assets are sold in the transactions that (as of the date of this Commitment Letter) have been approved by the Canadian Court (collectively, the “**Golf Town Entities**”), and in the event that the Transactions shall be accomplished by means of a DIP Buyout, any such Golf Town Entity will be released from its obligations as a borrower, guarantor or other credit party under the existing First Lien Documents and/or the Replacement DIP Credit Documents.
- Agent:** PNC Bank, National Association (in such capacity, “**Agent**” or “**PNC**”).
- Lenders:** PNC Bank, National Association and such other financial institutions and other entities that may from time to time become a lender under the Replacement DIP Loan Agreement (in such capacity, collectively, the “**Lenders**”, each a “**Lender**”).
- Swingline Lender:** PNC Bank, National Association (in such capacity, “**Swingline Lender**”)
- L/C Issuer(s):** PNC Bank, National Association, and any other Person accepted by Agent from time to time as an issuer of letters of credit (in such capacity, each an “**L/C Issuer**”)

Golfsmith International, Inc.

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- Purpose:**
- (i) To provide (in part) the funds necessary to refinance and replace the Existing First Lien Facility and the Existing DIP Facility (the “Refinancing Transaction”).
  - (ii) To pay fees and expenses related to the Transactions (the “**Transaction Expenses**” and together with the Refinancing Transaction, the “**Transactions**”).
  - (iii) To provide financing and working capital (“**General Corporate Purposes**”) to the Golfsmith Debtors during the Chapter 11 Cases while the Golfsmith Debtors seek confirmation of a plan of reorganization complying with the requirement of Chapter 11 of the Bankruptcy Code which either (x) provides for the repayment in full in cash of all of the obligations under the Replacement DIP Credit Facilities on the effective date of such plan, or (y) has otherwise been approved by the Agent in its discretion (any such plan of reorganization, the “**Plan**”).

**Total Replacement DIP Financing:** \$80,000,000 in senior secured debtor-in-possession financing.

**Replacement DIP Credit Facilities:** An \$80,000,000 committed senior secured debtor-in-possession revolving credit facility pursuant to which the Lenders will make revolving credit loans denominated in Dollars (the “**Replacement DIP Credit Facilities**”), subject to the Borrowing Base set forth below, will be made available to the Borrower, which shall include a \$10,000,000 subfacility for the issuance of letters of credit denominated in Dollars by the L/C Issuers and a \$5,000,000 subfacility for the discretionary making of swingline loans denominated in Dollars by the Swingline Lender.

**Revolving Credit Availability:** Usage under the Replacement DIP Credit Facilities (i.e., the aggregate outstanding amount at any time of all revolving credit loans, swingline loans and letter of credit obligations) shall not exceed the sum of the following (the “**Borrowing Base**”):

- (a) Up to 90% of Eligible Credit Card Accounts aged seven (7) days or less, plus;
- (b) Up to 90% of Eligible Wholesale Accounts aged less than 60 days past due (not to exceed 90 days from invoice date), cross aged on the basis of 50% or more past due, plus;
- (c) Up to the lesser of (i) 100% of the costs of Eligible Inventory (including Eligible Domestic In Transit Inventory and Eligible Foreign In Transit Inventory) or (ii) 90% of the net orderly liquidation value percentage (based on a monthly, seasonal NOLV defined by appraisers) of Eligible Inventory (including

Golfsmith International, Inc.

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Eligible Domestic In Transit Inventory and Eligible Foreign In Transit Inventory), plus:

- (d) Solely to the extent (i) an OMERS LC Event has not occurred, and (ii) a Permitted Real Estate DIP Financing shall not have occurred, up to 100% of the undrawn portion of the stated amount of the OMERS LC (or, in the event the Transactions shall be accomplished by means of a Replacement DIP Documentation, an equivalent letter of credit issued for the benefit of Agent by a bank or other financial institution acceptable to Agent in its sole discretion for the account of OMERS and/or Borealis Infrastructure Management Inc. or one of their respective affiliates in an amount not less than the amount of the OMERS LC outstanding for the benefit of the Existing DIP Agent as of the closing date on the Replacement DIP Credit Facilities) (any such replacement LC, the “**Sponsor LC**”)) minus
- (e) Applicable reserves.

**Sub Limits:**

- 1) Eligible Domestic In Transit Inventory availability under the Replacement DIP Credit Facilities limited to an amount TBD.
- 2) Eligible Foreign In Transit Inventory availability under the Replacement DIP Credit Facilities limited to an amount TBD.
- 3) Letters of Credit denominated in Dollars to be issued under the Replacement DIP Credit Facilities limited to a maximum amount of \$10,000,000

All criteria for eligible assets, including without limitation the definitions of Eligible Credit Card Accounts, Eligible Wholesale Accounts Receivable, Eligible Inventory and Eligible Domestic In Transit Inventory shall be substantially similar to such criteria and definitions as set forth in the Existing DIP Credit Agreement (and in no event more restrictive in any material manner so as to result in a materially lower Borrowing Base (taking into account the difference in the advance rates under the Replacement DIP Credit Facilities as compared to the Existing DIP Facility and the exclusion of the Texas Property (as defined below) from the Borrowing Base under the Replacement DIP Credit Facility Facilities as compared to the Existing DIP Facility); except that:

- Eligible Credit Card Accounts may be aged up to 7 days as indicated above,
- Credit Card Accounts and Wholesale Accounts denominated and/or payable in Canadian Dollars shall no longer be eligible;
- Inventory located in Canada shall no longer be eligible, and

Golfsmith International, Inc.

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- the criteria and definition for Eligible Foreign In Transit Inventory shall be based on PNC's standard requirements for eligibility for foreign in-transit inventory in asset-based lending facilities, and shall include the following requirements:
  - 1) All Bills of Lading ("BOLs") for Eligible Foreign In Transit Inventory must be Non-negotiable
  - 2) The BOLs for Eligible Foreign In Transit Inventory must reflect PNC (as Agent) as the Consignee
  - 3) The applicable Borrowers, PNC (as Agent), and the Customs Broker acting for the Borrowers with respect to such Eligible Foreign In Transit Inventory shall have entered into an agreement in form satisfactory to Agent which will include, without limitation, an agreement for the broker to act as agent for Agent to receive and clear the goods at customs and act on Agent's instructions upon an event of default.
  - 4) Adequate insurance covering the goods on the water with Agent as lender loss payee
  - 5) If Borrowers carries product liability insurance, adding PNC as additional insured.

The Replacement DIP Loan Agreement shall contain provisions relating to reserves that may be established under the Borrowing Base as are satisfactory to Agent, which provisions (A) shall be no less favorable to Agent and Lenders than the provisions regarding such reserves as set forth in the Existing DIP Credit Agreement, and shall at a minimum provide for: reserves relating to gift card liabilities (initially based on 25% of the book value of such gift card liabilities), reserves relating to customer deposit liabilities (initially based on 50% of the book value of such customer deposit liabilities), reserves relating to Texas business personal property taxes and Texas county ad valorem sales taxes, reserves relating to property taxes payable on the Credit Parties' owned real estate located in Austin, Texas (the "**Texas Property**"), reserves in respect of the Carve-Out and legal and professional fees of Agent and Lenders and, to the extent that the amounts projected to be necessary to fund the Wind-Down Budget (as defined below), plus a reasonable cushion (as determined by Agent in its reasonable discretion) with respect thereto, shall exceed the amount of the minimum Excess Availability covenant under the Replacement DIP Credit Agreement from time to time, reserves in respect of such excess, and (B) in respect of the provisions governing notice with respect to, and the level of discretion applicable to, the Agent's determination to impose or modify any such reserves, shall be no less favorable to Borrowers than the equivalent provisions as set forth in the Existing DIP Credit Agreement.

Golfsmith International, Inc.

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**Amortization:** Available for borrowing and re-borrowing until maturity, subject to the Borrowing Base.

**Maturity:** April 13, 2017

**Interest Rates:** Revolving loans under the Replacement DIP Credit Facilities shall bear interest, at the Company's option, at a per annum rate based on 1, 2, or 3 month PNC LIBOR Rate (as adjusted for statutory LIBOR reserves) or the Base Rate plus, in each case, the Applicable Margin (as defined below); all swingline loans under the Replacement DIP Credit Facilities shall bear interest at the Base Rate plus the Applicable Margin. "**Applicable Margin**" means (x) as to Base Rate Loans (including all swingline loans), 1.50 percentage point (the "**Base Rate Margin**"), and (y) as to LIBOR Rate Loans, 2.50 percentage points (the "**LIBOR Rate Margin**").

Interest will be calculated on the daily outstandings on a 360 day year for the actual number of days elapsed and will be due monthly in arrears on the first business day of each month for Base Rate borrowings and on the last day of each interest period for LIBOR Rate borrowings.

The "**Base Rate**" shall mean, for any day, a fluctuating per annum rate of interest equal to the highest of (i) the interest rate per annum announced from time to time by the Agent at its principal office as its then prime rate, which rate may not be the lowest rate then being charged commercial borrowers by the Agent, (ii) the Federal Funds Open Rate plus ½ of 1%, and (iii) the one month LIBOR rate plus 100 basis points (1%).

LIBOR Rate pricing will be adjusted for any statutory reserves.

**Letter of Credit Fees:**

The Borrowers shall pay Letter of Credit fees at a per annum rate equal to the LIBOR Rate Margin on the aggregate face amount of the Letters of Credit issued under the Replacement DIP Credit Facilities. In addition, the Borrower shall pay a Letter of Credit fronting fee of 0.25% per annum to PNC as the fronting bank, payable quarterly in arrears.

**Default Rate:** 2.00% over the applicable rate.

**Priority and Security:**

- (i) The Replacement DIP Credit Facilities provided by Agent and Lenders will be secured by continuing, valid, binding, enforceable, non-avoidable, and automatically and properly perfected security interests in and liens on all of the DIP Collateral, which DIP Collateral includes all prepetition and postpetition real and personal property (including the Texas Property), whether now existing or hereafter arising, tangible or intangible, of each of the Debtors, specifically including actions brought under section 549 of the Bankruptcy Code to recover any post-petition transfer of DIP Collateral (but excluding other actions brought under chapter 5 of the Bankruptcy Code (the "**Excluded Avoidance**"))

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**Actions**’)) and the US Debtor CCAA Claims, all granted and confirmed pursuant to the Final Replacement DIP Order (as defined below) (such security interests and liens, the “**Replacement DIP Liens**”), which shall be senior in priority and superior to any security, mortgage, collateral interest, lien, claim or interest to or on any of the DIP Collateral, subject only to such exceptions/liens or claims of greater priority as shall be acceptable to Agent in its discretion and in any event to no greater exceptions/liens or claims of greater priority than those applicable to the “DIP Liens” granted to the Existing DIP Agent for the benefit of the Existing DIP Agent and the Existing DIP Lenders under the Final Existing DIP Order;

- (ii) The Agent and Lenders will be entitled to an allowed, senior secured, superpriority administrative expense claim, granted and confirmed pursuant to the Final Replacement DIP Order, for all obligations and liabilities under the Replacement DIP Credit Facilities in each of the Chapter 11 Cases and any Successor Case that is identical to the DIP Superpriority Claim granted to the Existing DIP Agent and the Existing DIP Lenders under the Final Existing DIP Order.

Notwithstanding the foregoing, in connection with any Permitted Real Estate DIP Financing (as defined below), the Replacement DIP Liens on the Texas Property shall be made junior and subordinated to any liens granted under Section 364 of the Bankruptcy Code to secure such Permitted Real Estate DIP Financing.

***Fee Structure:***

**Underwriting Fee:** \$10,000, earned and payable in full on the closing date.

**Closing Fee:** \$425,000, earned and payable in full on the closing date.

**Facility Fee:** 0.375% per annum on the unused portion of the Replacement DIP Credit Facilities. This fee shall be calculated on the basis of a 360 day year for the actual number of days elapsed and will be payable quarterly in arrears.

**Collateral**

**Monitoring Fee:** \$2,000 per month. In addition, field examinations will be charged at PNC’s applicable rate, which for examinations performed by PNC is currently an additional \$1,250 per person-day, plus expenses and administrative fees, and a \$1300 per examination supervisor review fee; provided that, the Replacement DIP Credit Agreement will provide for Borrowers’ to be liable to reimburse PNC for no more than one (1) such field examination (absent the existence of any Event of Default) between closing and the maturity date.

**Collections and**

**Remittances:** All customers of any Credit Party shall be directed to make remittances to a lockbox or blocked account controlled by Agent and maintained with Agent and/or maintained with a bank or other financial institution approved by Agent

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(provided that Wells Fargo Bank, National Association shall be acceptable to Agent as a lockbox/blocked account bank, and without limiting the generality of the foregoing, Credit Parties may maintain a “concentration account” with Wells Fargo (the “**Wells Fargo Concentration Account**”) into which all such customer remittances and other proceeds of collateral received into any other lockboxes, blocked accounts or other deposit accounts (other than accounts maintained with Agent) may be swept on a daily basis). Credit Parties shall establish at least one blocked account (the “**Agent Concentration Account**”) with Agent, into which all remittances and other proceeds of the DIP Collateral deposited into the Wells Fargo Concentration Account shall be swept on a daily basis, and all funds deposited and/or received into such Agent Concentration Account (whether directly or by any transfer from any other lockboxes, blocked accounts or other deposit accounts of the Credit Parties), applied on a daily basis by Agent to pay the outstanding obligations under the Replacement DIP Credit Facilities in accordance with the terms of the Replacement DIP Loan Agreement. For the purpose of crediting the Borrowers’ loan account and calculating interest, all items of payment shall be deemed applied by Agent two (2) business days following the business day of Agent’s receipt thereof in the Agent Concentration Account.

**Expenses:**

All expenses incurred by Agent or the Lenders, including, without limitation reasonable and documented legal (provided that Credit Parties shall not be required to reimburse the legal fees and expenses of more than one outside counsel (in addition to any reasonably necessary local counsel in each applicable local jurisdiction and any necessary bankruptcy “conflicts counsel(s)”) , accounting, appraisal, audit, search and lien filing, title insurance (if applicable) and other costs and expenses in connection with monitoring, administering or enforcing the Replacement DIP Credit Documents and Replacement DIP Credit Facilities shall be for the account of the Credit Parties and payable on demand (provided that, all obligations of the Borrowers to reimburse PNC for its out-of-pocket costs and expenses incurred by PNC in connection with the Transactions, including the negotiation, execution and delivery of this Commitment Letter and the Term Sheet and the Replacement DIP Credit Documents shall be governed by the Expense Reimbursement Letter).

**Conditions  
Precedent:**

Customary conditions precedent with respect to asset-based debtor-in-possession financings made available to similarly situated debtors in the retail industry, including but not limited to, the following (with the understanding that the following list may be supplemented by Agent following its final review of the Golfsmith Debtor’s Schedules and SOFAs), with all documents to be satisfactory in form and substance to the Agent, provided that, with respect to the Replacement DIP Credit Agreement and the other Replacement DIP Credit Documents, it is the understanding of the parties hereto that the terms of such Replacement DIP Credit Documents shall be consistent in all material respects with the corresponding terms of the Existing DIP Credit Agreement and the other “DIP Documents” (as defined in the Final Existing DIP Order), subject to (A) any modifications mutually agreed as between the Credit Parties and PNC to



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reflect (x) the consummation of the Golf Town Sale and the exclusion of the Canadian Debtors from the Credit Parties under the Replacement DIP Credit Documents, and (y) the fact that the Credit Parties will be pursuing a reorganization and confirmation of a Plan during the term of the Replacement DIP Credit Facilities rather than a sale of all of the assets of the Borrowers (either pursuant to an “U.S. GC Sale” or a “U.S. Store Liquidation” (as such terms are defined in the Existing DIP Credit Agreement) or Store closings, Store liquidations or “Going-Out-Of Business” sales with respect to substantially all the store locations of Credit Parties), (B) any modifications otherwise mutually agreed between the Credit Parties and PNC, and (C) modifications with respect to (x) the provisions governing the mechanics for requesting of revolving credit loans and the requesting and issuance of letters of credit, the method of calculation of fees and expenses and similar “mechanical” provisions (provided that such modifications under this clause (x) shall not be materially adverse to the Credit Parties in any manner), and (y) inter-lender and agency provisions, well as provisions (including representations and warranties and covenants) relating to anti-money laundering and anti-terrorism laws, in order for the Replacement DIP Credit Documents to comply with PNC’s general institutional policies and with all legal (including regulatory) requirements applicable to PNC as a national bank (the understandings of the parties hereto under this proviso, the “**Documentation Principles**”):

- 1) No material adverse change in the condition (financial or otherwise), business, operations, assets, nature of assets or liabilities of any Credit Party; provided that, PNC acknowledges that neither the commencement nor the continuance of the Chapter 11 Cases, nor the commencement nor the continuance of the CCAA Proceedings with respect to the Canadian Debtors, nor the consummation of the sale of substantially all of the assets of the Canadian Debtors that has been approved by the Canadian Court in the CCAA Proceedings shall constitute any grounds for declaration of such a material adverse effect.
- 2) No material threatened or pending litigation or material contingent obligations.
- 3) Execution of the Replacement DIP Credit Agreement and the other Replacement DIP Credit Documents (subject to the **Documentation Principles**) and legal opinions relating to the due authorization and due execution and delivery of the Replacement DIP Credit Documents by the Credit Parties.
- 4) Satisfactory asset-based field examination to be completed by examiners selected by Agent.
- 5) Evidence of (x) the due recording of UCC-1 financing statements (including, if applicable, fixture filings) against each of the Credit Parties in all applicable jurisdictions required for perfection under Article 9 of the UCC of the Replacement DIP Liens in the DIP Collateral and (y) the recording of a deed of trust or similar mortgage instrument in form and

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substance satisfactory to Agent (consistent with the **Documentation Principles**) required for perfection under Texas state and local real estate laws of the Replacement DIP Liens in the Texas Property.

- 6) Satisfactory valuation of the Borrowers' inventory to be completed by appraiser selected by Agent.
- 7) Satisfactory review of the Schedules and SOFAs of the Golfsmith Debtors.
- 8) After giving effect to all advances to be made at closing and the payment of all fees and expenses relating to the Transactions, the Borrower will have minimum excess revolving credit availability – calculated as the positive amount (if any) of (x) the lesser of (I) the maximum revolving credit commitment or (II) the Borrowing Base, minus (y) the aggregate outstanding amount of all revolving credit loans, swingline loans and letter of credit obligations, minus (z) the aggregate amount of all unpaid post-petition trade payables 30 days or more past due (“**Excess Availability**”) – of not less than \$12,500,000. Such Excess Availability to be evidenced by a Borrowing Base Certificate for the Replacement DIP Credit Facilities, satisfactory to the Agent and the Lender.
- 9) The Golf Town Sale shall have occurred pursuant to a Final Order of the Canadian Court (and also, a Final Order of the Bankruptcy Court authorizing the applicable Golfsmith Debtors to enter into and perform their obligations under the “Transition Services Agreement” being executed by certain of the Golfsmith Debtors in connection with the Golf Town Sale) and shall have resulted in not less than \$45,000,000 of net cash proceeds payable upon the closing thereof, which proceeds shall have been applied towards repayment of the Existing First Lien Facility and/or the Existing DIP Facility.
- 10) Entry of a Final Order of the Canadian Court in the CCAA Proceedings providing for (x) a secured claim in the CCAA Proceedings, attaching to any net cash proceeds of the Golf Town Sale retained and/or escrowed by the Monitor in the CCAA Proceedings, with respect to amounts owing and/or to become owing to any of the Golfsmith Debtors under the “Transition Services Agreement” being executed by certain of the Golfsmith Debtors in connection with the Golf Town Sale, and (y) a secured claim in the CCAA Proceedings, attaching to any net cash proceeds of the Golf Town Sale retained and/or escrowed by the Monitor in the CCAA Proceedings, with respect to any such net cash proceeds that become eligible for release from such retentions and escrows from time to time, as payments owing by the Canadian Debtors to the Golfsmith Debtors in connection with the joint and several liability of the Canadian Debtors for the Prepetition Obligations and the Existing DIP Facility (such claims, collectively, the “**US Debtors CCAA Claims**”);

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- 11) Entry of a Final Order of the Bankruptcy Court approving the Restructuring Support Agreement.
- 12) Entry of a Final Order of the Bankruptcy Court approving (on a final basis) the Expense Reimbursement Letter, and payment of all amount owing thereunder as of the closing date.
- 13) Delivery to Agent of (x) the OMERS LC issued to Replacement DIP Agent or as amended to reflect the transfer thereof from Existing DIP Agent to Replacement DIP Agent, or (ii) a replacement Sponsor LC.
- 14) Evidence satisfactory to Agent, in its sole discretion, of the current trade terms offered to the Credit Parties by their various vendors, which such trade terms shall be satisfactory to Agent, in its sole discretion.
- 15) Evidence that the Credit Parties are in compliance with all pertinent Federal, State, and local regulations including, but not limited to, those with respect to EPA, OSHA and ERISA
- 16) Receipt by Agent of a 13-week projected budget (beginning with the week ending November 4, 2016), which shall include a weekly cash budget, including information on a line item basis for each week as to (w) projected cash receipts, (x) projected disbursements (including ordinary course operating expenses, bankruptcy-related expenses (including professional fees), capital expenditures, asset sales and fees and expenses of Agents and Lenders (including counsel therefor) and any other fees and expenses relating to the Replacement DIP Credit Documents), (y) net cash flow, and (z) the Borrowing Base and Excess Availability, to be in form and substance acceptable to the Agent and the Lenders in their discretion (the “**Approved Budget**”), provided that the form and detail of the approved budget provided under the Existing DIP Facility shall be acceptable to the Agent and the Lender;
- 17) Receipt by Agent of a projected week-by-week “wind-down budget” (in form and detail similar in all material respects to the Approved Budget) setting forth the budget necessary following the occurrence of any Milestone Breach (as defined below) to fund and complete (within sixty (60) days of the commencement thereof) Wind-Down GOB Sales (as defined below) with respect to all the Golfsmith Debtors, which shall include a weekly cash budget, including information on a line item basis for each week as to (w) projected cash receipts, (x) projected disbursements (including ordinary course operating expenses, bankruptcy-related expenses (including professional fees), asset sales and fees and expenses of Agents and Lenders (including counsel therefor) and any other fees and expenses relating to the Replacement DIP Credit Documents), (y) net cash flow, and (z) the Borrowing Base and Excess Availability, to be in form and substance acceptable to the Agent and the Lenders in their discretion (the “**Wind-Down Budget**”);

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- 18) Either (x) if the Transactions are accomplished by means of a Replacement DIP Documentation, receipt of satisfactory evidence of cancellation of all commitments from the First Lien Agent, the First Lien Lenders, the Existing DIP Agent, and the Existing DIP Lenders, repayment in full of the First Lien Facility and the Existing DIP Facility, and termination of all security interests, liens and administrative claims in favor of the First Lien Agent, the First Lien Lenders, the Existing DIP Agent, and the Existing DIP Lenders, including delivery of one or more letter(s) confirming such terminations and repayments if requested by the Agent, or (y) if the Transactions are accomplished by means of a DIP Buyout, the purchase by PNC of all of the right, title and interest of the First Lien Lenders in the First Lien Facility and the First Lien Documents and appointment of PNC as the successor to the First Lien Agent and the purchase by PNC of all of the right, title and interest of the DIP Lenders in the Existing DIP Facility and the existing DIP Credit Documents and appointment of PNC as the successor to the Existing DIP Agent, in each case on terms and conditions and pursuant to documentation acceptable to PNC in its discretion;
- 19) Delivery of evidence of insurance coverage satisfactory to Agent, and a lender's loss payee endorsement, naming the Agent as loss payee or an additional insured, as applicable;
- 20) If the Texas Property is located in an area designated as a flood hazard area by any governmental agency, the Borrower will provide the Agent, at the Borrower's expense, with a policy of flood insurance in an amount equal to the value of the Texas Property or the maximum amount available under the federal flood insurance program, whichever is less.;
- 21) Completion of satisfactory background checks and other "know your customer" compliance checks;
- 22) Either (x) if the Transactions are accomplished by means of a Replacement DIP Documentation, entry by the Bankruptcy Court of a Final Order approving the Replacement DIP Credit Facilities and the Transactions consistent with the terms of this Commitment Letter (including this Term Sheet) and the Replacement DIP Credit Documents which shall be on terms no less favorable to Agent and Lenders than the terms of the Final Existing DIP Order are favorable to Existing DIP Agent and Existing DIP Lenders and otherwise satisfactory and acceptable to Agent in its discretion, or (y) if the Transactions are accomplished by means of a DIP Buyout, entry by the Bankruptcy Court of a Final Order approving the DIP Buyout and the Replacement DIP Credit Facilities and confirming that the terms and provisions of the Final Existing DIP Order shall continue in full force and effect for the benefit of PNC as the successor in interest to the First Lien Agent and First Lien Lenders and the successor in interest to the Existing DIP Agent and Existing DIP Lender and otherwise satisfactory and acceptable to Agent in its discretion (any such Final Order under the

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preceding clause (x) or (y), as applicable, the “**Final Replacement DIP Order**”); provided that, in either such case, such Final Replacement DIP Order shall provide that (A) (i) the Replacement DIP Credit Facilities are “Senior ABL Claims” (as defined in the Intercreditor Agreement) for all purposes, (ii) the Intercreditor Agreement is and remains in full force and effect, and (ii) the Replacement DIP Credit Facilities and the Replacement DIP Credit Documents (and the holders thereof and agents thereunder) shall succeed to, and be legally entitled to, without limitation, all of the benefits, priorities, rights and remedies provided by the Intercreditor Agreement to the “Senior ABL Claims” and the holders thereof, and (B) shall provide that the Carve-Out as well as any reimbursement obligations for the fees, costs and expenses of the Indenture Trustee and the Collateral Agent shall be limited to the amounts set forth in the Approved Budget.

As used herein, “**Final Order**” means an order or judgment of the Bankruptcy Court, or other court of competent jurisdiction, as entered on the docket of such Bankruptcy Court, the operation or effect of which has not been stayed, reversed, vacated or amended, and as to which order or judgment (or any revision, modification, or amendment thereof) the time to appeal, petition for certiorari, or seek review or rehearing has expired and as to which no appeal, petition for certiorari, or petition for review or rehearing was filed or, if filed, remains pending.

**Covenants:**

Except as set forth below, affirmative covenants and negative covenants consistent with the **Documentation Principles**. Without limiting the generality of the foregoing, covenants regarding delivery of financial statements and other financial reporting, borrowing base certificates, collateral reporting, accounts payable reporting, budgetary compliance reporting and compliance certificates and delivery of updated, revised and supplemental budgets shall be identical in all material respects to the covenants regarding such matters as set forth in the Existing DIP Credit Agreement (subject to modifications to reflect the differences in the borrowing base and collateral eligibility requirements under the Replacement DIP Credit Facilities as compared to the Existing DIP Facility and to reflect the current store closing plans of the Credit Parties).

Notwithstanding anything to the contrary provided in the foregoing, in the event that a Permitted Real Estate DIP Financing shall not have occurred by December 15, 2016, the Credit Parties shall, no later than January 15, 2017, deliver to Agent of a lender’s title insurance policy on terms satisfactory to Agent insuring the DIP Lien on the Texas Property in an amount satisfactory to Agent as a first lien on the Property, subject only to such exceptions as are acceptable to the Agent, with endorsements as Agent may designate.

Notwithstanding anything to the contrary provided in the foregoing, the negative covenants regarding indebtedness and liens shall permit the Credit Parties to incur indebtedness (as borrowers and/or guarantors, as applicable) from a third-party lender (excluding any affiliates) in an amount of up to \$20,000,000 secured

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only by the Texas Property (which lien securing such indebtedness shall, if required by such lender, be senior in priority and superior to the DIP Liens on the Texas Property), so long as (x) the incurrence of such indebtedness is approved by a Final Order of the Bankruptcy Court and (y) such third-party lender shall enter into an intercreditor agreement with Agent reasonably acceptable to Agent relating to the relative priority of the liens of such third-party lender and of Replacement DIP Agent in the Texas Property and of the proceeds of the Texas Property and providing Agent with access rights to the Texas Property (including in the event of any exercise of rights against, or possession and/or control of, the Texas Property by such third-party lender) as reasonably required by Agent to protect the ability of Agent to exercise its rights and remedies with respect to the other DIP Collateral, and a Final Order of the Bankruptcy Court approving such intercreditor agreement shall have been entered (any such indebtedness described in this paragraph, a “**Permitted Real Estate DIP Financing**”).

Financial and performances covenants as follows:

- (i) Compliance with Approved Budget - the Borrowers shall not permit (x) Actual Net Cash Flow for any Cumulative Four Week Period to be less than 90% of Budgeted Net Cash Flow for any such Cumulative Four Week Period, or (y) the Actual Disbursement Amount for any Cumulative Four Week Period to exceed 110% of the Budgeted Disbursement Amount for any such Cumulative Four Week Period, it being agreed that each of the capitalized terms used in this clause (i) shall be defined in a manner that is identical in all material respects to the definitions for such terms as set forth in the Existing DIP Credit Agreement (provided that, (x) compliance with such covenants shall not be tested for any period ending prior to last day of the second full calendar week commencing after the closing of the Replacement DIP Credit Facilities, (y) compliance with such covenants for the period ending on the last day of the second full calendar week commencing after the closing of the Replacement DIP Credit Facilities shall be tested for the two week period then ending only, and (z) compliance with such covenants for the period ending on the last day of the third full calendar week commencing after the closing of the Replacement DIP Credit Facilities shall be tested for the three week period then ending only).
- (ii) Minimum Excess Availability – at all times maintain Excess Availability of not less than \$8,000,000.

**Representations  
and Warranties:**

Representations and warranties consistent with the **Documentation Principles**.

**Events of Default:**

Events of Default consistent with the **Documentation Principles**; except that:

- 1) the definition of LC Draw Event set forth in the Existing DIP Credit Agreement shall be revised as follows: ““LC Draw Event” means (a) the

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occurrence of April 13, 2017, (b) any Event of Default has occurred and is continuing, or (c) an OMERS LC Event has occurred”.

- 2) any events of default requiring a sale of all or substantially all of the assets of the Credit Parties by any date certain or similar events of default, including the “Sale Transactions” events of default specified in the Existing DIP Credit Agreement, shall be deleted.
- 4) Any violation of the following milestones (“**Milestones**”):

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<b>Milestone</b>	<b>Deadline</b>
File Plan and Disclosure Statement (35 days prior to hearing on disclosure statement), which either (x) shall provide for payment in full in cash of all of the obligations under the Replacement DIP Facilities upon the effectiveness of the proposed Plan, or (y) shall have been approved in writing by Agent in its discretion prior to the filing thereof	11/4/2016
Entry of Disclosure Statement Order (28 days prior to confirmation) in form and substance reasonably acceptable to Agent	12/12/2016
Complete service of solicitation packages	12/16/2016
Obtain entry of confirmation order (15 days prior to effective date) in form and substance reasonably acceptable to Agent with respect to the final Plan, which such final confirmed Plan either (x) shall provide for payment in full in cash of all of the obligations under the Replacement DIP Facilities upon the effectiveness of such Plan, or (y) shall have approved in writing by Agent in its discretion prior to the entry of such confirmation order (any such confirmed plan satisfying the foregoing requirement, a “ <b>Confirmed Acceptable Plan</b> ”)	1/19/2016
Effective date of a Confirmed Acceptable Plan	1/20/2016

In the event that any of the Milestones shall be breached (a “**Milestone Breach**”) or the occurrence of any other Event of Default, then, notwithstanding and in addition to any other covenants set forth in the Replacement DIP Credit Documents and any other rights and remedies available to Agent and Lenders under the Replacement DIP Credit Documents, the Credit Parties shall be obligated to commence Going Out of Business Sales with respect to all of its retail stores and all of its Inventory (“**Wind-down GOB Sales**”) and to comply with the following requirements:

<b>Action</b>	<b>Deadline</b>
Notify all affected landlords of the Wind-down GOB Sales and Debtor’s intention to reject all leases with respect to retail store locations (assuming Debtor’s motion to approve store closing procedure is approved)	No later than the earlier of (x) five (5) Business Days following such Milestone Breach or Event of Default, or (y) 1/21/2016
A liquidator reasonably acceptable to Agent shall have been engaged to conduct the Wind-down GOB Sales and such engagement shall have been approved by the Bankruptcy Court	No later than the earlier of (x) sixteen (16) days following such Milestone Breach or Event of Default, or (y) 2/5/2016
Last day to commence Wind-down GOB Sales	No later than the earlier of (x) twenty-one (21) days following such Milestone Breach or Event of Default, or (y) 2/10/2017



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**Governing Law:** New York – submission by the Credit Parties to New York jurisdiction.