

Office of the Commissioner
MAJOR LEAGUE BASEBALL



ROBERT D. MANFRED, JR.
Executive Vice President
Labor and Human Resources
Labor Counsel

MEMORANDUM

TO: All Club Owners, Presidents, Chief Executive Officers and General Managers
FROM: Robert D. Manfred, Jr. *RDm*
DATE: November 22, 2011
RE: 2012-16 Basic Agreement

As each of you are aware, we have reached a tentative agreement with the Major League Baseball Players Association (“MLBPA”) on a new Basic Agreement. The purpose of this memorandum is to summarize the key elements of the new Basic Agreement. The complete Memorandum of Understanding (“MOU”) will be sent to your Club in a PDF format.

The negotiation of a new Basic Agreement requires a careful balancing of the interests of the thirty Major League Clubs. I suspect that each of you will find some aspect of this new agreement not to your liking. You can rest assured, however, that the negotiating committee tried to balance carefully the diverse and often conflicting interests of the Clubs. We believe that overall the industry will be well-served by the important changes in the agreement. Most important, five years of additional labor peace has great value to the Clubs.

The new Basic Agreement is subject to ratification by the Clubs pursuant to the terms of the Major League Constitution. The agreement will be submitted to the Clubs for approval on or before December 16, 2011. If the agreement is not submitted for approval prior to the tender date, Clubs will tender contracts on December 12 pursuant to the provisions of the new Basic Agreement, including the 2012 minimum salaries, and those tenders will be binding on the Clubs. If the agreement is approved by the Clubs after December 12, 2011, all of the terms of the agreement will be applied retroactively to December 12, 2011.

Clubs should continue to conduct business as usual pending ratification of the agreement, but should be aware of the new provisions that will become effective on December 12. Also, to the extent Clubs enter into Uniform Players Contracts (“UPC”) between November 21, 2011 and December 12, 2011, those contracts will be amended upon approval of the Basic Agreement to reflect any agreed upon modifications to the UPC.

1. Term

The term of the new Basic Agreement will be 5 years.

2. Rule 4 Draft

The Rule 4 Draft has been reduced to 40 rounds. Under the new agreement, draft selections in the first 10 rounds will be assigned slots negotiated with the MLBPA which, in aggregate, approximate the industry's Rule 4 spend in 2010. The slot amounts will increase during the Basic Agreement based on the growth rate of total industry revenue.

Each Club will be assigned an individually calculated penalty threshold. A Club's threshold will be the sum of the slots assigned to the draft choices of the particular Club. Each Club can spend, in aggregate, up to its individually calculated threshold without incurring a penalty. The contracts signed with all players selected through the conclusion of the 10th round will count against the Club's threshold. Players selected after the tenth round, and undrafted players, do not count against the Club's threshold, unless they are paid more than \$100,000. For players selected after the tenth round, and undrafted players who are paid more than \$100,000, only the amount in excess of \$100,000 counts against the threshold. If a Club fails to sign a selection, or passes on its selection, its threshold will be reduced by the value of the slot assigned to that pick.

The penalties for exceeding the Club threshold are extremely severe. A Club that exceeds the threshold by 5% or less incurs a 75% tax on the overage. A Club that exceeds the threshold by more than 5% but less than 10% incurs a 75% tax and the loss of its first round pick in the draft the following year. A Club that exceeds its threshold by more than 10% but less than 15% incurs a 100% tax on the overage and loses its first and second round picks in the next draft. A Club that exceeds its threshold more than 15% will pay 100% tax on the overage and lose its first round pick in each of the next two succeeding drafts.

If any Club forfeits draft picks in a given year, those picks will be awarded to other Clubs through a lottery system. All Clubs that do not exceed their individually calculated threshold in the prior year will be eligible for the lottery. An individual Club's odds of winning a pick in the lottery will be based on a weighted formula comprised of its prior season's winning percentage and prior season's Net Defined Local Revenue ("NDLR").

The signing deadline for the Rule 4 draft, which is currently August 15th at midnight, will be moved to 5 pm eastern time on a date between July 12 and July 18, depending on the date of the All-Star Game. Players subject to the Rule 4 Draft will no longer be allowed to sign Major League Uniform Player's Contracts. The supplemental selections awarded to Clubs that fail to sign a pick in the first three rounds of the draft will be extended for an additional year if the supplemental pick does not result in a player signing in the first year.

For the first time, there will be a lottery of supplemental picks between the first and second rounds and between the second and third rounds to promote competitive balance. The ten Clubs with the lowest NDLR in the prior year and any Club in the smallest ten markets (not included based on NDLR) will be entered into a lottery for six picks between the first and second rounds. The Clubs that do not receive a selection in this lottery and all other payee Clubs under the revenue sharing plan who were not previously eligible will be entered into a second lottery for six draft selections immediately following completion of the second round of the draft. A Club's odds of winning one of the lotteries will be in inverse proportion to its winning percentage.

The picks described in the preceding paragraph, as well as forfeited penalty picks that are reassigned to other Clubs, will be assignable in return for players, but not cash. There will be restrictions on the timing of the assignment of such picks. All other draft choices will remain not assignable.

3. International Amateurs

International amateur players will be subject to a system of bonus regulation comparable to domestic players. The system will become effective on July 2, 2012, and is described below.

a. Signing Bonus Pools

Beginning on July 2, 2012, each Club will be allocated a signing bonus pool that will cover all signing bonuses it provides to international amateur players. Clubs may exceed their assigned bonus pool, but will be subject to a penalty structure that is comparable to the penalty structure for exceeding their Rule 4 draft threshold. For the signing period beginning on July 2, 2012 and ending on June 15, 2013, each Club will be allocated a signing bonus pool of \$2.9 million. For subsequent signing periods (all of which cover July 2 - June 15), the amount of Club's signing bonus pool will be based on the inverse order of its prior season's winning percentage (i.e., the Clubs with the worst records receive the largest pools), and will be calculated by assigning four "slots" to each Club, and adding \$700,000 to the aggregate sum of the four slots. We see this change as part of a process that hopefully will place international players in a draft. The pools will range from approximately \$4.6 million for the Club with the lowest winning percentage to \$1.7 million for the Club with the highest winning percentage. Certain lower level bonuses provided to players will not count toward a Club's pool. Club signing bonus pools will increase each year based on the rate of growth of industry revenue.

b. Trading of Pool Space

Beginning in the 2013-2014 signing period, a Club may assign any of the four bonus slots that comprise its signing bonus pool to another Club. For example, if the Detroit Tigers' first slot that comprises its signing bonus pool is \$1 million, the Tigers could trade that slot to another Club. Detroit's signing bonus pool would be reduced by \$1 million, and the assignee Club's pool would be increased by \$1 million. There are certain restrictions on a Club's ability to trade slots, including a prohibition on a Club increasing its signing bonus pool by more than 50% through assignments. The rationale for permitting assignments of this type is that some Clubs more actively pursue international talent than others. By allowing the trading of signing bonus pool space, a Club that does not intend to use its entire pool can obtain value for its excess space through an assignment.

c. International Draft

The parties had extensive discussions regarding the inclusion of international players in a draft, and developed a process that may result in those players being included in a draft beginning in either 2013 or 2014. In order to incentivize the Union to agree to a draft, the agreement provides that if a draft does not become operational by 2014, the penalties that Clubs will incur for exceeding their signing bonus pools will become more severe beginning with the 2014-2015 signing period (as described below). The agreement establishes a joint committee to discuss all of the issues relating to a draft and contains a very specific timeline for accomplishing the predicate steps necessary to make a world-wide draft operational. The agreement does not resolve the issue of whether there should be a single draft or a separate draft.

d. Penalties for Exceeding Signing Bonus Pool

In the 2012-2013 and 2013-2014 signing periods, Clubs that exceed their signing bonus pools will be subject to the following penalties: (i) 0-5% in excess of Pool – 75% tax on the overage; (ii) 5-10% in excess of the Pool – 75% tax on the overage and loss of right to provide more than one player in the next signing period with a bonus in excess of \$500,000; (iii) 10-15% in excess of Pool – 100% tax on all of the overage and loss of right to provide any player in the

next signing period with a bonus in excess of \$500,000; and (iv) 15% or greater in excess of Pool – 100% tax on the overage and loss of right to provide any player in the next signing period with a bonus in excess of \$250,000.

If a draft of international players does not occur by July 2014, the penalties set forth above will become more severe beginning in the 2014-2015 signing period as follows: (i) 0-5% in excess of Pool – 100% tax on all overage; (ii) 5-10% in excess of Pool – 100% tax on the overage and loss of right to provide any player in the next signing period with a bonus in excess of \$500,000; (iii) 10-15% in excess of Pool – 100% tax on the overage and loss of right to provide any player in the next signing period with a bonus in excess of \$300,000; and (iv) 15% or greater in excess of Pool – 100% tax on the overage and loss of right to provide any player in the next two signing periods with a bonus in excess of \$300,000.

In any signing period that begins in the year prior to the year when a draft will become operational, the penalties for exceeding the pool will be the same as the penalty structure governing the Rule 4 draft. For example, if a draft becomes operational in July 2014, a Club that exceeds its pool by 10-15% in the 2013-2014 signing period will be taxed at 100% on the overage and will lose its 1st and 2nd round picks in the July 2014 international draft. Clubs will know the penalty structure applicable to a particular signing period before the signing period begins.

e. Cuban Players and Foreign Professionals

During the 2012-2013 and 2013-2014 signing periods, Cuban players who are at least 23 years of age and have played professionally in a Cuban professional league for a minimum of three years will be considered professional players not subject to a Club's signing bonus pool. All other Cuban players will be covered by a Club's signing bonus pool. If a draft does not become operational by July 2014, Cuban players must be 23 years old and have played as a professional in Cuba for five years in order to be exempt from the bonus regulation system. In addition, beginning in 2012, the Office of the Commissioner will clarify the factors it will use to determine the residency of Cuban players for determining eligibility for the Rule 4 draft, including a consideration of whether the player has invoked the protection of U.S. law. This clarification should eliminate the most abusive practices with respect to the establishment of domicile.

With respect to other foreign professional players, including players in the Japanese, Korean and Taiwan leagues, those players will be treated as professionals exempt from the bonus regulation system if they are 23 years old and have played as a professional in a foreign professional league recognized by the Office of the Commissioner (Japan, Korea, Taiwan) for a minimum of five years.

f. Other

All foreign amateur players subject to the system must sign Minor League contracts. Clubs may include a special covenant in the contract providing it with the right to void the contract if it determines within six months of signing that the player had falsified his age or identity. All international players must register with the Scouting Bureau to be eligible to sign a contract, and a list of eligible players will be distributed to all Clubs.

4. Revenue Sharing Plan

The net transfer value of the Plan will remain equivalent to the transfer value produced by a 48% straight pool plan. However, in response to Club feedback, the base plan has been

increased to a 34% straight pool plan, and the Central Fund Component (now referred to as the Supplemental Plan), has been reduced to 14%. The 34% straight pool plan will be based on NDLR from the prior Revenue Sharing Year rather than the current Revenue Sharing Year. In addition, revenue derived from the post-season, which was already excluded from the erstwhile Central Fund Component, will now also be excluded from the Base Plan.

In the Supplemental Plan, a Club's performance factors will be fixed for the duration of the agreement, subject to adjustment only to account for new, revised or adjusted local broadcast agreements (including adjustments by the Revenue Sharing Definitions Committee) that were not reflected in a Club's 2013 projected NDLR (and thus are not reflected in the Club's performance factor). The adjustment for new stadiums and the CAGR adjustment have been eliminated. The adjustment for new, revised or adjusted local broadcast agreements will occur at the end of the 2014 Revenue Sharing Year, and will be triggered if a Club's local broadcasting revenue increases by at least 10% from year to year as a result of the new, revised or adjusted agreement. A Club's performance factor will be recalculated by adding the additional broadcasting revenue it has received pursuant to the new, amended, or adjusted contract to the NDLR that was used to calculate its original performance factor. The new performance factors after the adjustment will remain in effect in 2015 and 2016.

Each Club's performance factor is based on a variety of considerations, including: (i) how a Club performed relative to its fixed factor in 2007-2011; (ii) a Club's revenue trends and the trends of a Club's revenue peers; (iii) a Club's market ranking and its revenue potential in relation to Clubs in similar markets; (iv) a Club's projected NDLR for 2012 and 2013, with a consideration of whether such projections are reasonable based on the Club's revenue trends and the trends of its peers; (v) the impact of recent new stadiums on a Club's past performance and expected future performance; and (vi) input received by the MLBPA as part of the negotiation process. Each Club's performance factor for 2012, and for 2013 through the end of the agreement (subject to the broadcast adjustment), are attached hereto. The 2012 performance factor is intended to provide Clubs with a transition from their 2011 factor to their 2013 factor.

For the first time, the size of a Club's market will be used to determine a Club's entitlement to payments under the Revenue Sharing Plan. Other leagues, including the NBA, include a Club's market size as a factor in determining eligibility for payments under the revenue sharing plan. In recent years, we have had as many as 18 payee Clubs under the Revenue Sharing Plan in a given year. As a result, the substantial burdens under the Plan have been concentrated on a small number of payor Clubs. This new feature of the plan is intended to address this inequity.

Under the revised Revenue Sharing Plan, the fifteen Clubs located in the largest markets will be disqualified from receiving Revenue Sharing payments. A Club's market size rank was determined based on the average of its relative ranking in population (using Designated Market Area ("DMA")), average household income in the DMA, and cable, satellite and telecom households in the DMA. A list of the Clubs' market-size rankings (including the 15 disqualified Clubs) is attached hereto. The market-size rankings will remain in effect for the duration of the Basic Agreement. It should be noted that Oakland would become disqualified if and when it gets a new stadium.

The revenue sharing payments to which market-disqualified Clubs otherwise would be entitled will be phased out by the end of the Basic Agreement. In 2012, a market-disqualified Club will receive its full revenue sharing payment. In 2013, a market-disqualified Club's revenue sharing payment will be reduced by 25%. In 2014, a market-disqualified Club's revenue sharing payment will be reduced by 50%. In 2015, a market-disqualified Club's revenue sharing

payment will be reduced by 75%. In 2016, a market-disqualified Club's revenue sharing payment will be reduced by 100%.

Revenue sharing payments that market-disqualified Clubs would have received under the Plan will be refunded to payor Clubs in proportion to their total revenue sharing payments (beginning in 2013); however, payor Clubs that are recidivist violators of the Competitive Balance Tax ("CBT") threshold will forfeit some or all of the refunds to which they would have been entitled, depending on the number of consecutive years they exceeded the CBT threshold. A Club's recidivist status will "carry over" from the prior agreement. The forfeiture structure is as follows: (i) one year over the threshold – no forfeiture (Tier 1); (ii) two consecutive years over the threshold – 25% forfeiture (Tier 2); (iii) three consecutive years over the threshold – 50% forfeiture (Tier 3); (iv) four consecutive years over the threshold – 75% forfeiture (Tier 4); and (v) five consecutive years over the threshold – 100% forfeiture (Tier 5). By way of example, if a payor Club had exceeded the CBT threshold in 2011, 2012 and 2013, the Club would receive only 50% of the refund it otherwise would have been entitled to in 2013 because it exceeded the threshold in three consecutive years.

Beginning in 2012, any CBT payor that is under the CBT threshold for the next two or more consecutive years will be treated as a Tier 1 Club entitled to the full refund in the next year it exceeds the CBT threshold. A CBT payor Club that has a payroll under the CBT threshold for only one year will have its forfeiture Tier lowered by two levels in the next year in which it exceeds the threshold (but no lower than Tier 1). By way of example, a Club that exceeded the CBT threshold for the fifth consecutive time in 2012 (Tier 5), and is under the threshold in 2013, will be treated as a Tier 3 Club (50% forfeiture) if it exceeds the threshold in 2014. Any amounts forfeited by payor Clubs will be distributed as follows: (i) 50% to payee Clubs that are not market-disqualified and did not exceed the CBT threshold for more than one consecutive year at the time of the payment, in proportion to the amounts they are entitled to receive for that Revenue Sharing Year; and (ii) 50% to the Players' Investment Plan.

Finally, the Commissioner's Discretionary Fund was increased to \$15 million, and the permissible uses of Revenue Sharing funds by payee Clubs were clarified to exclude certain uses such as payments to service acquisition debt or debt that is unrelated to past or future efforts to improve on-field performance.

5. Competitive Balance Tax

The thresholds for the term of the Basic Agreement are: 2012 - \$178 million; 2013 - \$178 million; 2014 - \$189 million; 2015 - \$189 million; 2016 - \$189 million. The thresholds for 2012 and 2013 represent no change from the 2011 threshold, which is the first time that the threshold has not been raised at the start of a new Basic Agreement. In addition, while the threshold grew \$30 million (20%) over the term of the 2007-2011 Basic Agreement (from \$148 to \$178), the threshold will grow only \$11 million (6%) over the term of the 2012-2016 Basic Agreement.

The tax rates will be revised from 22.5%, 30% and 40% to 17.5%, 30%, 40% and 50%. This is the first Basic Agreement that has included a tax rate over 40%. Each Club whose final 2011 CBT payroll was taxed at a rate of 22.5% percent will have an initial rate of 30%; each Club whose final 2011 CBT payroll was taxed at a rate of 30% will have an initial rate of 40%, and each Club whose final 2011 CBT payroll was taxed at a rate of 40% will have an initial rate

of 50%.¹ A Club's CBT tax rate will be reset if its CBT payroll is under the threshold for at least one year. For example, if a Club is taxed at the rate of 30% in 2012, but is under the threshold in 2013, the Club will be taxed at a rate of 17.5% if it is over the threshold in 2014.

Various changes to the CBT accounting rules were made, and these changes will be communicated in the near future.

6. Debt Service Rule

The Debt Service Rule was revised to base the test on a Club's most recent year's EBITDA (it had been the average of the most recent two years' EBITDA). The EBITDA multiplier was lowered from ten to eight, and from fifteen to twelve for a Club's first ten years in a new or significantly renovated stadium for which it incurred related debt.

In response to some of the events during the term of the most recent Basic Agreement, the definition of Total Club Debt was expanded to include loans or advances to a Club's owners or related parties if such debt is serviced, either in whole or in part, either directly or indirectly, using Club funds and/or assets. Excludable Debt, which was \$39,884,000 per Club in 2011, will continue to grow during the term based on the percentage growth in the industry's total operating revenue.

7. Deferred Compensation

The discount rate for deferred compensation will be fixed at 5% for the term of the Basic Agreement, unless the parties agree to amend it as a result of a significant increase in interest rates. In addition, the Basic Agreement was clarified to expressly provide that a Club's deferred compensation must be funded at all times throughout the year, and must be funded in the form of cash, cash equivalents, or unrestricted readily marketable securities. Clubs will be required to certify to the Office of the Commissioner, with supporting documentation, that their funding obligations have been satisfied on January 31, April 31, July 31, and October 31 of each year.

8. Reserve System Changes

In exchange for the Union's agreement to changes to the Rule 4 Draft, international amateur talent system, and the Competitive Balance Tax, we agreed to various changes to the reserve system that are described below.

a. Draft Pick Compensation

Although the Union proposed significant changes to the draft pick compensation system, the Clubs also requested that we revise the system to correct certain shortcomings and abuses that became more acute during the term of the last Basic Agreement. The new system of Draft Pick Compensation is attached hereto, and is briefly summarized below. We anticipate that between eight to ten players will be subject to compensation each year under the new system.

The Elias ranking system and free agent salary arbitration have been eliminated, and are replaced by a system in which a Club may subject a player to compensation by making him a qualifying offer. A Club only may make a player a qualifying offer if he had been under reserve to the Club continuously since Opening Day of the recently completed Championship Season.

¹ As a transition rule for the 2012 season only, Clubs whose 2011 CBT payrolls were taxed at a rate of 40% will have a 2012 tax rate of 42.5% if they exceed the threshold in 2012. Clubs that exceed the threshold for the first time in 2012 will be taxed at a rate of 20%.

The qualifying offer must be a guaranteed one-year contract with a salary equal to the average salary of the top 125 highest-paid players from the prior season (approximately \$12.35 million in 2011). The offer must be made by the end of the “quiet period,” and a player has seven days to accept it.

The Club that signs a player subject to compensation will forfeit its first-round selection, unless it selects in the top 10 of the draft, in which case it forfeits its second-highest pick in the draft. If a Club signs more than one compensable free agent, it will lose one draft pick for each free agent, and the picks shall be its highest in the draft (except for Clubs selecting in the top 10, whose highest selection is protected). A Club’s “highest picks” will be determined after adjusting for picks the Club may have forfeited as a penalty in the Rule 4 draft. In addition, all of a Club’s draft picks will be subject to forfeiture, including picks obtained through an assignment, a lottery, or as compensation under the Draft Pick Compensation system (which will minimize the effect of “churning”).

A player’s former Club will receive a selection at the end of the first round beginning with the first selection following the last regular selection in the first round. The former Clubs will select in reverse order of win percentage from the prior championship season. If a Club is entitled to more than one draft selection as compensation, its picks will be slotted in succession.

b. Super-Two Eligibility

The percentage of players with two years of service who will be arbitration eligible will be increased from 17% to 22%, and if two or more players are tied in ranking, all tied players will be arbitration eligible. We estimate that this change will add approximately five to six Super-Twos each year. In many years, the change will not materially decrease the Super-Two cutoff. In 2011, the cutoff would have dropped from 2.146 to 2.143 if these changes had been implemented; in 2010 it would have decreased from 2.122 to 2.115; and in 2009 it would have decreased from 2.139 to 2.137.

c. Minimum Salaries

The minimum salary for Major League Service will be as follows:

2012: \$480,000
2013: \$490,000
2014: \$500,000
2015: COLA
2016: COLA

The minimum rate of payment for Minor League service for all players (a) signing a second Major League contract (not covering the same season as any such player’s initial Major League contract) or a subsequent Major League contract; or (b) having at least one day of Major League service, will be as follows:

2012: \$78,250
2013: \$79,900
2014: \$81,500
2015: COLA
2016: COLA

The minimum rate of payment for Minor League service for all players signing a first Major League contract will be as follows:

2012: \$39,125
2013: \$39,900
2014: \$40,750
2015: COLA
2016: COLA

d. Retention Bonus

If a Club signs an Article XX(B) free agent (but not any other category of free agent) to a Minor League contract between the time such player becomes an Article XX(B) free agent and ten days prior to the commencement of the Championship Season, the Club will be required to pay the player a retention bonus of \$100,000 if, at least five days prior to the first day of the Championship Season, the player is either (a) not added to the Club's Opening Day 25-man roster or Major League disabled list, or (b) is not provided with his unconditional release. In addition, if such a player is retained by the Club under his original Minor League contract pursuant to this provision (i.e., he is paid the \$100,000 retention bonus), the player may require the Club to provide him with his unconditional release on June 1 if he is not added to the Club's 25-man roster by that date.

e. Fourth Option

Beginning in 2012, but not retroactive to any prior seasons, a player who is placed on the Disabled List after the player has been credited with 30 or more days of service (rather than 60 or more days of service, the current rule) will receive credit for the Disabled List time in determining the 90-day requirement for a season of service.

f. Calendar Changes/Anti-collusion Protocols

The calendar changes that were in effect for the 2010 and 2011 off-seasons will be continued for the term of the Basic Agreement. The free agent quiet period will end midnight eastern time on the fifth day after the day that the last World Series game starts; all options to extend player contracts must be exercised by the end of the quiet period; and the tender date will be December 2 (beginning in 2012). The anti-collusion protocols that have been in effect in 2010 and 2011 will continue in effect for the Basic Agreement (including the media rules).

9. Scheduling/Realignment/Post-Season

Few significant changes were made to the scheduling provisions of the Basic Agreement. The parties agreed to an expansion of the roster from 25 to 26 in certain circumstances when regular or split doubleheaders are scheduled. This was a change endorsed by the Commissioner's On-Field Committee.

Beginning in 2013, the leagues will align to a 15-15 format following the move of the Houston Astros from the National League Central Division to the American League West Division. We are, with the assistance of Dave Montgomery, exploring scheduling options under a 15-15 format. Beginning in 2012, the All-Star Break will be four days for all Clubs.

Beginning no later than 2013, an additional Wild Card Club will be added in each League. The Club that has the second-highest winning percentage among the Clubs that were not Division champions will be the Wild Card. The two Wild Card Clubs in each League will play a

single post-season game, the winner of which will advance to the Division Series. We are still discussing some of the details regarding the expansion of the playoffs, including tiebreaker rules and whether the rule that a Wild Card Club cannot play a Club from its Division in the Division Series should be eliminated.

We are also discussing the possibility of adding the additional Wild Cards for the 2012 season. The addition of the Wild Card games in 2012 creates some post-season scheduling and network issues as a result of the compressed post-season schedule. With the help of Dave Montgomery, we are attempting to work through those issues. A final decision on 2012 will be made by February 1, 2012.

10. Benefit Plan

The average annual Club contribution to the Players Benefit Plan for 2012-16 will be \$181.2 million, approximately \$15 million less than prior estimates. In 2012, the contractual contribution amount will be \$167.8 million because the Clubs will take advantage of certain reserves developed under the last Basic Agreement. The parties agreed to modest improvements in certain classes of pension and health care benefits, the latter partly as required by recent federal health care reforms. To reduce the Clubs' exposure to health care inflation, the parties agreed to implement several managed care rules for prescription drug coverage and redesigned the Welfare Plan to limit Clubs' costs and migrate inactive participants toward lower-cost coverage.

The parties also extended their 2011-12 agreement jointly to fund annual payments to certain classes of former players who did not vest under earlier versions of the Pension Plan. These payments, which will continue through 2016 at roughly \$3 million annually, will be funded entirely from Competitive Balance Tax proceeds reserved during the 2007-11 Basic Agreement.

11. Drugs, Alcohol, Smokeless Tobacco

Because the parties have been amending the Joint Drug Program each year, there were not as many issues to address as in prior negotiations. The most significant change was the addition of blood testing for hGH. Effective upon ratification, all players will be subject to blood testing for reasonable cause at all times during the year. In addition, during each year, all players will be tested for hGH during Spring Training. Starting with the 2012-2013 off-season, players will be subject to random unannounced testing for hGH. The parties have also agreed on a process directed at an agreement that would expand blood testing to enable in-season collections. Additional details regarding hGH testing will be provided after all of the procedures and protocols have been determined.

In addition to blood testing for hGH, additional improvements to the Joint Drug Program include increased in-season and off-season random unannounced drug tests, prohibiting players suspended prior to the All-Star Game from being eligible for All-Star Game election or selection, and improvements to the Drug of Abuse Treatment Board process.

With respect to smokeless tobacco, players, managers and coaches will be prohibited from using the product during Club appearances and televised interviews. In addition, at any time when fans are permitted in the ballpark, players, managers, coaches and other on-field personnel must conceal tobacco products (including tobacco tins or packages), and may not carry tobacco products (including tobacco tins or packages) in their uniforms or on their body.

Individuals who violate the policy will be subject to discipline. The parties also agreed upon an extensive program of education and public outreach regarding the dangers of smokeless tobacco.

The parties also agreed on a program of mandatory evaluation by a trained professional for players who are suspected of an alcohol use problem (including players who are arrested for DWI or other crimes involving alcohol), and players who are arrested for crimes involving the use of force or violence.

12. Health and Safety

The parties agreed to phase out low-density maple bats. No new player will be permitted to use a low density maple bat during the term of the agreement. In addition, if the number of maple bats that break materially increases, or a serious injury occurs, the Office of the Commissioner has the right to reopen the agreement on bats, and impose more stringent restrictions if an acceptable resolution is not reached with the Union.

By 2013, all Major League players will wear a newly developed batting helmet that Rawlings intends to roll out by Spring Training 2012. The helmet protects against pitches thrown at 100 miles per hour, but is significantly less bulky and more aesthetically appealing than prior versions of the more protective helmet. The helmet will be tested in 2012, and fully rolled out by 2013.

The concussion policy that was implemented prior to the 2011 season will remain in effect for the duration of the Basic Agreement.

13. Other

There are many other changes to the Basic Agreement that will be reflected in the MOU. Some of the other noteworthy changes include: (i) making participation in the All-Star Game mandatory unless the player is unable to play due to injury; (ii) developing a strategic international play plan that would cover the entire term of the Basic Agreement and involve countries that MLB has not visited in the past; (iii) expanding a Club's ability to include charitable contribution provisions in contracts; (iv) eliminating the prohibition that players with five or more years of service may not be directed to perform rehabilitation work at a Club's spring training facility; (v) enhancing Clubs' and the Commissioner's disciplinary rights, including permitting Clubs to suspend players for more than 30-days and subjecting players who engage in certain egregious on-field conduct to suspensions without pay; (vi) enhancing Clubs' right to medical records and to notice of treatment of players by non-Club physicians; (vii) implementing weekend waivers during the playing season; and (viii) subjecting players to a Social Media policy.