Viewpoint

One of a series of opinion columns by bankruptcy professionals

Derailing A Done Deal: The Texas Rangers Bankruptcy

By William Snyder

Although Major League Baseball has been around since 1869, there are only 30 teams and they don't change hands often. That's why the bankruptcy and auction of the Texas Rangers this last summer pitted billionaires against billionaires employing millionaire lawyers all bent on getting what they wanted.

After the dust settled, the team was sold to the highest bidder, the Greenberg-Ryan group for $593 million. All along, MLB favored the winning group, which it had selected to buy the team in a pre-packaged bankruptcy deal last May. But creditors holding $525 million of debt objected to the price and terms of the deal. Their role in derailing the original transaction illustrates how bankruptcy courts can provide consideration for debt holders. As a court-appointed chief restructuring officer, my goal was to reach a fair price or a fair process or both, and all of the pressure from the fans, the media, MLB and the powerful bidders was not going to sway me from my goal.

Tom Hicks Exits Stage Left

During the last decade, the Texas Rangers were wrapped up in the financial web that was the Hicks Sports Group. Tom Hicks became a billionaire doing leveraged buyouts in the 80s and 90s. His holdings branched out to sports in 1995 with the purchase of the Dallas Stars, a hockey franchise that enjoyed a decade of success, including two trips to the Stanley Cup Finals. In 1998-99, Hicks-controlled entities made two major investments that ultimately soured: a bet on telecom and the purchase of the Texas Rangers for $250 million.

His biggest splash with the Rangers was signing shortstop Alex Rodriguez to a 10-year, $252 million contract. He also spent $65 million on pitcher Chan Ho Park, who never panned out. After years of last place finishes, Texas traded Rodriguez to the Yankees but still owed the player $47 million in deferred compensation at the time of the bankruptcy.

Hicks's company defaulted on its $525 million loan in March 2009. That loan was also secured by the Stars. In July, after a failed equity-raising bid by Hicks Sports Group, the Rangers entered into a so-called voluntary support agreement with MLB, which included an operating loan from the league, while a buyer was sought. Based on published reports and documents from the bankruptcy case, it was clear that MLB was in control of the team and favored a sale to a group headed by Pittsburg lawyer Chuck Greenberg and Hall of Famer Nolan Ryan, the team's president.

The sale price was $575 million, and while the deal would repay the creditors, the lenders weren't satisfied with the price after a couple other bidders emerged. Prominent debt players in the case were JP Morgan Chase, CIT Group, Galatioto Sports Partners LLC and Monarch Alternative Capital. Lenders were also dissatisfied with terms of the deal that appeared to favor Hicks. He would retain the land and parking around the stadium, valued at some $70 million, and receive other considerations.

Creditors Fight Back

Texas Rangers Baseball Partners filed for bankruptcy on May 24 with a prepackaged reorganization plan that called for the team's sale to Greenberg on an exclusive basis despite the lenders' opposition. The lenders then forced Rangers Equity Holding, the equity holders of Texas Rangers Baseball Partners, into an involuntary bankruptcy and moved for appointment of an independent fiduciary. Judge D. Michael Lynn of the U.S. Bankruptcy Court in Fort Worth appointed me as the chief restructuring officer for REH on June 28. The judge gave me one week to decide to vote the equity shares for or against the reorganization plan.

As I worked on this case, I discovered why the lenders were upset about the Greenberg deal with Hicks. The night of the bankruptcy filing, the following considerations to Hicks were inserted into the deal in addition to the parking and leases: a Hicks loan for about $6 million, as well as $9 million worth of professional fees, would be assumed by the team; there was a $10 million break-up fee to be paid to Hicks if the deal fell through; he would be given a series of releases and indemnities, and the lease on the Boeing 757 jet used by the Stars and the Rangers at the cost of $12 million a year would be the team's liability. In addition, Hicks would still own 1% of the team and be given the title chairman emeritus.

There was also the possibility that other bidders could step forward to offer creditors a better deal. Yet given that the Greenberg-Ryan group had a year to prepare their bid, it was impossible to give the other bidders an equal opportunity to prepare their bids due to the difficulty in raising commitments for hundreds of millions of dollars.

Andrew M. Leblanc, an attorney with Milbank, Tweed, Hadley & McCloy representing the ad-hoc group of first-lien lenders, testified on July 13, "The reality is this. The debtors - and we've discovered this in discovery - they

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filed this bankruptcy because it eliminated the risk of higher and better offers. And what they're trying to do now is to cleanse that process with what is fundamentally a flawed auction."

I wasn't comfortable with the price or the process, and because I needed one or the other or both, I told Greenberg I was not in favor of the reorganization plan, and the court installed an auction plan on July 13.

Although bidders appeared and disappeared during the days leading up to the August 4 auction, billionaire Mark Cuban joined a group led by Houston businessman Jim Crane and they were able to line up their financing. By this time the Hicks carve-outs were struck from the bids. The auction ensued and Greenberg-Ryan prevailed with a $593 million bid at 1:30 a.m. on August 5.

Value Added

By insisting on a better deal the creditors increased what they would realize on the sale to $338 million from $210 million prior to auction. Unfortunately for Hicks, he lost nearly $80 million in perks and other consideration, funds that essentially went to the creditors. As for the outstanding balance due on the original $525 million in debt owed by Hicks Sports Group, creditors still have the Dallas Stars and the Mesquite Rodeo as collateral. I am hopeful that a Stars sale will yield a great dividend for the second-lien lenders.

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