

29-AUG Am. Bankr. Inst. J. 36

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Feature

***36 TEXAS RANGERS PLAY BALL IN BANKRUPTCY ARENA**

Part I: The Early Innings of the Case

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In an unusual event, Major League Baseball (MLB) and chapter 11 bankruptcy reorganization collided, resulting in an electrifying strategic game.

The Warm-Up

Background: Rangers' Bankruptcy Filing

On May 24, 2010, Texas Rangers Baseball Partners (Rangers Partners) filed a chapter 11 petition in the U.S. Bankruptcy Court for the Northern District of Texas. The purpose of the filing was to conduct an orderly sale of all of the assets of Rangers Partners to a group led by Pittsburgh attorney Chuck Greenberg and baseball hall of famer and former Ranger, Nolan Ryan--the "Greenberg-Ryan Group."¹

On the debtor side, Rangers Equity Holdings LP holds a 99 percent partnership equity interest in Rangers Partners, with Rangers Equity Holdings GP LLC holding the remaining 1 percent. Both of these companies are subsidiaries of HSG Sports Group LLC (HSG), a Tom Hicks-led company.

Creditors include pre-petition lenders, in addition to other significant creditors. Rangers Partners is a limited guarantor under first and second secured-lien credit agreements (together, the "HSG credit agreements"), pursuant to which certain lenders loaned money to HSG and HSG Sports Holdings LLC (HSGH). Other subsidiaries of HSG are also guarantors of the credit agreements. Rangers Partners' guaranty is limited to a maximum of \$75 million. The debtor's obligations with respect to the guaranty are secured by a first and second lien on substantially all of the assets of the debtor. In addition, Baseball Finance LLC (Baseball Finance), an MLB affiliate, loaned money to Rangers Partners under a revolving loan facility in an aggregate amount not to exceed \$25 million. This debt is secured by liens on substantially all of the assets of Rangers Partners, junior in priority to the HSG credit agreements. Rangers Partners also owes Hicks \$5 million in principal, plus accrued interest. Rangers Partners further owes Emerald Diamond LP more than \$15 million on a note that was consideration for the May 23, 2010,

TEXAS RANGERS PLAY BALL IN BANKRUPTCY ARENA, 29-AUG Am. Bankr. Inst. J. 36

purchase by Rangers Partners of Emerald Diamond LP's assets, including leases of land and improvements relating to Rangers Ballpark in Arlington, Texas.

The creditors also include certain former players such as Alex Rodriguez, who is owed approximately \$25 million in deferred compensation and serving on the Official Committee of Unsecured Creditors; Kevin Millwood, owed approximately \$12.9 million in deferred compensation; Vincente Padilla, owed approximately \$1.7 million in deferred compensation; Mickey Tettleton, owed approximately \$1.4 million in deferred compensation; and Mark McLemore, owed approximately \$970,000 in deferred compensation. In addition, Michael Young, the current third baseman for the Rangers, is owed approximately \$3.9 million in deferred compensation.

The Losing Streak

Rangers' and HSG's Finances Slide

Despite strong fan support, Rangers Partners experienced cash flow problems. As a result, Hicks made a series of capital contributions and loans to Rangers Partners. However, Hicks is no longer willing to provide additional funding. In addition, HSG defaulted on approximately \$525 million in loans. Monarch Alternative Capital and others purchased a portion of these loans for investment purposes prior to the bankruptcy filing. The purchase of distressed debt, usually at a discount to the face amount of the debt, and the subsequent involvement of the distressed debt investor in a bankruptcy, is an increasingly common play often used to achieve a substantial return on investment.

Following unsuccessful capital raising efforts, Rangers Partners and HSG began searching for a buyer. By Aug. 18, 2009, six pre-bankruptcy bids were received, with the Greenberg-Ryan Group selected as the winning bidder. Rangers Partners entered into an initial asset-purchase agreement (APA) with the Greenberg-Ryan Group on Jan. 23, 2010. On May 23, 2010, the APA was subsequently terminated by mutual consent in favor of a new APA.

Strategic Call from the Dugout

Rangers File for Bankruptcy Protection

It is the position of the Office of the Commissioner of Baseball (the "commissioner") that the Major League Constitution and certain pre-petition financing agreements entered into by Rangers Partners bar any sale not approved by the commissioner and the requisite percentage of owners of other MLB franchises. The commissioner approved the sale to the Greenberg-Ryan Group under the APA. Certain lenders under the HSG credit agreements, however, argued that they should also have the right to pass on any sale of the Rangers once their loan is in default, and refused to consent to the Greenberg-Ryan Group sale. It is the position of the lenders that one or more alternative purchasers would pay more for *37 the Rangers than will the Greenberg-Ryan Group under the APA. Without lender consent, the most efficient manner to consummate the sale of Rangers Partners was through a chapter 11 bankruptcy.

Now in chapter 11, the Rangers continue to play games, honor tickets, pay salaries and expenses while operating the MLB franchise. Along with its bankruptcy petition, the Rangers Partners filed a prepackaged chapter 11 plan. Certain creditor constituencies may not agree to the terms outlined in the prepackaged plan, setting up a potential plan confirmation battle. In such cases, the debtor may seek bankruptcy court approval of the plan over the objection of dissenting creditors during the confirmation hearing. In a prepackaged chapter 11, the plan is filed along with a disclosure statement explaining the terms, the history leading up to the filing and other information that creditors and other parties-in-interest need to vote on the plan.

Relief Pitcher Warms Up, Enters the Game

Greenberg-Ryan Group Seeks to Buy Rangers Through a Proposed Chapter 11 Plan

According to the Rangers Partners' disclosure statement, the proposed plan calls for the sale of the Texas Rangers franchise to the Greenberg-Ryan Group and the payment in full of certain claims against the bankruptcy estate. The Greenberg-Ryan Group will assume certain obligations, including deferred-player compensation. In addition, the Greenberg-Ryan Group will purchase the assets of Rangers Partners for \$304 million, plus a promissory note (contingent on the Rangers' revenue being in the top five for all MLB clubs in a given year). In addition, the proposed plan calls for the sale of property belonging to Ballpark Real Estate LP (BRE) for \$5 million in cash, a \$53 million promissory note, a 1 percent equity interest in the purchaser and the assumption of BRE obligations of approximately \$13 million. Certain creditors, including Monarch Alternative Capital (the "dissenting creditors"), oppose the prepackaged plan, asserting, among other things, that the estate should receive more money from the sale of the team.

Lead-Off Batter for Rangers' Opponents at the Plate

Dissenting Creditors Start Bidding War over DIP Lender

Distressed companies have a difficult time obtaining financing without granting special lender concessions, such as granting the lender a lien on the debtor's assets, in addition to granting a claim that is higher in priority than administrative claims (such as the debtor's attorney's fees and other costs). The ability to obtain a lien and a "superpriority claim" often induces lenders to extend credit to the chapter 11 debtor.

In the recent tight credit market, fewer lenders have been willing to make loans to companies entering bankruptcy, which in baseball terms, means that a debtor-in-possession (DIP) lender has become as difficult to obtain as a good left-handed power hitter. In the *Texas Rangers* case, however, two lenders fought for the right to provide DIP financing.

The DIP financing hearing made for an unusual play in the Rangers' bankruptcy. Two competing lenders (the dissenting creditors and Baseball Finance) emerged, each seeking to be the DIP lender. In a blistering round of offers and counteroffers, the court approved Baseball Finance as the DIP lender. For this at bat, the dissenting creditors may have been called out in a close play at the plate. However, they were successful in forcing Baseball Finance to offer more favorable financing terms to the debtor. Further, the meat of the dissenting *75 creditors' line-up (tactics to prevent the sale to the Greenberg-Ryan Group and/or achieve a higher offer for the estate's assets) is on deck and will soon be at the plate during the confirmation hearing on the proposed plan.

At the May 26, 2010, DIP loan hearing, Bankruptcy Judge D. Michael Lynn reminded the Rangers' chief financial officer of her duty to obtain the best available outcome for the creditors. A DIP loan with a lower interest rate, along with keeping open the possibility of new bids for the team/assets may not have been in the debtor's, or Baseball Finance's, play book, but the umpire (bankruptcy judge) called the balls and strikes as he saw them for the benefit of the creditors.

The Squeeze Play

Dissenting Creditors File an Involuntary Bankruptcy Petition

On May 27, 2010, the dissenting creditors filed an involuntary bankruptcy petition against Rangers Equity Holdings LP and Rangers Equity Holdings GP LLC (the "holding companies"). Prior to this time, the holding companies were not party to the

TEXAS RANGERS PLAY BALL IN BANKRUPTCY ARENA, 29-AUG Am. Bankr. Inst. J. 36

bankruptcy proceedings. Under [§ 303 of the Bankruptcy Code](#), creditors may force a person or company into an involuntary bankruptcy. An involuntary bankruptcy petition requires the filing of a case against the debtor by three or more creditors, each holding a non-contingent claim that is not subject to a *bona fide* dispute as to liability or amount, and that aggregate at least \$14,425 more than the value of any lien on property of the debtor securing such claims held by the holders of such claims. If there are fewer than 12 such holders, excluding employees, insiders or transferees of avoidable transfers, then only one holder is required to file an involuntary bankruptcy petition against the debtor. The involuntary debtor may answer the petition, and the bankruptcy court can place the debtor into bankruptcy if debts are not being paid as they become due. If the bankruptcy court dismisses the involuntary petition, however, the petitioners are subject to sanctions along with punitive damages.

The dissenting creditors state that the involuntary petition was filed to ensure that the creditors receive maximum value for their claims. The dissenting creditors hold a lien on the stock of the Rangers, and will almost certainly attempt to maximize the value relating to that asset as well. The dissenting creditors also claim that the Baseball Club and related assets are worth more than the purchase price proposed in the plan, a play which appears to be an attempt to reopen the bidding to garner more money for the estate. Meanwhile, in the other dugout, Rangers Partners continues to press forward, believing that the involuntary filing will not affect its schedule. Another looming issue is the interplay of bankruptcy law and the MLB's requirement that any sale or transfer of control of the Texas Rangers franchise needs approval from the commissioner and 75 percent of MLB clubs.

A Preview of Later Innings

The later innings promise to be just as exciting as the early innings. In a June 2 order, Judge Lynn requested that the parties address the following four issues:

1. Does the debtor have a duty as a DIP to maximize the value of its estate, given that the debtor's plan provides for full satisfaction of all claims against the debtor and a return to 100 percent consenting equity?
2. Who is entitled to speak on behalf of the owners of the debtors (Rangers Equity Holdings LP and Rangers Equity Holdings GP LLC): the lenders or those entities' management?
3. What duties do the owners of the debtor owe to the lenders? and
4. Under the plan, are either of the classes consisting of the lenders or the owners impaired within the meaning of [§ 1124 of the Bankruptcy Code](#)?

At this point, the *Rangers* bankruptcy case is still in the early innings, yet we have already seen some exciting, and rather unusual plays. Stay tuned for further developments.

Footnotes

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¹ Much of the information included in this article concerning the events leading to the bankruptcy filing, the operations and financial condition of the Rangers Partners and the treatment of creditors and other stakeholders in the Ranger Partners' proposed plan of reorganization is taken from the disclosure statement filed by the Rangers Partners in support of its proposed plan of reorganization.

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