

other obligations stemming from suite licensees and ticket holders, such as obligations related to seat access regarding non-sporting events, parking requirements, unlimited food and beverage offerings or other perks.

Sponsorship Sales

Every major league sports team relies on relationships with companies and brands to form strategic alliances in the form of sponsorships. Companies and brands pay to align themselves with teams for the goodwill associated with a respective team, its league and its players. Such alignment manifests itself in various forms, including signage affixed around an arena or facility, the branding of certain team programs, as well as club and hospitality areas within a playing facility. The most prominent form of sponsorship is the arena or stadium naming rights deal.

Naming rights deals yield significant long-term revenue streams for teams and provide high-profile exposure for companies and brands.

Potential owners need to understand the terms and conditions of existing naming rights agreements given their economic value, but also because certain naming rights transactions, given their and the strength of the naming rights partner, lend themselves to being collateralized for financing purposes. These agreements are generally the subject of heavy negotiation, particularly in terms of exclusivity, length of term, fees, and entitlements. Potential buyers need to be aware of these terms and ensure that they are able to fulfill the obligations under these agreements.

Concessions and Merchandise

Another revenue source familiar to many is sales related to food and

beverage concessions and team merchandise, which probably represent the most familiar forms of team revenue for the average sports fan. Who goes to a game and leaves without consuming a beverage, hot dog, bag of popcorn, or purchasing team memorabilia? With stadium and arena food becoming increasingly gourmet in an effort to cater to sophisticated palates, prices for food have risen commensurately, creating increased revenue opportunities for team owners.

Merchandise sales have become more sophisticated with more quality products entering the market, many times with team stores resembling commercial retail locations. Teams generally outsource concessions functions to companies specializing in arena concessions and are increasingly outsourcing merchandise functions, often times receiving minimum guarantees in anticipation of future sales. As such, buyers should review and understand the financial opportunities and implications of existing concessions and merchandise agreements.

Closing the Deal

Following extensive due diligence by representatives of the potential buyer, the seller and the buyer negotiate the terms upon which the team will trade hands. Investment bankers line up the financing; attorneys negotiate the terms and draft the purchase and sale agreement as well as any necessary consents, guarantees and covenants; and the respective league reviews the transaction in its entirety to provide its approval prior to submission to the existing owners of the respective league. Though the buyer and seller get to "Yes" in terms of agreement with respect to the transfer of ownership

of a professional sports team, it is the existing owners who have final approval as to whom is admitted into the exclusive club of team owners, with relatively wide latitude regarding their approval or disapproval of prospective team owners. The existing owners review the terms of the pending team sale transaction and vote whether to approve of the transaction. As a practical matter, by the time the transaction is submitted to the full owners group for a vote, the deal has been approved by a subcommittee of owners who work closely with the league regarding the pending transaction.

Conclusion

Buying a team is a complex undertaking. There are many issues potential buyers need to be cognizant of when considering, preparing for, and executing such a transaction. The due diligence for a professional sports team M&A transaction involves in-depth investigation into a broad spectrum of important issues, directly and indirectly related to the team. In pursuing a team acquisition, the potential buyer must, in addition to engaging in extensive due diligence and negotiation, be ever mindful of complying with all applicable league rules and regulations.