

# **2012 NSLNC**

## **ROUND ONE**

### **“Donovan’s Galaxy”**

#### **GENERAL FACTS FOR BOTH TEAMS**

The number one sport worldwide in popularity is undoubtedly futbol, or soccer. However, soccer in the United States has not been one of the top sports when judged by viewership, ticket sales, and revenue generated at the professional level. Despite the lackluster earnings in professional soccer, there are a vast number of fans, viewers, and purchasers and markets for new fans in the United States for soccer, which is played by nearly 18 million Americans per year, and the participation of Americans continues to grow each year.

Part of this growth in participation in soccer has come from the recent success of the United States teams that have taken part in the last few FIFA World Cups. The United States Women’s National Team won a memorable World Cup in 1999, which was held in the United States, and she has won three consecutive Olympic gold medals. The American Men’s National Team has dazzled crowds with last second victories in the first four games of the 2010 World Cup and finishing 12th. The United States which was once thought to be a lower level program internationally has now become a legitimate contender each year in international competitions.

#### **The Parties**

Landon Donovan, a current member of the U.S. Men’s National Team and Captain of the Los Angeles Galaxy of Major League Soccer (“MLS”), is represented by his agent and his lawyer. His current team, the Los Angeles Galaxy, are represented by their Chief Financial Officer and General Counsel.

#### **Landon Donovan**

One of the biggest reasons that the United States has been successful recently in international soccer competition is because of the performances of their best player, Landon Donovan. Like most of the players on national teams, Donovan also plays in a professional league. But while most big-named soccer stars play in Europe’s Premier League or in South America in the Champions League, Donovan has been a member of the Los Angeles Galaxy of United States-based Major League Soccer. Donovan is one of the larger names in the league and he has consistently been selected an All-Star by the league. With his recent World Cup success, Donovan has solidified himself as the face of not just the MLS, but also American soccer worldwide.

During the last World Cup, Donovan was approached by several players, coaches, and team executives from the Premier League about the possibility of the American star playing in Europe once his contract with the Galaxy expired following the 2012 season. At the time, Donovan was energized about the idea of being able to play with the best players in the world on a daily basis in the Premier League. But despite the intriguing idea of playing at the highest level, Donovan was focused on performing well for his country in an attempt to accomplish the impossible for American soccer: competing as a legitimate threat for the World Cup title.

Now, the contract between Donovan and the Galaxy has expired, making him an international free agent. Donovan and his agent have held discussions with various clubs around the world, but are looking to listen to what the Galaxy have to offer before making a decision. Donovan, 29, knows that his soccer career will not last forever and feels that this is his last chance to make a name for himself and provide for his family.

### **Major League Soccer**

Major League Soccer was founded in 1993 in New York City with the idea that a professional soccer league would generate large viewership in the United States because of the sport's popularity worldwide. MLS signed leases to play in cavernous American football stadiums such as the Meadowlands in New Jersey, but despite drawing a good number of fans per game in the first season, the league had little support from television generally. The league did not have a national broadcast partner, and highlights of MLS games were typically buried behind highlights of other more traditional American sports.

While attendance at the games gave the MLS reason to hope that the league could survive, there was a large disparity between the crowds of the MLS and that of the Premier League. Part of the problem was the poor showing of the 1993 USA World Cup team which comprised of many MLS players. Additionally, most of the high caliber soccer talent was already playing in the Premier League making million dollars per year contracts, numbers that the upstart MLS could not compete with. As a result, the MLS began with players who would otherwise not get much playing time in the Premier League, which was great for those second tier players who received a chance at playing in a professional league, but not as good for television ratings. The MLS had to find a way to keep those second tier players from leaving for the Premier League once they blossomed into top-level talent.

One worldwide soccer superstar who chose to play in the MLS is David Beckham. He shocked the soccer world in the summer of 2007 when he left Manchester United of the Premier League to join the Los Angeles Galaxy. After the 2011 season, it was widely believed that he would return to play in Europe; however Beckham surprised many by continuing to play with the Galaxy. While has been big for the Galaxy and MLS for public relations purposes, Beckham has been plagued by injuries and his best days on the field are likely behind him.

## **Terms to be Negotiated**

The Galaxy are looking to sign Donovan and have him continue to be the leader of the team if the terms are agreeable, and the deal does not hamstring the Galaxy financially. Donovan wants to be able to sign a contract that will give him the opportunity to provide for his family after his on-field career is over and he wants to be a part of a winning team at a high level.

The parties have decided that the structure of the deal needs to be agreed upon at this meeting, if a deal is going to be formalized. Both have agreed that the issues that need to be addressed are: salary, length of contract, and any additional provisions that could make this contract agreeable to both parties. Each side should bring creative solutions to the table that the other side may find to be beneficial to signing a deal. The general facts and your confidential facts allude to some of the available solutions.

## **CONFIDENTIAL FACTS FOR LANDON DONOVAN**

Donovan is looking for this upcoming contract to provide for him and his family for the rest of his life. Following his divorce in 2009, he began to think that he would like to start a family after his career is over and he wants to play for at least four more years, with the goal to be ending his career on the top of the podium accepting the FIFA World Cup trophy.

### **Everton Deal**

Donovan has been offered a three-year contract with Everton, an English Premier League team, at \$9 million per year (\$27 million total). This deal is not guaranteed and Donovan is only guaranteed to get the full value of the contract if he remains healthy. The deal is a series of three one-year contracts that Everton has the ability to terminate at any time. If the contract is terminated for any reason, Everton only has to pay for the seasons that Donovan is on the roster. This would not be an issue while negotiating with the Galaxy because as a veteran player any future MLS contract he signs must be guaranteed as per the MLS Collective Bargaining Agreement. However, Everton's front office has explained to Donovan and his team that as long as he remains healthy he will have the full value of the contract.

Donovan has played with several overseas teams and Premier League players while on loan from the Galaxy and has enjoyed the friendships that he has developed with those players during his career. Clint Dempsey, another American soccer star, plays for Everton and has been very successful. He has told Donovan that he would like to play with him in Everton, which Donovan finds tempting.

One of Donovan's concerns with the offer from Everton is that he would be playing with the best players in the world, while not having the same legs as when he last played for Everton when he was twenty-three years old. While he is at the top of his game today playing in the MLS, he believes he would have to turn it up another notch in order to compete in the Premier League on a day-to-day basis. He knows that with the increased competition the strain on his body will be greater, which could lead to his career being cut short because of the wear and tear that will occur under such pressure. If he is going to sign with Everton he wants it to be on a permanent basis; he is tired of the back and forth manner his life has been in the past few years and does not want to be loaned back under any circumstances.

A third factor Donovan has to consider with Everton is that at this stage of his life, he wants to remain in one place for the rest of his career rather than playing portions of the same season in different leagues half a world apart. Donovan would rather just sign with Everton if this is where he is going to play and be compensated accordingly rather than taking significantly less to sign with the Galaxy and end up playing in Everton through a mid-season loan.

## **Interests in Remaining with the Galaxy**

The opportunity to remain in Southern California is attractive to Donovan because of his ties to the area. He grew up nearby and he understands that he is the face of American soccer. He is involved with numerous soccer organizations that teach kids the game and attempt to groom local talent to stay involved with the sport. He is concerned about his ability to tell kids to stay involved with American soccer if he were to leave the country for more money and fame in Europe. Donovan enjoys being the face of the sport in the United States, and is aware that with that role comes responsibility, and his decisions will affect the viability of the MLS. Nonetheless, the size of the contract and the opportunity to play with the best in the world is tempting and Donovan is considering making the move to the Premier League seriously.

Donovan's current sponsorship negotiations also play a role in this decision. If Donovan stays with the Galaxy, Nike is offering an endorsement contract for five-years at \$5 million per year. However, if he leaves the Galaxy and signs elsewhere, Nike would still sponsor him, but for \$3 million a year based on games played because of the large number of great players and stronger soccer market share in Europe. So if Donovan leaves for Everton, his endorsement deal would be based on his health, (i.e., playing 38 games per season in the Premier league), where in the U.S. the endorsement money is guaranteed. The Galaxy are aware that Donovan is sponsored by Nike, and is aware of some of the details. Donovan will accept staying with the Galaxy as to kick in the \$5 million guaranteed per year, which will supplement his salary.

Finally, one area that Donovan has been thinking about recently is his family. Donovan recently learned that his father was diagnosed with skin cancer and while it does not appear to be life threatening, Donovan wants to be able to be available immediately if something should happen. Donovan is leaning towards accepting a deal from the Galaxy as long as it is reasonably close to the deal Everton is offering. However, Donovan will go back to Everton if the Galaxy are not able to provide the financial security that he is seeking.

## **Necessary Terms**

Donovan wants to play for four more years and a contract with the Galaxy must guarantee that for him. When Beckham signed with the Galaxy in 2007, the total value of the contract was widely reported to be well above the actual value of the deal. Beckham's deal was a five-year contract for a total of \$32.5 million. Donovan is looking for a deal of at least that amount because he has been the face of American soccer for a number of years, he has been one of the Galaxy's best players, and because the Southern California community is familiar with him. Donovan is aware that MLS and the Galaxy face financial constraints, but he believes the deal can be structured in way that does not strain the Galaxy's resources and still provides him with both fair compensation and a secure future. He believes he can accomplish his goals by signing with the Galaxy and (1) retiring after 4 years; (2) having a salary of at least \$6.5 million for four years, but is willing to defer compensation so that the Galaxy can pay it over as many as

eight years; (3) obtaining an ownership interest in the Galaxy; (4) having the opportunity to do post-retirement marketing or broadcasting; and/or (5) getting additional endorsement opportunities or other incentives from the Galaxy and/or the MLS that might not only bring him additional revenue, but enhance the value of his personal brand.

The size of the Beckham deal and annual salary in the Everton offer make him optimistic that he can obtain what he is looking for from the Galaxy. However, he is not wedded to any set salary figure as long as he can feel that the total package is more favorable for his interests than these Beckham and Everton benchmarks. Because his agent is his financial advisor, Donovan has authorized his team to make a sensible deal for him if it is within these parameters. He is aware that his Nike endorsement deal is much more valuable if he remains with the Galaxy, but if the Galaxy cannot at least come up with a satisfactory package, he will reluctantly sign with Everton.

While Donovan is open to creative solutions, he does not want to have a commitment to a team following a fourth year in order to keep his options open. He has been playing soccer since he was a child, and he does not to tie himself down if he finds other interests after he ends his playing career. If a deal is contingent on deferring salary, Donovan wants to receive appropriate fair market interest on the salary, or some other form of that money that would pay off in the future.

In particular, the recent trend of popular local athletes to become “partners” with the franchise they play for greatly interests Donovan. Donovan has had discussions with former Pittsburgh Penguins star, and now owner, Mario Lemieux about this transition, and Donovan is interested in a similar possibility with the Galaxy. While the MLS clubs in general has not shown the revenue-making potential as their overseas soccer counterparts, Donovan has seen first-hand that the Galaxy are an exception and have been fairly profitable by MLS standards. He feels that this may be a way to add value to the contract if the club simply does not have the cash necessary to sway him away from Everton. Donovan would like a chance to purchase stock options to purchase Galaxy shares at the price of \$1 million per 1% of the club. As a fall back, he is willing to credit the Galaxy \$1 million towards the total package for each 1% of the team. If the Galaxy contends the value of the team is higher, then he is willing to discuss a mutually acceptable way to have the value of the Galaxy stock determined, but for purpose of the option price only. Donovan is not interested in trading ownership shares for salary during the term of the contract as a first option, but if crediting the stock against his salary is an option the Galaxy would be interested in, he does not want to pay more than \$1 million for each 1% of ownership interest. Donovan is willing to take an unlimited percentage of shares as a stock option, but he wants to limit any trade of ownership shares for salary to two percent ownership interest in the Galaxy.

While he does not want to have a long post-playing commitment, he is interested in exploring how he can continue with the team and the league following the end of his playing

career on a part-time basis. Donovan does not want to limit his possibilities by signing a deal that includes any exclusivity clauses that would not allow him to explore multiple opportunities. While he does not see himself coaching in the future, he would like to grow the profile of soccer on a national level. Donovan would like to work on the business side, in television, on the internet, and in public appearances if the team and league would agree to a role for him that he could continue his career after his playing career ends. Donovan's options in this area are currently limited because of the little television coverage of soccer on American television, which is another aspect that makes European football attractive. If he were to go to the Premier League, then he would likely be able to sign on as a commentator for soccer broadcasts in England after he retires. However, his real desire is to play in Los Angeles and retire there.

## **CONFIDENTIAL FACTS FOR THE LOS ANGELES GALAXY**

The MLS has been in desperate need of a good public relations story ever since the United States did not qualify for the 2012 London Olympics. While the failure of the U.S. Men's National Team to earn a spot in the Olympics has not affected MLS attendance, a good showing at the Olympic Games would have surely increased interest in the sport at the professional level in the United States. The league needs good news to take the glare off of the National Team's performance and keeping one of its biggest stars in the MLS would likely help in this regard.

### **MLS Contract History**

The league, which controls the member MLS franchises, has been desperate for public attention since the inception of the league. The first major news the MLS made was signing legendary soccer star David Beckham to a deal reportedly worth as much as \$250 million dollars. While the deal was not valued at \$250 million, the publicity was exactly what the MLS needed at that time. However, Galaxy paid only \$32.5 million of Beckham's 2007 MLS contract; the rest was funded through endorsements and MLS assistance. Regardless, the fans thought enough of the signing to go buy tickets to watch David Beckham play with the Los Angeles Galaxy.

The performance of the U.S. Men's National Team during the 2010 FIFA World Cup has boosted the interest of the sport, and the league wants to continue to capitalize on the excitement of the American team. The Galaxy want to keep Donovan on the team, not just because he is a great player, but also because he is a name that fans come to see play alongside Beckham. With Donovan, the star-studded Galaxy are better able to compete with the numerous other options Angelinos have to spend their discretionary income.

### **Salary and Length of Contract**

Despite the Galaxy's desire to keep Donovan playing in Los Angeles, the team is faced with the reality that a contract of more than \$6 million per season would handicap the team for years to come. The Galaxy wants to sign Donovan to a contract of three years for a total salary of \$18 million or four years for a total salary of \$24 million.

The Galaxy want to keep the years low because they fear that Donovan, 29, will become an average player if the deal runs any longer than four years, and they do not want to have a large part of the team salary locked into a player that may not perform after he reaches his early 30's. The club is also trying to draw more fans and generate revenue through new means in order to pay what will likely be higher salaries for players if the MLS is able to get more fans. Keep in mind that according the MLS Collective Bargaining Agreement, all contracts for veterans such as Donovan must be fully guaranteed.



## **Deferred Compensation**

Deferring compensation could make the deal a little more agreeable to the Galaxy. If compensation were spread out over more than the years of the contract, the Galaxy will be able to push to the \$24 million limit. The Galaxy would find it desirable to compensate Donovan equally over the first six years of the deal so that the \$24 million salary would be paid for 6 years at \$4 million per year, even though Donovan's playing obligations would be done after four years. Because this would involve deferring \$8 million in compensation, if necessary, the Galaxy would be willing to add interest at 2% for the average deferral balance.

## **Television Incentive & Public Relations**

The MLS has recently been quietly in negotiations to sell the rights to broadcast MLS games to Fox Sports. Fox has numerous regional sports affiliates that would allow the network to televise games in the home markets for MLS teams. The money that would be generated from such an agreement could be substantial. Currently, it appears that the MLS could receive a contract that would have the money generated from the deal split equally between the member teams and the league that would net each team an average of \$80 million per year for five years.

However, Fox has been adamant that the network will not agree to such a deal if there is not at least one star on each team in the league, and more than one star in the major markets like Los Angeles, New York, Chicago, and Dallas. If Donovan leaves the Galaxy, it will be difficult for MLS to get a star like Donovan to appease the network, and the fans. One thing that is certain about a deal between the MLS and Fox: some sort of deal will occur, but the amount of money involved will be dependent on who plays in the league. If Donovan plays in the MLS, then the television deal will reach the estimate created from the MLS research. If Donovan decides to return to Europe, the league believes the deal with Fox would lose as much as ten percent of the total value. The difference in the value of a television deal is the league's belief that viewership of the Galaxy games on television would diminish in Southern California because the Galaxy would likely be lacking a star that would drive viewership.

While the Galaxy do not want to exceed a total contract amount of \$24 million over four years (\$6 million per year) regardless of whether the television deal becomes a reality, there are a number of ways the Galaxy believe they can provide Donovan's salary demands and save money at the same time. Donovan's star status has been locked up by Nike with a sponsorship deal in the past; the Galaxy have learned that the Nike deal is worth around \$5 million per year to Donovan if he stays in the United States, but would be worth significantly less if he signs with Everton. The deal would also not be guaranteed if Donovan stops playing for Everton. The team knows that Nike is the only company that has so far taken an interest to the U.S. Player of the Year, and deal with another apparel brand is unlikely, especially if Donovan joins the vast collection of talent in Europe.

Additionally, the Galaxy are aware that league is looking to launch a new promotional campaign involving billboards, internet banner ads, and radio and television spots in the local markets of the MLS teams. If Donovan signs with the Galaxy, the league has already produced these advertisements featuring Donovan. Featuring Donovan across Los Angeles will boost his profile and will likely help the star become more recognizable with soccer fans and Southern California residents that see the advertisements. Exposure like this could very well lead to new sponsorship opportunities and television programming for the Southern California native. However, the MLS promotional campaign will not result in additional compensation for Donovan because those rights are granted to the team and league through the collective bargaining agreement.

Luckily, the Galaxy would have influence over future MLS telecasts on either Fox Sports or another network because of their large home broadcasting territory. Since Donovan has been a star for a number of years, the league wants to continue to utilize his star power by having him in soccer telecasts when he decides to stop playing the game. Since the league has not yet signed a television contract, the league would be willing to agree with Donovan to include him in any decisions the league is able to make in regards to commentators for telecasts once he retires. Broadcasters typically do not drive ratings in any sport; however with soccer, it will be important for the MLS to have a face of the league in the broadcast booth, such as Donovan, in order to keep casual fans.

If this is included in part of a deal with Donovan, the league would be willing to guarantee Donovan up to \$500,000 per year for the first three years of any television deal, and this deal would begin immediately following his retirement. This would not prohibit Donovan from pursuing other opportunities such as sponsorships, appearances on other non-soccer related broadcasts, etc. This compensation would be coming from the MLS and would not affect the Galaxy's budget, but it would be tied to the Galaxy deal and would not be available if Donovan chooses to sign outside of the MLS.

### **Ownership Interest**

In order to keep Donovan in the United States, the Galaxy are willing to sweeten the deal by giving Donovan a stock option to buy up to 2% of Galaxy stock at 2012 market value. The club was valued at \$100 million by Forbes in 2008. The Galaxy believes that this number has surely increased after four years of David Beckham and the arrival of Donovan onto the national stage and with the increased popularity Donovan's return would bring to the franchise. The Galaxy's CFO values the club now at \$150 million and would therefore be willing to give Donovan an option to buy up to 2% of the ownership of the Galaxy at price of \$1.5 million for one-percent stake in the club. The option would be exercisable at this price by Donovan any time in the next six years.

The Galaxy is willing to negotiate a different price for the stock option, but would require that any price below \$1.2 million per each percentage point count as cash compensation to Donovan. As a last resort, if there is a dispute over the value of the Galaxy stock, the Galaxy is willing to find a mutually acceptable way to determine the value of the stock and use that as the option price. The Galaxy would also be happy to have Donovan “buy” stock in the Galaxy directly by taking part of his salary in stock. The price of the stock in such a situation could be discounted as much as 20% from its actual value if Donovan wanted to purchase stock with salary.

### **Everton Loan**

One thing the Galaxy would consider would be signing Donovan if the numbers were right, and then loaning him to Everton of the Premier League for one year. Everton and the Galaxy have previously worked out this deal regarding Donovan and the Galaxy believe Everton would be interested in working out this type of deal again. Previously, Premier League teams have paid for the salary of the player during those games that they are loaning, and in addition pay the player’s contracted club an additional ten-percent of the player’s yearly salary during the loan period to handle insurance and other costs, which a portion of could go to Donovan. This deal would be great for the Galaxy because they could re-sign a fan favorite while allowing him to play in Everton and even make some money in the process. In order to make this happen, the Galaxy are willing to give some of the ten-percent kickback back to Donovan, preferably in the range at about five-percent of his agreed-upon base salary. They do not want to give the full ten-percent to Donovan, but are willing to go as high as seven-percent.

### **Endorsements**

The Galaxy have heard that Donovan has been negotiating endorsement deals with several companies, and they are hoping that the money involved with any endorsement deals can help bridge the gap of any offers Donovan has received from other teams. The Galaxy are aware that the amount of money attached to any endorsement deal for Donovan will depend on negotiations between Donovan and the company, but the team believes that Donovan will be looking at the entire package for each offer rather than just the amount offered by each team. The Galaxy do know that if Donovan stays in Los Angeles, it will be a bigger payday.

The Galaxy are poised to do what is possible within their budgetary limits to sign Donovan to a contract that will last until his playing days are over. Donovan has been a positive influence in a city that has few athletic role models, and the club knows that new parents who are Donovan fans will likely direct attention of their children to sports with positive role models. The Galaxy are hoping they can reach terms with Donovan so that their relationship with the most popular U.S.-born player will continue well into the future.