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Lessons From Timberwolves Decision for Practitioners in Ever-Growing Field of Sports M&A

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On Feb. 10, an arbitral panel decision not only settled a hotly contested dispute regarding ownership of the NBA's Minnesota Timberwolves and the WNBA's Lynx, but also contained important lessons in respect of drafting and interpreting sports team merger and acquisition agreements.¹

The dispute arose from a 2021 agreement among Marc Lore and Alex Rodriguez, the prospective buyers of the Timberwolves/Lynx, and the current controlling owner, Glen Taylor, to gradually transfer ownership of the Timberwolves and Lynx by selling Lore and Rodriguez equity in a series of tranches, effected via a series of call options exercisable in successive years. In broad strokes, the agreement called for Lore and Rodriguez to purchase approximately 20% of the teams at the time of the agreement and gave them the ability to exercise the following call options: a call option to purchase an additional 20% of the teams, exercisable before the end of 2022; a call option to purchase an additional 40% of the teams, exercisable before the end of 2023; and a final call option to purchase the remaining 20% of the teams, exercisable before the end of 2024.

On March 28, 2024, however, Taylor announced the purported termination of the purchase agreement, based on what he alleged was the purchasers' failure to complete the third — and largest — purchase by the contractual deadline of March 27, 2024. At the time, Taylor implied that lack of financing was driving the purchasers' failure to complete the transaction; Lore and Rodriguez did have a last-minute change to their planned financing when the Carlyle Group, a member of their ownership group, had to withdraw because it could not meet NBA requirements for team ownership, forcing Lore and Rodriguez to pivot to another financial backer. If, as Taylor alleged, the purchase agreement were correctly terminated at that point, Lore and Rodriguez would be forced to remain minority owners of the Timberwolves/Lynx — with approximately 40% ownership of the teams — while Taylor would continue to represent majority ownership.

However, as Lore and Rodriguez countered, the purchase agreement stated that the purchase deadline would automatically be extended by an additional 90 days if all NBA approvals, or other required approvals, had not yet been obtained — and indeed, as of March 27, 2024, all NBA approvals had not been obtained.

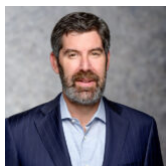
The three-person arbitral panel, in a split decision, overruled Taylor's claims that Lore and Rodriguez were not entitled to this automatic 90-day extension. According to the lawyers for the purchaser group, the panel rejected Taylor's attempts to read other conditions, such as presence of financing, into the requirements for the 90-day extension; instead, relying on the plain language of the agreement, the panel decided that the extension was expressly subject to a single condition — in this case, that NBA approvals were not obtained — and since that single condition had been satisfied, the extension applied.

The arbitral panel's decision, in addition to settling a long-running and highly publicized dispute, contains several key lessons for practitioners in the increasingly active field of sports M&A:

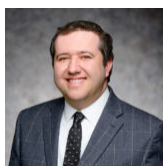
- Arbitral panels, like courts, will typically read conditions narrowly and avoid imputing additional or "implied" meaning to such conditions. For example, it is common in purchase agreements that a so-called regulatory extension provision will state that the extension will not apply unless the only outstanding closing condition at the time extension is sought is the failure to obtain required regulatory approvals. In transactions in which buyer financing is a concern, the purchase agreement may also require the buyer to provide proof of funds sufficient to complete the transaction before the regulatory extension will apply. The presence of language to this effect in the Timberwolves/Lynx purchase agreement potentially could have led to a different result for the parties.
- Even if there is a generally agreed-upon "understanding" among the parties as to how a purchase transaction will be effected, the contours of that understanding should be stated in clear and unambiguous language in the transaction agreements. Taylor, for example, may have assumed that the automatic 90-day extension was intended to apply in the narrower case in which the NBA approval process had begun but was not completed at the time Lore and Rodriguez were meant to complete the purchase of the third equity tranche. However, it seems the language of the purchase agreement instead effectively guaranteed that Lore and Rodriguez would have an additional 90 days to complete the purchase of the third equity tranche if they did not have committed equity financing prior to the purchase deadline, since NBA approval would not be granted until the composition of the equity ownership group was finalized.
- An extended period between signing and closing(s) is typically not a seller's friend in an M&A transaction for numerous reasons. Whatever the true motivation for Taylor's allegations of breach and contract termination, it is worth noting that between the 2021 agreement to sell the Timberwolves/Lynx and the 2024 dispute, reports suggested that the Timberwolves had nearly doubled in value over those three years — aided, perhaps, by the team's three straight playoff trips during that time.

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1. While arbitration proceedings and rulings, including those discussed in this note, are typically confidential, this note is based on publicly reported information about the parties' arguments and the arbitral panel's decision, including: Jon Krawczynski, "Marc Lore, Alex Rodriguez win Timberwolves, Lynx arbitration case vs. Glen Taylor," The New York Times, Feb. 10, 2025, <https://www.nytimes.com/athletic/6126622/2025/02/10/minnesota-timberwolves-ownership-dispute-nba-lore-rodriguez/>, accessed Feb. 11, 2025; Jesse Silvertown, "Why Minnesota Timberwolves Arbitration Result Reinforces Brilliance of Acquisition," Forbes, updated Feb. 13, 2025, <https://www.forbes.com/sites/jessesilvertown/2025/02/12/timberwolves-arbitration-result-reinforces-brilliance-of-acquisition/>, accessed Feb. 13, 2025; and Edward Herlihy et al., "Timberwolves Decision Affirms Application of Traditional M&A Principles to Sports Team Deals," Wachtell, Lipton, Rosen & Katz memo, distributed by email Feb. 10, 2025. ↩

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