# A-Rod Situation Highlights Risks of Long-Term Contracts

by Gary S. Young on August 16, 2013

The two contracts previously awarded to Alex Rodriguez are widely regarded as being the two worst contracts in the history of professional sports. The second contract with the New York Yankees was signed in December 2007, replacing a 10-year, $252 million deal with the Texas Rangers. The earlier package produced three straight last-place finishes, a 2004 trade to New York and a 2010 bankruptcy that left Rodriguez as the Rangers' biggest creditor.

The current deal, which preceded Rodriguez' admission of past doping, has spoiled the Yankees plan to capitalize on his eventual climb to the top of all-time home run leaders. Despite seriously declining play precipitated by two hip operations and the inevitable negative effects of the aging process, the current deal guarantees Rodriguez $275 million over 10 years, plus $30 million in performance bonuses without regard to his current production.

While A-Rod helped the Yankees win the World Series in 2009, this fading achievement provides little consolation for the Yankees and the fans, never mind the turmoil of the scandal that currently rages over his use of performance enhancing drugs. The 2007 mega-deal has also significantly hampered the team's efforts to revamp their line-up and sign younger players.

So what can the business sector learn from this experience? Like the Yankees, traditional businesses can also be haunted by unwise bargains reflected in long-term employment contracts. It is not unusual for a company to enter into multi-year deals with the chief executive officer and other top personnel. Without question a "super star" executive can have high impact "on the team" just like in sports.  Just ask Apple how much they miss their founder Steve Jobs.  However, a strongly recruited, highly paid "star" CEO can similarly go into decline after a number of good years. Competition for the candidate can also lead a company to overpay out of fear of "losing out."

We all should be reminded that past performance does not guarantee future success. Businesses have greater freedom than Major League Baseball owners when negotiating a private sector executive's employment contract. Creating measurable performance criteria as prompts for bonus compensation awards and the inclusion of other provisions that protect the business by creating appropriate consequences for misfeasance can mitigate the risks of a long-term agreement.

Otherwise, the message is the same in baseball and business — be sure to balance the risks of the downside with the projected rewards for upside. If the bargain of the deal is not realized as projected, how does the contract address and/or cure the consequences of such failure?

If you have any questions about long-term executive contracts or would like to discuss the legal issues involved, please contact me, Gary Young, or the Scarinci Hollenbeck attorney with whom you work.