The puck stops here

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How a group of hometown fans and their financial advisers kept the Oilers in Edmonton.

Local heroes: Edmonton Investors Group
president Cal Nichols with investors Jim Zanello, CA, and C.J. (Jim) Woods, CA (from left)

There was a time when winning here was a time when winning the Stanley Cup was just part of every Edmonton Oiler's job description. Even now, hockey fans tend to get a little misty-eyed should talk turn to the golden age when Wayne Gretzky captained a team that included the likes of Mark Messier, Glenn Anderson, Jari Kurri and Grant Fuhr. But the Great One hung up his skates at the end of last season, and the once-mighty Oilers were bounced out of the NHL playoffs in the first round, losing to Dallas in triple overtime.

While the loss was a tough one, reportedly "breaking the heart" of Alberta Premier Ralph Klein, not every Edmonton fan felt like crying. In fact, for 37 die-hard loyalists, the season will probably go down as the most memorable in hockey history. Against the odds (and, as many of them would admit, against their own better judgment), the members of Edmonton Investors Group Ltd. (EIG) had bought an ailing team in May 1998 with one purpose in mind: to keep the Oilers in their home town. Regarded as local heroes by some and city-hall hustlers by others, the investors not only kept their team in town and saw it make the playoffs, they also managed to break even in their first full season of ownership - a very neat hat trick indeed.

Ask just about anyone in Edmonton how this unlikely feat came to pass, and you'll hear one name - Cal Nichols, the president of EIG. A hockey fan from way back, Nichols is a soft-spoken 57-year-old who first made his mark in the province's oil and gas industry. Founder of Gasland, a chain of gas stations in Western Canada, Nichols has long believed that the presence of an NHL hockey team is vital to his city's well-being. "Canadian kids, particularly in Western Canada, have all played the game and followed it," he says. "My motivation has always been to make Edmonton a better community and a major-league city."

That's why, when rumours first began to circulate that all was not well with the Oilers, Nichols was concerned. Back in 1993, then-owner Peter Pocklington was dropping hints that the franchise might have to move south of the border if local, provincial and federal governments didn't pony up more money for improvements to the hometown arena. Despite the fact that additional funds were poured into Northlands Coliseum (since renamed the Skyreach Centre), Pocklington continued to cry the blues. By 1996, he was letting it be known that the team was in deep trouble. That was enough to spur Nichols into action. He began a campaign to sell season tickets: if enough people showed their support, he reasoned, the team would stay. By all accounts, his "Friends of the Oilers" drive was a success, more than doubling existing sales from 6,200 to

13,000. More important, Nichols began to meet other like-minded fans, some of whom were in a position to do much more than purchase a season's pass.

Also in 1996, Nichols put Gasland on the back burner and sold off the marketing division of his company to Husky Oil Ltd. With time and extra money in his pocket, he was ready to spring into action in early 1997 when Pocklington once again told the media that a sale was imminent. By Pocklington's calculations, the Oilers had accumulated losses of $45 million since 1990 - not including interest. The flamboyant businessman who had sent Gretzky south in 1988 (reportedly pocketing $18 million in the process), now had plans to do the same thing for the entire team. His reason was simple: according to the newspapers, he owed approximately $120 million to Alberta Treasury Branches (ATB). And so, in June 1997, he put the five-time winners of the Stanley Cup up for sale. His asking price was US$85 million.

Nichols devoted himself full-time during 1997 to keeping the team in Edmonton, going so far as to incorporate EIG on September 15 of that year. But what it would take to achieve his dream remained unknown. Many fans suspected the Oilers' reported loss was an attempt by Pocklington to scare off local investors while opening the door for an American with a higher bid. The Edmonton Journal, for example, estimated that the team could have made $4.35 million for the 1996/97 season. But how could prospective buyers get at the facts, asked the paper, "if indeed any have survived"? (Interestingly, the Journal eventually signed on as an investor itself, putting $1 million into EIG.)

According to Phil Rivers, a long-time editor on the Edmonton Sun's sports desk, the public didn't really know what to think. Pocklington's repeated threats now had people making comparisons to Peter and the wolf.

"I formed a definite impression that Pocklington was doing his level best to prevent anyone from buying it locally," says Edmonton city councillor Brian Mason. "I don't take anything Peter says at face value. I learned that lesson a long time ago."

Meanwhile, Nichols took his questions to local CA Werner Baum. Hired by Pocklington in 1981, Baum had stayed with the Oilers as chief financial officer for 15 years before he and Pocklington had a parting of ways in 1996. "Those numbers, I knew, weren't anywhere near what the actual situation was," he says. "The hockey club itself actually did fairly well over the years. My understanding is that CMI was in there along with interest on loans that were non-hockey related."

Cas Gary Acheson, Grant Shikaze and Bruce Pennock (from left): checking the numbers

There was plenty of room for confusion. CMI (Coliseum Management Inc.) had been established by Pocklington in 1994 to book and run all events at Northlands, not just Oilers hockey games, and its financial health was less than crystal-clear. Baum and Nichols simply wanted to see if the team - and only the team - could operate without losses. "It was just a matter of showing Cal that was the case and going from there," Baum says.

Assured by Baum that the Oilers had a future, Nichols began to assemble his core group of investors. By January 3, 1998, EIG had verbal commitments of $35 million. The trouble was, the group needed roughly $60 million in equity before it could approach a bank for the additional financing required to purchase the team.

C.J. (Jim) Woods, a senior vice-president and director for the Merrill Lynch Canada Inc. Private Client Group, has served as director, treasurer and committee chair for EIG. Like Nichols, the CA signed on out of a sense of civic duty, and he served as treasurer for the group's initial 1998/99 season. "I tell all my clients, 'Do as I say, not as I do,'" he says. "Nobody would invest in a hockey team on a financial or economic basis. It's more a case of taking all your business acumen and throwing it away."

He ought to know. Along with Jim Zanello, Woods is one of two CAs who decided to take that gamble, investing $750,000 of his own money in the venture. (He shares his unit with another party, who is down for $250,000. Zanello, for his part, holds a partial share with an associate.) Today, the company has three types of unit-holders: those with multiple units, like Nichols (with an average stake of $4.2 million per investor); those who hold a single unit worth $1 million; and those like Woods and Zanello, who have bought partial (or shared) units.

While the search for more investors continued, Nichols asked another local CA, Bruce Pennock (whose firm, Pennock Acheson Nielsen Devaney, has since become the team's auditor), to begin the due diligence in early February 1998. Pennock conscripted fellow CAs Gary Acheson and Grant Shikaze. Waiving the firm's fee for the job, the CAs and others at the firm would eventually log nearly 500 hours working with the Oilers' then-CFO Richard Hughes at the team's office on Kingsway Ave. and at the accountants' downtown digs in the TD Tower.

"The difficulty was determining what was the Oilers' and what was CMI's," says Shikaze. "We had to be sure we had a good understanding of whose was whose, because the investors obviously had to make a distinction on what they were going to ask for." Acheson agrees: "When you're dealing with an organization such as Peter's, it's not straightforward reporting or clear as to which transactions belong to which economic entity. I think that was the biggest challenge we had."

And then the inevitable happened. On February 10, 1998, Texan Les Alexander, owner of the National Basketball Association's Houston Rockets, moseyed north of the 49th parallel and slapped down an offer of US$82.5 million for a professional ice-hockey team. While the Lone Star state had been introduced to "the coolest game on earth" only relatively recently (Dallas got its Stars in 1993), Alexander was in need of another tenant to take up dates in his arena - and Pocklington was in need of a buyer.

But Houston had a problem. Unlike the owners of the Québec Nordiques (which moved to Denver in 1995) and the Winnipeg Jets (to Phoenix in 1996), Pocklington could not sell the franchise to another location without jumping through a few legal hoops first. Thanks to a little piece of paper he had signed back in 1994 known as the "Location Agreement," he was bound contractually to Edmonton until 2004. As a result of Pocklington's earlier threats to move the team south unless improvements were made to Northlands Coliseum, the federal, provincial and municipal governments each pitched in $5 million in 1994 - along with $8 million from Pocklington himself - to upgrade the rink and his Triple-A baseball stadium, Telus Field. At the same time, Pocklington formed CMI and began to levy a ticket tax on fans to the tune of $2.8 million each year.

This gift of public funds came with a catch: for the next 10 years, if the entrepreneur wanted to sell the club, and if a local group could commit to a purchase price of US$70 million within 30 days, the team would be sold locally regardless of whether a better bid was available from someone who wished to move it. If no local money came forward, Pocklington was free to sell to the highest bidder.

The Texan had triggered the 30-day clock. Local investors now had one month to put up a US$5-million nonrefundable deposit after which they would have less than two months to pay the remaining US$65 million. As Nichols admits, "That really pushed us to get moving." Pennock's due diligence indicated that Baum's projections were indeed correct: EIG members now knew that, should they purchase the team, they had a good shot to at least break even for the 1998/99 season - their first year behind the bench.

While looking into the purchase, the would-be investors also discovered some seductive tax advantages. With the help of Durwood Ashcroft, another local chartered accountant, from Deloitte & Touche (who, like Pennock and company, volunteered his time), the once-laughable deal was quietly starting to look better. "We didn't find out until late in the game about some written understanding between sports teams and Revenue Canada on how certain things would be taxed," says Ashcroft. "The Calgary Flames has been a limited partnership, as has Ottawa [Senators]. This allows a flow-through. You hope that what you paid for the franchise doesn't go down in value and this understanding allows you to take 60% of the purchase price as players' contracts and amortize it on a straight-line basis over four years. It can provide a fair-sized tax deduction."

Adds Nichols: "If we did nothing more than break even over the first four years, at least [we] would be in a position where we could get almost 100% of the investment as a tax writeoff against other incomes and still have the paper, the shares of the Oilers." In other words, the investors could have their cake and eat it, too. "If we get to the point where we take this public, we should be in a position to roll those limited partnership shares into public ones," continues Nichols. "We will have been able to take advantage of the tax write-down and end up with negotiable public shares that have some liquidity to them, and which didn't cost us that much at the time."

Confident that they could secure most of the required cash, Nichols' group still had a couple of deals that needed to be made - and so, like Pocklington before them, they went to City Hall. On February 21, 1998, local news media reported EIG had asked the city to purchase a 22.2% stake in the team for $14.2 million. The money was to be used only if an operating loss was incurred, but the request nearly split the city in two and was withdrawn before council could vote.

"They waited until the last minute before making this demand," steams Coun. Mason. According to him, John Butler (the group's lawyer), made "political threats" to several of the councillors, thus burning a few bridges in the process and alienating from EIG key members of the council. For his part, Butler says this didn't take place.

On the 29th day of the 30-day clock, Butler ushered the investors into his firm's boardroom at Bryan & Co. in downtown's ManuLife Place. The group - which now numbered between 25 and 30 members - had to decide whether to go ahead with the nonrefundable US$5-million deposit. Suddenly, the lights went out throughout the building. About a minute later they came back on. Jim Hole, EIG chairman and former president of the CFL's Edmonton Eskimos, still savours what happened next. "I took my time opening my eyes," he recalls. "But everybody was still there."

"We kind of laughed and looked at each other," says Woods. But there was a deal to assemble and a few wrinkles that needed ironing out. "We had to have it done by midnight," he continues, "but there were a bunch of things that had to be done between ATB and Pocklington that went a couple of hours over. Fortunately, it didn't affect the deal between ourselves and the team." (By this time, ATB had effectively taken over the financial running of the team as a way to protect its asset.)

The immediate public effect was one of jubilation - the group had become hometown heroes to many Edmontonians. But the deal was far from being final - in fact, only the deposit of US$5 million was firmly in place. There was still the remaining US$65 million of the price tag to sort out. In April, Northlands Park, which owns the arena, hit the city with a request for a $2.4-million-a-year rental subsidy for EIG. Butler had earlier claimed that without this break EIG would be unable to secure a $50-million loan from the Bank of Nova Scotia - which might mean that the deal would fall apart after all.

Public opinion regarding this request was mixed. Up until a day before the vote, on April 24, 1998, calls to city hall's Citizens Action Centre were two to one against any handout. Then, at the eleventh hour, feelings reversed. By a vote of seven to four, with one abstention, the city agreed to pay the $2.4-million rent subsidy every year until 2004, when the Location Agreement expired.

Mason tried to extend the Location Agreement to 2008 in return for the city's support but his pleas were rejected. "I was appalled," he says. "I thought it was inappropriate for the city to provide operating subsidies for the team while it's here and not have some way to recoup our investment." He also wanted the investors to use their best efforts to see if they could raise some of the money themselves so that, if the team began making a profit, the subsidy would stop. "That's the problem. We are dumping in tax money and cutting programs in order to pay for this," he says.

Mason and Allan Bolstad, another councillor who voted against the handout, subsequently received a letter from the Canadian Taxpayers Federation commending their position. Says Mason, laughing, "It's probably the first time they've ever written a left-wing politician congratulating them for anything."

But Bill Smith, the city's mayor and one of the most vocal advocates for the subsidy, makes no apology for backing the group. He admits the money indirectly helps the team by providing free rent, but insists city support is for Northlands Park, not the hockey team. Northlands, a public non-profit entity entrusted to manage arena events after CMI was wound up by ATB, had already indicated to council that, without the Oilers, it would face a $4.8-million annual operating deficit. The city's plan was to meet that halfway. In return, the Oilers would get their arena for a loonie a year.

"If we hadn't done this, the Oilers would not be here today," Smith adds. "Northlands would have been facing a $4.8-million deficit, we would have ended up taking that building back and would have to find $4.8 million from the taxpayer." As it stands, Smith says, it's a $2.4-million handout in exchange for a huge economic spinoff to the city area.

Durwood Ashcroft, CA, was a key player in defining tax implications of the purchase

Economic Development Edmonton backs him up: by its calculations, having an NHL team injects up to $74.7 million into the city region each year and as many as 1,200 local jobs depend on the team's being around. "Most people did this for altruistic reasons - the symbol, the preservation of Canadian culture and the economic spinoff to the city," says Nichols as he flips through a scrapbook of newspaper articles on the sale.

Not to mention the fact that the Oilers are unquestionably the biggest event in town during the long winter months. "We have six months of snow," Woods points out. "If the Oilers left here, it would be a sad city without them. We either keep them, or they're gone forever. We're still a small city."

But the question remains: will EIG keep the team in Edmonton? "What was overlooked is the fact that if they do sell the team, there is a great potential to make a large profit," says Mason. "Don't forget, they got a guaranteed price of US$70 million courtesy of the City of Edmonton and it's worth US$20 million to US$30 million more." As Business Week magazine estimated earlier this year, a typical NHL hockey team is worth in excess of US$100 million - and even a brand new team (with no fan base and the least talented players) now runs at about US$80 million.

Despite all the government assistance, EIG is only held by the conditions of the original Location Agreement - which the city chose not to extend beyond 2004. And since all local loot is likely exhausted, it's hard to imagine another Edmonton group stepping in to buy the team should EIG decide to sell.

From the owners' perspective, it's another story. Like Canada's five other National Hockey League teams, the Oilers contend that they face higher levels of taxation than their US peers. In June, representatives of the teams, along with local and provincial politicians, held a summit in Toronto with the federal government to negotiate a bailout package. According to a June 1999 Globe and Mail article, the NHL indicates the Canadian teams need approximately $60 million a year in additional funding in order to compete with the American teams yet survive in the Canadian market. The Globe article also indicated Ottawa was willing to provide about $15 million of that, subject to guarantees that funds would be repaid if teams were sold to US interests.

"The short answer to your question 'will we sell the Oilers' is no," says Cal Nichols when pressed. "This is not a quick flip. However, and this could be said for most of the Canadian teams, if we continue to get more and more offside with our American counterparts in terms of the dollar and taxes, there may some day be no choice."

And so the ending to this story remains anyone's guess. Although EIG became the official owner of the Edmonton Oilers on May 5, 1998, the terms of the lease agreement between the group and Northlands Park had yet to be finalized as this magazine went to press. The city won't release money until Northlands and the investors decide on how the remaining deficit is to be handled. Various deadlines have come and gone, and former Northlands general manager Al Skoreyko has told the press that legal hangovers from the Pocklington era are why it's taking longer than first thought. Ultimately, the agreement will see the investors' group continue to pocket all Oilers-event revenues from ticket sales, from advertising and concessions sold inside, arena parking charges, about $2.2 million annually from a city-approved ticket surcharge plus the $2.4-million rent break each year until 2004.

That has Mason and like-minded souls fuming. But Bruce Pennock prefers to look at the other side of the puck. If EIG hadn't scored such a sweetheart deal, notes the CA, then the Oilers would now be facing-off a stone's throw from the Gulf of Mexico.