



CELEBRATING 20 YEARS (1989-2009)

For The Record

The Official Newsletter of the National Sports Law Institute

INDEX

Martin Greenberg & Kaitlyn Wild, *Leaping Without Looking: MOUs Create Risks When Universities Don't Know Their Legal Significance*

→This article discusses the common use of Memorandums of Understanding in connection with the hiring a college coach and the potential ensuing problems this can entail.

Samuel Owens, *A Public Interest Perspective on College Sports Amateurism: Reframing the Exploitation of NCAA College Athletes*

→This article provides a perspective on the real value of college athletics to a university and student athlete dispelling notions of exploitation of college athletes

Sports Law Research Websites



Martin Greenberg



Kaitlyn Wild

Leaping Without Looking: MOUs Create Risks When Universities Do Not Know Their Legal Significance

By **Martin Greenberg**, Greenberg & Hoeschen, Member, Southeast Wisconsin Professional Baseball Park District, and Member, National Sports Law Institute Board of Advisors

&

Kaitlyn Wild, Candidate for joint JD/MBA in Sports Business, Marquette University Law School.

Within a day of first discussing the possibility of employment, Billy Gillispie was officially hired as the head men's basketball coach at the University of Kentucky on April 6, 2007. Gillispie was the head coach at Texas A&M (A&M) from 2004 to 2007, amassing a 70-26 record, taking the Aggies to the

National Collegiate Athletic Association (NCAA) Tournament Sweet 16 round in the 2006-2007 season. The Aggies were ranked No. 7 by the Associated Press, and Gillispie was awarded his second Big 12 Conference Coach of the Year Award.

On April 5, 2007, A&M gave Kentucky Athletic Director Mitch Barnhart permission to speak to Gillispie about Kentucky's men's basketball program's head coach opening in the wake of previous head coach Tubby Smith's departure. The next day, April 6th, Kentucky announced that Gillispie was officially taking the job as the school's head men's basketball coach. The day of the official announcement, Gillispie signed a Memorandum of Understanding (MOU) with Kentucky that stated as follows:

It is a great pleasure that I offer you the position of Head Men's Basketball Coach for the University of Kentucky, effective April 6, 2007. This Memorandum of Understanding, which presents the material terms of our offer, will be expanded and incorporated into an employment contract with the University

Volume 21, Number 1

January-March 2010

of Kentucky for execution at the earliest possible date. The employment contract will be for a period of 7 years with an option for a 2-year extension after a 24-month review at the University's discretion.

Your compensation as Head Men's Basketball Coach will include the following:

- Annual base salary of \$400,000, with an annual escalator of \$25,000 . . .

Among other terms, your employment contract will include the following:

- You shall be prohibited from receiving any benefits or compensation other than described above from any other source without prior written agreement.
- If you terminate the contract, or if the contract is terminated for cause, the University shall not be liable for any payments or benefits after the date of termination.
- A termination for cause provision mutually agreed upon by the parties.
- A termination without cause by the University provision that will require payment of \$1,500,000 per year for the remainder of the term of the contract, provided the payment for termination without cause shall not exceed 48 months.
- If you are found by the University to be in violation of NCAA or SEC bylaws, rulings, regulations or policies, whether while employed by the University or during prior employment at another NCAA member institution, you shall be subject to disciplinary or corrective action as set forth in the NCAA enforcement procedure, including suspension without pay or termination of employment for significant or repetitive University, Conference, or NCAA violations.
- A provision that you will agree not to seek or apply for other positions without prior notice and a buyout of \$3,000,000 in the first year of the contract, \$2,000,000 in the second year of the contract, \$1,500,000 in the third year of the contract, \$1,000,000 in the fourth year of the contact and \$0 for the fifth year of the contract and beyond.

While these terms are contingent upon our executing an employment contract, and are subject to the approval of the Board of Directors of the University of Kentucky Athletic Association and if necessary the Board of Trustees of the University of Kentucky, I trust that every reasonable effort will be made to mutually conclude that process within 60 calendar days of your start date.

It is with great anticipation and enthusiasm that I offer you the position of Head Men's Basketball Coach at the University of Kentucky. Assuming you are amenable, please indicate your acceptance by signing below. I have every confidence that you will lead our basketball program with integrity and pride, and I look forward to welcoming you as a member of the Wildcat Family.¹

MOUs are conventionally used in the quick-hire, quick-fire intercollegiate athletics coaching environment. As with Gillispie, hirings are often officially announced before a long-term employment contract can be fully negotiated. In such situations, MOUs, sometimes referred to as Letters of Intent, Term Sheets, or Discussion Sheets, are often used to state the terms of the contract under which the coach will work, subject to the coach and university executing a formal contract. They generally state the broad contract terms of a relationship to be entered into between the coach and the university.

Despite the initial desire for a quick conclusion to contract negotiations, Gillispie and Kentucky never signed a formal long-term employment contract during the 2007-2008 and 2008-2009 seasons to supplant their MOU. Gillispie achieved a 40-27 record during that time, taking the men's basketball team to the NCAA tournament first round in the 2007-2008 season and the National Invitational Tournament in the 2008-2009 season.

On March 27, 2009, Gillispie was fired from his position without cause. Gillispie's problems at Kentucky went beyond wins and losses. The trouble was " 'philosophical differences' between the University and Gillispie on the role the school's coach plays in the fabric of a fan base that refers to itself as the Big Blue Nation."² "The chemistry is just not right," said Barnhart.³ In a letter from Barnhart dated March 27th, Gillispie was told, "The relationship between you and the University is simply not a good fit in many ways. The inability to come to an agreement on critical terms of an employment contract after two years of negotiation is just one indication of this incompatibility."⁴

After Gillispie was fired, a dispute arose regarding Kentucky's obligations to him. Gillispie contended that the school owed him \$6 million (four years at \$1.5 million per year) as stipulated in the MOU, while Kentucky said the MOU is only a year-to-year contract with its termination without cause provision enforceable only if both parties signed a long-term contract.⁵

On May 27, 2009, Gillispie filed a complaint in United States District Court for the Northern District of Texas, suing the University of Kentucky Athletic Association, Inc. (UKAA) for breach of contract, among other claims, based on the provisions of his MOU with the university. He claimed that the MOU was executed on April 6, 2007, and approved by the UKAA Board of Directors the same day by unanimous approval. However, the parties could not ultimately agree on all of the necessary terms during subsequent exchanges of drafts of a long-term contract. Important terms left unresolved included the handling of Gillispie's deferred compensation plan and the definitions of termination with or without cause. Gillispie claimed that throughout the discussions Kentucky consistently recognized the MOU as a legally binding contract.

Gillispie argued that there was evidence showing that Kentucky's general counsel "repeatedly emphasized in correspondence that the MOU had been a contractual offer to Coach Gillispie which, when he accepted, formed a legally binding written contract between the parties."⁶ He claimed that this evidence showed that UKAA recognized the MOU as a contract, and that it affirmatively invoked provisions of the MOU relative to whether Gillispie entered into an endorsement agreement in Houston, Texas. Such evidence included an October 10, 2007, letter from Kentucky general counsel to Gillispie's legal counsel stating that "I have advised you in each responsive letter that the terms of the MOU, to which your client is bound, are the substantive terms of the contract and that the University will not create an exception to the rules currently applicable to all staff solely for the benefit of the Coach."⁷ By virtue of this letter, Gillispie concluded that the MOU was a binding legal contract.

1. Memorandum of Understanding between the University of Kentucky and Billy C. Gillispie (Apr. 6, 2007).

2. *Kentucky Fires Billy Gillispie*, KOLOTV.COM, Mar. 27, 2009, <http://www.kolotv.com/sports/headlines/42025207.html>.

3. *Id.*

4. Letter from Mitch Barnhart, University of Kentucky Athletic Director, to Billy Gillispie, Kentucky Men's Basketball Head Coach (Mar. 27, 2009) (on file with author).

5. Jeffrey McMurray, *UK Letter Firing Gillispie Cites Contract Dispute*, KENTUCKYSPORTS.COM, Apr. 3, 2009, <http://www.kentucky.com/818/story/748567.html>.

6. Complaint at 10, *Gillispie v. Univ. of Ky. Athletic Ass'n, Inc.*, No. 3:09-cv-970 (N.D. Tex. May 27, 2009).

7. *Id.* at 11-12 (quoting Letter from Barbara W. Jones, Kentucky General Counsel, to Billy Gillispie's legal counsel (Oct. 10, 2007)).

In many instances, MOUs, including the one between Kentucky and Gillispie, resemble formal contracts, although they are usually not binding on the parties involved.

In his complaint, Gillispie quoted another letter, dated November 1, 2007, to Gillispie's legal counsel, in which Kentucky's general counsel indicated,

The University is satisfied that the executed Memorandum of Understanding contains all the basic terms needed for an employment agreement and can itself serve as the employment contract for the Coach. Any additional provisions not contained in the Memorandum of Understanding that your client wishes to address will need to be separately resolved by Coach with the Director of Athletics.⁸

Based on the above claims and evidence, Gillispie took the position that the MOU was a binding legal contract and that UKAA had breached that contract. He sought \$6 million in liquidated damages for the remainder of the contract and punitive damages.

The University of Kentucky quickly responded by filing its own Petition and Complaint for Declaratory Judgment in the Franklin Circuit Court in Kentucky, on May 28, 2009. The university claimed that it was the true party petitioner, rather than the UKAA. It asserted that the MOU was expressly intended to be a letter of intent or agreement to agree, and that it did not constitute a fully integrated writing or a final expression of the parties' entire agreement. Kentucky claimed that during the twenty-one months of Gillispie's employment, it had proposed at least six written offers of long-term employment, each of which had been rejected by letter or counteroffer.

The MOU specifically stated that it was to "be expanded and incorporated into an employment contract with the University of Kentucky for execution at the earliest possible date."⁹ In addition, it made clear that "a termination for cause provision mutually agreed upon by the parties," was to be negotiated and included in the long-term employment contract. This was important to any determination of when and if Kentucky would be required to pay Gillispie \$1.5 million per year (not to exceed 48 months) if it terminated him without cause.¹⁰ Further, the MOU repeated, "While these terms are contingent upon our executing an employment contract, . . . I trust that every reasonable effort will be made to mutually conclude that process within sixty calendar days of your start date."¹¹ Thus, there were material terms remaining to be negotiated and agreed upon between Kentucky and Gillispie after the MOU was signed, without which terms and conditions precedent, there would be no long-term employment contract between the parties.

In many instances, MOUs, including the one between Kentucky and Gillispie, resemble formal contracts, although they are usually not binding on the parties involved. Nevertheless, many MOUs contain certain binding provisions such as ones regarding non-disclosure, a covenant to negotiate in good faith, a standstill provision, and other provisions. In most instances, an MOU is also subject to a condition subsequent, i.e. the drafting and execution of a formalized contract that contains the complete agreement of the parties.

8. *Id.* at 12 (quoting Letter from Barbara W. Jones, Kentucky General Counsel, to Billy Gillispie's legal counsel (Nov. 1, 2007)).

9. Memorandum, *supra* note 1, at 1.

10. *Id.* at 2.

11. *Id.*

On the other hand, if an MOU constitutes a formal contract, it may be deemed to be binding on the parties. However, if the document requires that essential elements are to be decided or determined at some time in the future, most courts will construe the MOU as an agreement to agree, often viewed as nonbinding and non-enforceable. In most cases, courts have refused to enforce individual provisions of agreements to agree as free-standing contractual promises when other substantial and necessary terms of the agreement have been left open for future negotiation.

The enforcement of agreements to agree by Kentucky courts hinges on the crucial factual analysis as to whether all material terms of the deal have been negotiated and spelled out in the agreement to agree. "Where an agreement leaves the resolution of material terms to future negotiations, the agreement is generally unenforceable for indefiniteness unless a standard is supplied from which the court can supplant the open terms should negotiations fail."¹² The controlling language on this issue comes from *Johnson v. Lowery*, wherein the court said that "To be enforceable and valid, a contract to enter into a future covenant must specify all material and essential terms and leave nothing to be agreed upon as a result of future negotiations."¹³

If the agreement does not include all material terms, it is viewed as an agreement to negotiate in good faith.¹⁴ As one court explained, "We seem to take the 'all or nothing' approach: Either the agreement is enforceable as a binding contract to consummate the transaction or it is unenforceable as something less."¹⁵ Moreover, "If the parties did not agree upon [a material provision] or upon a definite method of ascertaining it, then there is a clear case of non-agreement. The court, in fixing an obligation under a non-agreement, is not enforcing the contract but is binding the parties to something they were patently unable to agree to when writing the contract."¹⁶

Further, Kentucky courts will take into consideration whether the parties to a deal intended a document to be a final and binding contract or merely an agreement to agree, and a "court may look to surrounding circumstances and the parties' conduct as a guide."¹⁷ If a court finds that the parties intended an agreement "to reflect the current status of their negotiations and to bind each to negotiate with 'best efforts' for a specific period," it will consider the agreement to be nonbinding.¹⁸

Based on this analysis, it seems that a Kentucky court will not enforce any provision of an incomplete MOU, unless a particular provision was binding as enumerated within the agreement. This general "all or nothing" approach can leave parties vulnerable when a long-term contract cannot be reached. When parties enter into MOUs there must be a clear understanding regarding the document's legal intent and effect. If the MOU is to be the equivalent of a contract and will ultimately serve as a contract if a formal

In most cases, courts have refused to enforce individual provisions of agreements to agree as free-standing contractual promises when other substantial and necessary terms of the agreement have been left open for future negotiation.

12. *Cinelli v. Ward*, 997 S.W.2d 474, 476 (Ky. Ct. App. 1998).
13. *Johnson v. Lowery*, 270 S.W.2d 943, 946 (Ky. Ct. App. 1954).
14. *Id.* at 478.
15. *Id.*
16. *Walker v. Keith*, 382 S.W.2d 98, 202 (Ky. Ct. App. 1964).
17. *Cinelli*, 997 S.W.2d at 478.
18. *Id.*

If the MOU is not a contract, the university could take the position that the coach is an employee at will or, in the alternative, that the coach is bound to fill out the economic terms of the current year.

formal agreement is entered into, it should be stated that the legal effect of the MOU is a binding contract with the parties' obligations and liabilities arising therefrom.

However, often the MOU is not meant to serve as a complete agreement whether or not the parties enter into a formal contract. A nonbinding MOU can serve as a placeholder in a negotiation. An example of this is an MOU that contains the agreed upon financial terms of employment, but leaves legal terms, such as the definition of termination for cause, and factors involved in mitigating liquidated damages, open for further negotiations. In other cases, the MOU will omit all of the terms of the agreement, both financial and legal, and therefore it merely constitutes an agreement to agree because there are conditions subsequent, such as the execution of a contract or approval by

University entities, that must be achieved before the MOU ripens into a contract. If the MOU is not a contract, the university could take the position that the coach is an employee at will or, in the alternative, that the coach is bound to the terms of the MOU for the current year.

When an MOU is specifically not a contract there should be a good faith obligation to eventually execute a formal contract, and there should be a time limit put in place for doing so, time being deemed of the essence. The question remains as to what the contingency plan should be if the time limit is not met. The university should consider this carefully and may want to have different contingencies in place for different coaches. The two main types of contingency plans are a renewal provision, granting an extension to the original time limit, or a provision ending any negotiation rights or capacity to create a formal contract in the future. An end to the parties' contractual rights would leave the coach as an at-will or year-to-year employee for the duration of his employment at the university. A contingency related to situations when the parties do not meet the time limit will also put a premium on getting an actual contract executed within the agreed upon time.

If the MOU is not the final agreement because a formal contract is still being negotiated, the MOU must include appropriate language, such as:

1. The memorandum is only an expression of the party's intent concerning some of the material elements of the proposed University/Coach contract.
2. It is understood and agreed that all material terms of the proposed contract are not yet agreed upon between the parties and mutually satisfactory language therefore must still be agreed upon.
3. It is further understood that no contractual liabilities and obligations whatsoever are intended to be created by parties.
4. The memorandum is not intended to constitute a legally binding contract to consummate the transaction.
5. No party may claim any legal rights against the other based on the memorandum and no party may take any action in reliance thereon.
6. Each party is required in good faith to complete a contract reflecting the terms of the memorandum within _____ days, time being deemed of the essence.

Another option for a university is to include a small number of provisions in the MOU that are intended to be binding, even if the majority of the document, such as the financial and legal terms of the coach's

employment, are intended as only an agreement to agree. Such provisions would include a choice of forum clause, or a method of resolving any disputes that arise under the MOU, whether related to termination, finances, or another aspect of coach's employment. The handling of the dispute between Kentucky and Gillispie demonstrated the advantages of a forum clause as this dispute was further complicated when the parties filed their complaints in different jurisdictions. An alternative dispute resolution clause could allow the university to avoid the court system altogether in favor of another method of resolution, such as arbitration, if that is desirable. Such binding provisions in the MOU address the possibility of a dispute between the university and coach, even during the course of good faith negotiations, and help remove any uncertainty with regards to its resolution.

The most hazardous aspect of an MOU with both binding and nonbinding provisions is making perfectly clear which provisions are which. The section of the MOU with the binding provisions would have to specifically state that the parties are bound by these provisions, and only these provisions. Likewise, the section of the MOU with the nonbinding provisions must clearly state that these provisions are not binding even though the other provisions are. Any unclear distinctions could lead to an MOU that is deemed to be entirely binding or entirely nonbinding.

The MOU without any binding provisions is a simpler option. Instead of classifying provisions, a single covenant, such as one of the examples provided above, is used to clearly state that no party is bound by any of the MOU provisions. The relative simplicity of a completely nonbinding MOU comes at the expense of control over the resolution of any disputes that arise. The benefits and disadvantages of either type of MOU must be weighed by the university.

In the world of college coaching, athletic directors ask new coaches to agree to these MOUs as quickly as possible with seemingly no consideration of their legal significance. As long as the relationship between the university and the coach remains amicable, the MOU can provide enough structure to allow the coach to go about his daily coaching duties while a formal long-term contract is being hashed out. The status of the MOU as an enforceable binding contract or a non-binding agreement to agree has little significance in such an environment. If an employment dispute arises while the coach is still working under the MOU and the university-coach relationship turns sour, the legal status of the MOU becomes important.

In this type of situation, as the Kentucky-Gillispie dispute revealed, it is important that the university have a clear understanding of what the MOU is in the eyes of the law. This can be accomplished by carefully wording the MOU so as to make clear its intended significance and function, and by being knowledgeable as to how the courts in the university's home state typically view MOUs. The university's legal department must be involved in the creation of MOUs in some way. One way to allow for a general counsel's input and for an athletic director to quickly present an MOU to a new coach is for the university to create a standard form MOU with the appropriate legal language based on university practices into which an athletic director can fill in the appropriate financial and employment legal terms.

Whether or not a standard form MOU is created, the employment of head coaches for large sports programs is too significant an investment for the university to be unclear as to his/her exact employment status and each party's obligations in the absence of a formal long-term contract. As the hiring and

An alternative dispute resolution clause could allow the university to avoid the court system altogether in favor of another method of resolution, such as arbitration, if that is desirable.

firing of Gillispie by Kentucky demonstrated, multiple interpretations of an MOU can lead to lengthy, and expensive, disputes. Such disputes can potentially be avoided if a university familiarizes itself with the legalities of MOUs and takes the necessary steps to protect itself and its intentions.

In the end, no court had to make a ruling in the Kentucky-Gillispie dispute because the parties reached a settlement through a voluntary mediation process, on October 13, 2009. No insight into judicial interpretation of applicable law came out of this dispute, but it is further proof of how expensive this type of dispute can be. The settlement calls for Kentucky to pay Gillispie \$2.9 million plus legal fees. While this is less than the \$6 million Gillispie was demanding, it is certainly more than the university believed it was obligated to pay. The settlement makes clear that this payment is not an admission of liability, and it includes an agreement by the parties that no more suits will be filed and neither side will disparage the other.¹⁹ Other universities need to learn from this litigation that MOUs may have great legal significance and disputes arising under them may be costly. To protect themselves, universities must consider all legal aspects of an MOU before offering one.

19. Brett Dawson, *UK, Gillispie Reach Agreement; Ex-coach to Get Almost \$3 Million*, LOUISVILLE COURIER J., Oct. 14, 2009, available at <http://www.courier-journal.com/article/20091013/SPORTS03/910130365/1002/sports>.



A Public Interest Perspective on College Sports Amateurism: Reframing the Exploitation of NCAA College Athletes

By Samuel L. Owens, Esq., Executive Director, Quantum Metric Innovation, NFP, Chicago, Illinois.

AN ARENA FOR SOCIAL JUSTICE

Need a litmus test to gauge domestic social progressiveness? Look no further than collegiate athletics. The college sports arena has been a significant forum for implementation of policies to affect gender equity under Title IX and to increase employment access for female coaches and black coaches under Title VII of the Civil Rights Act. Although student-athletes have greatly benefited from NCAA policies that parallel Civil Rights legislation, the full import of these civil rights battles transcends the empowerment of athletes as an individual class. College sports have metamorphosed into a veritable microcosm for social justice-in-action.

The monetary and educational stakes of college sports profoundly impact the socio-economic mobility of not only blue-chip athletes, but also the general student body at universities with large revenue-generating sports. Therefore, discourse surrounding social justice issues within college sports should be informed by a critical analysis of how policies that may serve to further the interests of athletes as a class may undermine the broader public interests of the student body. Particularly, the debate over whether to monetarily compensate student-athletes in big money sports should be analyzed in terms of how college sports-revenue streams are distributed throughout the university community to increase access to high quality education.