
VIII.

Representing Race Teams

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2006 NASCAR CLE SPORTS LAW PRESENTATION

VIII. REPRESENTING RACE TEAMS (Copyright 2006, John F. Morrow, Sr. and John F. Morrow, Jr.)

Representing a major race team in NASCAR should be viewed the same as representing any other major business. It would be unusual for one lawyer to have all the knowledge and talent to properly advise a major race team and/or any other major business on all of the legal aspects of their business and/or industry.

The purpose of this Article will be to give the reader(s) a general knowledge of what aspects of the law come into play when representing and giving advice to a major NASCAR race team.

We have "drafted" contracts for:

- A. Race Teams
 - 1. Drivers (independent contractors)
 - 2. Other employment type contracts
 - 3. Primary sponsorships
 - 4. Secondary sponsorships
 - 5. Merchandising-souvenir contracts
 - 6. Licensing contracts
- B. Race Car Drivers
- C. Crew Chiefs
- D. Sponsors – Primary
- E. Sponsors – Secondary

We have drafted contracts in the following racing series:

- A. NASCAR Winston Cup Series

- B. NASCAR Nextel Cup Series
- C. NASCAR Busch Series
- D. NASCAR Craftsman Truck Series

We have also reviewed for race teams and drivers contracts from the following manufacturers:

- A. General Motors
- B. Daimler Chrysler
- C. Toyota

John F. Morrow, Sr., has been doing this since 1975, and John F. Morrow, Jr., has been doing this since 1996.

Back in the 70's and 80's, everybody seemed to know everybody else's "secrets." Whether the "secret subject" dealt with heads on the motor or "sponsorship contracts," the NASCAR community was so small, so friendly and so intra-dependent that confidentiality was non-existent.

The opposite is true at the present time. The NASCAR community is not the same. It is friendly on the surface only. You cannot be but so friendly with your enemy. Everything but the bathroom is confidential.

All of the contracts of race teams contain strict confidentiality clauses. All confidentiality clauses are somewhat ambiguous. For example, the law suit by Daimler Chrysler against Bill Davis Racing alleged that Bill Davis Racing, through its employees, gave confidential information to TRD (Toyota Racing Development Company, Inc.). The jury in the Detroit, Michigan, Federal Court interpreted the ambiguous confidentiality clause in the Chrysler-Davis contract in favor of Chrysler.

Manufacturers give more than money to race teams. Examples of confidential information that may come through a manufacturer are as follows:

- A. Wind-tunnel experience
- B. Aerodynamic ideas (spoilers)
- C. Motor development (horsepower and durability)
- D. Braking systems
- E. Cooling systems
- F. Testing systems

We would be heroes if we could attach copies of contracts in our files to this transcript. We do not want to be fired by our clients. Even more important, we do not want to be sued by manufacturers, race teams, drivers, and/or sponsors.

We will endeavor to discuss some of the more important clauses in the different kinds of contracts. Hopefully we can do this without violating our attorney-client relationships or contract confidentiality clauses.

MANUFACTURERS AND RACE TEAM CONTRACTS

There are only four automobile manufacturers in NASCAR. The common cars and trucks and the "common car of the future" are not stock cars – they are not manufactured by the automobile companies. The "noses and tails" of the race cars are similar to the Dodges, Chevrolets, Fords, and Toyotas you see in the parking lot. The bodies of the cars are identical and must fit in the same templates (approximately 20).

The content of these contracts is heavily determined by the manufacturer – not the race team. The tail does not wag the dog. Over 70 race teams and prospective race teams courted

Toyota when Toyota came into truck racing. The number is about the same for Nextel Cup Racing. Only three teams were lucky enough to agree to contracts that were offered by Toyota.

I am familiar with General Motors, Daimler Chrysler, and Toyota contracts. They are not identical by a long shot. Important clauses include the following:

A. DEFINITIONS: Examples include:

1. Authorized Representative
2. Body Parts
3. Contract Year(s)
4. Covered Season(s)
5. Driver(s)
6. Licensed Materials
7. Licensed Merchandise
8. Licensed Products
9. NASCAR
10. Owner
11. Race
12. Race Car(s)
13. Race Team
14. Support Vehicles
15. Team License
16. Team Marks
17. Team Members
18. Team Testing

19. Technical Support
- B. TERM: Examples include:
1. How many months or years
 2. Whether or not there are options to renew and/or negotiate
 3. What provisions (such as confidentiality, licensing, etc.) survive termination and for how long
- C. OWNERSHIP AND MANAGEMENT: Examples include:
1. Can the ownership of the race team or any part thereof be sold or changed?
 2. What key employees must remain in place or, if replaced, be approved by the manufacturer?
- D. DUTIES OF RACE TEAM: Examples include:
1. Build race cars and engines that are competitive.
 2. Enter and qualify for NASCAR races.
 3. Have sufficient money and/or resources to be competitive.
 4. Spend certain amounts of money on specified items such as engine development, wind-tunnels, testing, etc.
 5. Employ certain key employees that are approved by the manufacturer.
 6. Employ driver(s) that are approved by the manufacturer.
 7. Have certain key employees and drivers under numerous obligations to the manufacturer (such as personal appearances, licensing, advertising, etc.).
 8. Provide show cars.
 9. Participate in promotional events.

10. Participate in advertising.
11. Ensure proper dress and conduct of team members.
12. Have sponsors that are subject to approval of manufacturer.
13. Design and paint cars and haulers subject to approval of manufacturer.
14. Design uniforms subject to approval of manufacturer.
15. Have liability and other kinds of insurance.
16. Hold harmless and indemnify manufacturer from lawsuits.
17. Grant trademark and licensing rights to manufacturer.
18. Confidentiality duties.

E. DUTIES OF MANUFACTURER: Examples include:

1. Pay money.
2. Provide motor parts.
3. Provide body parts.
4. Provide engineering or other technical support.
5. Provide stock vehicles for the team members and driver to use.

F. OTHER GENERAL PROVISIONS: Examples include:

1. Penalty clauses for poor performance.
2. Incentive clauses for excellent performance.
3. Exclusive provisions.
4. Team conduct provisions (better known as "cocaine clauses").
5. Press release clauses.
6. Representation warranties.
7. Non-assignability.

8. Choice of law.
9. Court Jurisdiction.
10. Alternative dispute resolution.

SPONSOR AND RACE TEAM CONTRACTS

There are two types of sponsorship contracts that we normally see and draft – primary and secondary. The major differences are simply in the amounts of the obligations and rights of the parties.

The contents of these contracts are controlled by normal supply and demand principals as to the value of the obligations and rights of the parties. Otherwise these contracts tend to have similar provisions. They all have confidentiality clauses.

Other important clauses in sponsorship contracts include the following:

A. **DEFINITIONS:** Examples include:

1. Contract year(s)
2. Covered season(s)
3. Driver(s)
4. Licensed materials
5. Licensed merchandise
6. Licensed products
7. NASCAR
8. Owner
9. Race car
10. Show cars
11. Team marks

12. Team license
 13. Team members
- B. TERM: Examples include:
1. How many months or years.
 2. Whether or not there are pitons to renew and/or terminate.
 3. What provisions (such as confidentiality, licensing, etc.) survive termination and for how long.
- C. OWNERSHIP AND MANAGEMENT: Examples include:
1. Can the ownership or any part thereof be sold or changed?
 2. What key employees must remain in place or, if replaced, be approved by the sponsor?
- D. DUTIES OF RACE TEAM: Examples include:
1. Prepare and enter competitive race cars in NASCAR events.
 2. Paint and design cars and haulers as approved by primary sponsor.
 3. Employ certain key employees subject to approval of sponsor.
 4. Employ driver(s) subject to approval of sponsor.
 5. Not have other sponsors that are in competition with sponsor.
 6. Provide show cars and personnel.
 7. Provide driver personal appearances.
 8. Provide team member personal appearances.
 9. Design uniforms subject to approval of sponsor.
 10. Licensing obligations.
 11. Provide "hard cards" and otherwise "entertain" the sponsor.

12. Representations and warranties.
 13. Indemnification and hold harmless.
 14. Insurance.
- E. DUTIES OF SPONSOR: Examples include:
1. Base pay provisions
 2. Incentive or performance pay provisions. These are based on performance(s) in qualifying, races, and Nextel Cup Points.
 3. Licensing
 4. Promotional duties and obligations.
- F. OTHER GENERAL PROVISIONS: Examples include:
1. Non-assignability
 2. Choice of law
 3. Court jurisdiction
 4. Alternative dispute resolution
 5. Termination
 6. Force majeure
 7. Confidentiality

GENERAL DISCUSSION OF CONTRACTS AND NASCAR

The authors are not including driver contracts in this presentation as Stokely Carmichael has presented same.

What should be very apparent to our readers is the fact that there are three or more contracts that must be coordinated because all of the contracts create obligations and create rights that "EVERYBODY" must agree to. Examples include:

“Richard Childress Racing, Inc.”

“RCR”

“Michael Waltrip Racing, Inc.”

“MWR”

“Michael Waltrip”

“Bill Davis Racing”

“BDR”

Team Numbers: (must be very famous and distinctive to merit trademark protection)

Stylized “3”

Stylized “24”

Team Logos

Design logos used by teams on merchandise and haulers, etc., to identify the team in a unique manner.

2. Patents

A patent is a grant from the government conveying and securing for an inventor the exclusive right to make, use, and sell an invention (that is truly new, useful, and non-obvious) for a period of time (typically 17 years). Importantly, this can include an “improvement” to the prior art, provided the improvement itself is useful and non-obvious. *See generally*, 35 U.S.C. § 154.

(a) Types of Patents Owned by Teams

Race teams routinely develop improvements over the prior art in terms of mechanical and/or aerodynamic performance. It is also not uncommon for teams to develop completely new technological advancements to enhance a race car’s performance. These “inventions” can often qualify for patent protection.

the following areas of the law:

- A. Environmental
- B. Intellectual Property
- C. Sports and entertainment
- D. Tax
- E. Labor
- F. Etc.

The original contracts in the late 1970's and early 1980's were less than five pages. The current contracts and attachments are over 60 pages.

The original contracts in the late 1970's were for "thousands." In the 1980's they were for "hundreds of thousands." Currently they are for "tens of millions."

NASCAR racing is now a major manufacturing industry in North Carolina. It is also a major part of the North Carolina Sports and Entertainment industry. Welcome Aboard.

VIII(a) PROTECTING YOUR RACE TEAM CLIENT'S INTELLECTUAL PROPERTY

A. What Types Of Intellectual Property Can/Do Most Race Teams Own?

1. Trademarks:

A trademark is a word, name, symbol or device or any combination thereof which is used to identify and distinguish the goods (or services) of one person from goods (or services) manufactured or sold by others and to indicate the source of the goods (or services), even if the source is unknown. 15 U.S.C. § 1127.

(a) Types of Trademarks Owned by Teams

Team Names:

“Richard Childress Racing, Inc.”

“RCR”

“Michael Waltrip Racing, Inc.”

“MWR”

“Michael Waltrip”

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Acquiring a patent is expensive and time consuming, which may weigh in favor of opting for trade secret protection.

3. Trade Secrets

Under the North Carolina Trade Secret Protection Act, a trade secret is defined as follows:

“business or technical information, including but not limited to a formula, pattern, program, device, compilation of information, method, technique, or process that:

- a. Derives independent actual or potential value from **not being generally known or readily ascertainable** through independent or reverse engineering by persons who can obtain **economic value** from its disclosure or use; and
- b. the subject of efforts that are **reasonable under the circumstances to maintain its secrecy.**”

N.C. Gen. Stat. § 66-152(3) (1999). In determining whether information is a trade secret, the following factors should be considered:

- (1) the extent to which the information is known outside the business;
 - (2) the extent to which it is known to employees and others involved in the business;
 - (3) the extent of measures taken to guard the secrecy of the information;
 - (4) the value of the information to the business and its competitors;
 - (5) the amount of money or effort expended in developing the information;
- and
- (6) the ease or difficulty with which the information could properly be acquired or duplicated by others.

Wilmington Star-News, Inc. v. New Hanover Regional Medical Center, Inc., 125 N.C. App. 174, 180-81, 480 S.E.2d 53 (N.C. App. 1997).

As suggested by this definition and factors, trade secrets can encompass any business or technical information developed by a race team, provided such information provides a competitive advantage over other teams, and is generally maintained in secret. Confidentiality and non-disclosure provisions in employment agreements are therefore essential.

Race teams often opt for trade secret protection over patent protection given the expense and time involved in securing patent rights from the government. Further, once you secure a patent, the invention become public knowledge for your competitors to analyze (and potentially copy, at risk of infringement).

B. How Can Race Teams Protect Their Intellectual Property?

1. Licensing Agreements (primarily for trademarks)

Race teams enter into licensing agreements with sponsors, drivers, and other third parties generally for two purposes: (a) to allow sponsors, drivers and other third parties to use team trademarks for promotional/advertising purposes; and (b) to secure rights and outline the parameters under which merchandise bearing team, driver, and sponsor marks can be co-branded and sold.

Licensing provisions are often the most complex provisions contained in race team agreements. Your contracts must contain provisions specifying in detail at least: (a) the territory in which the intellectual property can be used; (b) the intellectual property being licensed; (c) permissible and non-permissible uses of the intellectual property; (d) duration of the license; (e) termination of license, and acts giving rise to termination; (f) sell-off period following termination; and (g) royalties.

Royalty provisions can give rise to a major source of income for race teams.

(a) Examples of licensing royalty strategies:

33/33/33 or 50/50

In the past, most agreements contained licensing terms that provided for a 33%, 33%, 33% split of royalties earned for merchandise bearing the marks of the driver, team, and sponsor. For example, if the team sold merchandise earning royalties of \$100, the driver would receive \$33.33, the team would receive \$33.33, and the sponsor would receive \$33.33. Similarly, for merchandise bearing just the marks of the team and driver or sponsor, the split would often be 50/50.

10% first, then 33/33/33 or 50/50 or any combination you can get away with

Teams have wised-up, and now typically demand a 10% licensing management fee prior to distribution of earned royalties. Examples follow:

With respect to any co-branded licensed merchandise that is sold for profit bearing the Driver's intellectual property, Team marks, and sponsor(s) marks, Driver shall be entitled to 50% of the licensing royalties earned after: (1) Team's deduction of a ten percent (10%) licensing management fee (the "Management Fee"); and (2) payment of 33% of the earned royalties to the sponsor. For example, for every \$100 of earned royalty, team will retain 10% (or \$10) for managing the co-branded motorsports licensing program, and will pay the sponsor 33% of the remaining \$90 (or \$30.00). This will leave \$60.00 to be split among Team and Driver, with Team receiving 50% of the \$60.00 (or \$30.00) and Driver receiving 50% of the \$60.00 (or \$30.00).

With respect to any co-branded licensed merchandise that is sold for profit bearing just the Driver intellectual property and Team intellectual property, Driver shall be entitled to 50% of the licensing royalties earned after: (1) Team's deduction of a ten percent (10%) licensing management fee (the "Management Fee"). For example, for every \$100 of earned royalty, Team will retain 10% (or \$10) for managing the co-branded motorsports licensing program. This will leave \$90.00 to be split among Team and Driver, with Team receiving 50% of the \$90.00 (or \$45.00) and Driver receiving 50% of the \$90.00 (or \$45.00).

2. Infringement / Misappropriation Litigation

Driver's typically encounter infringement issues more often than do teams, however, counterfeiters also misappropriate team marks for personal gain. For infringement of federal trademarks, patents, or copyrights, suit must be filed in federal court. For misappropriation of trade secrets or common law trademark infringement, you can file in state court. In either case, you should consider serving a cease and desist letter first, but beware of declaratory judgment responses.

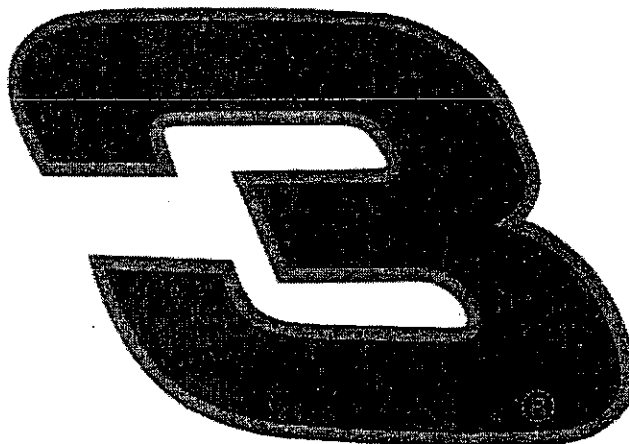
An example of a trademark infringement suit -- the "Winged 3" litigation:

IN THE UNITED STATES DISTRICT COURT
FOR THE MIDDLE DISTRICT OF NORTH CAROLINA

RICHARD CHILDRESS RACING)	
ENTERPRISES, INC.,)	
)	
Plaintiff,)	Civil Action No. 1:01CV00872
)	
v.)	
)	
HEAVENLY DESIGNS OF NC, INC.,)	
BARRY BAKER, BILLI JO)	
McCALL BAKER,)	
)	
Defendants.)	
_____)	

The dispute involved infringement of RCR's stylized "3" trademark.

Examples of the infringement:



[RCR's U.S. TRADEMARK REG. NO. 1,988,137]



[INFRINGEMENT "WINGED 3" MARK]

Infringement of a federally registered trademark is governed by the provisions of 15 U.S.C. § 1114(1), which imposes liability against “use [of a mark that is] . . . *likely to cause confusion*, or to cause mistake, or to deceive.” (emphasis added).

The Fourth Circuit uses a seven-factor analysis to determine whether a likelihood of confusion exists: (1) instances of actual confusion; (2) the strength or distinctiveness of the

allegedly infringed mark; (3) the similarity of the two marks; (4) the similarity of the goods and services that the marks identify; (5) the similarity of the facilities that the two parties use in their businesses; (6) the similarity of the advertising the two parties use; and (7) the defendant's intent. *Pizzeria Uno Corp. v. Temple*, 747 F.2d 1522, 1527 (4th Cir. 1984); *Lone Star Steakhouse & Saloon v. Alpha of Virginia*, 43 F.3d 922, 933 (4th Cir. 1995). If there is a strong probability of likely confusion under these factors, courts liberally grant injunctive relief, including preliminary injunctions, for trademark infringement. RESTATEMENT (THIRD) OF UNFAIR COMPETITION §35, comment h (1995) ("Absent special circumstances, courts will ordinarily grant a preliminary injunction in a trademark infringement action if there is strong evidence of a likelihood of confusion.").

Strategy to quash infringement as quickly as possible:

- a. Try a cease and desist letter (particularly for smaller defendants);
- b. If C&D is unsuccessful, file suit in federal court for trademark infringement;
- c. Seek temporary restraining order and preliminary injunction;
- d. Request expedited consideration;
- e. Obtain order granting TRO;
- f. Distribute copies of order to law enforcement personnel at race tracks;
- g. Monitor internet (Ebay sales), and ultimately have infringing items destroyed.

3. Confidentiality / Non-Compete Agreements

Because turnover is so prevalent in racing today, race teams now need to secure confidentiality and non-compete agreements with key personnel to ensure that their proprietary

business and technological information is not taken to a competitor. Examples of confidentiality and non-compete provisions that may be suitable for this type of relationship follow:

Confidentiality. Except in the course of performing Employee's obligations under this Agreement or pursuant to written authorization from Team, or as required by law, Employee shall hold in confidence and shall not: (a) directly or indirectly reveal, report, publish, disclose or transfer Confidential Information to any person or entity; or (b) use any Confidential Information for any purpose other than for the benefit of Team; or (c) assist any person or entity other than Team to secure any benefit from the Confidential Information. For purposes of this Agreement, the term "Confidential Information" means any proprietary business information of Team in any form that is not generally known by the public or in the industry, including, but not limited to, the following: Information which Team designates as confidential, either orally or in writing; trade secrets; Inventions and Intellectual Property; technical information and know how relating to Team's racing vehicles, components, methods, and strategies; Team's business and marketing plans and strategies; financial information; business opportunities; information about Team's relationships and agreements with sponsors and vendors; any information not generally known by persons other than Team personnel or persons subject to confidentiality; any information which Employee knows or should know that Team would not care to have revealed to competitors or others; and any information which Employee makes, conceives or develops as a result of Employee's relationship with Team. Employee acknowledges that Team may, from time to time, have agreements with other persons or entities that impose obligations or restrictions on Team regarding work to be created by Employee during the course of Employee's employment with Team, or regarding the confidential nature of the work or the confidential or proprietary information of any third party disclosed during or used as part of such work. Employee agrees to be bound by all such obligations and restrictions and to take all actions necessary to discharge Team's obligations thereunder. Upon the termination of Employee's employment for any reason, Employee shall immediately return to Team all confidential and proprietary items, documents, or information, including any copies of such materials in whatever form.

Covenant Not to Compete. Employee acknowledges and agrees that Employee will obtain access to Team's confidential and proprietary business information and technology, which could be used to provide Employee with an unfair competitive advantage if obtained by a competitor or used to compete with Team. The parties also recognize that it is the intent of Team, to the fullest extent permitted by law, to protect the unique aspects of Team's business and to prevent specialized knowledge, skills and relationships acquired by Employee from being used in a manner which interferes with Team's goodwill or gives an unfair advantage to Employee or to Employee's new employer. Employee recognizes that in order to protect the legitimate business interests and investments of Team, it is reasonable and necessary for Team to restrict certain of Employee's actions

during Employee's employment and for the period of time after the date of Employee's termination of employment as specified below. Employee acknowledges and agrees that Employee's initial offer of employment by Team was expressly conditioned upon Employees' consent to these reasonable restrictions, and Employee acknowledges and agrees that Employee's skills and abilities will allow him to find other suitable employment and earn a living during the period of the restrictions.

CONCLUSION

Aside from competent personnel, intellectual property may be the most valuable asset owned by a race team. Properly representing your race team client requires you to: (a) be aware of the various types of intellectual property that your race team client has; (b) take steps to secure rights in that intellectual property; and (3) be prepared to take the steps necessary to adequately protect it.

"Law in the Fast Lane"

**Sports and Entertainment Law Section
Annual Meeting
October 12-13, 2006**

**PROTECTING YOUR RACE TEAM CLIENT'S INTELLECTUAL
PROPERTY**

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**Step 1 -- Knowing What Types Of Intellectual
Property Your Race Team Clients May Own**

Types of intellectual property owned by race teams:

Trademarks

Patents

Trade Secrets

Copyrights

(See appendix, law relevant to the race team context)

TRADEMARKS

A trademark is a word, name, symbol or device or any combination thereof which is used to identify and distinguish the goods (or services) of one person from goods (or services) manufactured or sold by others and to indicate the source of the goods (or services), even if the source is unknown. 15 U.S.C. § 1127.

TRADEMARKS

Under this definition, team trademarks can include:

- Team Names, e.g.:
 - Richard Childress Racing; RCR; MWR; Michael Waltrip Racing
- Team Numbers, e.g.:
 - Stylized "3"; Stylized "2"
 - Must be very famous
- Team Logos, e.g., (fair use disclaimer):

