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CLIENT ALERT

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Celebrity Brands: To Wed or Not to Wed?

More and more, celebrities are becoming global brands, known as much for the products they endorse as their acting and music credits. Rock stars have eponymous perfumes; actors have footwear lines and entertainment agents are brokering consumer - goods ventures for their clients. Christina Aguilera and Adam Levine were even in a much publicized Twitter war - of - words over celebrity perfume deals. Celebrities are no longer just sponsoring or promoting products, they are now actively involved in the design and manufacture of myriad types of merchandise. Celebrity brands are good for business, and traditional manufacturers are often eager to do business with well - known celebrity personalities.

The decision to marry a celebrity brand with a consumer products company raises many legal issues that are of great importance as the relationship flourishes—or fails. Among the most important issues are the structure of the corporate entity and the ownership and use of intellectual property, including the celebrity's name and likeness.

The first consideration in forming a joint venture is determining how to structure it. There are multiple ways to structure a joint venture, including a corporation, limited liability company, or forming a contractual relationship between the parties. The tax treatment and ultimate goals of the parties are important considerations in making this determination. For instance, a contractual relationship may be favorable where the joint venture is to be formed for a single project or for a limited term (i.e., a collaboration for a limited item to be produced and sold for a limited time). Forming a legal entity may make more sense if the joint venture is for a business that the parties contemplate will be ongoing. Limited liability companies are a frequent choice of entity for a joint venture because they afford the partners flexibility with respect to ownership, profit/loss distributions, voting, and management. The remainder of this discussion highlights some common issues that arise in joint venture transactions with celebrities in limited liability companies (LLC).

Joint ventures with celebrities are usually between a celebrity and a party who has a service to offer, such as a manufacturer. Together, they will produce and sell products under the celebrities' name/brand and with the celebrity's endorsement. The partners should consider holding their ownership interests through another entity, as opposed to personally. This will limit the partners' personal liability to one another in the LLC. This is equally important for the non - celebrity party, who may not have the same means as the celebrity, and for the celebrity, who may have substantial assets to protect. Frequently, joint venture partners will own their interests in the LLC through their own personal LLCs.

It is important to clearly define what each party's contribution is to the joint venture. Because the celebrity has his or her name to protect, celebrities do not usually contribute their name, likeness or trademarks to

the LLC. Instead, they license them pursuant to a license agreement, and they contribute the license agreement to the joint venture. The other party usually contributes its services. For instance, if the celebrity is partnering with a manufacturer, the manufacturer will provide manufacturing services to the joint venture. One or both parties will contribute cash.

One of the most significant and highly negotiated areas in the joint venture agreement is the issue of control, particularly in joint ventures with celebrities. An inherent tension exists between the partners. The celebrity wants to maintain significant controls because he or she has a name, image and a brand to protect. Usually the celebrity is involved with product design and marketing, but the other partner is running most of the operations of the business, including sourcing, manufacturing, selling and distributing the product. Accordingly, such other partner wants and needs control over most aspects of operations. One way to deal with this tug-of-war is to parcel out what decisions, or categories of decisions, are to be decided by a particular partner in the event of a deadlock regarding such issues. For instance, any issues relating to product design, creative decisions, or the use of the trademarks, may be decided by the celebrity. Any issues regarding the sourcing of products and factoring may be decided by the other partner.

There may be some issues, regarding which, neither partner will or should have final say or veto power. For instance, the admission of new members, adopting budgets, and making material changes to accounting policies may be decisions that both partners wish to decide. The question then becomes, what do the partners do in the event of a true deadlock? Sometimes it may be appropriate to seek out a professional's advice and decision in the event of a deadlock. For example, the parties may agree to seek the advice of an independent accountant with respect to tax or budgeting issues. In addition, or as an alternative, the parties may want the right to walk away from the venture in the event of a deadlock on major issues by including a buy-out provision, whereby one party buys the other out. In such a case, the partners must determine how to calculate the purchase price for the partner's interests and need to describe payment terms for the amount to be paid.

Another important issue that arises is how the partners should deal with other business opportunities that are either in the same marketplace as the joint venture (e.g., apparel), or even directly competitive with the joint venture's business. Parties can agree not to compete with the joint venture. Alternatively, parties can agree on a right of first refusal, whereby each has to submit to their partner any opportunities that are available to them, and those opportunities can be as broadly or as narrowly defined as the parties wish.

Once the joint venture structure is established the partners will need to examine the intellectual property to be used and created and set the parameters for use. The intellectual property will likely include the celebrity's name and likeness, the brand name of the product line, the product designs and formulas, and social networking accounts and domain names. Often, the partners will each license their intellectual property to the joint venture, for the use and benefit of the venture. The celebrity will license her name and likeness; the manufacturer may license an existing brand name or clothing designs. The terms of the license—both business and legal terms—need to be defined to protect the parties and the brand. The following are some of the more common celebrity joint venture license agreement intellectual property issues.

Exclusivity

The business partner will often require that the celebrity refrain from marketing any competitive goods. Otherwise, the goodwill associated with the celebrity's name will be diluted by additional uses. There are often celebrity specific issues that need to be addressed. In a musician/clothing partnership, the musician may be precluded from using his or her name on any other clothing, but what about tee - shirts sold at their concerts? Industry specific details should be identified as early as possible to avoid misunderstandings between the partners later on.

Brand Ownership

If a jewelry designer brings its brand name to the joint venture and the celebrity brings his name, who owns the composite brand name? At the end of the relationship, can either partner continue to use the brand, or do they both need to stop? Further, who is responsible for ensuring that the brand name, especially a new brand name, is available for use? Celebrity - backed endeavors are often very high profile, and the partners should take all reasonable steps to check the availability of any trademark to be used to avoid becoming the subject of an expensive lawsuit.

Product Designs and Approvals

One of the pillars of licensing is the licensor's control and oversight of the quality of the goods being produced. In a joint venture relationship where each partner is contributing a trademark—be it a clothing brand name and a celebrity's name or a perfume name and a celebrity's well known slogan—each party must exert actual control over the quality of the products. The partners have to work together to design the products, approve them prior to manufacture, and monitor the marketplace for quality compliance.

Overall, it is in the best interest of both partners to have a clear understanding of their roles and responsibilities, and each partner's expectations, to avoid disputes. Celebrity joint ventures can be highly lucrative for all involved, but in order to maintain the integrity and well - being of the relationship, it is best to consider as many of these issues in advance as possible—and craft agreements that reflect the partners' intent.



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