

Effective Wealth

A Newsletter of Rothstein Kass®

Second Quarter 2009

The Celebrity Multi-Family Office

Through talent and extremely hard work, some entertainers and professional athletes are lucky enough to capture fame and fortune. Like other wealthy individuals, they have a variety of needs, including investment management, advanced planning, administrative services, and lifestyle services. While celebrities do have generic needs, what sets them apart are certain "issues" specific to the entertainment and sports businesses that affect how they approach life, their careers, and outside ventures, which create unique possibilities that require specialized expertise and an intimate understanding of their respective worlds in order to achieve optimal results.

In essence, celebrities can benefit from a coordinated approach that's characteristic of a multi-family office. There are some tremendous opportunities in the field of advanced planning as well as possibilities requiring business strategy and support services that are particularly applicable to successful entertainers and professional athletes. Let's consider some of the issues faced by celebrities.

Issues Faced by Celebrities

To become a financially successful entertainer or professional athlete, it takes a tremendous amount of hard work, coupled with providence. While these criteria are generally characteristic of anyone who amasses significant wealth, they have a particular intensity when you consider all the wait staff eager to be discovered, all the bands looking for their big break, all the models afraid to eat, eager for that one sensational photo shoot, and all the high school and college sports superstars who hope for a professional tryout.

Success as a celebrity, nevertheless, has its drawbacks. The entertainment and sports business is rife with stress and can result in psychological problems from drug and alcohol abuse

to anxiety and depression. While these and other complications can make life more complex and problematic for successful entertainers and professional athletes, the drive to reach these levels of success, nevertheless, permeates much of society.

The distinctive world of successful entertainers and professional athletes must be well understood by their advisors, and is even more significant when those celebrities are working with a multi-family office, specifically designed to address their needs, wants, and exceptional prospects.

The Evolving Multi-family Office

Due to the substantial personal wealth that's been created in the last few decades, the multi-family office model is evolving in a number of different and intersecting directions, including the increased need to manage a variety of interconnected financial situations for the ultra-affluent, and the progressive need for high level specialization to properly serve selected affluent populations (e.g., celebrities). Multi-family offices usually offer four basic categories of services: (1) investment management, (2) advanced planning, (3) administrative services, and (4) lifestyle services. Many of these services are outsourced, while "working with the client" is the responsibility of the multi-family office.

Celebrities are increasingly attracted to the multi-family office model, as it integrates core aspects of the business management function with the broad array of financial and legal expertise of a traditional multi-family office. What makes the celebrity multi-family office even more centered on the needs and wants of successful entertainers and professional athletes is the ability to leverage their particular financial world, coupled with business strategy and support services that are also built around the entertainment and sports fields.

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The Celebrity Multi-Family Office

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“Celebrities also tend to have certain types of assets particular to the entertainment and sports businesses that are applicable for advanced planning solutions.”

To better understand the differences between a traditional multi-family office and the celebrity multi-family office, let's discuss examples of advanced planning with celebrities, as well as an example of providing business strategy and support.

Advanced Planning

Advanced planning is a suite of cutting-edge services that assist wealthy individuals and families to structure their assets to be tax-effective and secure. The three major components of advanced planning—wealth enhancement, estate planning and asset protection—can be deployed separately, or in concert, to provide the best solution for a successful entertainer or professional athlete.

A distinctive advantage of engaging in advanced planning is the loan-out corporation. Consider the case of an actor with a net worth in excess of \$50 million and an annual income of approximately \$5 million, most of which comes from royalties and participation arrangements, who wants to lower his income taxes. Several years ago we established a loan-out corporation for the actor in a non-US domicile for its favorable tax treaties. We developed a deferred compensation program within his loan-out corporation and directed his non-US royalties and participations into the program. The assets in the deferred compensation program were invested in cash and cash-equivalents to ensure safety of principal. After one year and one day, this loan-out corporation can make loans that are interest and principal deferred. Loans are made to the actor using the assets in the deferred compensation program as funding; no current taxes are owed on the loans. This solution allows the actor to access his current earnings while decreasing his current tax obligations.

Celebrities also tend to have certain types of assets particular to the entertainment and sports businesses that are applicable for advanced planning solutions. In one situation, a composer and her husband of 21 years were recently divorced with her owing him a significant lump sum settlement. Her goal was to retain ownership of her song catalog, as it is her largest and most valuable asset, while meeting the terms of the divorce decree. We designed a derivative transaction to “convert” the catalog into a security. We hedged the security to create liquidity and invested 80 percent of the security's total value; \$24 million, in a guaranteed return investment. A portion of the loan was used to satisfy the composer's obligation in her divorce settlement, allowing her to retain any residual profits. In five years we will unwind the structure and pay off the loan, at which time her ex-husband will have been paid in full and the composer will realize \$2.2 million in profit, and retain ownership of her catalog.

Business Strategy and Support

Because of their particular situations, celebrities can dramatically benefit from advanced planning and business strategy and support. From licensing agreements to business ventures leveraging and not leveraging their stature, to business ventures capitalizing on their connections within their industries, successful entertainers and professional athletes may be able to generate significant profits. The complication is that, all too often, celebrities that are supported by advisors that are not well versed in these areas enter into business deals with very limited opportunity for success.

The development and/or enhancement of a business model for a celebrity client is a striking extension of the traditional multi-family office. It's a role beyond a business manager, or a management consultant, because the financial and tax consequences that relate to the successful entertainer or professional athlete must be considered, in addition to lifestyle issues.

Let's consider a musician who wants to build a company that will profit from purchasing song catalogs. In working with this musician, the expertise we brought to the table included:

- Developing the business plan in conjunction with the musician including the pro formas and adjusting the business plan as circumstances change.
- Arranging for preferential financing on an ongoing basis, for acquiring music catalogs.
- Assisting in the catalog acquisition process to create greater value to both parties, while mitigating direct monetary outlays.
- Structuring to mitigate both corporate and personal income taxes by creating a series of tax-friendly, current and deferred revenue streams.
- Integrating the business with the celebrity's estate plan to freeze the value of the business assets and maximize the ability to transfer the value to future generations.
- Protecting the ownership rights in the music catalogs from potential litigators and creditors, including a likely ex-spouse.

The celebrity multi-family office is incorporating a number of functions simultaneously, and seamlessly. What makes it successful is the highly integrated nature of the endeavor. The objective is to have a profitable business and to ensure that the wealth of the musician is maximized and protected.

The Multi-family Office Advantage

Can successful entertainers and professional athletes work with advanced planning specialists to mitigate taxes by employing bright line transactions? Of course, they can. Can celebrities work with business consultants to develop new initiatives? Yes, they certainly can. Can successful entertainers and professional athletes obtain the expertise of a celebrity multi-family office on an a la carte basis? Once again, of course they can.

There are two critical advantages of the celebrity multi-family office for successful entertainers and professional athletes: (1) an in-depth understanding of the celebrity world, and (2) the ability of the celebrity multi-family office to address the needs and wants of the successful entertainer and professional athlete in a holistic manner, including the array of connections within these industries that often prove essential to obtaining the desired results.

A top-notch celebrity multi-family office will provide solutions to specific issues, problems and needs, and the ability to be more all encompassing and comprehensive. The latter scenario often results in a much more effective and efficient solution for the celebrity, as many celebrities have highly intertwined personal and professional lives. ®

By Richard Flynn, JD, Principal at Rothstein Kass and Russ Alan Prince, President, Prince & Associates, Inc. For more information on this article and for services offered by Rothstein Kass, please contact Richard at 917.438.3956 or via e-mail at rflynn@rkco.com.

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ABOUT THE AUTHORS

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Rick Flynn is a Principal and the head of Rothstein Kass' Family Office Group. A lawyer and advanced planning specialist, he advises high-net-worth clients on wealth enhancement, wealth transfer and asset protection planning. His clients include hedge fund managers, business owners and other executives, professional athletes, and entertainers. He is co-author of *Fame & Fortune: Maximizing Celebrity Wealth*. He also contributed to the publication *Beyond Performance: How Hedge Funds Can Strengthen and Build Their Affluent Client Base*.

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ROTHSTEIN KASS PUBLICATIONS

An industry leader, Rothstein Kass publishes industry reports and white papers on a regular basis, including the following:

Changing the Game Plan

(December 2008)—A survey of 89 agents to professional athletes reveals advanced planning practices and opportunities—including estate planning and asset protection—as well as lifestyle concerns and influences that affect athletes during their careers and into retirement.

New World Order

(March 2009)—Rothstein Kass' third-annual report on alternative investment industry trends surveys 239 US-based hedge fund senior partners for their perspectives on the shifting competitive landscape. "New World Order" features insight on issues ranging from fundraising intent to regulatory concerns, and finds that the hedge fund sector is anticipating a return to its roots as a niche investment class.

OTHER ROTHSTEIN KASS PUBLICATIONS

Fame & Fortune: Maximizing Celebrity Wealth

Wealthy celebrities have the world at their feet—but the unique circumstances of their professions often present financial and legal challenges that require special handling. The leading authorities on affluence and celebrity wealth management—Russ Alan Prince, Hannah Shaw Grove and Richard J. Flynn—deliver the first data-based insights on the world of high-profile wealth in this invaluable resource for celebrities and their closest advisors on how to enhance, protect and pass along their hard-earned assets.

Beyond Performance: How Hedge Funds Can Strengthen and Build Their Affluent Client Base

As competition in the hedge fund sector intensifies, it will be more important than ever for hedge fund professionals to zero in on the priorities and expectations of their client base. Authors Russ Alan Prince and Hannah Shaw Grove share the research they have conducted with wealthy individuals and families that invest regularly, and significantly, in hedge funds and funds-of-funds.

Their findings will help hedge fund firms understand the most effective ways to reach, cultivate and retain high-net-worth investors.

Copies of publications are available upon request via www.rkco.com.

UPCOMING EVENT

Creating a Family Office Practice Guidelines for Financial Advisors Targeting the Exceptionally Wealthy

Tuesday, May 5, 2009
9:00am–4:00pm

Twenty Four Fifth
24 Fifth Avenue
New York, NY 10011

Today, there is a growing trend for the exceptionally wealthy to create their own family offices or to turn to multi-family offices.

Designed by the family office experts at Prince & Associates and Rothstein Kass, this workshop is intended to provide participants with insights and perspectives they can use immediately. Discussion, guided analysis and case examples will make the session highly interactive and stimulating. The goal of the workshop is to enable participants to apply what they learn to create their own multi-family office and cultivate the exceptionally wealthy – families worth \$10 million or more – by providing them with a holistic, value-added approach.

Who Should Attend?

- Financial advisors wanting to be more competitive for business of the wealthiest families.
- Multi-family office providers wanting to refine their business models.
- Senior managers responsible for the family office services of their firms.
- Other advisors wanting to become more knowledgeable about the family office universe.

Workshop Topics:

- Understand the market for family office services.
- Develop an awareness of the three family office models including their motivations.
- Understand the core and value-added services provided by family office.
- Be introduced to a methodology for effectively profiling wealthy families.
- Learn how to source the exceptionally wealthy.

Directed by:

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Sponsored by:

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