

# FTX Fallout: How Sponsorship Partners are Moving Forward

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Prior to its collapse, cryptocurrency exchange FTX spent millions in sponsorship dollars securing the naming and promotional rights to National Basketball Association stadiums, Formula 1 organizations, esports teams and celebrity endorsements. However, after the cryptocurrency exchange—once valued at over \$32 billion—collapsed, many sponsorship partners entered bankruptcy courts for relief. As a result, FTX’s bankruptcies have significantly disrupted the sport and entertainment marketing departments across the country.

In April 2021, FTX signed a 19-year, \$135 million contract with Miami-Dade County for the naming rights to the professional sports arena that is home to the Miami Heat. Shortly after FTX’s collapse, Miami-Dade County filed a motion in the Bankruptcy Court for the District of Delaware for relief from the bankruptcy stay and permission to terminate the agreement. Miami-Dade County motioned the court for relief on the basis of the financial hardship that Miami-Dade County would face (FTX owed nearly \$23 million as of January 1, 2023) and other reputational hardships if it continued to be associated with FTX. The Bankruptcy Court granted the motion, terminating the parties’ agreement, which permitted Miami-Dade County to remove signage from the arena.

Prior to its demise, FTX partnered with the esports organization, TSM, paying \$210 million for a multi-year agreement that resulted in the organization and its respective teams being renamed, “TSM FTX.” FTX sponsored TSM’s esports teams and offered a league--wide sponsorship for the League of Legends Championship Series (LCS). In August of 2021, Riot Games, the publisher for League of Legends, and FTX entered into an agreement for FTX to be the “Official Cryptocurrency Exchange Partner of the LCS.” The agreement was intended to run through at least 2028, and contained escalating yearly fees, with \$12.5 million due in 2022. Similar to Miami-Dade County, LCS filed a motion in the Bankruptcy Court, seeking to

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either compel FTX to reject the agreement or to be granted relief from the bankruptcy stay to terminate the agreement. Notably, LCS cited the agreement's "morality clause," which allowed for termination if a party brought "the Impacted Party's products and services into material public disrepute." LCS has claimed that the damage of being associated with FTX has been done, and that nothing could cure the violation of this morality clause. The LCS filing currently remains under consideration by the court.

Much like TSM and Miami-Dade County, Formula 1 team Mercedes-AMG Petronas sought to terminate a sponsorship agreement based on FTX's ongoing financial troubles. In a September 2021 press release, Mercedes-AMG Petronas boasted of a "long-term relationship" with FTX; however, less than a year later, the Formula 1 team sought to suspend its partnership agreement with FTX. FTX petitioned the Bankruptcy Court for relief, which permitted Mercedes-AMG Petronas to terminate the agreement with FTX.

Celebrities and influencers who partnered with cryptocurrencies and/or exchanges have also faced scrutiny for these close arrangements. In various class action filings in November and December of 2022 in the Southern District of Florida, high-profile athletes and entertainers, have been named as defendants in several lawsuits. In their complaints, plaintiffs claimed these celebrities are official "Brand Ambassador[s] for FTX" and that they should be liable for failed cryptocurrencies and/or exchanges. Attorneys for these celebrities are now seeking to maneuver their clients out of these lawsuits and extricate them from the collateral damage of the FTX collapse.

FTX's rise and fall highlights the potential pitfalls for celebrities and influencers who have collaborated with various cryptocurrencies and/or exchanges, the importance of minimizing exposure with careful attention to all federal and state advertising and promotion regulations, as well as legal counsel skilled in these rapidly developing industries.

## CONTACT

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