MARCH 2024

DEVOTED TO LEADERS IN THE INTELLECTUAL PROPERTY AND ENTERTAINMENT COMMUNITY

VOLUME 44 • NUMBER 3

THE Licensing Journal®

Edited by Gregory J. Battersby and Charles W. Grimes

Wolters Kluwer

Marketing

Lawrence W. Gallick and Aaron P. Rubin

Second Circuit Holds That Traditional Principles of Property Law Apply to Social Media Accounts

Issues surrounding ownership of social media accounts have been in the spotlight since the beginning of social media.[1] Just last July, we reported on how a bankruptcy court in Florida forced the founder and former CEO of Bang Energy to delete disparaging comments from his Instagram account and ultimately ruled that the company owned the Instagram, TikTok, and X (formerly Twitter) accounts at issue.[2] Prior to the Bang case, a number of other cases addressed these issues, with varying results, which is unsurprising given the varying facts around creation and use of social media accounts by businesses and business professionals.[3]

Here, we are looking at a recent Second Circuit case, *JLM Couture, Inc. v. Hayley Paige Gutman*, No. 21-2535 (2d Cir. 2024), where a fashion designer and her former employer wrestled over ownership of Instagram and Pinterest accounts that the fashion designer created and used for both business and personal brand purposes.

Background

In July 2011, JLM Couture, Inc. engaged Hayley Paige Gutman to design a line of bridal wear. The employment contract included several restrictions on Gutman, including that: (a) Gutman would not use her name in commerce once JLM registered it as a trademark; (b) certain broad categories of Gutman's work would be JLM's property as works for hire; and (c) she would abide by certain noncompete, nonsolicit, and nondisclosure obligations during the term of the contract and for five years thereafter. JLM and Gutman agreed to extend the contract through August 1, 2022, but, following further negotiations in 2019, failed to agree on any further extensions. Following the breakdown in negotiations, Gutman changed the passwords to her Instagram and Pinterest accounts, refused to give JLM access to the accounts, and notified JLM that she would no longer post JLM-related content to the accounts. JLM then sued Gutman for, among other things, breach of contract, conversion, and trespass to chattels based on Gutman's taking control of the accounts.

Gutman personally created both accounts in 2011 and 2012, using her own name as a handle and with her personal contact information. JLM did not require Gutman to open the accounts, although JLM argued that she had created them within the scope of her employment. The district court agreed that Gutman created the accounts to showcase JLM's products, which she featured in her earliest posts, interspersed with posts of a more personal nature. Over time, the accounts became more JLM-focused, featuring product pictures and JLM event information. In addition, the accounts' messaging features were used to respond to sales inquiries. Notably, other JLM employees had access to manage the accounts.

Prior to this appeal, the case had already gone through a series of decisions and appeals, resulting in a preliminary injunction that, among other things, gave JLM control of the accounts and enjoined Gutman from competing with JLM until the end of the contract term in 2022. When Gutman posted teasers to the Instagram account about her new bridal brand, the district court held her in contempt, ordered her not to post any "similar content," and assessed a $5,000/day penalty while she remained out of compliance. In this appeal, the Second Circuit reviewed that contempt order.

Second Circuit Decision

Gutman argued, and the Second Circuit agreed, that the district court was in error to give JLM control of the accounts. The district court had used a six-factor test to determine the proper owner of a social media account, as follows:

1. whether the account handle reflects the business or entity name;
2. how the account describes itself;
3. whether the account was promoted on the entity's advertisements or publicity materials;
4. whether the account includes links to other internet platforms of the entity;

5. for what purpose the account was used, including whether it was tied to promotional or mission-oriented activities of the entity; and
6. whether employees or members of the entity had access to the account and participated in its management.

Based on this analysis, the district court determined that JLM had a "clear likelihood" of success on demonstrating that it owned the accounts or, even if Gutman had title to the accounts, that JLM had a "vastly superior" right to control the accounts.

The Second Circuit concluded that the district court's use of the six-factor test was an error. Despite social media being a relatively new technology in the eyes of the law, the Second Circuit determined that there was no reason here to deviate from traditional principles of property law. The Second Circuit noted that the district court's failure to start its analysis by looking at who owned the accounts at their creation was one problematic result of this error. The court went all the way back to a case that most law students read in their first-year property law class, *Pierson v. Post* 3 Cai. R. 175, 2 Am. Dec. 264 (1805), (a case from 1805 deciding the ownership of a fox), among other venerable precedents, to spell out the principle that the proper ownership analysis consists of determining (a) who owned the property originally; and (b) whether those rights were later transferred to someone else.

The Second Circuit then went on to hold that Gutman clearly owned the accounts at their creation if she originally created them using her personal information and for her personal use (a factual issue for the district court to decide on remand). If Gutman did own the accounts at their creation, the next question is whether JLM later acquired the accounts by operation of the contract. The Second Circuit makes clear that this question does not turn on whether Gutman assigned specific content to JLM under the contract, or whether others were permitted to assist in managing the accounts. In a rebuke to the district court, the Second Circuit said:

Determining ownership by reference to such principles would promote transfer by surprise and complicate contractual arrangements under which an account owner might agree to advertise another's goods on his or her platform.

The contract allocated ownership of the following materials to JLM as works for hire: "designs, drawings, notes, patterns, sketches, prototypes, samples, improvements to existing works, *and any other works* conceived of or developed by [Gutman] in connection with her employment with [JLM] involving bridal clothing, bridal accessories and related bridal or wedding items." (Emphasis added.) The district court interpreted the accounts to be "other works" under this language, and therefore held that Gutman had transferred ownership of the accounts to JLM.

The Second Circuit rejected the district court's analysis based on *ejusdem generis*, a general principle of contract construction that requires that general terms at the end of a list include only objects similar to the specific items in the list. The Second Circuit noted that the listed items were all creative materials that Gutman might produce in her work as a designer, consisting primarily of copyrightable subject matter. A social media account, in contrast, does not share any of those attributes. Therefore, the Second Circuit instructed the district court to reassess the ownership question using the proper ownership test and the foregoing principles, with the strong inference that it might then conclude that Gutman is the legal owner of the accounts.

Conclusion

In *Gutman*, the Second Circuit endorsed a test of social media account ownership that is perhaps not as simple as it seems. In broad terms, the *Gutman* analysis requires us to look at who owned the account when it was created, and then see if it was later transferred or assigned to someone else. Given the court's reference to determination of initial ownership by the circumstances of its creation, including whether it was created for personal use, this analysis is inherently fact-driven and will likely not have a clean answer in a world where influencers tend to leverage their personal lives for business gains.

Notably, the Second Circuit's approach implicitly accepts that a social media account is property in the first instance, a proposition that prior courts have not always been sure about, even though they generally accept the principle as a matter of convenience. For example, in *In re: Vital Pharmaceutical* (the Florida bankruptcy case mentioned above), the bankruptcy court noted:

Describing a user's interest in a social media account is difficult. With respect to some sites, such as TikTok and Twitter, a social media user's right to use the platform is defined as a "license." But, in some cases, such as Instagram, that right is not defined at all. For ease of reference, the Court

will refer to "ownership of the rights to social media accounts" to encompass whatever rights a user has—whether it be a license or otherwise—to access and use a social media account.

Despite these issues, *Gutman* may enable other courts to streamline their analysis of these issues. While it is not necessarily easy to determine whether an account was owned by an employee or a company at creation, knowing that a court will ultimately rule on ownership of the account according to traditional principles of property law should enable both employees and companies to enter into employment contracts that make ownership of social media accounts more predictable, by, for example, expressly assigning social media accounts used for any company business to the company (note that it would be fairly simple for a company to include language in its employment contract eliminating the *ejusdem generis* issue described above), implementing strict procedures for creation of such social media accounts, and/or requiring the employee to promise to use company-related social media accounts only in certain ways.

Aaron Rubin is a partner at Morrison Foerster and chair of our Technology Transactions Group, where he advises clients on a wide range of complex transactions involving intellectual property and technology, including structuring, and negotiating strategic licensing, development, collaboration, procurement, and distribution deals.

Lawrence Gallick is of counsel in the firm's Technology Transactions Group where he advises clients on SaaS agreements, cross-licensing agreements, research and collaboration agreements, development agreements, and distribution agreements.

1. *See* "Social Media Account Ownership Once Again in the Spotlight," Socially Aware, June 29, 2023 at *https://www.sociallyawareblog.com/topics/social-links-social-media-account-ownership-once-again-in-the-spotlight*.
2. *See* In Re Vital Pharmaceuticals, Case No. 22-17842-PDR, June 16, 2023, U.S. Bankruptcy Ct., S.D. Florida.
3. *See* "Which Side Are You On? Employers and Employees Battle Over Ownership of Social Media Accounts," Socially Aware, December 3, 2012 at *https://www.sociallyawareblog.com/topics/which-side-are-you-on-employers-and-employees-battle-over-ownership-of-social-media-accounts*.