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Law Report

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Who Owns a Social Media Account?

The highly publicized case *PhoneDog v. Noah Kravitz* (Case No. C11-03474 MEJ) (N.D.Cal 2011) raises the legal question of who owns a social media account at work, the employer or the employee? The answer to this question may not seem significant during employment when the employer and employee's business motives are well-aligned, but it is exceedingly important following the employment period.


J.J. Sherman

PhoneDog is an interactive mobile news and reviews website. In 2006, Noah Kravitz started working for PhoneDog as a product reviewer and video blogger. Kravitz's written and video content was transmitted to PhoneDog's users via a variety of mediums including PhoneDog's website and the Twitter account "@PhoneDog_Noah." Kravitz used the Twitter account to promote PhoneDog's services. Over the course of Kravitz's employment, this Twitter account grew to 17,000 Twitter followers.

In October 2010, Kravitz resigned from PhoneDog and changed the Twitter handle to "@NoahKravitz." PhoneDog claims that it requested Kravitz to relinquish use of the Twitter account; however, Kravitz counters that he was told he could keep the Twitter account in exchange for posting occasionally for the company.

In July 2011, PhoneDog sued Kravitz based on his continued use of the Twitter account, alleging that PhoneDog owns the Twitter account and that the account contains trade secrets, specifically the compilation of subscribers and the passwords used to access the account. According to PhoneDog, all "@PhoneDog_Name" Twitter accounts used by PhoneDog employees, as well as the passwords to such accounts, constitute proprietary, confidential information of PhoneDog, and the list of Twitter followers is similar to a business customer list, which PhoneDog asserts is PhoneDog's intangible personal property.

It appears that PhoneDog sued Kravitz, because Kravitz was using the Twitter account to promote himself and his new employer, TechnoBuffalo, a competitor of PhoneDog. By using the account to promote himself and TechnoBuffalo, and failing to use the Twitter account for PhoneDog's benefit, PhoneDog asserts that Kravitz interfered with PhoneDog's access to Twitter followers, which in turn interfered with PhoneDog's economic relations with its advertisers and purportedly resulted in losses of $340,000 over an eight-month period (calculated by taking 17,000 Twitter followers, each worth an estimated $2.50 per month, and multiplied by eight months).

This lawsuit is ongoing and its outcome is expected to establish precedent regarding ownership of social media accounts. The facts of the *PhoneDog* case serve as a reminder of why employers should establish ownership of social media accounts used by their employees for marketing and branding purposes.

Best Practices for Establishing Account Ownership of Social Media Accounts

1. Address It in Your Social Media Policy. If one of your employees uses social media for business marketing, specify in your social media guidelines: (i) who opens the social media account and creates passwords, (ii) whether the account name uses your company's name, (iii) who accesses account settings and passwords, (iv) who adds, edits, or replaces content to the account, and most importantly, (v) procedures for the employee to relinquish use of the account at the end of the employment period.
2. Cover It in Your Employment Agreement. Address your employee's social media activities following the employment period directly in the employment agreement. Many employers want to ensure that, post-employment, employees will not use social media like Facebook or Twitter to compete with the employer's business.

Author's Footnote: If you've read the terms of use on Twitter lately, you'll know that the question "Who Owns a Twitter Account – the Employer or the Employee" is a trick question. Neither of them is the technical owner. All Twitter accounts are the exclusive property of Twitter. Twitter provides each end user a license to use and access its Twitter account. The *PhoneDog* case asks who has the right to this license. ◆

J.J. Sherman counsels clients in the areas of commercial real estate, commercial contracts, social media and entertainment law. She can be reached at jj@jjshermanlaw.com.

WEBINAR ON SOCIAL MEDIA

Please tune in on December 6, 2012 at 2 PM EST (11 AM PST) to an interactive Webinar on Social Media for Health Care Institutions and Medical Practices presented by J.J. Sherman and hosted by Medical Office Today. Register now at www.medicalofficetoday.com.

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IN THIS ISSUE:

The License Agreement

A manager running a company's day-to-day business operations will enter into countless license agreements with third-party vendors. What's a license? It's an agreement where the owner of defined property (intellectual property or real property) grants a third party the right to use the property for a specific purpose. Common examples of license agreements include software licenses and licenses to use space (such as the kiosk area in a mall or segregated space in a data center). Regardless of whether you are the licensor or the licensee, it is important to read through the license carefully to confirm the license includes all material terms. Here are some of the points commonly addressed in a license agreement:

1. **The Licensed Property and the Licensed Use.** The licensor typically grants the licensee a license to use specific property for a defined purpose (and no other purposes). For example, an intellectual property license will name the intellectual property that may be used by the licensee and in what capacity the licensee may use the intellectual property.
2. **Exclusivity.** The parties generally specify whether the license is exclusive or non-exclusive. If it is non-exclusive, then the licensor reserves the right to license the same licensed property to other third parties.
3. **Term.** Some licenses are in perpetuity. Other licenses are limited by term. Licenses often will specify if they can be terminated by the parties upon breach, bankruptcy, or some other trigger event. If the intention is to create an irrevocable license, then this should be expressly stated in the license agreement.
4. **Territory.** Some licenses are worldwide licenses. Others cover specific geographic territories (such as the United States of America). If the licensor has already granted exclusive rights to a third party for a specific territory, that territory would be carved out of your license.
5. **Representations and Warranties.** The licensor should make representations and warranties to the licensee about the licensor's ownership of the licensed property. At a minimum, the licensor should represent and warrant to the licensee that it owns all of the licensed property, free and clear of liens and encumbrances, and that the license granted to the licensee, as well as the licensee's use of the licensed property in accordance with the terms of the license, does not and will not infringe on the rights of any third parties.
6. **Amendments.** Be sure to check whether your license agreement can be amended only by mutual agreement of the parties, or whether the license can be amended by the licensor unilaterally upon notice to the licensee.

The parties generally specify whether the license is exclusive or non-exclusive. If it is non-exclusive, then the licensor reserves the right to license the same licensed property to other third parties.

7. **License Fee.** The license fee may be a flat fee payable on a monthly or annual basis. The license fee may also include a percentage fee, where the licensee pays the licensor a percentage of gross amounts earned by the licensee using the licensed property.
8. **Reservation of Rights.** The licensor remains the owner of the licensed property, and the license agreement will contain a clause confirming the licensor reserves all rights in the licensed property not expressly granted to the licensee.

In addition to the material terms described above, consider the treatment of the license agreement in a bankruptcy situation (your company's bankruptcy or your counterparty's bankruptcy). For example, if you are a licensee and the licensor declares bankruptcy, U.S. Bankruptcy Code Section 365(n) provides limited protection to the licensee of "intellectual property" (as defined in the Bankruptcy Code) to retain intellectual property rights despite the licensor rejecting the license agreement in bankruptcy.

Each license is unique. Check with your attorney to understand what you should include in your license agreement for any particular transaction. ◆

Supplier Diversity Announcement

As a 100 percent woman-owned business certified by the Women's Business Enterprise National Council (WBENC), we are proud to serve as a diversity supplier and help our clients achieve their commitment to diversity. We recognize that businesses gather strength from difference.

Law Offices of J.J. Sherman, P.C. is on the Minority and Women-Owned Law Firm Outside Counsel List of the FDIC.

Spotlight on the Retail Lease

Use Clauses

Retail landlords choose retail tenants based on the tenants' brands and merchandise. Landlords want the specific market niches served by the tenants. Conversely, tenants sign leases conditioned upon their unfettered capacity to sell their branded merchandise and product mix. The well-drafted use clause permits a tenant to use its leased space primarily for the retail sale of the tenant's branded merchandise and secondarily for the sale of related merchandise. The clause may restrict non-branded merchandise to no more than 20 percent of the sales floor area. Large retail tenants or other holders of property interests may obtain exclusivity over products or services for an entire shopping center. For instance, a movie theater operator located in a shopping center may negotiate the exclusive right to sell popcorn at the shopping center. While reviewing a lease, be sure to read the landlord's rules and regulations, as well as the landlord's disclosures of exclusive rights already granted to other parties, to confirm you can sell your products. ◆

Tenant Improvement Allowances

Landlords often grant tenants construction or improvement allowances as a major inducement to lease space at a shopping center or office building. An improvement allowance can be per square foot or an aggregate sum. While the amount of the allowance will be specified in the letter of intent, the mechanics of the improvement allowance are set out in the lease. Before you sign your lease for office or retail space, if you are relying on a tenant improvement allowance, be sure to review the conditions to the landlord's payment. In many cases, the tenant is required to complete its work and then apply for the allowance, so the risk of reimbursement lies with the tenant. Here are some of the points commonly addressed in the tenant improvement allowance clause of a commercial lease:

1. **Timing of payment.** Tenants required to cover construction costs "out of pocket" request that their landlords pay tenant improvement allowances in a timely manner after construction is complete. Landlords will agree to pay within 60 or 90 days after tenants meet all of the listed conditions to payment.
2. **Conditions to payment.** Landlords, first and foremost, want to know that construction is complete, that there are no liens on the property, and that the leased space is open for business. They will require tenants to deliver lien waivers and releases, in statutory form, for all contractors, subcontractors, and materialmen who performed work or supplied materials; a certificate of occupancy for the leased space; and invoices and proofs of payment for the construction work, among other things. In addition, landlords will not pay the tenant improvement allowance if tenants are otherwise in default under their lease.
3. **What the payment will or will not cover.** Landlords will agree to cover tenants' hard construction costs for the build-out of leased space, including the cost of raw materials, labor, architect's fees, and related costs of construction. They often exclude other items related to opening a store or office such as inventory, supplies, tenants' movable fixtures, or the cost of training tenant employees. If hard construction costs alone add up to the tenant improvement allowance, then no issues arise; however, if tenants expect to apply some of the tenant improvement allowance to other costs related to opening a store or office, they will negotiate this point. From the tenants' perspective, the allowance is an inducement to signing the lease, and they should be able to use the allowance for ancillary purposes related to opening the store or office.
4. **Reimbursement to landlord of the unamortized cost upon early termination.** Tenants often negotiate the right to terminate a lease early. If the lease terminates early (whether voluntarily or due to a tenant default), the tenant may be required to pay the landlord the unamortized cost of the tenant improvement allowance in the form of an early termination fee.

Finally, if your landlord gives you a tenant improvement allowance, consider your landlord's financial health. Will your landlord be able to pay the tenant allowance when it becomes due? If you have doubts, consider requesting a letter of credit, a payment bond, cash deposited in an escrow account with irrevocable instructions to the bank to release the cash upon satisfaction of objective conditions, or some other type of security. ◆

FIRM NEWS

See You in Chicago!

J.J. Sherman will attend the CREW National Convention in Chicago from October 25, 2012 to October 27, 2012. Law Offices of J.J. Sherman, P.C. is proud to serve as a 2012 Sponsor of CREW-LA and a 2012 Sponsor of CREW DC.

Firm Expansion!

We are working actively with clients doing business in California and are expanding our practice into the Washington, D.C. market in order to cater to clients doing business on the East Coast.

Happy Anniversary!

Law Offices of J.J. Sherman, P.C. celebrated its third anniversary on October 12, 2012. ◆

CREW Washington DC

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LAW OFFICES OF JJ SHERMAN, P.C.

LAW REPORT

Fashion Law Update

On September 5, 2012, the Second Circuit U.S. Court of Appeals in *Christian Louboutin v. Yves Saint Laurent America Holding,* Docket No. 11-3303-cv, ruled that a single color can serve as a trademark in the fashion industry.

Since 1992, Christian Louboutin, a designer of high-fashion women's footwear and accessories, has painted the "outsoles" of his women's high-heeled shoes with a high-gloss red lacquer. In 2008, Louboutin registered the red lacquered outsole as a trademark with the United States Patent and Trade Office. It was undisputed in both the lower court and the appeals court that Louboutin promoted its shoes effectively "to the point where, in the high stakes commercial markets and social circles in which these things matter a great deal, the red outsole became closely associated with Louboutin."

In 2011, Yves Saint Laurent ("YSL") prepared to market a line of monochrome shoes in purple, green, yellow, and red. The red version is all red, including the insole, heel, upper, and outsole.

In April 2011, Louboutin filed an action against YSL asserting claims under the Lanham Act, as well as state laws, and Louboutin sought a preliminary injunction preventing YSL from marketing, during the pendency of the action, any shoes, including red monochrome shoes, bearing red outsoles. The lower court denied the injunction, holding that, "in the fashion industry, single-color marks are inherently 'functional' and that any such registered trademark would likely be held invalid."

The appeals court disagreed with the lower court and, interpreting the U.S. Supreme Court's decision in *Qualitex Co. v. Jacobson Products Co.,* held that "Louboutin's trademark, consisting of a red, lacquered outsole on a high fashion woman's shoe, has acquired limited 'secondary meaning' as a distinctive symbol that identifies the Louboutin brand." However, the court did note that the bright, lacquered red outsoles of a Louboutin shoe nearly always contrast sharply with the color of the rest of the shoe and ultimately limited Louboutin's trademark to "uses in which the red outsole contrasts with the color of the remainder of the shoe." The court wrote, "The trademark, as modified, is entitled to trademark protection." The court's finding did allow YSL to produce a monochrome red shoe with a red sole.


Not by Louboutin or YSL

Louboutin v. YSL is widely viewed as a landmark decision for the fashion industry, since it allows a single color to serve as a trademark on fashion items. Designers that invest significant time and resources using color as a source identifier will rely on this precedent for trademark protection. ◆

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