Copyright Protection for the Franchised Business

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For most franchisors, copyrights are less critical to the franchised business model than trademarks and trade secrets. This distinction leads many franchisors and their counsel to either overlook copyright rights and protection entirely when developing an overall intellectual property strategy, or not give copyright rights sufficient consideration.[1] However, most franchised businesses create and use original works in the form of brand manuals, promotional materials, and even software applications, and such works are entitled to copyright protection.[2] For some types of franchises known for their copyrighted works, such as their lesson plans or curriculum, copyright rights can be more important than even the brand. Moreover, copyright is often a faster, easier, more straightforward, and less expensive route to obtain rights and to enforce those rights. While copyright rights are different from other types of intellectual property—both in their purpose and manner of creation, acquisition, protection, and enforcement—often copyright rights can be used or can augment the ability to achieve desired outcomes.

This article will discuss copyright law and its applicability to franchising. Part I will provide an overview of copyright law in the United States. Part II addresses the reason and procedures for copyright registration, with a focus on how the process applies to franchisors. Part III focuses on types of copyrights that franchisors typically own. In Part IV, the article summarizes the applicability of copyright to franchise disclosure requirements and to franchise agreements. Part V addresses copyright ownership and common pitfalls. In Part VI, the article outlines issues arising when using copyrights of third parties, including licensing and fair use. Part VII summarizes the law on copyright infringement and examines infringement claims in the

1. *See* Mark S. VanderBroek & Jennifer M. D'Angelo, *Copyright Protection: The Forgotten Stepchild of a Franchise Intellectual Property Portfolio*, 28 Franchise L.J. 84 (2008).

2. *See id.*

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franchise contexts. In Part VIII, the article offers best practices for franchisors, and then concludes in Part IX with some final takeaways.

I. Overview of U.S. Copyright Law[3]

The role of copyrights is to protect and promote creative and original expression of ideas. This section will provide an overview of (1) the elements of a copyright and (2) copyright protection under United States and, briefly, international law.

In the United States, copyright law stems from the Constitution itself: "The Congress shall have Power . . . To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."[4] The law is codified in Title 17 of the United States Code, as amended (the "Copyright Act").[5]

A. *Basic Concepts*

Copyrights protect original, minimally creative authored works, such as writings, music, images, audio or audiovisual recordings, and architectural works[6] that are fixed in a tangible medium of expression.[7] Only the copyrighted expression is protected, not the underlying ideas, procedures, methods, discoveries, concepts, or "useful articles."[8] These are always in the public domain, unless protected under other intellectual property rights, like patent or trade secret protection.[9] Common items that are not protected under copyright include titles, names, slogans, basic designs, typography, blank forms, formulas, and recipes that are mere listings of ingredients or contents.[10] Only creative works are protectable under copyright. As further discussed in Part III, "scènes à faire" is a copyright doctrine that states that certain effort is not protectable if it is ordinary, mandated, or customary to a particular genre or "elements of a work that necessarily result from its subject matter or ideas."[11]

3. The following section is based on the copyright section of *Basics Track: Trademarks and Intellectual Property*, Int'l Franchise Ass'n, 53rd Annual Legal Symposium, at 23–26 (2021).

4. U.S. Const. art. 1, § 8.

5. Copyright Act of 1976, Pub. L. No. 94-553, 90 Stat. 2541. The original law governing copyrights was enacted in 1909. *See generally* Copyright Act of 1909, Pub. Law 60-349.

6. 17 U.S.C. § 102.

7. A "tangible medium of expression" is one now known or later developed, from which the work can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. 17 U.S.C. § 102(a).

8. "A 'useful article' is an article having an intrinsic utilitarian function that is not merely to portray the appearance of the article or to convey information." 17 U.S.C. § 101.

9. *See id*.

10. For more information on what is not protected under copyright, see U.S. Copyright Off., Circular 33: Works Not Protected by Copyright 1–4 (Mar. 2021), https://www.copyright.gov/circs/circ33.pdf.

11. Civility Experts Worldwide v. Molly Manners, LLC, 167 F. Supp. 3d 1179, 1187 (D. Colo. 2016); DeBitetto v. Alpha Books, 7 F. Supp. 2d 330, 334 (S.D.N.Y. 1998) (defendant's

Copyright ownership, like other forms of intellectual property protection, includes a number of exclusive rights. A copyright provides the owner the exclusive right to copy, distribute, perform, display, and make modified versions known as derivative works of the copyrighted work,[12] or to authorize others to do so.[13]

Generally, the author (the creator) of the protected work owns the copyright. However, as detailed in Part VI, under the "works-made-for-hire" doctrine, ownership can instead be created in an employer or commissioning party. In that case, an employee's work automatically belongs to her or his employer if it was made within the scope of the employee's employment. In the case of a work commissioned from an independent contractor, a work that falls within certain statutory categories and is the subject of a written agreement between the parties is a work-made-for-hire and the property of the commissioning party.[14]

The term of copyright protection varies depending on the nature of the work and the date of publication.[15] For works published after 1978, copyright generally extends from creation and for 70 years following the death of the author. For works made for hire, the copyright extends for the lesser of either 95 years from first publication, or 120 years from creation.[16]

B. *Copyright Protection*

1. United States

Registration is not required for a copyright to attach—the property right is created as soon as the work is fixed in a "tangible medium of expression."[17] However, copyright registration *is* required to bring suit for copyright infringement in the United States.[18] Moreover, prompt registration enables the would-be infringement plaintiff to avoid the additional cost associated with expediting registration applications and can entitle the owner to statutory damages of up to of $150,000 per infringement and reasonable

motion for summary judgment granted in part and denied in part, referencing the "*scenes a faire*" doctrine in the denial where much of the allegedly infringement copied unprotectible elements, including facts, not protectible expression).

12. A derivative work is "a work based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgement, condensation, or any other form in which a work may be recast, transformed, or adapted." 17 U.S.C. § 101.

13. 17 U.S.C. § 106.

14. *See* 17 U.S.C. § 101.

15. "Publication" is defined by the Copyright Act as the distribution or offer to publicly distribute copies of a work to the public. Mere performance or display of the protected work falls outside this definition. *Id.*

16. 17 U.S.C. § 302.

17. 17 U.S.C. § 411.

18. *See* Fourth Estate Pub. Ben. Corp. v. Wall-Street.com, LLC, 586 U.S. 296, 309 (2019) (holding that registration for purposes of 17 U.S.C. § 411 does not occur when "an application for registration is filed, but when the Register has registered a copyright after examining a properly filed application.").

attorney's fees.[19] In certain cases, attorney fees in copyright infringement cases can far outweigh actual damages.[20] The prospect of potential statutory damages can be a powerful deterrent to potential willful infringers.

To register a copyright with the Copyright Office, the owner must file an application form, pay a modest fee, and submit "deposit materials" representing the best edition of the copyrighted work.[21] Once the Copyright Office approves the application, it issues a registration certificate, enabling the holder to enforce the copyright through federal litigation, record assignments and transfers of the copyright, and record the copyright with U.S. Customs to prevent importation of infringing material.[22]

Copyright notice is another useful tool which, though not legally required,[23] is highly advisable for copyright protection. Including the year of publication, owner's name, and a © or other copyright designation on copyrighted material puts the public on notice that the work is protected and precludes defenses to infringement. The proper format is "CDC" or (© Year Owner), which is shorthand for (1) the symbol © (or the word Copyright or the abbreviation Copr.), (2) the year of first publication of the work, and (3) the name of the copyright owner.[24]

2. International

A number of treaties govern international cooperation for copyright protection, including the Berne Convention for the Protection of Literary and Artistic Works,[25] the related World Intellectual Property Organization (WIPO) Copyright Treaty (WCT),[26] and The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS),[27] among others. The majority of countries recognize automatic copyright protection for nationals of treaty member states without any registration requirements.

The Berne Convention, in fact, contains language prohibiting member states from conditioning copyright protection on "formalities"[28] (such as the need for use of proper copyright notice). However, many countries have

19. 17 U.S.C. §504.

20. *See* Rockford Map Publishers, Inc. v. Directory Serv. Co. of Colo., Inc., 768 F.2d 145, 150 (7th Cir. 1985) (successful plaintiff awarded only $250 in statutory damages but approximately $22,000 in attorney's fees).

21. *See generally* U.S. Copyright Off., CIRCULAR 2: Copyright Registration (May 2022), https://www.copyright.gov/circs/circ02.pdf. This process is discussed further in Part III, *infra*.

22. *Id.*

23. Except for works published prior to March 1, 1989. *See* 17 U.S.C. § 406(c).

24. 17 U.S.C. § 401(b).

25. 828 U.N.T.S. 221 (1886).

26. 2186 U.N.T.S. 121 (1996).

27. Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, 1869 U.N.T.S. 3 (1994).

28. For this reason, the U.S. requirement that a copyright be registered before its owner can pursue copyright infringement litigation in U.S. federal courts is inapplicable to foreign nationals.

individual voluntary copyright registration mechanisms that can simplify copyright use and enforcement for U.S. copyright holders abroad.

II. Copyright Registration in the United States

To register a copyrighted work in the United States, the applicant must select the appropriate or primary category of the work so as to identify the appropriate application form. There are copyright application forms for individual copyrighted works, as well as several options for group registration (of multiple works in a single application).

The primary categories of copyrighted works are as follows:

(1) Literary works. The Copyright Act defines "literary works" as "works, other than audiovisual works, expressed in words, numbers, or other verbal or numerical symbols or indicia, regardless of the nature of the material objects, such as books, periodicals, manuscripts, phonorecords, film, tapes, disks, or cards, in which they are embodied."[29]

(2) Performing Arts. The Copyright Act states that performing a work "means to recite, render, play, dance, or act it, either directly or by means of any device or process or, in the case of a motion picture or other audiovisual work, to show its images in any sequence or to make the sounds accompanying it audible."[30]

(3) Pictorial, Graphic, and Sculptural Works. The Copyright Act states that "pictorial, graphic, and sculptural works include two-dimensional and three-dimensional works of fine, graphic, and applied art, photographs, prints and art reproductions, maps, globes, charts, diagrams, models, and technical drawings, including architectural plans."[31]

(4) Architectural Works. The Copyright Act defines "Architectural Works" as "the design of a building as embodied in any tangible medium of expression, including a building, architectural plans, or drawings. The work includes the overall form as well as the arrangement and composition of spaces and elements in the design but does not include individual standard features."[32]

(5) Photographs. The Copyright Act does not include a definition of "photograph" but the term includes photographs that are created with a camera and captured in a digital file or other visual medium such as film.[33]

29. 17 U.S.C. § 101; *see also* U.S. Copyright Off., Literary Works, https://www.copyright.gov/registration/literary-works.

30. 17 U.S.C. § 101.

31. *Id.*

32. *Id.*

33. *See* U.S. Copyright Off., Circular 42: Copyright Registration of Photographs 1–2 (Mar. 2021), https://www.copyright.gov/circs/circ42.pdf.

(6) Computer Software and Apps. Copyright in software extends to source code, which is copyrightable expression, but does not protect anything functional, such as the program's logic or system design or algorithms.[34] HTML (hypertext markup language) is not considered to be a computer program and thus is not registrable as such, but might be registrable as a literary work if created by a human as opposed to generated by website design software (including artificial intelligence (AI) software).[35] Screen displays may be registered together with the software code that creates them or separately if the display and the code are owned by different parties.[36]

(7) Websites. Copyrights in websites can be protected in several ways, and often more than one type of application is relevant. Websites typically contain written content (text), as well as photographs, artwork/graphics/illustrations, and videos. One type of application does not cover all of these works, so one would choose the primary types of content and register based on that type of work. Written word-heavy websites such as blogs would be registered as Literary Works. Visual-rich websites would be registered as Pictorial Works, etc. Multiple applications might be needed to cover a website that contains multiple types of copyrighted content. Websites that have creative, nonfunctional creative expression in the way in which the content is arranged might also be protected as a compilation or collective work.[37]

(8) Audiovisual Works. The Copyright Act defines "audiovisual works" as "works that consist of a series of related images which are intrinsically intended to be shown by the use of machines or devices such as projectors, viewers, or electronic equipment, together with accompanying sounds, if any, regardless of the nature of the material objects, such as films or tapes, in which the works are embodied."[38]

The Copyright Office administratively divides copyrighted works into five classes of works,[39] namely: Class TX for Nondramatic Literary Works[40] (e.g., books and manuscripts); Class VA for Works of the Visual Arts[41] (e.g., movies and photographs); Class PA for Works of the Performing Arts[42] (e.g., dramatic scripts); Class SR for Sound Recordings[43] (e.g., records and

34. *See* U.S. Copyright Off., Circular 61: Copyright Registration of Computer Programs 1 (Mar. 2021), https://www.copyright.gov/circs/circ61.pdf.
35. *Id.* at 5.
36. *Id.* at 4–5.
37. *See* U.S. Copyright Off., Circular 66: Copyright Registration of Websites and Website Content 1–3 (Mar. 2021); *see also* U.S. Copyright Off., Compendium of U.S. Copyright Office Practices § 101 (3d ed. 2021) (specifically, chapter 1000, "Websites and Website Content") [hereinafter Compendium].
38. 17 U.S.C. § 101.
39. U.S. Copyright Off., https://www.copyright.gov/forms.
40. U.S. Copyright Off., https://www.copyright.gov/forms/formtx.pdf.
41. U.S. Copyright Off., https://www.copyright.gov/forms/formva.pdf.
42. U.S. Copyright Off., https://www.copyright.gov/forms/formpa.pdf.
43. U.S. Copyright Off., https://www.copyright.gov/forms/formsr.pdf.

audiocassettes); and Class SE for Single Serials[44] (e.g., newspapers, magazines, and journals).

Within these classes, a franchisor is most likely to use to two primary application forms in connection with its franchise system:

- Within Class TX, the Standard Application for Literary Works is used to register a wide variety of works that are intended to be read, including books, textbooks, written manuals, reference works, directories, catalogs, advertising copy, computer programs and code, compilations of information, and databases.[45]
- Within Class VA, the Standard Application for Work of the Visual Arts is used to register pictorial, graphic, sculptural works of art, architectural works, photographs, technical drawings, and maps.[46]

Franchisors should obtain, or file applications for, copyright registration for all key content that will be provided to franchisees including, but not limited to, content that franchisees will use publicly. As discussed previously, to bring suit for copyright infringement, the copyright owner must have registered the copyrights.[47] Thus, registering copyrights in content before it is distributed both places the franchisor in a position to take action quickly in the event of infringement and creates a strong disincentive for unauthorized copying. Damages for infringement of copyrights that were registered prior to the commencement of infringement are typically significantly higher than those available for copyrights registered after the fact (for which the owner must prove actual damages) and can include attorney's fees.[48] Unless copyrights are registered early and kept up to date (by registering subsequent versions), enforcement might not be cost-effective. Franchisors should consider protecting both public content such as websites, and behind-the-scenes content such as operations and training manuals or proprietary software, through copyright registration.

Copyright protection is available for both published and unpublished works.[49] Publication is a tricky concept because the meaning of "publication" under the Copyright Act differs from conventional understanding of the word. For instance, launching a public website does not make that

44. U.S. Copyright Off., https://www.copyright.gov/forms/formse.pdf.

45. U.S. Copyright Off., Preview for the Standard Application for a Textual Work or Other Textual Content 3, https://www.copyright.gov/registration/docs/literary-standard.pdf.

46. U.S. Copyright Off., Preview for the Standard Application for a Work of the Visual Arts 3, https://www.copyright.gov/registration/docs/visual-arts-work-standard.pdf. With respect to group registration options, the Group Registration of Published Photographs is typically the one most relevant to franchising.

47. 17 U.S.C. § 411(a).

48. 17 U.S.C. § 504.

49. A work is deemed "published" when the copyright owner makes the original work (or copies thereof) available to the general public, whether it is sold, leased, loaned, or given away. *See* 1 Nimmer on Copyright § 4.04 (2007). Distribution of limited works or distribution only to a limited audience is typically not deemed publication.

website "published."[50] Most works used in franchised businesses would not be considered "published" because they are not provided to others broadly, such as a published book or software available for licensing by the general public. For that reason, most applications filed by franchisors would be filed as "unpublished" works.

It is important to ensure that all information included in a copyright application is accurate. For instance, if a work is based on a prior work, and therefore, a derivative work, the prior work must be disclosed in the application. Errors in factual information could give rise to an equitable defense when the claimant attempts to enforce the copyright.[51]

At present, the fee for a single application, filed electronically, varies from forty-five dollars for a single author, same claimant, one work, not a work made for hire to sixty-five dollars for a standard application.[52] The fees for other types of applications, such as group registrations, vary. The current time frame from filing to issuance of a copyright registration is approximately six weeks.[53] Expedited or "special handling" review is possible in certain circumstances upon payment of an additional $800 fee.[54] Special handling is available only with a compelling need, such as pending or prospective litigation, a need for customs enforcement, or other deadlines.[55]

There often is a hesitation to register copyrights in certain works due to concern that the submission to the Copyright Office makes the proprietary information public. Copyright deposits do not become public; only the fact of the registration and identifying information does.[56] Third parties may obtain copies only in the context of litigation relating to the copyright.[57] That said, the law as to whether submitting a deposit with a copyright application constitutes a disclosure that negated trade secret rights is not clearly established. For this reason, the Copyright Office created specific procedures, with respect to source code, that allows copyright registration of source code subject to trade secret protection.[58]

50. *See* Compendium, *supra* note 37, § 101, ch. 1900 "Publication."

51. *See* Qad, Inc. v. ALN Assocs., 974 F.2d 834 (7th Cir. 1992).

52. *See* U.S. Copyright Off., Fees, https://www.copyright.gov/about/fees.html.

53. *See* U.S. Copyright Off., Registration Processing Times, https://copyright.gov/registration/docs/processing-times-faqs.pdf.

54. *See* U.S. Copyright Off., Circular 4, Copyright Office Fees 4 (Mar. 2021), https://www.copyright.gov/circs/circ04.pdf.

55. *Id.*

56. U.S. Copyright Off., Circular 18: Privacy: Copyright Public Records 1–2 (Jan. 2021), https://www.copyright.gov/circs/circ18.pdf.

57. U.S. Copyright Off., Circular 6, Obtaining Access to and Copies of Copyright Office Records and Deposits 3 (Jan. 2019), https://www.copyright.gov/circs/circ06.pdf.

58. *See* Compendium, *supra* note 37, § 1509.1(c)(4)(a) ("In the 1980s a concern was expressed that making computer programs available for public inspection could jeopardize a copyright owner's trade secret protection under state law. In response to these concerns, the Office established a specific procedure for submitting source code that contains trade secret material."). Special procedures also exist for registration of secure tests. U.S. Copyright Off., Circular 64: Secure Tests and Test Items (June 2023), https://www.copyright.gov/circs/circ64.pdf.

Therefore, the author does not recommend that franchisors include in a copyright application any information considered protected as a trade secret. As noted, software, however, may be registered with a claim of trade secret protection.[59] If any non-software deposits contain trade secrets, consider redacting the trade secrets from the deposit copy. In many cases, what a franchisor would claim as a trade secret, such as formulas or data, is not protectable under copyright law.[60]

III. Overview of Types of Copyrights Franchisors Might Own

Almost every business owns and uses copyrighted works, whether or not franchised. For instance, most businesses develop advertising materials, take photographs of their products for advertising, make social media posts, and launch websites.

Franchised businesses often have additional types of copyrighted works used throughout their system, such as operating manuals and training materials. Because of the desire for uniformity in franchised systems, franchisors also often own proprietary software, architectural drawings and works for uniform look and feel,[61] and content-rich forms to guide franchisees in operating. Franchisors might create mascots or characters, distinctive music, artistic logos, brand/style guides, and customer handouts (such as coloring sheets for kids). Franchisors sometimes use newsletters for their franchisees to send to customers. For franchises that use vehicles in providing services, those vehicles might incorporate artwork or vehicle wraps.

The artistic or creative elements of all of these works are protected by copyright. As discussed previously, "*scènes à faire*," however, are not protected by copyright.[62] This limitation on what can be protected under copyright often applies to operating manuals or training materials, which often follow a predicable order and convey functional information presented in an effective and efficient, but often not terribly creative, manner.

Logos are rarely protectable under copyright because the U.S. Copyright Office views most trademark logos as insufficiently creative to be protected under copyright.[63] According to the Copyright Office Compendium, "[t]he Office typically refuses to register trademarks, logos, or labels that consist of only the following content:

- Wording.

59. Circular 61, *supra* note 34, at 3.

60. Circular 33, *supra* note 10.

61. *See, e.g.*, Arthur Rutenberg Homes, Inc. v. Maloney, 891 F. Supp. 1560 (M.D. Fla. 1995) (franchisor successfully sued another homebuilder, among others, for infringement of the copyrights in its architectural designs).

62. Civility Experts Worldwide v. Molly Manners, LLC, 167 F. Supp. 3d 1179, 1187 (D. Colo. 2016); DeBitetto v. Alpha Books, 7 F. Supp. 2d 330, 334 (S.D.N.Y. 1998).

63. Compendium, *supra* note 37, § 101 (ch. 914 "Trademarks, Logos, and Labels.").

- Mere scripting or lettering, either with or without uncopyrightable ornamentation.
- Handwritten words or signatures, regardless of how fanciful they may be.
- Mere spatial placement or format of trademark, logo, or label elements.
- Uncopyrightable use of color, frames, borders, or differently sized font.
- Mere use of different fonts or colors, frames, or borders, either standing alone or in combination.[64]

The International Trademark Association (INTA) has published multiple versions of a chart that analyzes copyright protection for logos in dozens of countries worldwide. "[T]he chart covers how copyright protection is achieved in each country, the scope of such protection, whether law exists applying copyright protection to logos, how ownership is determined, whether registration is possible, and what the advantages and disadvantages are of using copyright law to protect and enforce rights in logos as compared with trademark law."[65] On September 12, 2017, the INTA Board passed a resolution supporting the position that copyrights and trademarks are separate disciplines, such that protection of a creative work of art, such as a logo, under one discipline should not hinder the ability of the artwork to receive protection under the other discipline.[66]

Despite these limitations, some logos have been deemed protectable. One franchisor, Wyndham Hotels and Resorts, LLC, registered the copyright in its logo as early as 1989.[67] This example suggests a brand owner may not have to rely solely on trademark rights when its logo may also qualify as an original work of art deserving of copyright protection."[68] Franchisors can review past decisions of the Review Board of the U.S. Copyright Office to evaluate whether their artwork/logo might be protectable as a copyright; a current listing of such decisions is available on the Copyright Office website.[69]

A search of "Labels and Logos" demonstrates the determinations made by the Review Board on appeals of Copyright Office refusal decisions. Most appealed refusals of registration of logos are affirmed; in other words, the Review Board agrees with the decision of the Copyright Office examiner to refuse registration of the logo at issue. In 2023 no refusals were reversed. In 2022, only one refusal was reversed.[70] The logo at issue, shown below, was a work titled "Hexagon Shaped Logo" for which an application was filed with Mazzella Lifting Technologies, Inc. as claimant.

64. *Id.* ch. 914.2.
65. *See* Alicia Groos, *INTA Adds 11 New Countries to Report on Copyright Protections for Logos*, INTA News: Copyright Committee Update (Feb. 15, 2020).
66. Copyright Protection for Trademarked Material, INTA Board Resolution (Sept. 12, 2017).
67. Wyndham Logo, Registration. No. VA0001749578.
68. *Id.*
69. *See generally* www.copyight.gov.
70. Wyndham Logo, Registration. No. VA0001749578.

In this case, the logo in question is also registered as a U.S. federal trademark.[71]

Certain types of businesses rely even more heavily on copyright. Copyright-heavy franchise systems might include educational offerings that use works such as curriculum and other teaching materials. Registrations by educational companies include registration of workbooks by Sylvan Learning, Inc. and Sylvan Learning, LLC, and registration of tests, solution books and worksheets by Kumon Institute of Education Company, Ltd.[72]

Children-focused businesses such as indoor play spaces might include standard artwork for party themes. Ivybrook Academy, a pre-school franchise, owns registrations in its curricula, such as "Ivybrook Academy Creative Expression Curriculum"[73] and "Ivybrook Academy Literacy Connection Curriculum."[74] Another child-focused, licensed business, Music Together LLC, has registered hundreds of its songs, teacher materials, and activity workbooks, including as texts, sound recordings, and performances, such as "Music Together in School (Purple) Song Activities,"[75] "Rhythm Kids Alligator Family Songbook,"[76] and "Music Together Fiddle Song Collection Teacher Edition."[77]

Restaurant franchises might create menu artwork or menu boards that would be protected under copyright. As examples, Starbucks Corporation has obtained over 500 copyright registrations, protecting primarily artwork. Registrations covering coffee bag art include "Tribute Blend coffee bag art" and "Anniversary Blend Bag Art." Starbucks Corporation also registered the artwork in many of its NFT "stamps," such as the "Oleato Journey Stamp." Similar to the steps taken by Starbucks, Taco Bell IP Holder, LLC has registered the artwork/design in its sauce packets. McDonald's Corporation has obtained numerous copyright registrations (but seems to have ceased doing

71. Hexagon Shaped Logo, Registration No. 6119883 (Aug. 4, 2020).

72. Sylvan Learning Reading Comprehension Success 3rd Grade, Registration No. TX0006937289 (Mar. 6, 2009).

73. Ivybrook Academy Creative Expression Curriculum, Registration No. TXu002125710 (Nov. 29, 2018).

74. Ivybrook Academy Literacy Connection Curriculum, Registration No. TXu002125722 (Nov. 29, 2018).

75. Music Together in School (Purple) Song Activities, Registration No. PAu004194038 (Aug. 9, 2023).

76. Rhythm Kids Alligator Family Songbook, Registration. No. VA0002392766 (Mar. 7, 2024).

77. Music Together Fiddle Song Collection Teacher Edition, Registration No. TX0009302898 (Jan. 12, 2023).

so a decade ago) for marketing videos, broker-related information materials, kids' coloring handouts, and the like.[78]

Copyright portfolios are not limited to famous or multinational brands. Painting with a Twist, L.L.C., a franchised night-out painting concept, has registered the copyrights in many of the works that are used as inspiration for its events, such as "Happy Hydrangeas"[79] and "Cosmic Reflections."[80] In addition, franchises that teach coding likely would have significant software copyrights and software-focused teaching materials such as videos and games.

Most of these works would be licensed to franchisees through the franchise agreement. Certain works, such as franchise sales brochures, might be used only by the franchisor, or other works, such as architectural plans, might be used in developing the franchise but then not used in the operation of the franchised business.

IV. Overview of Copyright Matters in Franchise Disclosure Documents (FDDs) and Franchise Agreements

A. *FDDs—Item 14*

Item 14 requires a franchisor to describe all other types of intellectual property licensed with the franchise, namely, patents and patent applications, copyrights, trade secrets, rights of publicity (unless more appropriately disclosed in Item 18), and other proprietary information.[81] This listing generally includes the operations manual but, depending on the type of system, also might include some of the copyrighted works discussed in the prior section. Registered copyrights must be disclosed with specificity (registration date and number), including whether renewal is available and will be sought.[82]

As with Item 13, here with respect to patents, copyrights, and proprietary information, the franchisor must disclose all legal proceedings, settlements, and restrictions that affect these proprietary rights or limit a franchisee's ability to use the intellectual property.[83] Item 14 must explain how the determination affects the franchised business.[84] The disclosure may, in some circumstances, include an attorney's opinion with the issuing attorney's permission regarding disclosed litigation or administrative proceeding or determination or a summary thereof, with the full opinion then attached to Item 22.[85]

78. *See* U.S. Copyright Office Public Catalog for examples of registrations, such as, by Starbucks Corp., Tribute Blend coffee bag art, Registration No. VA0002386700 (Jan. 3, 2024); Anniversary Blend Bag Art, Registration No. VA0002343585 (Mar. 9, 2023); Oleato Journey Stamp, Registration No. VAu001522679 (Jan. 23, 2024); NFTs available for sale at: https://www.niftygateway.com/collections/starbucks-odyssey-2024-explore-oleato-journey; by Taco Bell IP Holder, LLC, Taco Bell Sauce Packet, Registration No. VA0002243237.

79. Happy Hydrangeas, Registration No. VA0002057828 (Feb. 6, 2017).

80. Cosmic Reflections, Registration No. VA0002023586 (Nov. 30, 2016).

81. *See* 16 CFR § 436.5(n).

82. *Id.* § 436.5(n)(3).

83. *Id.* § 436.5(n)(6).

84. *Id.* § 436.5(n)(2).

85. *Id.* § 436.5(n)(3).

The franchisor also must disclose what obligations it has to protect the intellectual property of the system, specifically how infringements will be addressed in the following contexts: (i) whether a franchisee would need to cease use of copyrighted material if there is a claim (or determination) that that material infringes the intellectual property of a third party; (ii) what action a franchisor must take, if any, if notified of an infringement claim and whether a franchisee is obligated to notify the franchisor of such claims; (iii) who, as between the franchisor and a franchisee, has the right to control infringement-related litigation; (iv) whether the franchisor must indemnify or defend a franchisee for expenses or damages in the case of a claim that material licensed to the franchisee infringes the intellectual property of a third party.[86]

Notably, the franchisor must disclose any "copyright infringement that could materially affect the franchisee."[87] Specifically, the FTC Franchise Rule requires the franchisor to disclose "(i) the nature of the infringement; (ii) the locations where the infringement is occurring; (iii) the length of time of the infringement to the extent known; and (iv) any action taken or anticipated by the franchisor."[88] The resulting situation is that many works that are created by employees or commissioned are not in fact owned by the employer or commissioning party.

B. *Addressing Intellectual Property in the Franchise Agreement*

The primary intellectual property-related issues that must be addressed in the franchise agreement are definitions, ownership, use, sublicensing restrictions, restrictive covenants, and confidentiality.

1. Definitions of Intellectual Property

Franchisors should clearly define the intellectual property that they are licensing to franchisees in the franchise agreement so that it is clear as to what the franchisor claims as proprietary and how each element of intellectual property fits within the system that is licensed to the franchisee. Definitions might need to be both general—to ensure continued applicability as the franchised system evolves—and specific—to include elements of trade dress, particularly those that are not inherently distinctive. Definitions also need to be consistent throughout various documentation, such as the operations manual.

2. Ownership

The franchise agreement should make clear that, as between the franchisor and franchisee, the franchisor owns all rights to the intellectual property. This claim of ownership should include goodwill that is created through use of the marks and to any intellectual property created by the franchisee itself,

86. *Id.* § 436.5(n)(5).
87. *Id.* § 436.5(n)(6).
88. *Id.*

or its owners, employees or agents, such as new menu items. A franchisor might choose to restrict the right of a franchisee to insert franchisee-created elements into the operation of the franchise; however, if it does not, or if a franchisee creates protectable rights contrary to a restriction, the franchisor should own them. Franchisees conceivably could create a new way of accomplishing a task or making a product that could be protected as a patent or trade secret, or create new artwork or take photographs which may be copyrightable, and used by the franchisor for the benefit of the system.

The franchise agreement should have all such creations assigned automatically to the franchisor, with the franchisee agreeing to cooperate in the assignment and protection, which typically would be at franchisor's expense. Works made for hire, a copyright concept, is often misunderstood and applies to only limited types of creations;[89] thus, there is a need for an express assignment in the franchise agreement. The franchisor's ownership of new developments enables exploitation of creativity for the benefit of the entire franchise system. While data obtained through operation of a franchised business by a franchisee might not always be protectable as intellectual property,[90] ownership and use of the data should be addressed contractually if the data has value to the franchisor, bearing in mind any data security or privacy laws that may be implicated.

3. Use and Sublicensing Requirements and Restrictions

The franchise agreement needs to identify what the franchisee may and may not do with each element of intellectual property. Franchise agreements typically grant the franchisee the non-exclusive right and obligation to use the trademarks and the brand's operating system to operate the franchised business only in accordance with the franchisor's quality standards and specifications. The specifications typically are contained in the franchisor's operations manuals, which franchisors generally retain the right to update and change unilaterally.

Some or all of the intellectual property to be used by the franchisee will not be sublicensable by the franchisee. The franchisor's trademarks are one example. However, other intellectual property will be licensed to the franchisee with the intent that the franchisee will sublicense it to its customers, such as software in certain types of businesses. Some intellectual property will be used publicly (e.g., the marks) and some will be back-office only (e.g., operations manuals and training materials).

In addition to clearly specifying the rights granted, the franchise agreement should specify rights not granted to the franchisee such as the right to open additional franchised businesses or to sublicense or to use the licensed intellectual property for any purpose other than operating the franchised

89. *See* Copyright Act, 17 U.S.C. § 101; U.S. Copyright Off., Circular 30: Works Made for Hire 2 (Mar. 2021), https://www.copyright.gov/circs/circ30.pdf.

90. Compilations of data can be protectable as copyrights or trade secrets in certain circumstances.

business. Rights reserved by the franchisor—such as the right to license the marks and system to others that may compete directly with the franchisee, in any channel of distribution or in any geographic region not specifically excluded—should likewise be stated.

V. Ensuring Ownership of Copyrights

In addition to issues relating to ownership of copyrights between franchisors and franchisees, it is important to consider ownership of works created by the franchisor to ensure that such works are owned as intended. Because franchisors typically license content to franchisees, a dispute with respect to ownership or limitations on use can be problematic due to the use of the work not only by the franchisor but by its licensees/franchisees.

The "author" of the work describes the "first owner." This first owner is typically the individual creator of the work, but in two situations the first owner or author is someone else, either an individual or a company. In these "works made for hire" situations, when a work is created by an employee or commissioned, then the author is the employer or the commissioning party. Authors must be human (not monkeys or AI software): "the copyright law only protects 'the fruits of intellectual labor' that 'are founded in the creative powers of the mind.'"[91]

The categories of works that qualify as "works made for hire" tends to be much narrower than typically understood. The resulting situation is that many works that are created by employees or commissioned are not in fact owned by the employer or commissioning party.

Works created by employees are "authored" by the employer only when the work is created as part of the employee's regular duties or within the scope of the employee's employment. For instance, if a company has a staff photographer or photography is part of a marketing employee's established duties, then photographs taken by the employee related to the business likely are owned by the employer. But if a company has a contest and many people including employees submit photos, those photos created by employees would not be authored or owned by the company automatically because they do not qualify as "works made for hire."

Works that are commissioned qualify as "works made for hire" owned by the commissioning party only when an express written agreement is in place and when the work is specially ordered or commissioned for use as one of nine types of works: (i) a compilation; (ii) a contribution to a collective work; (iii) a part of a motion picture or other audiovisual work; (iv) a translation; (v) a supplementary work; (vi) an instructional text; (vii) a test; (viii) answer

91. *See* Compendium, *supra* note 37, § 306; Trade-Mark Cases, 100 U.S. 82, 94 (1879); *see also* Thaler v. Perlmutter (BAH), 2023 WL 5333236 (D.D.C. Aug. 18, 2023) (Copyright Office denied registration of a work of visual art created by the claimant's AI program; denial affirmed on the basis that author of a copyrighted work must be human).

material for a test; and (ix) an atlas.[92] This narrow listing of categories does not include many if not most of the types of works that a franchisor might commission, such as the design of a logo or advertisements or photographs. These works, as well as any other type of work that does not qualify as a "work made for hire," must be assigned, in writing, for ownership to transfer from the author.[93]

In copyright parlance, the owner of the work (whether the same as the author or a new owner pursuant to assignment) is called the "claimant." A work that is not a work made for hire is therefore "authored" by the original creator and owned by that same creator (meaning the author and the claimant are the same) unless assigned in writing. Once a work is assigned, the author (which remains the same) and the claimant (the new owner) are different. In a work made for hire, the author and claimant will, initially, be the same. If a work is assigned after a copyright is registered, the assignment may be recorded at the U.S. Copyright Office.[94]

The doctrine of "work made for hire" and ownership of works as between employee/employer and creator/client varies by country. In 2021, the INTA published a helpful report that details the handling of copyrighted works and how and whether this doctrine applies.[95]

One wrinkle relevant to the design of trademark artwork is that, when an individual is hired to create such a work (as opposed to a company, like a design firm), that individual will, thirty-five years after the execution date of the assignment or license, have the right to terminate that grant.[96] If the right granted included the right of publication, then the period is either thirty-five years from the date of publication, or forty years from the execution date of the grant, whichever ends earlier.[97] The author (or their heirs) must comply with certain recordation requirements in order to do so.[98]

This not widely known rule came into play in a dispute between the Philadelphia Phillies baseball team and a mascot, the creation of which the team had commissioned through a design firm. In the original agreement, the design firm retained copyright ownership and granted license rights to the team. That arrangement led to a dispute in 1979 over the scope of rights included within the license. The earlier dispute was resolved by way

92. 17 U.S.C. § 101.

93. *See Works Made for Hire: Review of Legislation and Practice, prepared by a Cross-Subcommittee Task Force under the direction of the International & Legislative Subcommittee of the Copyright Committee of the International Trademark Association*, INTA (July 2021), https://www.inta.org/wp-content/uploads/member-only/advocacy/committee-reports/20210802_Work-for-Hire-Report-July-2021-FINAL.pdf.

94. *See* U.S. Copyright Off., Circular 12: Recordation of Transfers and Other Documents 1–2 (Sept. 2016), https://www.copyright.gov/circs/circ12.pdf.

95. *Copyright Office Survey*, INTA (Feb. 2023), https://www.inta.org/wp-content/uploads/public-files/advocacy/committee-reports/Report_Copyright-Office-Survey_v10052023.pdf

96. 17 U.S.C. § 203.

97. *Id.* § 203(a)(3).

98. *Id.* § 203(a)(5).

of payments and a broader, exclusive license.[99] In 2018, however, the design firm issued a notice to terminate the agreement in compliance with Section 203 of the 1976 U.S. Copyright Act.[100] The case was eventually settled after the filing of multiple pleadings raising a myriad of issues, and, thus, no opinion was issued. The dispute itself, however, makes clear the potential scope of an unaddressed right to terminate a copyright grant.

Acquirors cannot avoid this termination right by including a waiver in the original assignment. "Termination of the grant may be effected notwithstanding any agreement to the contrary, including an agreement to make a will or to make any future grant."[101] Thus, if any work that the future owner might still need to use after thirty-five years is to be commissioned, it is important to ensure that that work is created either by an employee within the scope of their employment or by a design company not an individual.[102]

VI. Use of Copyrights of Third Parties

A. *Licensing*

As with any business, use of copyrighted works of third parties must either be licensed or otherwise used with permission or fall within an exception or defense such as the fair-use doctrine.[103] In the franchise context, ensuring that one has the necessary rights in third-party works is critical for a variety of reasons. From the perspective of the franchisor, when licensing works to franchisees, the franchisor might be taking on liability from the use or misuse of those works by the franchisees.[104]

In addition, a work that becomes part of a franchise system will be used more broadly in a multiunit franchised concept as compared to a non-franchised single location. Expanded use through a franchised concept means that, from a practical perspective, a rights owner whose rights are infringed by the use is more likely to discover the use. In addition, the damages available to the rights owner through broad misuse would be greater than from a limited use.

Because copyright rights include multiple types of rights, a use of a work that is licensed for one specific type of use, such as "display" to cover the use of in-licensed artwork on the walls of a franchised business, might not

99. *See* Michael McCann, *Will Phillies Have to Ditch Philly Phanatic Mascot*, Sports Illustrated (Aug. 6, 2019), https://www.si.com/mlb/2019/08/06/philadelphia-phillies-mascot-lawsuit-phanatic.

100. *See* Blake Brittain, *MLB's Phillies, Muppet designer Settle Spat over "Phanatic" Mascot*, Reuters (Oct. 8, 2021) https://www.reuters.com/legal/transactional/mlbs-phillies-muppet-designer-settle-spat-over-phanatic-mascot-2021-10-08.

101. 17 U.S.C. § 203(a)(5).

102. Deborah L. Shapiro & Erica B. E. Rogers, *Unintended Consequences of Copyright and Trademark Protection in Design*, INTA Bull. (Dec. 2, 2020); Jaime Angeles, Alejandra Aoun & Michael Lovitz, *Unintended Consequences Part 2: What the Phillie Phanatic Litigation Teaches About Copyright and Trademark Rights in Mascots*, INTA Bull. (Feb. 8, 2023).

103. 17 U.S.C. § 107.

104. *See* Part IV.A, *supra*, for discussion of Item 14 of the FDD.

extend to other uses. For instance, a video shot in a franchised business that clearly displays the same artwork in the background and then becomes part of an advertisement might be outside the scope of a simple "display" license and therefore infringe the rights of the copyright owner. Similarly, framed or finished artwork that is purchased and displayed, as opposed to buying rights and then replicating the artwork, may be displayed without a license under the "first sale doctrine,"[105] but incorporation of that same artwork in the advertisement similarly does not fall within the first sale doctrine and therefore can be infringing.

Even when one obtains a license, disputes can arise over the scope of the licensed use authorized. For example, in *Civility Experts Worldwide v. Molly Manners, LLC*,[106] a licensor of a curriculum for teaching manners to children (Molly Manners) was sued for alleged misuse of copyrights of Civility Training Worldwide (Civility Training). Civility Training's proprietor registered copyrights in three of its lessons.[107] According to court documents, Molly Manners licensed the registered copyrights from Civility Training, with some dispute over whether that license included the right for Molly Manners to sublicense the works (as incorporated into Molly Manners' own materials) to its licensees.[108] The parties settled the first dispute without litigation and entered into a settlement agreement.[109] When a further dispute arose a few years later, including whether Molly Manners had complied with the settlement agreement, Civility Training brought suit for a variety of claims, including copyright infringement. Moreover, Civility Training named as defendants not only Molly Manners but two of Molly Manners' licensees. In granting Molly Manners' motion for partial summary judgment, the court dismissed the copyright infringement claims based on the insufficient protectible nature of what was copied by Molly Manners and as the lack of substantial similarity between the protectible elements and the allegedly infringing works;[110] however, the district court noted that Molly Manners also had obligations to Civility Training under the settlement agreement.[111]

B. *Fair Use*

The fair-use doctrine allows certain uses of copyrighted works of others without needing permission of the copyright owner. Fair use is a more limited concept than one would expect. Under the fair-use doctrine, copyrighted

105. *See* 17 U.S.C. § 109 ("[T]he owner of a particular copy or phonorecord lawfully made . . . , or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.").

106. Civility Experts Worldwide v. Molly Manners, LLC, 167 F. Supp. 3d 1179 (D. Colo. 2016).

107. Confidence Is Cool, Registration No. TX0007724994 (Apr. 13, 2013); Macaroni and Please, Registration No. TX0007724985 (Apr. 13, 2013); Proud to Be Polite, Registration No. TX0007724991 (Apr. 13, 2013). All have Lewena L. Bayer as claimant.

108. *Civility Experts*, 167 F. Supp. 3d at 1188.

109. *Id.*

110. *Id.* at 1215.

111. *Id.* at 1216.

works may be generally used "for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, and research."[112] Specific statutory rules exist for certain types of uses, such as by libraries, that are not broadly applicable but could come into play with an educational franchise system.

The Copyright Act provides the following factors for courts to examine in determining whether the unauthorized use made of a copyrighted work constitutes a "fair" use:

> (1) the purpose and character of the use, including whether [the] use is of a commercial nature or is for nonprofit educational purposes; (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) the effect of the use upon the potential market for or value of the copyrighted work.[113]

If a work that a business desires to use has been "commercialized," meaning the copyright owner has created a license scheme for the work, then attempting to use the work without a license is less likely to be fair; the user has avoided and therefore eliminated the potential/copyright owner-created market for the work.[114] Under this doctrine, therefore, use of works for which there is a licensing scheme or for which the copyright owner is typically paid is riskier. As an example, the copyright owner of a photograph that is licensed through Getty Images has created a "reasonable license fee" applicable to use of that photograph, or sometimes a series of fees depending on the type and scope of use.

C. *Demand Letters*

With the technological ease in image searching and reverse image searching, many copyright users are finding themselves on the receiving end of demand letters regarding the use of photographs in ads or through social media platforms like YouTube and Facebook. Copyright-protected font software is another common subject matter of these demand letters.[115] As examples, a franchisor or franchisee might receive such a demand based on the typeface

112. 17 U.S.C. § 107.

113. *Id*.

114. *See* Am. Geophysical Union v. Texaco, Inc., 802 F. Supp. 1 (S.D.N.Y. 1992), *aff'd*, 37 F.3d 881, *order amended & superseded*, 60 F.3d 913, *aff'd*, 60 F.3d 913 (2d Cir. 1994).

115. Typefaces themselves are rarely protected under copyright law, but the software that makes fonts scalable typically is. *See* Circular 33, *supra* note 10 ("Copyright law does not protect typeface or mere variations of typographical ornamentation or lettering. A typeface is a set of letters, numbers, or other characters with repeating design elements that is intended to be used in composing text or other combinations of characters, including calligraphy. Generally, typeface, fonts, and lettering are building blocks of expression that are used to create works of authorship. The Office cannot register a claim to copyright in typeface or mere variations of typographic ornamentation or lettering, regardless of whether the typeface is commonly used or unique. There are some very limited cases where the Office may register some types of typeface, typefont, lettering, or calligraphy. For more information, see chapter 900, section 906.4 of the Compendium. To register copyrightable content, you should describe the surface decoration or other ornamentation and should explain how it is separable from the typeface characters.").

used in the franchised system's logo or website or based on graphics or artwork used on a website.

The first step typically is for a plaintiff's law firm that specializes in this area to send an email or demand letter asking for confirmation that the use was licensed, sometimes including a demand and settlement offer in the initial correspondence.[116] Depending on the response to the initial missive, the forcefulness of the follow-up often increases quickly. Recipients of such demands and their counsel often refer to this practice as "copyright trolling."[117]

Determining a strategy in responding to such demand letters is a fact-specific situation to be discussed with the franchisor's counsel. A few factors to consider include (i) whether the claim is legitimate (i.e., whether the use of the copyrighted work in fact occurred as alleged); (ii) whether the copyright at issue was at the time of use, or is now, registered; (iii) whether the demand has provided a connection between the sender of the letter and the copyright owner; (iv) the stage and background of the demand, meaning have there been multiple prior reach-outs to the recipient; and (v) whether the demand is from the rights-owner or a law firm or rights company whose business is obtaining significant licensing fees from users through aggressive behavior such as increasing demand amounts, threats of lawsuits and attorney's fees (even in situations where the rights owners would not be entitled to those remedies).

Responses to such demands can include the following: 1) offering to pay the initially proposed license fee, if reasonable and the alleged use occurred; 2) refusing any payment, which may be appropriate when the claim has been insufficiently substantiated or when the recipient chooses to call the sender's bluff; 3) shutting down discussions with a strong response such as seeking a declaratory judgment or filing a Rule 68 Offer of Judgment.[118]

VII. Copyright Infringement

A. *Elements of an Infringement Claim*

The elements of a copyright infringement claim are (1) ownership of a valid copyright; and (2) violation of one of the exclusive copyright rights

116. Sometimes the initial communication will come directly from the copyright owner, with the next escalation from a plaintiff law firm.

117. *See, e.g.*, Alex Jones, *Threats from a Copyright Troll? Here's What to Do* JDSupra (Oct. 12, 2023), https://www.jdsupra.com/legalnews/threats-from-a-copyright-troll-here-s-2617140; David Perry & Heidi G. Crikelair, *Beware of the Trolls: Recent Uptick in Copyright Trolling and What You Should Do*, JDSupra (Aug. 4, 2020), https://www.jdsupra.com/legalnews/beware-of-the-trolls-recent-uptick-in-63839.

118. As set forth in Federal Rule of Civil Procedure 68, a Rule 68 Offer of Judgment is a mechanism that allows a defendant to make an offer of settlement to resolve a case. The offer may be accepted, ending the case, but if rejected, and the plaintiff either loses or receives less than the amount of the offer, then the plaintiff must pay the defendant's "costs" incurred after the offer is made. And though courts are split, in the context of a copyright case, "costs" can include the defendant's attorney's fees. *See, e.g.*, Energy Intel. Grp., Inc. v. Kayne Anderson Cap. Advisors, LP, 326 F.R.D. 453, 459 (S.D. Tex. 2018) (discussing split). Courts encourage such offers because "the very purpose of Rule 68 is to encourage the termination of litigation." *See, e.g.*, Latshaw v. Trainer Wortham & Co., 452 F.3d 1097, 1103 (9th Cir. 2006).

(copying/reproduction, distribution, performance, public display, or creation of a derivative work) by defendant of constituent elements of the work that are original.[119] Ownership of a registered copyright constitutes *prima facie* evidence that the registrant owns a valid copyright.[120]

To prove that a violation has occurred, the plaintiff must show (1) that the defendant had access to the plaintiff's work, and (2) that the defendant's work is substantially similar to protected aspects of the plaintiff's work.[121] There are circuit-specific variants on how similarity is judged. In the Second Circuit, for instance, courts first separate out unprotectable elements of the work, then look at the remaining protectable elements in comparison with the allegedly infringing work to determine whether the similarities are "substantial."[122] In the Ninth Circuit, courts apply two separate tests—"extrinsic" and "intrinsic"—in their analysis. The "extrinsic" test is similar to the Second Circuit test, whereas the "intrinsic" test is more holistic, focusing on the "ordinary person's subjective impression of the similarities between the works."[123]

In the absence of direct evidence of copying or other violation, an infringement plaintiff can show evidence that the defendant had access to the protected work and that the infringing work is substantially similar.[124] Access can be established if a plaintiff's work has been widely disseminated, such as a hit song, or some contact between the plaintiff and defendant, such as the plaintiff's submission of her book to a movie studio. Writing software code in a "clean room" (i.e., without access to other code) is one approach often taken to minimize the risk of a successful copyright infringement claim.[125]

Copyright infringement litigants must contend with a number of copyright-specific affirmative defenses including the fair-use doctrine, discussed in Part VI.B. Recall that a plaintiff/copyright owner must have registered the copyright at (or attempted to register the copyright and had the application refused by) the Copyright Office prior to bringing a copyright infringement suit. Before the U.S. Supreme Court decided the question of whether registration is a prerequisite to bringing such an action, in its ruling in *Fourth Estate Public Benefit Corp. v. Wall-Street.com LLC*[126] in 2019, a long-standing circuit split had existed as to whether one could bring an infringement suit upon the filing of a copyright application. In its unanimous ruling, the Supreme Court determined that the plaintiff must wait until the registration is issued or refused.

119. 17 U.S.C. § 501; Feist Publ'ns, Inc. v. Rural Tel. Serv. Co. Inc., 499 U.S. 340, 361 (1991).

120. 17 U.S.C. § 410(c); Donald Frederick Evans & Assocs., Inc. v. Cont'l Homes, Inc., 785 F.2d 897, 903 (11th Cir. 1986).

121. *Feist*, 499 U.S. at 361.

122. Williams v. Crichton, 84 F.3d 581, 588 (2d Cir. 1996).

123. Funky Films, Inc. v. Time Warner Ent. Co., 462 F.3d 1072, 1077 (9th Cir. 2006).

124. *See* Arthur Rutenberg Homes, Inc. v. Maloney, 891 F. Supp. 1560, 1566–67 (M.D. Fla. 1995).

125. See *How to Develop an IP "Clean Room" Policy*, Chip Law Group, Lexology (Aug. 23, 2023), https://www.lexology.com/library/detail.aspx?g=57ce5c16-717f-4fe0-9925-30628c54085c.

126. Fourth Estate Public Benefit Corp. v. Wall-Street.com LLC, 586 U.S. 296 (2019).

Copyright infringement suits must brought "within three years after the claim accrued."[127] The U.S. Supreme Court has not opined on the "discovery rule," namely whether claims accrue when they are "discovered" or at some other point in time.

B. *Infringement Awards*

A variety of remedies are available in a successful copyright infringement claim including injunctions[128] and impoundment of infringing articles;[129] however, damages are the most familiar. The damages awarded in a successful copyright infringement claim depend on a variety of factors.[130] For example, if the copyright at issue was registered prior to the infringement, statutory damages,[131] which can be up to $150,000, and attorney's fees[132] are a possibility. Whereas if the copyright registered after the infringement occurred, monetary damages are limited to actual damages and profits,[133] such as a reasonable royalty. Provided that the suit is brought within the three-year "accrual" window, copyright damages are not time-limited.[134] In the franchise context, actual damages can be based on a franchise fee that the infringer did not pay, but which paying and becoming a franchisee would have then authorized the infringing use of the franchisor's copyright.[135] In *Flying J, Inc. v. Central CA Kenworth*, discussed in the next section, a franchisor alleged infringement of copyrighted architectural plans in a case where the infringer did not become a franchisee but copied the franchise floor plans so as to create a competing business; the court affirmed the jury award of actual damages based on the franchise fee.[136] In addition to civil damages, certain types of infringement can be criminal offenses.[137]

C. *Situations in Which a Franchisor Might Claim Infringement*

Many of the situations in which a franchised business might bring an infringement suit are the same as with any business. For instance, if a business copies a work such as photos used on the website of the franchised

127. 17 U.S.C. § 507(b).

128. 17 U.S.C. § 502; *see also* Int'l Trademark Ass'n, *Preliminary Relief in Copyright Cases: A Brief Report by the Enforcement Subcommittee of the Copyright Committee* (Nov. 2023).

129. 17 U.S.C. § 503.

130. 17 U.S.C. § 504.

131. 17 U.S.C. § 504(c).

132. 17 U.S.C. § 505; *see also* Fogerty v. Fantasy, Inc., 510 U.S. 517 (1994) (setting the standard by which attorney's fees can be awarded, whether to a defendant or a plaintiff, in a copyright infringement suit, and eliminating a circuit split whereby various circuits applied different standards to attorney's fees awards depending on whether such fees were being considered for the prevailing plaintiff or the prevailing defendant).

133. 17 U.S.C. § 504(b).

134. *See* Warner Chappell Music, Inc. v. Nealy, 144 S. Ct. 1135 (2024) (A six to three majority held that there is no three-year period for recovering damages, namely that the three-year post-accrual filing window does not apply to damages awards for a timely brought suit.).

135. Flying J, Inc. v. Cent. CA Kenworth, 45 F. App'x 763, 765 (9th Cir. 2002).

136. *Id.* at 765–66.

137. 17 U.S.C. § 506.

business and posts those same photos on the defendant's website, the copying business has violated the exclusive rights both of copying and of public display.

However, because many franchisors provide copyright content to franchisees, and therefore are licensors, one situation in which a copyright claim may arise is in a holdover franchisee situation in which all licenses granted to the former franchisee have been terminated. In this scenario, a terminated franchisee who continues to use a franchisor's brand and operating system might also continue to display, copy, or create derivative works of materials provided by a franchisor. These activities create an additional claim for the franchisor's arsenal. Note that "use" of materials is not an exclusive copyright right. In other words, if a terminated franchisee continues to use an operating manual, that is in itself is not a copyright violation. If, however, a terminated franchisee makes a copy of the operating manual or continues to display copyrighted works publicly, such as on its website or in its store location, those activities could constitute a copyright violation.

In another example, a franchisor of residential building companies successfully brought an infringement claim based on copying of copyrighted architectural designs based on the substantial similarity of those designs and homes built by the infringer.[138] In another suit where infringement of copyrighted architectural plans was alleged, the infringer did not become a franchisee but copied the franchise floor plans so as to create a competing business.[139]

D. *Alternate Enforcement Mechanisms*

1. DMCA—The Digital Millennium Copyright Act

While enforcing one's rights when a trademark is infringed online can be costly and slow, taking action against online infringement of a copyright often is simpler and more straightforward. In 1998, as a way of balancing the various rights and liabilities of online service providers and copyright owners while addressing online infringement, the U.S. Congress enacted the Digital Millenium Copyright Act (DMCA). The DMCA, codified at 17 U.S.C. § 512, created, among other provisions, a safe harbor for online service providers and website hosts that follow certain procedures. Specifically, provided that online-service providers cooperate with copyright owners to remove infringing content from websites that they host expeditiously, Section 512 shields website hosts from monetary liability for copyright infringement of their users.

To obtain safe-harbor protection, online service providers must register an agent who may be contacted with the DMCA Designated Agent Directory. The DMCA Designated Agent Directory[140] is an online searchable

138. Arthur Rutenberg Homes, Inc. v. Maloney, 891 F. Supp. 1560, 1561 (M.D. Fla. 1995).

139. Flying J, Inc. v. Cent. CA Kenworth, 45 F. App'x 763, 766 (9th Cir. 2002).

140. The DMCA Designated Agent Directory is available on the U.S. Copyright Office website at https://www.copyright.gov/dmca-directory.

directory that allows copyright owners to determine whom to contact when infringing content is found on a website.

When a copyright owner locates infringing material on a website, it can send a written notification of claimed infringement (or a "takedown notice") to the service provider's designated agent. The takedown notice must comply with specific requirements, namely providing information that allows the service provider both to identify the infringing work and its location, contact information of the complaining party, and declarations that the complainant has a good-faith belief that the use is not authorized, and that the complainant has the authority to object.[141] Often the takedown notice is submitted via a form on the designated agent's website. The service provider then must remove or disable access to the material, which often leads to the website being taken down entirely. The system does not necessarily work to remove copyrighted content in all instances. There is a "counternotice" procedure that allows the user to object to the takedown notice as well as the right to claim that the copyright owner misrepresented its rights.[142] However, using the DMCA is often a quick and effective means of having infringing material removed from the Internet.

For a franchisor, the DMCA is useful in taking action against holdover franchisees who continue to use a franchisor's copyrighted works on a website. Similarly, the DMCA could be used to have a competing website taken down if that website copied the website, copyrighted photos, or other materials of a franchisor.

Practically speaking, it often is more straightforward to identify an online service provider's DMCA policy by reviewing the legal notices on the provider's website, rather than searching the DMCA Designated Agent Directory. Most online service providers/website hosts have online forms to enable copyright owners or their agents to submit takedown notices.[143]

Many such forms allow the submission of trademark complaints as well; however, while the DMCA provides a clear incentive to service providers to remove content that infringes on copyrights, in the form of a safe harbor from liability, there is not the same incentive with respect to trademark infringement. Accordingly, while there is little harm in submitting trademark takedown notices, they often are not as successful as copyright takedown notices.

141. *See* 17 U.S.C. § 512(c)(3)(A).

142. *See* Automattic Inc. v. Steiner, 2014 U.S. Dist. LEXIS 182295, at *47 (N.D. Cal. Oct. 6, 2014) (court awarded money damages to a party that received a DMCA takedown notice with material misrepresentations).

143. As an example, the GoDaddy.com legal terms includes a detailed explanation of their procedures for handling copyright claims. *See* GoDaddy, *GoDaddy—TRADEMARK/COPYRIGHT INFRINGEMENT*, https://www.godaddy.com/legal/agreements/trademark-copyright-infringement (last revised Apr. 4, 2024).

2. Copyright Claims Board

In 2020, through the Copyright Alternative in Small-Claims Enforcement (CASE) Act of 2020,[144] Congress created the Copyright Claims Board (CCB). The CCB was designed as a simpler and less costly alternative to court litigation. The CCB is made of up three officers, with monetary damages capped at $30,000. Participation in the CCB process is voluntary, meaning that both the claimant and the respondent can decide whether to participate in CCB proceedings. A party with a copyright claim (including one with damages under $30,000) can choose instead to bring suit in federal court; a respondent against whom a complaint is filed with the CCB can opt out (in which case the claimant may bring suit in federal court). The jurisdiction of the CCB is limited to three types of copyright claims: 1) claims of infringement of a copyright; 2) claims seeking a declaration that certain behavior does not constitute copyright infringement; and 3) claims of misrepresentation in DMCA takedown notices.

Complaints at the CCB can be brought without the use of an attorney; the Copyright Office has created detailed "how-to" materials, available on a website dedicated to the Copyright Claims Board,[145] including a "Copyright Claims Board Handbook." The determinations of the CCB are available and viewable online on the CCB website, through the "Electronic Filing and Case Management System." Because the CCB is fairly new (having gone live in June 2022), with the first decision issued in 2023, fewer than two dozen decisions have been issued at the time of this writing.

Several cases have been brought against operators of the types of businesses that often are franchised, such as restaurants, bars, and spas. Examples include *Hursey v. The Little Door*[146] (dismissed without prejudice due to lack of service); *Sedlik v. Culinary Investments*[147] (settled and dismissed without prejudice); *Schirmacher v. Bellisimo Euro. Day Spa*[148] (dismissed without prejudice due to respondent Bellissimo's opt-out); *Schirmacher v. Allora Medical Spa*[149] (final determination issued February 16, 2024, awarding photographer Tom Schirmacher $7,000 in statutory damages for copyright infringement of the work "Salt Facial Photograph"); *Joe Hand Promotions v. Arif Skyline Cafe*[150] (final determination issued September 22, 2023, dismissing the case against respondent Kassa, which was based on vicarious liability, and finding

144. Copyright Alternative in Small-Claims Enforcement Act, 17 U.S.C. §§ 1501–1511 (2020).

145. Copyright Claims Bd., https://ccb.gov.

146. Copyright Claims Bd. No. 22-CCB-0221, https://dockets.ccb.gov/case/detail/22-CCB-0221.

147. Copyright Claims Bd. No. 22-CCB-0004, https://dockets.ccb.gov/case/detail/22-CCB-0004.

148. Copyright Claims Bd. No. 22-CCB-0182, https://dockets.ccb.gov/case/detail/22-CCB-0182.

149. Copyright Claims Bd. No. 22-CCB-0183, https://dockets.ccb.gov/case/detail/22-CCB-0183.

150. Copyright Claims Bd. No. 22-CCB-0098, https://dockets.ccb.gov/case/detail/22-CCB-0098.

Arif Skyline Café LLC liable for copyright infringing for unauthorized public display of a boxing event and awarding Joe Hand Promotion, Inc. $3,000 in statutory damages); and *Joe Hand Promotions v. Fusion Groups*[151] (dismissed without prejudice after claimant withdrew the claims).[152]

Due to the high cost of standard court litigation, and the relatively lower cost of using the CCB, it seems likely that cases will be brought against users of copyrighted materials that, without the CCB, would not have resulted in litigation. Accordingly, franchised businesses should be prepared to respond if such cases are brought and should consider using CCB proceedings in determining an appropriate strategy for addressing copyright infringement offensively.

VIII. Best Practices for Franchisors[153]

The best practices for franchised businesses do not vary significantly from best practices for other businesses.

- Ensuring Clear Use Rights—One difference from the perspective of franchisors is that the business model contemplates that content developed by the franchisor will be licensed to franchisees. Because the licensor/franchisor often takes on liability for content that it provides to its licensee/franchisees, it is important to 1) ensure that copyrighted works intended to be owned or freely licensable are in fact owned or freely licensable becomes paramount; and 2) establish clear guidelines for the use of third-party works.
- Protection—Because copyrights often are easier to enforce than trademark rights (particularly online), registering the copyrights in materials that will be licensed out to franchisees is important to allow franchisors additional recourse in holdover franchisee situations. In addition to the ability to use the DMCA to force the takedown of rogue holdover websites that use franchisor-provided photographs, for instance, franchisor-provided copyright-protected art that is displayed in a franchised business constitutes a violation of the exclusive "display" right of the copyright owner.
- Originality—Given the challenges in creating enforceable trade dress, creating original copyrighted works can be an alternative way to create a distinctive look and feel.

151. Copyright Claims Bd. No. 22-CCB-0067, https://dockets.ccb.gov/case/detail/22-CCB-0067.

152. For details on the collection of CCB cases discussed in this section, see Marc Lieberstein & Anna Antonova, *Franchising and the New Copyright Claims Board*, N.Y.L.J. (Feb. 14, 2023), https://www.law.com/newyorklawjournal/2023/02/14/franchising-and-the-new-copyright-claims-board.

153. Because franchisees often obtain their copyrighted works through a license from a franchisor and, in some cases, have rights they create through operation of a franchised business assigned back to the franchisor, these best practices are focused on franchisors.

- Value—Franchised businesses are often looking for investors, financing, or exit strategies through sale opportunities. Sophisticated investors and buyers of franchised businesses are more likely (than purchasers of a single-unit, non-franchised business) to look for copyright portfolios in addition to trademark portfolios.

IX. Conclusion

Copyright law remains one of the simplest, most cost-effective, and least utilized means of protecting one's franchised system from holdover franchisees and copycat competitors. Adding enforceable copyright protection to an intellectual property portfolio is an uncomplicated way to strengthen rights in a franchised brand affordably.