

First Circuit Shines Light on Murky Status of Copyright Sublicenses

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In a case of first impression at the appellate level, the First Circuit recently issued a decision highlighting that U.S. copyright law authorizes implied, not merely express, sublicenses of copyrighted works.

Photographic Illustrators Corporation v. Orgill, Inc., Case No. 19-452 (1st Cir. Mar. 13, 2020).

The case involved photos. Not just any photos mind you, but photos of lightbulbs,

numbering in the thousands. And not just any lightbulbs, but Sylvania lightbulbs. The photos were created not because their owner, plaintiff Photographic Illustrators Corporation (“PIC”), had some sort of blinding obsession with Sylvania lightbulbs, but because Sylvania hired PIC to take these photos for use in Sylvania’s marketing materials. Indeed, Sylvania took such a shine to PIC’s photos that it paid PIC roughly \$3 million for a six-year license to use the photos for purposes of selling the bulbs to consumers.

The license, which was in writing, included a clear provision that gave Sylvania “a non-exclusive, worldwide license in and to all the Images and the copyrights thereto to freely

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Use, sub-license Use, and permit Use, in its sole and absolute discretion, in perpetuity, anywhere in the world.” But, Sylvania was also required “to the extent reasonably possible and practical” to “include a copyright notice indicating PIC as the copyright owner and/or include proper attribution indicating [PIC’s principal] as the photographer.”

The case arose because Sylvania made a glaring error: it gave the photos to defendant Orgill, Inc. (“Orgill”) so that Orgill could include them in lightbulb catalogs that were disseminated to Orgill’s network of dealers, but Sylvania forgot to tell Orgill about the attribution required by the PIC license. Incandescent at the absence of the required attributions, PIC initiated multiple lawsuits against Orgill dealers and Sylvania, most of which were consolidated and heard by an arbitrator. After hearing all of the evidence, the arbitrator ruled that the dealers were innocent of any wrongdoing, a decision that surely left them beaming, but the arbitrator cast Sylvania’s actions in a harsh light. Indeed, the arbitrator held that Sylvania had breached a covenant of the PIC license by failing to ensure that the attribution requirement was satisfied. As a consequence of running this legal red light, PIC was awarded approximately \$8.5 million in damages from Sylvania.

But what about Orgill? PIC’s claims against it were heard before a district court, and Orgill argued there that it had an implied sublicense from Sylvania to use PIC’s photos, such that it could not be liable for copyright infringement. Moving at the speed of light after the arbitration concluded, the district court agreed with Orgill and granted it summary judgment on its claim of an implied sublicense.

On appeal, the First Circuit concluded that it was time to illuminate a murky area of copyright law – whether implied sublicenses are legally possible – because no circuit court had ever before addressed the issue. The court first considered PIC’s argument that copyright sublicenses had to be express, not implied, but it concluded that implied copyright sublicenses are cognizable as a matter of law, in the same way as implied copyright licenses. The First Circuit decision spotlights a number of cases from various appellate courts, including the First Circuit itself, that confirm the validity of implied copyright licenses. Given this crystal-clear authority, the First Circuit saw no reason not to recognize the existence of implied copyright sublicenses as well.

The First Circuit also pointed out that the PIC-Sylvania license contained an express grant of sublicensing rights, without imposing any requirements that such sublicenses had to be express. In light of this, the court found that PIC had failed to require that such sublicenses be express, when it could have done so. As for PIC’s policy arguments that recognizing implied sublicenses would be contrary to the purposes of the Copyright Act, the First Circuit made light of them, holding that no policies underlying the statute would be undermined by recognizing the existence of implied copyright sublicenses.

Next, the First Circuit considered PIC’s other argument: that the evidentiary record, viewed in the light most favorable to PIC, reflected genuine disputes of material fact as to the existence of an express or implied sublicense that should have precluded a grant of summary judgment. Once again, the First Circuit disagreed with PIC, holding that no reasonable factfinder could conclude that no implied or express sublicense existed. Indeed, the decision brings to light multiple aspects of the record showing the existence

of such a sublicense, from the fact that Sylvania paid nearly \$3 million for the photos and gave them to Orgill for purposes of marketing the lightbulbs they depicted, to Sylvania's annual approval of the Orgill catalogs containing the photos, to the arbitrator's decision awarding PIC nearly \$8.5 million because Sylvania failed to ensure that Orgill properly credited PIC when using the photos. Based on all of this evidence, the First Circuit affirmed the grant of summary judgment to Orgill because the evidence showed that Sylvania had impliedly sublicensed Orgill to use the photos.

What this decision shows is that if a copyright licensor wants to restrict any sublicensing rights granted to its licensee, the license had better reflect those restrictions in an unambiguous, bright-line manner.