In spring 2007, I had the opportunity to assist a freelance artist in Tallahassee, Florida, to obtain a fair settlement for infringement of seven copyrighted cartoon characters that she owned. A number of critical complications confounded an otherwise standard expert valuation of damages. As a consequence of a copyright infringement, an aspiring cartoonist lost considerable but nonquantifiable opportunities to market her very popular images in a wide number of derivative uses. Moreover, the infringer was a nonprofit government agency that used the materials in educational products and web postings that were made freely available to the public. With scarce data, the matter for an expert here was to work out a fair settlement in alternative dispute resolution in order to avoid costly and uncertain court proceedings.
The nature of the infringement: The plaintiff was a full-time employee for the state of Florida. In November 2001, an associate in the Department of Emergency Management (DEM) requested that she draw a series of cartoons to depict various types of hurricane-related weather conditions typically found in Florida. The cartoons were to be included in the next version of the *Hazardous Weather Awareness Guide (HWAG)*.

The cartoonist submitted a series of drawings that she collectively dubbed the “Weather Bullies.” The set included seven cartoon characters that were pictorial embodiments of various weather conditions. She was compensated the orally contracted amount of $250 for a “one-time” use in the year 2002.

The DEM published the cartoon characters in the 2002 edition of the *HWAG*. Without demanding further payment, the artist then permitted the agency to publish her characters in the next three annual editions of the guide. In September 2004 the plaintiff registered the Weather Bullies drawings with the U.S. Copyright Office.

In November 2005, the DEM contracted with a production company, MediaWise, to materially alter her copyrighted characters and publish (without proper attribution) the modified characters in the 2006 edition of the guide. The artist retained legal counsel and sent “cease and desist” letters to the DEM and MediaWise.

Despite her entreaties, the DEM continued to feature the modified characters in the 2006 edition. The edition credited a MediaWise employee as being responsible for “Weather Bully Illustrations” and identified the plaintiff as responsible only for “Weather Bully Development.” The DEM and/or MediaWise then disseminated electronic reproductions of the modified Weather
Bullies to various other government entities that displayed the characters on their respective websites.

In October 2006, a DEM attorney informed the artist that the modified characters were now exclusive property of the DEM and would so be used to promote public awareness of the dangers of hazardous weather conditions that arise during hurricanes. In the ensuing litigation, the court granted the artist’s motion for a temporary injunction because it was not a “close question” that she was an independent contractor of the agency and “the person who owns the copyright is the person who draws it.”

**Actual damages as lost opportunities:** Under the terms of 17 U.S.C. Section 504(b), a copyright owner/plaintiff may recover the larger of actual damages or profits earned through the infringing work. One conceivable way to measure actual damages would consider the artist’s putative losses arising from infringement. It requires calculating the amount of money that she would have earned in alternative markets for use of her property. An alternative way to measure damages is based on the artist’s actual history in 2002-2005, which in this case would be the $250 fee that she agreed to accept in exchange for the original use of the work. However, the latter calculation fails to consider the losses related to improper attribution and the greater gain that the artist might otherwise have enjoyed for licensing her recognizable characters in other markets.

**The standard for statutory damages:** The copyright plaintiff under 17 U.S.C. Section 504(c) alternatively may elect to receive an award of statutory damages. Statutory damages are particularly appealing in instances—such as this one—where actual damages may be difficult or impossible
to prove. Although it is not necessary to prove actual damages in order to win a statutory award, the estimated value of actual damages may be considered and factored into the amount of statutory damages. Courts may then consider, inter alia, expenses saved or profits earned by the alleged infringer, revenues lost by the rights holder, alleged infringer cooperation and attitudes, and potential deterrence on future infringers and third parties.

In any valuation, courts also could presumably consider more general values of use, as specified in *Deltak v. Advanced Systems*, 767 F.2d 357 (7th Cir. 1985). Deltak and Advanced Systems were two competing sellers of books and tapes used to teach data processing. In its marketing effort, Advanced Systems appropriated parts of Deltak’s teaching materials and distributed 15 copies of its infringing charts; Deltak sought and received a preliminary injunction. Since Deltak did not preregister its copyright, the valuation issue before the court could only involve the plaintiff’s actual damages or the infringer’s profits, but not statutory damages. The trial court rejected the plaintiff’s claims regarding additional sales that it could have made but for the infringement and found no evidence that the defendant’s sales volume increased.

Reversing the damage award, Judge Posner in the appellate court awarded the plaintiff an amount equal to the perceived value of use to the defendant. This value of use would be the amount that the infringer saved from not having to create the marketing materials itself. The “value of use “approach is economically meaningful, and survived Circuit Court scrutiny in even the most critical Second Circuit case of *Business Trends v. Freedonia* (887 F.2d 399, 404), which ruled that "we see no legal barrier to such an award under Section 504(b) so long as the amount of the award is based on a factual basis rather than `undue speculation.'"1

1Quoted in *On Davis v. The Gap, Inc.* 246 F.3d 152 (2001). “We went to pains in *Business Trends v. Freedonia* (887 F.2d 399) to make clear that we were not laying down an absolute rule, but rather making a
In assisting the cartoonist, I applied the same concept of value of use as a guidepost. As part of its educational efforts, the DEM paid $375,000 (fictitious amount) to a publisher for the production of three children’s books that were used in classroom activities related to weather safety. The publisher printed 250,000 copies of each book. As a matter of safety education (the primary, if not exclusive, concern for the agency), it is reasonable to suggest that the seven highly catchy characters—each of which appeared in 850,000 newspapers—were worth at least as much to the state of Florida as the three books that together circulated 750,000 copies. For purposes of settlement, I then presented to both parties the total value of use of $375,000.

The above analysis also fails to take into account the value of any additional grant money that the DEM might have received from the federal government that would assist the design of its website. It also fails to consider the value of public displays of the Weather Bullies during conferences and other highly visible activities that involved the governor and other high-ranking state officials. The willfulness issue is also considerable; the state continually took steps to disregard the plaintiff’s rights and thus legally complicated her efforts to pursue commercial opportunities that she might have had.

I understand that the case settled for an amount related to the number that I presented. In the settlement, the artist granted to the state a nonexclusive license to continue using the characters in their present use, but retained the right to license or otherwise markets her works.

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ruling that was heavily influenced by the particular facts of that case. We rejected the defendant's argument that a "value of use" standard is always impermissible saying "we see no legal barrier to such an award under Section 504(b) so long as the amount of the award is based on a factual basis rather than 'undue speculation.'" Id. at 404. Again at the conclusion of the opinion we "emphasize[d] that we are not rejecting as a matter of law" a recognition of the "value of use" theory. Id. at 407. We held "only that the proof in the instant case is inadequate to support such an award." Id.
elsewhere. This would allow her to capitalize further on the public recognition of the state’s continuing use, a considerable advantage to building product awareness.

This “win-win” settlement was more beneficial to both parties than more limited or costly remedies that might have arisen in litigation. The settlement outcome also went beyond the more restrained procedural techniques that would necessarily have confined a formal expert report presented before the court. In such a manner of dispute resolution, experts can play a general role as negotiators by focusing on practical solutions and steering the parties toward mutual accommodation rather than positional bargaining.

ABOUT THE AUTHOR

Michael A. Einhorn is an economic consultant and expert witness active in the areas of intellectual property, media, entertainment, design, licensing, antitrust, personal injury, and commercial losses. He received a Ph. D. in economics from Yale University. He is the author of the book Media, Technology, and Copyright: Integrating Law and Economics (Edward Elgar Publishers), a Senior Research Fellow at the Columbia Institute for Tele-Information, and a former professor of economics and law at Rutgers University. He has published over seventy professional and academic articles and lectured in Great Britain, France, Holland, Germany, Italy, Sri Lanka, China, and Japan.

Trademarks and Advertising: Trademark (Dish Network, The Weather Channel, Madonna/Material Girl, Oprah Winfrey/Harpo Productions, PML Clubs, Avon Cosmetics, Miller International, The New York Observer, the Kardashians/BOLDFACE Licensing + Branding), and advertisers (J. Walter Thompson, Kia Motors, Coca Cola, General Automobile Insurance Company)

Video: Movies (Paramount/Dreamworks), cable programs (NBCUniversal), product placement (Paxson Productions), treatments (Burnett Productions), soundtrack (Warner Bros. Entertainment), TV programs (Televicentro of Puerto Rico), satellite programming (Golden Channels Company of Israel), and cable operations (AT&T).

Apparel and Design: Apparel (Target Stores, Carol Anderson, Forever 21, Crew Knitwear, Joyce Leslie, Anthropologie), architecture (Sprint PCS, Home Design LLC, Murray Engineering, Turnkey Associates), medical illustrations (Pearson Education Services), photography (Harris Publications), sculpture (Marco Domo), cartoons (A.V. Phibes, Melissa Flock), and commercial marketing (Kaufman Global).

Publicity Rights and Estate Valuations: Names and likenesses (Woody Allen, Rosa Parks, Arnold Schwarzenegger, Sandra Bullock, Cameron Diaz, Diane Keaton, Zooey Deschanel, Yogi Berra), estate valuations (Tasha Tudor, Marlon Brando, Bernard Lewis).

Cyberspace: Music services (Apple iTunes, Napster, MP3.com), proprietary software (Centrifugal Force, Frogware), open source software (Jacobsen v. Katzer), electronic publishing (Pearson), video games (Activision), search engines (eUniverse), and domain names (eCommerce).


Antitrust and Commercial Losses: Antitrust, breach of contract, and commercial injury in actions involving AT&T, California Scents, Safmor, Inc., Golden Channels Company of Israel, and St. Joseph’s Regional Hospital (College Station, Texas).

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See also http://mediatechcopy.com/?page_id=71


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**UNPUBLISHED ARTICLES**

Financial Remedies for Trademark Infringement

Trademark Valuation and Market Analysis

Pharmaceuticals and Compulsory Licensing: Epidemics in the Developing World

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