



**WHEN DATA ARE SCARCE:
SETTLEMENT STRATEGIES FROM A
DAMAGES EXPERT**

Michael A. Einhorn, Ph.D.*

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.

* At mae@mediatechcopy.com, <http://www.mediatechcopy.com>. Complete professional biography can be found in appendix. The author is an economic consultant and expert witness in the areas of intellectual property, media, entertainment, and product design. He is the author of *Media, Technology, and Copyright: Integrating Law and Economics* (2004) and over seventy related professional articles in intellectual property, economic analysis, and damage valuation. He is also a former professor of economics at Rutgers University. A complete professional biography can be found in the appendix.

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. Freedomia* (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. Freedomia* (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

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)

Music: *Recording artists* (U2, Madonna, 50 Cent, Usher, Rascal Flatts, LMFAO, Aimee Mann, Nappy Roots, Justin Moore, Xzibit, Nelly Furtado, George Clinton, Notorious B.I.G., D.L. Byron), *record labels* (Sony Music Holdings, Universal Music Group, Disney Music, Atlantic Records), *producers* (P. Diddy, Timbaland), *publishers* (Major Bob Publishing, Universal Music Publishing, Bridgeport Music, Hamstein Music, Chrysalis Music, Kobalt Music), *performing rights organizations* (SESAC), *radio stations* (WPNT in Pittsburgh), and *live venues* (World Wrestling Entertainment, Usher, LMFAO).

MEDIA, TECHNOLOGY, COPYRIGHT

Video: *Movies* (Paramount/Dreamworks), *cable programs* (NBCUniversal), *product placement* (Paxson Productions), *treatments* (Burnett Productions), *soundtrack* (Warner Bros. Entertainment), *TV programs* (Televiscentro 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, Frogsware), *open source software* (Jacobsen v. Katzer), *electronic publishing* (Pearson), *video games* (Activision), *search engines* (eUniverse), and *domain names* (eCommerce).

Patents and Technology: *Semiconductors* (General Electric v. Kodak, Great Lakes v. Sakar, *cellular* (Cellebrite v. Micro Systemation), *software* (Jacobsen v. Katzer, Centrifugal Force v. Softnet), *medical technology* (Lemper v. Legacy, Graston v. Graham), and *general patents* (DeCordova v. MCG)

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).

Dr. Einhorn can be reached at 973-618-1212.

PUBLISHED BOOKS

[Media, Technology, and Copyright: Integrating Law and Economics](#), Edward Elgar, 2004

ARTICLES AND CHAPTERS

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

[Copyright, Causality, and the Courts](#), Journal of the Copyright Society, Winter, 2015.

[Copyright, Causality, and Statutory Reform](#), Landslide, January-February, 2013-2014, (blog at [IP in Brief](#), July 27, 2013; August 16, 2013).

[Gorillas in our Midst: Searching for King Kong in the Music Jungle](#), Journal of the Copyright Society, Winter, 2007.

[Patent Reform and Infringement Damages: Some Economic Reasoning](#) IP Lawyer, December, 2007; new version at [Patents and the Entire Market Value Rule](#).

[Copyright Settlement Strategies from a Damages Expert](#), GPSOLO, September, 2008.

[Expediting the Settlement: The Use of an Expert](#), Entertainment and Sports Lawyer, October, 2007.

[How Advertising and Peer to Peer are Transforming Media and Copyright](#), Journal of the Copyright Society, Spring, 2007.

[Copyright at a Crossroads, Again!: The Copyright Modernization Act](#), Entertainment, Arts, and Sports Law Journal, December, 2006.

[Swords Into Plowshares: A Convergence of Interests in P2P](#), Entertainment and Sports Lawyer, Summer, 2006.

[Publicity Rights, Merchandise, and Economic Reasoning](#), Entertainment and Sports Lawyer, March, 2006.

[Canadian Quandary: Digital Rights Management, Access Protection, and Free Markets](#), Progress on Point 3:12, Progress and Freedom Foundation, May, 2006.

“File-Sharing at Madison and Vine: The New Convergence”, Century City Lawyer, December, 2005.

“File-Sharing and Market Harm”, Entertainment, Arts, and Sports Law Journal, July, 2005.

[Transactions Costs and Administered Markets: The Case of Music Performance Rights](#)
[Review of Economic Research in Copyright Issues](#), 3 (1), 37, 2006.

[Grokster v. Sony: The Supreme Court's Real Decision](#), [Entertainment and Sports Lawyer](#),
Summer, 2004.

“Peer-to-Peer Networking and Digital Rights Management: How Market Tools Can
Solve Copyright Problems” (with Bill Rosenblatt), [Journal of the Copyright Society](#),
Winter, 2005.

[Music, Mantras, and Markets: Facts and Myths in the Brave New World](#), [Entertainment,](#)
[Arts, and Sports Law Journal](#), Winter, 2004.

“Music in the Crucible: A Year in Review”, [Entertainment and Sports Lawyer](#), Summer,
2004.

[Digitization and its Discontents: Digital Rights Management, Access Protection, and](#)
[Free Markets](#), [Journal of the Copyright Society](#), Spring, 2004.

[Whose Song is it Anyway?: Infringement and Damages in Musical Compositions](#)
[Entertainment and Sports Lawyer](#), Spring, 2004; new version at [Damage Valuation in](#)
[Music Copyright](#)

[Vertical Merger in a High Tech Industry: Synopsis, Avant!, and the FTC](#), 2 [Economics](#)
[Committee Newsletter of the American Bar Association](#) 2, 2002.

[Tying, Patents, and Refusal to Deal: Economics at the Summit](#), 2 [Economics Committee](#)
[Newsletter of the American Bar Association](#) 1, 2002.

[Intellectual Property and Antitrust: Music Performance Rights in Broadcasting](#) ,
[Columbia Journal for Law and the Arts](#), 2002.

“Keep Off My Privacy: How Sweet the Sound?”, [Bright Ideas](#), 2002.

[Purple Beasts and Lewd Tunes: Economic Reasoning and Copyright](#), Entertainment, Arts, and Sports Law Journal, 2002.

“How to Cure Performance Anxiety”, 13 Entertainment, Arts, and Sports Law Journal, 2 Summer, 2002.

“Traffic Jam on the Music Superhighway: Is it a Reproduction or a Performance?”, Journal of the Copyright Society, 2002 (with Lewis Kurlantzick).

[Miss Scarlett’s License Done Gone: Parody, Satire, and Economic Reasoning](#), 20 Cardozo Arts and Entertainment Law Journal 4, 2002.

[Copyright, Prevention, and Rational Governance: File-Sharing and Napster](#), Columbia Journal for Law and the Arts, 2002.

“Internet Television and Copyright Licensing”, 20 Cardozo Arts and Entertainment Law Journal 2, 2002.

[Old Friends: ASCAP and DOJ Reach a New Consent Decree](#), Entertainment and Sports Lawyer, 2002.

“Digital Rights Management and Access Protection” in Proceedings of the ALAI Congress: June 13-17, 2001, J. Ginsburg, ed., Columbia University, 2002.

“Digitalization and the Arts”, Handbook of Cultural Economics, Ruth Towse, ed., Edward Elgar Publishing Ltd., 2002.

[Internet TV and Copyright Licensing: Balancing Cents and Sensibility](#), Internet Television, ed. D. Gerbarg, E. Noam, J. Groebbel, Lawrence Erlbaum Publishers, Mahwah, NJ, 2002.

“Music Licensing in the Digital Age”, Copyright in the Cultural Industries, Ruth Towse, ed., Edward Elgar Publishing Ltd., 2002.

[Search and Destroy: How to Tame a Spider](#), IPL Newsletter 1, 2001.

“Biting the Hand that Feeds”, Century City Lawyer, November, 2001, with Duncan Cameron.

“Interpreting Amended ASCAP Consent Decree: More Options to Avoid Blanket Royalties”, Entertainment Law and Finance, October, 2001.

UNPUBLISHED ARTICLES

[Financial Remedies for Trademark Infringement](#)

[Trademark Valuation and Market Analysis](#)

[Pharmaceuticals and Compulsory Licensing: Epidemics in the Developing World](#)

[Trademarks, Injunctions, and *eBay v. MercExchange*](#)

[Publicity Rights and Rational Valuation](#)

[Art as Innovation: “The Wind Done Gone” Case](#)

[Market Imperfection and Failed Governance: The Case of Music Performance Rights](#)

[Information Transfer in Cyberspace: Popups, Keying, and Privacy](#)

[Indirect Profits, Causality, and Punitive Damages](#)

[Establishing Indirect Profits Resulting from Copyright Infringement](#)

[Copyright Settlement Strategies from a Damages Expert](#)

OTHER AFFILIATIONS

[Columbia Institute for Tele-Information, Senior Research Fellow, Columbia University, New York, New York](#)

[ecompany Consultants, Special Consultant, Tampa, Florida:](#)

[Giant Steps Media, Affiliate, New York](#)

[Contributor to *MusicDish* E-Journal](#)