

I. JURISDICTIONAL STATEMENT

This case involves the claims of Appellants / Cross-Appellees Guillermo Venegas-Hernandez, Maria Venegas-Hernandez, Rafael Venegas-Hernandez, Yeramar Venegas-Velazques and Guillermo Venegas Lloveras, Inc., (hereinafter “the Venegas Siblings”) against Appellee / Cross-Appellants ACEMLA de Puerto Rico, Inc., and Latin American Music Company (hereinafter “LAMCO,” collectively) for copyright ownership and infringement that arise under the Copyright Act of 1976, as amended, 17 U.S.C. § 101, *et seq.* The district court exercised jurisdiction over these claims pursuant to 28 U.S.C. §§ 1331 and 1338.

This case also involves the claims of the Venegas Siblings against Appellee Peer International Corporation and Southern Music Company (hereinafter “Peer,” collectively) for copyright ownership and infringement that arise under the Copyright Act of 1976, as amended, 17 U.S.C. § 101, *et seq.* and for claims of contract rescission that arise under state law. The district court exercised jurisdiction over the copyright claims pursuant to 28 U.S.C. §§ 1331 and 1338, and over the contract claims pursuant to 28 U.S.C. § 1367.

The district court issued interlocutory opinions and orders on June 23, 2003 [*Dist. Ct. Docket No. 50; Addendum at Tab 1*] (hereinafter “First Order”) and on September 15, 2003 [*Dist. Ct. Docket No. 71; Addendum at Tab 2*] (hereinafter “Second Order”). The district court entered a final opinion and order (hereinafter

“Final Order”) along with a final judgment on May 19, 2004 [*Dist. Ct. Docket Nos. 121 & 122; Addendum at Tab 3*].

Pursuant to Fed. R. App. P. 4(a)(4)(A), the Venegas Siblings timely filed a notice of appeal on June 10, 2004. [*Dist. Ct. Docket No. 125*] Consequently, this Court has jurisdiction over this appeal pursuant to 28 U.S.C. § 1291.

II. STATEMENT OF THE ISSUES

Whether the act of authorizing another to record or publicly perform a copyrighted work, without the authorization of the copyright owner, constitutes an act of copyright infringement?

Whether the act of authorizing another to record or publicly perform a copyrighted work, without the authorization of the copyright owner, along with circumstantial evidence sufficient to prove that the act so authorized “probabl[y]” occurred, is an act of copyright infringement?

Whether the renewal rights in a copyright pass through the estate of a deceased author?

Whether statutory damages for willful infringement must be set at a level sufficient to deter the infringer (and parties similarly situated) from engaging in future acts of the same misconduct?

Whether the complete failure to pay or report royalties to the heirs of a deceased composer for ten years constitutes grounds for the heirs to rescind the deceased composer's transfer of copyright under New York law?

Whether a claim for rescission based upon a ten-year-long failure to pay and report royalties is barred by the statute of limitations under either New York or Puerto Rico law?

Whether the agreements at issue in this case are null and void under Puerto Rico law?

III. STATEMENT OF THE CASE

A. The Venegas Siblings Attempted to Resolve Ownership of the Copyrights at Issue, Which Passed through the Estate of Their Late Father, in the State Courts of Puerto Rico Prior to Initiating the Subject Litigations.

The late Guillermo Venegas-Lloveras (“Venegas-Lloveras” or “GVL”) composed all of the copyrights at issue in this case. As the district court held:

GVL passed away on July 23, 1993, and was survived by his four children ([the Venegas Siblings]) and his widow, Defendant [Lucy] Chavez-Butler. GVL left a will naming Defendant Chavez-Butler as executrix of his estate. Since GVL's death, the rights to GVL's music have been in dispute between [the Venegas Siblings] and Defendant Chavez in the Puerto Rico state courts.

[Final Opinion, Addendum at Tab 3, p. 2] Chavez-Butler, as executrix of the estate, did not complete its distribution for some time after his death. “On September 20, 1995, [the Venegas Siblings] sent Defendant Chavez-Butler a

Proposal which was meant to ‘work on the matters that remain to conclude the distribution of [the Decedent’s] estate.’” *[Second Opinion, Addendum at Tab 2, p. 14.]* The Venegas Siblings continued their efforts to complete the distribution of their father’s estate by meeting with Chavez-Butler. *[Second Opinion, Addendum at Tab 2, pp. 27-28.]* “On March 22, 1996, Defendant Chavez-Butler and [the Venegas Siblings] signed minutes for a ‘Meeting of the Estate of Guillermo Venegas.’” *[Second Opinion, Addendum at Tab 2, p. 16.]* These meeting minutes included a provision that “[t]he art assets (music and literature) will be passed on to the sibling heirs, as provided in the proposal.” *[Id.]*

Unfortunately, this agreement did not end the matter. As the district court summarized:

On October 22, 1997, Defendant Chavez-Butler initiated an action in the state courts of Puerto Rico requesting declaratory judgment as to the ownership of [Venegas-Lloveras’] musical works. On September 22, 1999, the state trial court issued its opinion, finding that [Venegas-Lloveras’] musical work belonged to his children.

[Final Opinion, Addendum at Tab 3, pp. 2-3.] To quote the final decision of the court of appeals in the state court litigation:

[I]t may be definitely concluded that the authorship rights over Mr. Guillermo Venegas’ musical work is a private asset inherent to his person. What the [Chavez] would be entitled to would be to the fruits generated by the exploitation of said rights during the duration of the marriage.

As it well appears in the testament executed by him and in the agreement subscribed by the parties with regard to the division of inheritance, the musical work in question belongs to his children, instituted as heirs in the same.

[Dist. Ct. Docket No. 33, Ex. 1, p. 14-15.]

Chavez subsequently petitioned the Supreme Court of Puerto Rico for review. In that petition, Chavez argued that the state courts lacked jurisdiction over termination and/or renewal rights. *[P. Exhs. 21 & 22.]* Chavez' petition was denied on May 12, 2000. *[Dist. Ct. Docket No. 27, Exh. 4.]*

B. After the Conclusion of the Litigation in the State Courts of Puerto Rico, the Venegas Siblings Initiated an Action to Enforce Their Copyrights.

After the conclusion of the state court litigation, the Venegas Siblings initiated an action against LAMCO, Chavez and Raul Bernard on February 2, 2001 (Dist. Ct. Civ. Case No. 01-1215). The Venegas Siblings also initiated an action against Peer on November 6, 2001 (Dist. Ct. Civ. Case No. 01-2186). These two cases were consolidated. The district court issued the orders identified above and entered final judgment on May 19, 2004. *[Dist. Ct. Docket Nos. 121 & 122].*

C. After Entry of the Final Judgment Against Peer, Peer Moved to Impose Nearly One-Million Dollars of Its Attorney's Fees Against Plaintiffs Because the Monetary Amount of the Final Judgment Did Not Exceed Peer's Pre-trial Offer.

Prior to trial, Peer made an offer of judgment for twenty-five thousand dollars, which was not accepted by the Venegas Siblings. *[Dist. Ct. Docket No.*

123.] Although the district court found that Peer was a willful infringer, it set damages at only \$5,000. Peer then moved for its attorney's fees of almost a million dollars arguing that these are properly awardable as costs under Fed. R. Civ. P. 68 because the Copyright Act defines costs to include attorney's fees. *[Id.]* This motion remains pending in the district court.

IV. STATEMENT OF FACTS

A. Background

The late Guillermo Venegas-Lloveras was an internationally acclaimed composer of Latin songs. “During his lifetime, GVL penned hundreds of songs, many of which were recorded on phono records and registered in the United States Copyright Office.” *[Final Opinion, Addendum at Tab 3, p. 2.]* Among these, he composed *Genesis*, which won the Latin music festival in 1969 and which remains a Puerto Rican classic.

As set forth above, after his death in 1993, the Venegas Siblings worked to resolve ownership issues with his late wife, Chavez, who was the executrix of his estate. The dispute between these parties ultimately was resolved in the state courts of Puerto Rico, which held that his musical works belonged to his children both by operation of his will and by an agreement subscribed amongst the parties. *[Dist. Ct. Docket No. 33, Ex. 1, pp. 14-15.]* The district court, however, held that

this decision applied to songs composed by Venegas which were in their original term of copyright and to songs that entered their renewal term of copyright before his death, but not to songs that entered the renewal term of copyright after his death. [*Second Opinion, Addendum at tab 2, p. 8.*]

After the conclusion of the litigation in the local courts of Puerto Rico, the Venegas Siblings filed a copyright registration which included 196 songs composed by their father. [*P. Exh. 9.*] In addition to these, eight songs that entered their renewal term after Venegas-Lloveras' death have been registered. [*P. Exhs. 23-30.*] The Venegas Siblings have attempted to commercially exploit the works which they own. [*Testimony of Rafael Venegas, Tr. Trans., 834:23-835:17; Testimony of Maria Venegas, Tr. Trans., 532:20-533:1.*] They have not had any success in these endeavors because Peer and LAMCO have made conflicting claims of ownership, and granted licenses or authorizations which have prevented them from doing the same. [*Id.*]

B. LAMCO's Infringing Acts

LAMCO is a music publisher which maintains its principal office in Puerto Rico and specializes in Latin music. LAMCO obtained an assignment from Chavez of songs which she wrongly claimed to own. [*P. Exhs. 14 & 15.*] LAMCO registered 80 of these songs in the Copyright Office and also registered

the assignment from Chavez. [*P. Exhs. 9-15.*] This assignment from Chavez to LAMCO claimed to transfer all songs composed by Venegas regardless of the actual owner (namely the Venegas Siblings) and authorized LAMCO to authorize public performances and copies of songs which the state courts of Puerto Rico determined were owned by the Venegas Siblings. [*Id.*] To date, LAMCO has never reported or shared any portion of the royalty income with the Venegas Siblings even though they have infringed the Venegas Siblings copyrights by authorizing radio stations to broadcast songs owned by the Venegas Siblings.

1. License to BPPR

Pursuant to a stipulation between the Venegas Siblings and LAMCO, the district court found:

[LAMCO] issued a retroactive license to BPPR on November 6, 1998. This license included a mechanical license for *Genesis* for BPPR's Christmas CDs and videos. The total mechanical and synchronization royalties paid by BPPR to LAMCO were \$16,363.47. The total performance royalties paid to [LAMCO] were \$260,432.10. These licenses, however, included *Genesis* and the entire [LAMCO] catalog from the period of 1993-1998.

[*Final Opinion, p. 72.*] This license (along with LAMCO and Peer's conflicting claims of ownership) prevented the Venegas Siblings from pursuing licenses with BPPR. [*Testimony of Maria Venegas, Tr. Trans., 532:20-533:1.*] The district court found that this license and accompanying payment "is evidence of only probable, not actual, infringement." [*Final Opinion, Addendum at tab 3, p. 75.*]

2. Sonolux License

Likewise, by stipulation, the district court found:

LAMCO issued a mechanical license to Sonolux for the songs *Desde que te marchaste* and *No me digas cobarde* for \$67,912.92, which was terminated on or about July 23, 1998, due to [LAMCO and the Venegas Siblings'] double claims. The amount paid by Sonolux was reimbursed to Sony/Sonolux through a deduction from other royalties due and payable to Defendant LAMCO.

[Final Opinion, Addendum at tab 3, pp. 71-72.]

3. Radio Licenses

Finally, the Venegas Siblings and LAMCO stipulated:

Defendants ACEMLA and Bernard issued five 5 blanket performance licenses to five (5) radio stations. The licenses allowed the radio stations to perform any of the songs owned by LAMCO. However, the ACEMLA's performance blanket license does not specifically mention any song, instead a brochure list of composers affiliated to ACEMLA was provided to the various broadcasters. ACEMLA currently licenses only 3 radio stations. ACEMLA was paid a total \$117,261.17 from 1998 to 2002 for these licenses, which is within the applicable statute of limitations. The most recent license was granted on June 1, 2001.

[Stipulated Supplemental Pretrial Order, Dist. Ct. Docket No. 84.] Pursuant to these licenses, the radio stations were authorized by LAMCO to play at least 140 songs (as identified by Chavez assignment to LAMCO) but which were owned by the Venegas Siblings. *[P. Exh. 14.]*

These authorizations (along with Peer and LAMCO's conflicting claims of ownership) prevented the Venegas Siblings from licensing radio stations (or

anyone else for that matter). [*Testimony of Rafael Venegas, Tr. Trans., 834:23-835:17; Testimony of Maria Venegas, Tr. Trans., 532:20-533:1.*]

C. Peer's Infringing Acts

1. Benitez CD

The district court held that Peer willfully infringed the Venegas Siblings rights by its issuance of a license for the song *Genesis*. The facts found by the district court supporting this claim were as follows:

On Friday, May 26, 2000, Ms. Lucecita Benitez performed live at Carnegie Hall. From this performance, BMG released a CD titled "En vivo desde el Carnegie Hall" ("Benitez CD"), which included the song *Genesis*.

The Harry Fox Agency ("Harry Fox") is Peer's agent for issuing mechanical licenses for the manufacture and distribution of phono records in the United States for Peer-owned or controlled songs. Peer had registered its claim to *Genesis* during the original copyright term, and issued a number of mechanical licenses through Harry Fox. Harry Fox is bound to abide by the instructions of its publisher principals, including Peer.

On January 11, 2001, Harry Fox, acting as Peer's agent, issued a mechanical license to BMG for *Genesis* for the Benitez CD. The Harry Fox license authorized the "manufacture and distribution" of the Benitez CD "in the United States, its territories and possessions."

...

Both before and after granting the license to BMG, Peer attempted to obtain Plaintiffs' renewal rights to the song *Genesis* by offering them an administrative deal [which the Venegas Siblings refused]. Peer's efforts to obtain an administrative deal from Plaintiffs were made [at] Mr. Jaegerman's¹ direct, or indirect, instruction.

¹ Mr. Jaegerman is Peer's in-house legal counsel. [*Testimony of Peter Jaegerman, Tr. 374:11-12.*]

Peer did not notify Harry Fox when its ownership claim in the United States for *Genesis* ended on December 31, 1997. After learning of BMG's production and distribution of the Benitez CD, Plaintiffs wrote to BMG, asking that it obtain a license from Plaintiffs, *Genesis*' lawful owners. On April 20, 2001, BMG wrote to both Plaintiffs and Peer informing them that BMG had received conflicting claims of ownership and, therefore, advised both parties that:

BMG U.S. Latin will hold all royalties for this title in suspense until we have received a letter of relinquishment from either one of you or until we receive an official notice of the mutual resolution of the copyright ownership of the title in reference [namely, *Genesis*].

On March 26, 2002, Peer contacted Harry Fox and requested that it stop licensing the song *Genesis* on Peer's behalf.

[Final Opinion, Addendum at tab 3, pp. 18-20]

2. BMI and ASCAP

Although the district court held that Peer authorization through BMI and ASCAP for songs owned by the Venegas Siblings did not constitute copyright infringement, the facts it found supported the Venegas Siblings' legal claims. As set forth in the district court's opinion:

Peer Defendants receive royalties from over a hundred third-party sources, including ASCAP [and BMI]. Peer Defendants entered into a contractual arrangement with ASCAP [and BMI] which authorized ASCAP [and BMI] to issue licenses for the radio broadcast in the United States of musical compositions owned or controlled by Southern Music registered with ASCAP [and BMI]. [Peer's] practice is to register any active song that it owns in ASCAP's [or BMI's] repertoire.

ASCAP [and BMI] ha[ve] issued licenses to radio stations in each of the last six years - 1998 through 2003 - that permit such radio stations to broadcast songs included in ASCAP's [and BMI's] repertoire.

Peer Defendants registered their claim of ownership to the songs *Génesis* and *Apocalipsis* in the ASCAP repertoire prior to those songs entering their respective renewal terms. Peer Defendants' claims to *Génesis* and *Apocalipsis* [and *Amor dulce*] in the United States ended with the original term of copyright for those songs on January 1, 1998, and January 1, 1999, respectively. Peer Defendants attempted - but failed to obtain renewal assignments from Plaintiffs for the songs *Génesis* and *Apocalipsis* [and *Amor dulce*].

Even though Peer Defendants did not receive an assignment from Plaintiffs, in circumstances where a song enters its renewal term and the songwriter's heirs become its owners, it is not Peer Defendants' practice to notify ASCAP [or BMI] that their ownership has ended along with the original term of copyright. Likewise, Peer Defendants do not know and do not attempt to determine whether BMI or ASCAP normally remove Peer Defendants' registrations from the BMI or ASCAP repertoires when Peer Defendants' ownership ends.

According to Peer Defendants, an heir can find out what songs it has registered with BMI and ASCAP by asking Peer Defendants or by going to BMI's and ASCAP's websites. However, a song will be listed only if ASCAP [or BMI] has surveyed or paid royalties for that song.

Plaintiff Rafael Venegas testified that he visited ASCAP's webpage on or about June 30, 2000, performed a search of its on-line repertoire, and that both *Apocalipsis* and *Génesis* appeared in ASCAP's on-line repertoire, with Peer/Southern Music listed as the publisher and administrator for those songs. ... Plaintiff Rafael Venegas also testified that he visited BMI's webpage in 1997 and 2002, and that, on both occasions, the song *Amor dulce* appeared.

[Final Opinion, Addendum at tab 3, p. 58-60.]

Peer believes that it has no obligation to terminate its authorizations through BMI and ASCAP when its ownership ends along with the original term of copyright. *[Testimony of Peter Jaegerman, Tr. 821:23-25.]* Peer takes the position that it is the obligation of the owner of the renewal term of copyright to discover who Peer may have authorized during the original term of copyright and

to terminate those registrations for Peer. [*Testimony of David Jacome, Tr. 609:24-610:4.*]

Only after and only because Peer had been sued in this litigation did Peer request that ASCAP stop licensing *Genesis* on its behalf. [*P. Exh. 167; Testimony of David Jacome, Tr. 628:6-9.*] The request was made over four years after the song entered its renewal term. Peer, however, presented no evidence that it had ever notified ASCAP or BMI that it no longer claims to own or control *Apocalipsis* or *Amor dulce*.

Again, Peer's and LAMCO's licensing of songs which are owned by the Venegas Siblings has prevented them from licensing radio stations (or anyone else for that matter). [*Testimony of Rafael Venegas, Tr. 834:23-835:17; Testimony of Maria Venegas, Tr. 532:20-533-1.*]

D. Facts Supporting Claims for Rescission

1. Background

In 1952, Venegas signed a “blanket agreement” (the “1952 Agreement”) which states, in part, that he “agrees to compose and write music and/or lyrics exclusively for and during the period of this agreement and/or extension thereof, for and on behalf of [Peer].” [*Final Opinion, Addendum at tab 3, p. 5.*] The 1952 Agreement further provided that: (1) Peer would “make reasonable efforts to

publish or exploit certain of the musical compositions composed and written by [GVL],’ and to pay royalties of, *inter alia*, fifty percent of the net [royalties] received;” and (2) the agreement would be construed pursuant to the laws of New York. [*Final Opinion, Addendum at tab 3, p. 6.*] Below Venegas’ signature, additional text was added to the document, which was not initialed or otherwise authenticated by Venegas. [*Appendix at tab 9, p. 11.*] The clause is set in quotation marks in typeset different than the rest of the 1952 Agreement. [*Id.; Final Opinion, Addendum at tab 3, p. 6.*] The added clause stated: “After the expiration date, this contract will continue in force until all monies advanced are recovered” (the “Additional Clause”). [*Id.*]

Peer construed the 1952 Agreement to include the Additional Clause so that the terms of the 1952 Agreement remained in force and bound Venegas until 1964. [*Final Opinion, Addendum at tab 3, p. 41; Testimony of David Jacome, Tr. 617:21-24; Testimony of Peter Jaegerman, Tr. 711:6-7*] From 1952 until 1964, Peer claimed any songs written by Venegas based upon the 1952 Agreement. [*Testimony of David Jacome, Tr. 618:7-19.*] During this same period, Venegas was horribly upset with Peer and refused to provide songs to Peer. [*Final Opinion, Addendum at tab 3, p. 42; Appendix at tab 1, p. 1; Testimony of Peter Jaegerman, Tr. 707:23-708:6.*] Peer then obtained songs written by Venegas by copying

recordings or by hiring musicians to perform his songs; from these recordings and performances Peer would transcribe the songs. *[Id.]*

Sometime in 1964, Venegas contacted Peer to obtain a release from Peer's construction of the 1952 Agreement. *[Appendix at tab 2, p. 3; Testimony of Peter Jaegerman, Tr. 711:9-14.]* At that time, Peer had "leverage" against Venegas because by Peer's construction of the 1952 Agreement, Venegas was still bound to provide any songs he wrote to them and Peer was entitled to obtain those works from recordings and other musicians. *[Testimony of Peter Jaegerman, Tr. 719:11 – 720:14.]*

On April 24, 1964, Mr. Alberto Salinas in Peer's New York Office wrote to Mr. Angel Fonfrias in Peer's Puerto Rico office as follows:

I opportunely received your letter of March 17th, where you informed me that the referenced author is willing to pay us what he owes us in exchange for our giving him his release, as well as your letter of April 15th, asking me to prepare and send you the necessary documents.

With this letter I am sending you the letter in quadruplicate directed to Peer International Corporation, that should be signed by Guillermo Venegas in all its copies. You will notice it is dated April 29th, to allow you time to contact the author, so try to get his letter signed on that date. ...

I have made a study of the works of this author and I find that we have not received various manuscripts, for which reason they have not been registered in Washington. Is there a way you can get said manuscripts without the author suspecting that we need them to register them in Washington? ...

[Appendix at tab 2, p. 3; Testimony of Peter Jaegerman, Tr. 717:15 – 718:5 (underlining supplied).] The referenced letter was dated April 29, 1964, and is

referred to as the 1964 Agreement. *[Testimony of Peter Jaegerman, Tr. 718: 6 –*

11.] The 1964 Agreement stated in pertinent part:

I send you herewith the sum of \$412.65 which represents the unearned balance of the advance which you made to me in connection with my aforesaid contract with you on July 29, 1952.

In consideration of the forgoing payment it is agreed between us that the aforementioned blanket agreement between myself and you dated July 29, 1952, is hereby terminated as of this date, except that you are to continue to own and control all of the rights in the musical compositions set forth ... in accordance with the terms and provisions of my aforesaid agreement with you.

Your signature at the bottom will signify your acceptance of and agreement to all of the terms and conditions set forth in this letter.

[Final Opinion, Addendum at tab 3, pp. 7-8, quoting Peer Exh. 9.] Even after signing the 1964 Agreement, Venegas continued to assert that songs identified therein did not belong to Peer. *[Final Opinion, Addendum at tab 3, p. 17.]* This letter was not properly signed by Peer as required by its own terms and conditions.

[Appendix at tab 3, p. 7.]

Peer subsequently registered renewal rights for eight renewal songs with the Copyright Office for Venegas-Lloveras' songs. *[Peer Defs. Exhs. 27, 30, 33, 36, 39, 42 & 47.]* In connection with these renewal registrations, the assignment documents were not signed by Venegas. Although the Copyright Act requires the

actual signature of the author, these assignments were signed by Peer on behalf of Venegas. [*Peer Defs. Exhs. 28, 31, 34, 37, 40, 43 & 48.*]²

2. Peer Has Not Paid or Reported Royalties Since Venegas' Death.

“Peer Defendants stopped issuing royalty reports in 1993 and did not provide any royalty reports to Plaintiffs until discovery in this litigation. Further, Peer Defendants stopped paying royalties in 1993 and to date has not paid anything to Plaintiffs.” [*Final Opinion, Addendum at tab 3, p. 18 (citations omitted).*] Peer has taken the position that it has no obligation to provide information to the Venegas Siblings. [*Tr. 862:1-2.*]

In 1997, Peer wrote to the Venegas Siblings asking for their assignment of rights to Peer for the following songs:

² The subject renewal registrations and assignments were for: *Cien Mil Corazones*; *Cuando Me Vaya*; *Dejame Qe Te Diga*; *Por El Camino*; *No Te Vayas Asi*; *Una Cancion*; and *Mas Alla*.

Ausencia
Amor mi dulce amor
Borracho sentimental
Borre tu amor
Carino
Llega la noche
Miedo
Nada puedo hacer
Ni a la distancia
No acepto olivido
No, no digas nada
No vuelvas mas

Noche sin ti
Por el camino
Recordacion
Tu partida
Tu bien lo sabes
Alma triste
Apocalipsis
Concierto para decirte adios
Genesis
Hasta que me oiga Dios
Primavera
Raza negra

[Appendix at tab 12, p. 24-33.] Peer explained that these assignment documents “confirm that Peer ... will continue to publish the works written by Guillermo Venegas Lloveras.” *[Id. at p. 24.]* The Venegas Siblings rejected this request by Peer. *[See Final Opinion, Addendum at tab 3, p. 19.]*

V. SUMMARY OF THE ARGUMENT

A. The Act of Authorizing Another to Record or to Publicly Perform a Copyrighted Work, without the Authorization of the Copyright Owner, Constitutes an Act of Copyright Infringement.

Under the Copyright Act, the owner of a copyright has the exclusive right “to do and to authorize” any of the following:

- (1) to reproduce the copyrighted work in copies or phonorecords;
- (2) to prepare derivative works based upon the copyrighted work;
- (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending ...

(4) in the case of literary, musical, dramatic and choreographic works, ... to perform the copyrighted work publicly...

17 U.S.C. § 106. “[A]nyone who violates any of the exclusive rights of the copyright owner ... is an infringer of the copyright.” 17 U.S.C. § 501(a).

Consistent with the plain language of this statute, the Supreme Court has made clear that “the Copyright Act grants the copyright holder ‘exclusive’ rights to use and to authorize the use of his work.” Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 432-33 (1984). “‘Anyone who violates any of the exclusive rights of the copyright owner,’ that is, anyone who trespasses into his exclusive domain by using or authorizing the use of the copyrighted work in one of the five ways set forth in the statute, ‘is an infringer of the copyright.’” Id. at 433 (emphasis supplied).

Contrary to the plain directive of the Copyright Act and the Supreme Court, the district court held that authorization, by itself, is not an exclusive right of the copyright owner. Rather, the district court held that the grant of a license which permits another to publicly perform a copyrighted work (without authorization by the copyright owner) is not an act of infringement unless and until the licensee actually performs the copyrighted work. The district court further held that plaintiffs must present direct evidence of the actual use. Because the district court’s interpretation conflicts with both the Copyright Act and Supreme Court precedent, it should be reversed. Peer’s and LAMCO’s licenses and authorizations

have prevented the Venegas Siblings from exploiting the copyrighted works which they own and so have infringed upon their exclusive right “to authorize.”

B. Renewal Rights in a Copyright Must Pass Through the Estate of a Deceased Author and the State Court of Puerto Rico’s Determination as to the Distribution between the Venegas Siblings and Chavez Should Control.

The Constitution grants Congress the power:

To promote the progress of science and the useful arts, by securing for limited Times to *Authors and Inventors* the exclusive Right to their respective Writings and Discoveries.

Art. I, §8, cl. 8 (emphasis supplied). It does not grant Congress the power to give these exclusive rights to anyone else. When Congress created renewal rights, it included provisions that permit these to pass on to the heirs of an author. These rights, however, must pass through the author’s estate because Congress authority to grant these rights is expressly limited to “Authors and Inventors.”

In the litigation resolving ownership of all of the copyrights in Venegas’ works, the state courts of Puerto Rico held that the musical works in question belong to his children (the Venegas Siblings) instituted as heirs in the same. This decision should have controlled the distribution of renewal rights between the Venegas Siblings and Chavez. The district court erred because it failed to respect the decision of the state courts under the doctrine of *res judicata* and because it held that these rights spring forward to the Venegas Siblings and Chavez outside of

the estate of the author and because it held that these rights were not transferred by an agreement between the parties. Because Congress has power to grant copyrights to authors (and not to any other persons), the district court should have held that the renewal rights pass through the author's estate and that the distribution amongst a renewal class is controlled by his will (as well as by the agreement subscribed between the Venegas Siblings and Chavez). The decision by the state courts of Puerto Rico should have been respected under the doctrine of *res judicata*.

C. A Court Must Consider Whether the Amount of Statutory Damages for Willful Infringement Is Sufficient to Deter the Infringer (and Parties Similarly Situated) from Engaging in Future Acts of the Same Misconduct.

After finding that Peer was a willful infringer, the district court turned to the amount of statutory damages. It considered: “(1) the expenses paid and profits reaped by the defendants in connection with the infringement; (2) the plaintiff's lost revenues as a result of the defendants' conduct; and (3) the infringer's state of mind - whether willful, knowing, or merely innocent.” [*Final Opinion, Addendum at tab 3, p. 65.*] The district court, however, suggested that it did not want to grant the Venegas Siblings “a windfall recovery” and so did not consider whether its award was sufficient to deter Peer (and others similarly situated) from engaging in the same misconduct. [*Final Opinion, Addendum at tab 3, p. 65-66.*] Because

Peer is in the business of music publishing and because Peer represents thousands of composers, deterrence is a factor which cannot be ignored in setting statutory damages.

LAMCO is also in the business of publishing music and the district court should have considered deterrence in setting statutory damages against it as well.

D. The Complete Failure by Peer to Pay and Report Royalties Constitutes Grounds for Rescission under New York and Puerto Rico Law.

While Peer has willfully infringed on the Venegas Siblings' rights, it has also refused, for ten years, to pay or report royalties for the songs allegedly assigned pursuant to the 1964 Agreement. Peer has not paid one cent to the Venegas Siblings. This total failure to pay or report royalties to Venegas' lawful heirs constitutes grounds for rescission under New York and Puerto Rico Law.

E. The Venegas Siblings' Claim for Rescission Is Not Barred by the Statute of Limitations under Either New York or Puerto Rico Law.

As the district court held in its *First Opinion* and in its *Second Opinion*, the Venegas Siblings were actively engaged in settling the distribution of their father's estate with his widow in the time immediately following his death. These efforts

ultimately passed through the local courts of Puerto Rico and finally terminated on September 8, 2000. The Venegas Siblings then initiated the subject litigations.

Until the litigation in the local courts terminated, the Venegas Siblings reasonably did not initiate this litigation because the local court litigation involved questions of ownership antecedent to the Venegas Siblings' claims against Peer and LAMCO. For this reason any statute of limitations should be equitably tolled. Moreover, Peer's failure to pay and report royalties is an ongoing breach of the very contract Peer contends remains in force and so is well within any applicable statute of limitations.

VI. ARGUMENT

A. The Act of Authorizing Another to Record or to Publicly Perform a Copyrighted Work, without the Authorization of the Copyright Owner, Constitutes an Act of Copyright Infringement.

1. Authorization Is Infringement Because It Directly Interferes with the Copyright Owner's Exclusive Rights.

The Copyright Act grants the owner of a copyright of a musical work the exclusive right "to do and to authorize" recordings and public performances. 17 U.S.C. § 106. "[A]nyone who violates any of the exclusive rights of the copyright owner ... is an infringer of the copyright." 17 U.S.C. § 501(a).

For many copyright owners, it is the right to authorize (and not the right to record or perform) which is valuable in the exploitation of their works. This is the

case for the Venegas Siblings. Although they are the heirs of a great musician, they are not themselves musicians and do not themselves perform the copyrighted works. Thus, the valuable right which they possess is not the right to use the copyrighted works but rather the right to authorize others to do so. Where another party exercises this right, it completely destroys the valuable right they possess.

For example, the Venegas Siblings cannot grant licenses to parties that have already obtained a license from Peer or LAMCO for the simple reason that no party will pay twice for the same thing. And, as a practical matter, where two or more parties make conflicting claims of ownership (and make conflicting authorizations) the prudent response by the prospective licensee is to not use the copyright at issue in order to avoid the possibility that he or she takes a license from the wrong party and infringes upon the lawful owner's rights.

Ironically, Peer has made this exact same point in another case that is pending against LAMCO in the same district court, namely Peer, et al. v. Latin American Music Co., Inc., et al., P.R. Dist Ct. Civ. Case No. 96-2312. As a music publisher, Peer collects royalties not from its own performances but rather from authorizing others to record and perform musical works which they own. As Peer explained in the mentioned litigation:

To facilitate the administration and enforcement of the public performance rights in their musical compositions, the [Peer] granted the two major performance rights societies in the United States – BMI and American Society of Composers, Authors and Publishers (“ASCAP”) – the non-

exclusive right to issue public performance licenses for their respective Publishers' Compositions to broadcasters in the United States, including Puerto Rico. Radio stations and other broadcasters who obtain public performance licenses from BMI and ASCAP were, and continue to be, authorized to play the various musical compositions in BMI's and ASCAP's respective repertoires.

[Plaintiffs' Memorandum of Law in Support of Motion for Summary Judgment, P. Exh. 141., p. 2-3 (citations to supporting declarations omitted).] In violation of its exclusive right "to authorize," Peer contended that LAMCO "ha[d] issued public performance licenses to and collected royalties from broadcasters for the works contained in [LAMCO's] Catalog" which were owned by Peer. *[Id.]*

In the same brief, Peer well explained the legal basis for finding that LAMCO's authorization to broadcasters of works owned by Peer constitutes infringement:

While most copyright infringement cases involve unauthorized copying of a plaintiff's work, any unauthorized use or violation of a copyright owner's exclusive rights set forth in § 106 constitutes an act of copyright infringement. Copyright Act, § 501. *See Repp v. Webber*, 914 F.Supp. 80, 83 (S.D.N.Y. 1996) (defendants' unauthorized granting of licenses to third parties to reproduce copies of song constituted infringing acts); *CMAX/Cleveland, Inc. v. UCR, Inc.*, 804 F.Supp. 337, 351, 357 (M.D. Ga. 1992) (defendants infringed plaintiff's copyright in computer software system by asserting ownership over infringing version of software and licensing the right to use the infringing software to third parties). *See generally Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 435 n.17 (1984) ("[A]n infringer is not merely one who used a work without authorization by the copyright owner, but also one who authorizes the use of a copyrighted work without actual authority from the copyright owner."). Accordingly, the unauthorized licensing of a copyrighted composition for radio broadcast, is an act of copyright infringement.

[Id., p. 12 (underlining supplied).]

Finding itself on the other side of a claim for infringement in this case, Peer joined forces with LAMCO to argue (contrary to its position in the mentioned litigation and the Copyright Act) that authorization is not infringement. The district court mistakenly agreed. Lacking any support in the Copyright Act or Supreme Court precedent for the proposition that authorization, by itself, cannot constitute copyright infringement, the district court turned to a pair of district court cases from outside the First Circuit, namely SBK Catalog P'ship v. Orion Pictures Corp., 723 F.Supp. 1053 (D.N.J. 1989) and Danjag, S.A. v. MGM/UA Communications, Co., 773 F.Supp. 194 (C.D.Cal. 1991). These cases, however, are not binding and should not be followed because they conflict with the text of the Copyright Act and with Supreme Court precedent. The right "to authorize" recordings and public performances is one of the exclusive right granted by the Copyright Act. 17 U.S.C. §§ 106 & 501(a).

Because the district court held that authorization was not infringement, it wrongly held that: (1) LAMCO's authorization to BPPR; (2) LAMCO's authorization to Sonolux; (3) LAMCO's licenses to radio stations; and (4) Peer's authorizations to radio stations through ASCAP and BMI were not infringements.

2. Even if Authorization *Simpliciter* Is Not Infringement, Authorization Combined with Circumstantial Evidence That the Act So Authorized “Probabl[y]” Occurred Is Infringement.

Circumstantial evidence is used in every body of law to prove facts at issue. Copyright is no different. As one commentator has put it: “Direct evidence of copying is rare indeed... Usually, copying is proven by circumstantial evidence.” J. Thomas McCarthy, *McCarthy’s Desk Encyclopedia of Intellectual Property*, 2nd Ed. (BNA 1996). After holding that authorization *simpliciter* was not infringement, the district court took a dramatic departure from standard methods of proof and held that a copyright owner who seeks to prove infringement based upon another’s authorization must also provide direct evidence that the act so authorized actually occurred.

For one example, the district court correctly found that LAMCO had issued a retroactive license to BPPR for performances of copyrighted works owned by the Venegas Siblings and the parties stipulated that BPPR paid for this license. The district court, however, refused to hold that this infringed the Venegas Siblings’ copyrights because “the license here is evidence of only probable, not actual, infringement of GVL’s songs.” [*Final Opinion, Addendum at tab 3, p. 75.*] The district court’s departure from mainstream methods of proof for copyright infringement, which permit circumstantial evidence, should be reversed.

a. The Venegas Siblings Established that LAMCO Authorized BPPR's Public Performance of *Genesis*, and Provided Unrebutted Circumstantial Evidence That BPPR Had Performed the Act So Authorized.

“[T]he license” to which the district court referred to was stipulated by the parties as follows:

LAMCO and ACEMLA issued a retroactive license to BPPR on November 6, 1998. This license included a mechanical license for *Genesis* for BPPR Christmas Special's CD and video. The total mechanical and synchronization royalties paid by BPPR to LAMCO was \$16,363.47. The total performance royalties paid to ACEMLA was \$260,432.10, however, this included *Genesis* and the entire ACEMLA's catalog from the period of 1993-1998.

Although LAMCO's catalog was not offered in evidence (presumably because it was not produced by LAMCO during discovery), the license to which the district court and the parties refer identified six songs which BPPR had used and which were included in LAMCO's catalog. These were:

1. “Un Jibarito Terminado” – Baltasar Carrero
2. “Madrigal” – Don Felo
3. “Mi Jaragual” – Don Felo
4. “Ojos Chinos” – Quito Vélez
5. “Genesis” – G. Venegas
6. “Dame la Mano Paloma” – L. Morales Ramos

[P. Exh. 176.] Since LAMCO does not dispute that it granted the license, the only issue is whether BPPR actually used the songs for which it paid. The fact, stipulated by LAMCO, that BPPR paid performance royalties for *Genesis*, logically supports the inference that BPPR played the song – otherwise it would

not need to have taken the retroactive license. This is further supported by the license itself which identifies only six songs which BPPR had used, one of which was *Genesis*, and by the district court's own finding that these songs were played in connection with "a 1993 BPPR Christmas special." (*Final Order*, p. 73) From this evidence, the district court found that the act which was authorized by LAMCO had "probabl[y]" occurred. This logical inference was supported by circumstantial evidence and was not rebutted by any evidence offered by LAMCO.

Given the express admission by LAMCO that it granted a license for *Genesis* and that BPPR paid LAMCO for this license, the conclusion that BPPR used the song for which it paid logically follows. The district court should have found copyright infringement based upon this circumstantial evidence.

b. The Venegas Siblings Established that LAMCO Authorized Sonolux's Use of Two Venegas' Songs, and Sonolux's Payment for Such Use Provided Unrebutted Circumstantial Evidence That Sonolux Had Performed the Act So Authorized.

Again, pursuant to the parties' stipulation, the district court found:

LAMCO issued a mechanical license to Sonolux for the songs *Desde que te marchaste* and *No me digas cobarde* for \$67,912.92, which was terminated on or about July 23, 1998, due to [LAMCO and the Venegas Siblings'] double claims. The amount paid by Sonolux was reimbursed to Sony/Sonolux through a deduction from other royalties due and payable to Defendant LAMCO.

[*Final Opinion, Addendum at tab 3, p. 71-72.*] LAMCO freely admits it issued a mechanical license for songs which are owned by the Venegas Siblings. It also freely admits that it received royalties from that mechanical license. The logical inference is that Sonolux made mechanical copies of the songs otherwise it would not have paid for the license. The district court, however, found no infringement.

c. The Venegas Siblings Established that Peer, through BMI, Authorized Radio Stations in the United States to Publicly Perform *Amore Dulce*, and Provided Unrebutted Circumstantial Evidence That This Song Had Been Broadcast Pursuant to That Authorization.

Based primarily upon Peer's own admissions, the district court found that Peer, through BMI, had authorized radio stations in the United States to broadcast *Amore dulce*. [*Final Opinion, Addendum at tab 3, pp. 22-24 & 57-59.*] Peer's own witness testified that the Venegas Siblings could determine whether Peer had registered a song with BMI by visiting BMI's on-line database and that Peer generally registered songs if they were active. [*Testimony of David Jacome, Tr. 610:17-611:1.*] The Venegas Siblings offered unrebutted evidence that *Amore dulce* appeared in BMI's on-line catalog in 1997 and that it again appeared in 2002. [*Testimony of Rafael Venegas, Tr. 227:2-8 & 228:15-17.*] The district court's infringement analysis skips this circumstantial evidence showing that the

act so authorized had occurred [See *Final Opinion, Addendum at tab 3, p. 57-63*] and so reaches the wrong conclusion.³

3. Chavez Is Jointly Liable for LAMCO's Infringement.

As set forth above, Chavez, by and through her assignment to LAMCO expressly authorized it to grant licenses for public performances and mechanical copies. She authorized LAMCO's infringement. In other words, but for Chavez' authorization, LAMCO's infringement would not have taken place. Consequently, Chavez is jointly and severally liable for the infringement.

B. Copyright Renewal Rights Must Pass through an Author's Estate.

The Constitution grants Congress the power:

To promote the progress of science and the useful arts, by securing for limited Times to *Authors and Inventors* the exclusive Right to their respective Writings and Discoveries.

Art. I, §8, cl. 8 (the "Patent and Copyright Clause") (emphasis supplied). The Supreme Court has consistently held that this is both "a grant of power and a limitation." Graham v. John Deer Co. of Kansas City, 383 U.S. 1, 5 (1966); *see*

³ With respect to ASCAP, the district court found that the Venegas Siblings' proof that *Genesis and Apocalypse* had been broadcast was rebutted because the proffered proof was from Puerto Rico and Peer's registration with ASCAP had excluded Puerto Rico. This, however, is not the case for Peer's registration of *Amor Dulce* with BMI. This distinction is not addressed by the district court. [See *Final Opinion, Addendum at tab 3, p. 60.*]

also The Trademark Cases, 100 U.S. 82 (1879) (holding that Congress could not enact legislation under the Patent and Copyright Clause to grant protections for trademarks because the power is limited to “Writings and Discoveries,” *i.e.* copyrights and patents)⁴; Higgins v. Keuffel, 140 U.S. 428, 430-431 (1891) (holding that Congress could not enact legislation under the Patent and Copyright Clause to grant protections for product labels again because the power is limited to “Writings and Discoveries”).

Pursuant to this limited authority, Congress has created renewal rights under §304(c) of the Copyright Act. While copyrights originally attach to the author, if he or she is not living, they pass to “the widow, widower, or children of the author” under this section. The district court, however, took a different tack. It refused to accept the distribution made amongst the renewal class pursuant to Venegas’ will and proceed to fashion what it deemed an equitable distribution of the renewal rights amongst the class of persons entitled to receive such rights. This *ad hoc* determination by the district court should be reversed. Absent a conflict with the Copyright Act, the distribution amongst a renewal class should be determined by the author pursuant to the terms of his will as determined by the state courts which have exclusive jurisdiction over matters concerning probate.

The state court decision by distributing Venegas’ estate held that:

⁴ The present trademark laws, 15 U.S.C. §1051 *et seq.*, were enacted under Congress’ broader Commerce Clause Power.

[I]t may be definitely concluded that the authorship rights over Mr. Guillermo Venegas' musical work is a private asset inherent to his person. What the [Chavez] would be entitled to would be to the fruits generated by the exploitation of said rights during the duration of the marriage.

As it well appears in the testament executed by him and in the agreement subscribed by the parties with regard to the division of inheritance, the musical work in question belongs to his children, instituted as heirs in the same.

[*Dist. Ct. Docket No. 33, Ex. 1, p. 14-15.*] In the present absence of any conflict with the Copyright Act, this distribution should control. The federal courts have no jurisdiction over probate matters. *See Mangieri v. Mangieri*, 226 F.3d 1, 2 (1st Cir. 2000) (applying probate exception to diversity jurisdiction). This distribution should be controlled by state laws of probate and the final decision of the state courts of Puerto Rico should be respected under the doctrine of *res judicata*.

1. Supreme Court Precedent Demonstrates That the Distribution of Renewal Rights Amongst a Class Should Be Determined Pursuant to an Author's Will.

Although the Supreme Court has not directly addressed how renewal rights are distributed amongst a renewal class, it has addressed §304(c) of the Copyright Act at length in the related context of determining the persons who *may* share in the renewal rights. In *De Sylva v. Ballentine*, 351 U.S. 570 (1956), the Supreme Court considered the question of whether the widow's claim to a renewal copyright has priority over those of an author's children. In answer to this question, the Supreme Court held that "the widow and children of the author *succeed* to the right

of renewal as a class.”⁵ 351 U.S. at 580 (emphasis supplied). The Supreme Court then considered whether an illegitimate child qualified as a child under the Copyright Act of 1909. In answering this question, the Supreme Court explained:

The scope of a federal right is, of course, a federal question, *but that does not mean that its content is not to be determined by state, rather than federal law*. This is especially true where a statute deals with a familial relationship; there is no federal law of domestic relations, which is primarily a matter of state concern.

Id. (citations omitted). The Supreme Court subsequently concluded:

Considering the purposes of [renewal rights], we think it sufficient that the status of the child is that described by [state law] is to provide for the family of the author after his death. Since the author cannot assign his family's renewal rights, *[the renewal provision] takes the form of a compulsory bequest of the copyright to the designated persons. This is really a question of the descent of property*, and we think the controlling question under state law should be whether the child would be an heir of the author. ... Finally, there remains the question of what are the respective rights of the widow and child in the copyright renewals, once it is accepted that they both succeed to the renewals as members of the same class. Since the parties have not argued this point, and neither court below has passed on it, we think it should not be decided at this time.

Id. at 582 (citations omitted). The district court's opinion completely fails to recognize that any statutory right the widow and children may have derive from the author's right to his writings, which pass as property through his estate.

Again, just as there is no federal law of domestic relations, there is no federal law of probate. Where the Copyright Act is completely silent as to the

⁵ As used in this context, “succeed” means inherit. See Webster's Unabridged Dictionary, (1976).

distribution made between the members of the renewal class, this question should be decided in accordance with state law. American jurisprudence consistently recognizes the doctrine of testamentary freedom. Absent some clear intent by Congress, the Copyright Act should not be interpreted to completely strip an author of his right to decide how his property will be distributed amongst the members of the renewal class.

In Fred Fisher Music v. M. Witmark & Sons, 318 U.S. 643 (1943), the Supreme Court traced the genesis of renewal copyrights. It found that the provision authorizing an author's heirs to register the author's renewal rights developed from a manifest unfairness in the Copyright Act of 1790. Under its provisions, the copyright would fall into the public domain if the author did not survive the original term. Congress remedied this unfairness through the Copyright Act of 1831, so that the author's right to the renewal term "*could pass to the author's widow or children.*" Id. at 650.

The way, of course, that an author's property *passes* to his heirs is through his estate under the terms of his will or through state laws of intestate succession. The congressional report on the Copyright Act of 1831 supports this interpretation. As quoted by the Supreme Court, it explains that:

In the United States, by the existing laws, a copy- right is secured to the author, in the first instance, for fourteen years; and if, at the end of that period, he be living, then for fourteen years more; but, if he be not then living, the copy-right is determined, although, by the very event of the death

of the author, his family stand in more need of the only means of subsistence ordinarily *left* to them.'

Id. *citing* Register of Debates, vol. 7, appendix CXIX. And, again, the way property is *left* to an author's family is through state laws of probate and intestate succession.

2. The Text of the Constitution Grants Congress the Power to Secure Copyrights to “Authors and Inventors,” not Widows.

From the very beginning of our Constitutional history, members of the legislative and judicial branches our government have recognized that Congress' power to grant patents and copyrights is limited to “Authors and Inventors.” In the very first annual address to Congress, President George Washington urged the passing of a patent law that would grant rights not only to “Inventors” but also to importers of new products from abroad. Pres. George Washington, First Annual Address, January 8, 1790 (Pres. George Washington stating: “I cannot forbear intimating to you the expediency of giving effectual encouragement ... to the introduction of new and useful inventions from abroad [and] to the exertions of skill and genius in producing them at home...”).⁶ The First Congress did enact a patent law, Graham, 383 U.S. at 6, but it did not heed President Washington's call to grant rights to importers of foreign inventions. *See* Edward C. Waltersheid, To Promote the Progress of Useful Arts: American Patent Law Administration, 1798-

⁶ Available at: <http://www.yale.edu/lawweb/avalon/presiden/sou/washs01.htm>.

1836, 109-143 (1998) (detailing the events contemporaneous to the enactment of the first patent act).

While that provision may have helped a struggling new economy, many in Congress believed that it exceeded their constitutional powers under the text of the Patent Clause to grant patents to inventors. Id. at 127 (citing Letter from Coxe to Madison (Mar. 21, 1790), in The Papers of James Madison at 113-114 (Charles F. Hobson et al. eds., 1981)). At that time it was not clear whether Congress or the Supreme Court would be responsible for deciding the Constitutional limits on Congress' power as Marbury v. Madison, 5 U.S. 137 (1803), was decided thirteen years later. Justice Story later affirmed Congress' view that the Patent Clause "in its terms, is confined to authors and inventors; and cannot be extended to the introducers of any new works or inventions." III Joseph Story, Commentaries on the Constitution of the United States, 49 (Fred B. Rothman & Co. ed., 1991).⁷

Of course an importer lawfully may obtain rights to a patent. For example, an importer could purchase a patent from an inventor. An importer could even inherit a patent from an inventor. The point, however, is that any rights an importer might have to a patent are derived, and necessarily pass, from the inventor. This same analysis applies with equal force to copyrights. The

⁷ Justice Story's views on the Patent and Copyright Clause deserve special consideration since Justice Story also happened to hear seventeen of the first fifty-eight known U.S. patent cases sitting as a circuit court judge and served on the Supreme Court from 1811 to 1845.

constitutional text grants Congress power to secure rights to “Authors and Inventors.” To the extent a widow or a child (or any other successor in interest) may obtain ownership of a copyright, such ownership must be derived, and necessarily pass, from an author. To hold otherwise would create a conflict with the plain text of the Constitution.

3. Renewal Rights Must Be Determined Against the Backdrop of the Longstanding American Tradition of Testamentary Freedom.

United States Estates Law revolves around the policy of testamentary freedom. Just as each individual has the freedom to transfer property *inter vivos*, he or she has equal freedom to determine who will receive property upon his or her death.

Give Me Liberty and Give Me Death: The Conflict Between Copyright Law and Estates Law, 4. J. Intell. Prop. L. 163 (1995). Testamentary freedom is the longstanding policy of American jurisprudence. *See Id.* at 177 (quoting Adam Smith that “[t]o give a man power over his property after his death is very considerable, but it is nothing [compared] to an extension of this power to the end of the world.”). Testamentary freedom is also the backdrop against which Congress enactment of renewal rights must be measured. *Cf. Graham*, 383 U.S. at 5 (interpreting patent laws against the historical “backdrop” of earlier English practices).

By enacting the renewal provisions of copyright, Congress did not intend to completely strip an author of his testamentary freedom to determine who receive the legacy of his efforts. Rather, Congress merely intended to assist an author in providing for his family upon death without specifying a specific distribution to be made amongst his widow and/or children. Where an author had a wife and an infant, it must be within his power to bequeath all of his property to his wife for the support of the family he has left behind. This is a decision properly left to the author, and there is no evidence anywhere that Congress intended to interfere with author's right to make this decision. Just as an author should be able to enjoy the fruits of his labor during his lifetime, he should be able to decide who will succeed him in their enjoyment upon his death. This is a judgment best made by the author and owner of the intellectual property. This is the bedrock principal of the American tradition of testamentary freedom.

While Congress may, of course, put conditions upon the grant of copyrights, its intent to violate this longstanding American tradition must be clear. Certainly, Congress can condition the grant of a copyright upon the requirement that an author pass his renewal rights to his widow and/or children. In fact, that is just what Congress did. However, in the present absence of congressional intent to completely strip an author of his testamentary freedom, the renewal rights should be interpreted so that the author retains his freedom to distribute his property

amongst this class. Here, Congress meant to provide a mechanism so that an author could pass the benefit of renewal rights to his widow and/or children but never intended to mandate how those rights would be distributed. That determination is for the author. Since there are no federal laws of probate, this distribution must be determined under state laws. It should be controlled by the decision in the state court of Puerto Rico.

C. The District Court’s Determination of Statutory Damages Is Insufficient to Deter Peer (and Other Music Publishers) from Repeating Its Willful Infringement.

Peer is engaged in the business of publishing music. It represents thousands of composers and licenses “hundreds of thousands of works.” *[Tr. 862:23-863:4.]* From these efforts it collects “large” amounts of royalties. *[Id.; P. Exh. 189.]* Peer spent nearly a million dollars in a failed attempt to defend itself in the district court against a claim of willful infringement. *[Dist. Ct. Docket No. 123.]* Even through its closing arguments at trial Peer contended that “[i]t ha[d] not committed a single act of infringement.” *[Tr. 865:12-13.]* After entry of the five-thousand dollar judgment for willful infringement Peer has argued in the district court that it was successful in this action and so is entitled to attorney’s fees. *[Dist. Ct. Docket No. 123.]* Obviously, a five-thousand dollar judgment is not sufficient to deter Peer as it believes it has succeeded in the action.

The district court had before it evidence that Peer collects “large” amounts of royalties from “hundreds of thousands of works.” The district court, however, refused to consider whether the amount it imposed was sufficient to deter Peer (and other music publishers) from engaging in the same misconduct because it apparently wanted to avoid awarding a windfall recovery to plaintiffs. [*See Final Opinion, Addendum at tab 3, p. 65-66*].

In determining the amount of statutory damages, the district court must consider whether its award will have a deterrent effect upon defendant and others similarly situated. *See Video Cafe v. De Tal*, 961 F.Supp. 23, 26 (D.P.R. 1997) (citing *Fitzgerald Pub. Co. v. Baylor Pub. Co.*, 807 F.2d 1110, 1117 (2nd Cir. 1986)). “Even for uninjurious and unprofitable invasions of copyright the court may, if it deems it just, impose a liability within statutory limits to sanction and vindicate the statutory policy.” *F.W. Woolworth Co. v. Contemporary Arts, Inc.*, 344 U.S. 228, 233 (1952). This policy of discouraging infringement applies with special force where the defendant is engaged in the business of exploiting copyrights. This is a point Peer itself made - and won - in another copyright infringement case. *See Peer Int’l Corp. v. Pausa Records Inc.*, 909 F.2d 1332, 1337 (9th Cir. 1990) (awarding maximum statutory damages in favor of Peer Int’l Corp. and against Pausa Records for a total of \$4 Million). The district court erred by not considering this factor in its determination of statutory damages.

This district court likewise failed to consider whether it should have increased statutory damages against LAMCO as a deterrent against its future misconduct. [*Final Opinion, Addendum at tab 3, p. 74.*] Since LAMCO is engaged in the business of music publishing and was fully aware of the state court decision awarding the Venegas Siblings the ownership of their father's music, deterrence is a factor which the district court must consider in setting such damages. This is especially true, where as here, the infringer has engaged in multiple acts and has persisted in its infringement even after the Venegas Siblings requested that it stop. The district court simply failed, without explanation, to consider this factor.

D. Peer's Conduct Provides Grounds for Rescission under New York and Puerto Rico Law.

While Peer has willfully infringed on the Venegas Siblings' rights, it has also refused, for ten years, to pay or report royalties for the songs it claims were assigned pursuant to the 1964 Agreement. Peer stopped paying after Venegas' death and to date has not paid the Venegas Siblings one cent. This total failure to pay or report royalties to Venegas' lawful heirs constitutes grounds for rescission under New York and Puerto Rico Law. *See Nolan v. Sam Fox Pub. Co., Inc.*, 499 F.2d 1394, 1399 (C.A.N.Y. 1974); Federal Deposit Insurance Corp. v. Rivera-Arroyo, 645 F.Supp. 511 (D.P.R. 1986).

The district court relied upon Cafferty v. Scotti Brothers Records, Inc., 969 F.Supp. 193 (S.D.N.Y. 1997). According to the district court, this case held that “where the defendant had failed to pay royalties to plaintiff for an entire three-year period, the court denied plaintiff’s request for rescission because there had been partial payment, explaining ‘[t]he law is clear ... that rescission is not an appropriate remedy in this case.’” [*Final Opinion, Addendum at tab 3, p. 39.*] The district court’s reading of this case omits an important distinction. In Cafferty the defendant tendered at least partial payments for past-due royalties and interest. Cafferty, 969 F.Supp. at 204. Here, as the district court found, Peer did not pay or report royalties for ten years. Royalty reports were first provided through discovery in this litigation and to this day Peer has not paid one cent in royalties to Plaintiffs.

Moreover, there is no reasonable way that the two parties could continue in a contractual relation. Peer has effectively taken the position that the Venegas Siblings have no right to information (by refusing to provide royalty reports until discovery in this litigation) and refused to provide anything to prove their claims of ownership for over ten years time (other than a request to obtain assignments for the songs at issue, the 1952 Agreement which does not name any songs, and an assignment for *Genesis* which Peer now admits it does not own because the song has entered the renewal term). In addition, the original basis for Peer’s claim to

these songs is built upon a house of cards. Peer relies upon a document it prepared simultaneously to Peer's plan to get the songs at issue "without the author suspecting." [*P. Exh. 42, Appendix at tab 2, p. 3.*]

E. The Venegas Siblings' Claim for Rescission Is Not Barred by the Statute of Limitations under Either New York or Puerto Rico Law.

As the district court held in its *First Opinion* and in its *Second Opinion*, the Venegas Siblings were actively engaged in settling the distribution of their father's estate with his widow in the time immediately following his death. These efforts ultimately led through the state courts of Puerto Rico and finally terminated on May 12, 2000. [*Dist. Ct. Docket No. 27, Exh. 4.*] The Venegas Siblings then initiated the subject litigations.

Until the litigation in the state courts terminated, the Venegas Siblings reasonably did not initiate this litigation because the state court litigation involved questions of ownership antecedent to the Venegas Siblings' claims against Peer. For this reason any statute of limitations should be equitably tolled. See Stone v. Williams, 970 F.2d 1043, 1051-52 (2nd Cir. 1992), *cert. denied*, 508 U.S. 906 (1993).

More importantly, however, whether the statute of limitations is tolled or not, Peer's failure to pay royalties is an ongoing breach which warrants rescission.

Pursuant to the terms of the 1952 agreement, Peer must pay and report royalties on February 15th and August 15th of each year. From the death of their father to date, Peer has failed to do so. This is an ongoing, repeated and complete breach which is well within any statute of limitations.

Finally, the district court erred by applying the New York statute of limitations rather than the Puerto Rico statute of limitations, which extends 15 years. The district court held that pursuant to the terms of the 1952 agreement, New York law applied. Under New York law, a contractual choice of law provision does not determine the applicable statute of limitations. This is determined pursuant to the law of the forum court. Ins. Co. of N. Am. v. ABB Power Generation, 925 F.Supp. 1053, 1059 (S.D.N.Y. 1996). For contract claims arising in Puerto Rico (which is the subject forum), Puerto Rico's fifteen year statute of limitations applies. Ocaso v. Puerto Rico Maritime Shipping Authority, 915 F.Supp. 1214, 1256, n. 5 (D.P.R. 1996).

VII. STANDARD OF REVIEW

Legal determinations are reviewed *de novo*; underlying factual findings are reviewed for clear error. See, e.g., Tamco Roofing Prods. Inc. v. Ideal Roofing Co., 282 F.3d 23, 34 (1st Cir. 2002).

VIII. DISCUSSION OF THE ISSUES

A. The District Court Erred As a Matter of Law in Its Determination That Authorization Is Not Infringement.

The errors from which the Venegas Siblings appeal are errors of law and should be reviewed *de novo*. Had the district court properly held that authorization is infringement, then LAMCO's license to: (1) radio stations; (2) BPPR for public performances; and (3) Sonolux would have been infringement. Likewise, Peer's authorization to radio stations through BMI and ASCAP would have been infringement.

B. Plaintiffs May Rely upon Circumstantial Evidence to Prove Infringement.

Again, the district court correctly found that LAMCO had issued a retroactive license to BPPR for performances of copyrighted works owned by the Venegas Siblings and the parties stipulated that BPPR paid for this license. The district court, however, refused to hold that this infringed the Venegas Siblings' copyrights because "the license here is evidence of only probable, not actual, infringement of GVL's songs." [*Final Opinion, Addendum at tab 3, p. 75.*] This was a clear error of law.

Like every other body of law, circumstantial evidence may be used to prove an element of the claim. The district court properly held that the circumstantial

evidence demonstrated “probable ... infringement.” This was not in any way rebutted by LAMCO. Consequently, the district court should have found infringement.

Had the district court properly held that infringement can be proved by circumstantial evidence then LAMCO’s license to: BPPR for public performance and to Sonolux would have been infringement. Likewise, Peer’s authorization to radio stations through BMI would have been infringement.

C. The Copyright Acts Provision of Renewal Rights Did Not, As a Matter of Law, Completely Strip an Author of the Right to Chose His or Her Successors and the District Court Should Have Respected the Decision of the State Court as to the Distribution Between Chavez and the Venegas Siblings.

The renewal rights must pass through the estate of the author. This is a question of law which should be clearly decided in favor of the Venegas Siblings. Because the state courts of Puerto Rico determined that the operation of Venegas-Lloveras’ will left his musical works to his children (and not his widow), this determination should have controlled the distribution amongst this renewal class.

D. In Setting Statutory Damages against a Company Engaged in the Business of Publishing Music, the District Court Must Consider Whether the Amount Is Sufficient to Deter It (and Others Similarly Situated) from Repeating the Same Misconduct.

Peer is in the business of publishing music and licenses literally hundreds of thousands of works. The district court found that it was a willful infringer but did not consider whether the statutory damages it imposed were sufficient to deter Peer (and other music publishers) from the same conduct. As a matter of law, the district court must consider this factor and its refusal to do so should be reversed.

E. A Total Failure to Pay or Report Royalties for Ten Years Provides Grounds for Rescission.

When viewed as a whole, Peer's failure to pay and report royalties pursuant to the terms of the contracts Peer alleges are in place (while at the same time infringing upon copyrights owned by the Venegas Siblings) demonstrates a complete failure on its part. Peer's obligation to pay royalties pursuant to the contracts it alleges continue to this day. As a matter of law, its continued failure to pay such royalties provides grounds for rescission of the contracts Peer alleges exist under the laws of New York and Puerto Rico.

IX. CONCLUSION

For the reasons set forth above, the Venegas Siblings respectfully request that the Court of Appeals:

1. Hold that authorization (or, in the alternative that authorization combined with un rebutted circumstantial evidence that the authorized act occurred)

constitutes infringement and remand with instructions to district court to determine the amount of damages and deductible expenses based upon the evidence presented at trial.

2. Hold that the ownership of the copyrights at issue are owned by the Venegas Siblings under the doctrine of *res judicata* or, in the alternative, that the renewal rights pass through the estate of a deceased author and so the distribution amongst a renewal class is determined by the operation of the author's will and so declare that the renewal rights at issue are owned in their entirety by the Venegas Siblings.

3. Hold that in setting statutory damages the district court must consider whether the amount is sufficient to deter the willful infringer (and others similarly situated) and remand with instructions to the district court to determine statutory damages based upon this additional factor and the evidence presented at trial.

4. Hold that 1952 Agreement and 1964 Agreement are invalid and/or have been rescinded and for the purpose of assigning songs.

5. Hold that Chavez is jointly and severally liable with LAMCO.

Respectfully submitted,

December , 2004

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CERTIFICATE OF COMPLIANCE

I hereby certify that this brief contains 11,790 words as determined by a computer-based word count. The typeface is 14 point Times New Roman. Accordingly, the brief complies with the typeface and length limitations of FRAP 32(a)(7).

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I certify that I caused to be served copies of the attached brief and the accompanying appendix by first class mail, postage prepaid, addressed as follows:

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APPELLANTS' ADDENDUM

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