IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF PUERTO RICO

HILDA CURET-VELÁZQUEZ, et al., **Plaintiffs,** **v.** **ACEMLA DE PUERTO RICO, INC., et al.,** **Defendants.**	**Civil No. 06-1014 (ADC)**

OPINION & ORDER

I. Procedural Background

Plaintiffs, Hilda Curet-Velázquez ("Ms. Curet"), Eduardo Curet-Velázquez, and Hilda Velázquez-Coto (collectively, "plaintiffs"), filed this action against defendants, ACEMLA de Puerto Rico, Inc. ("ACEMLA") and Latin American Music Co., Inc. ("LAMCO") (collectively, "defendants") for violations of the Copyright Act of 1976, as amended, 17 U.S.C. § 101, *et seq*. ("Copyright Act"). **Docket No. 1**. During the course of the litigation of this claim, plaintiffs submitted two motions for summary judgment (**Docket Nos. 12 & 55**), which were referred to Magistrate-Judge Bruce J. McGiverin ("Magistrate-Judge") for a Report and Recommendation ("R & R"). The Magistrate-Judge issued a report which recommended granting in part and denying in part plaintiffs' motions. On August 26, 2008, the court adopted the R & R in full. **Docket No. 82**.

The court held a bench trial on March 19, 20, 23, 24, and 25, 2009. At the beginning of trial, the court reiterated its summary judgment findings as to defendants' copyright infringement of the following three compositions: "*Pueblo Latino*" on, at least, two (2) occasions; "*Periódico de Ayer*" on, at least, one (1) occasion; and "*Planté Bandera*" on, at least one (1) occasion. When questioned as to whether plaintiffs were going to present any further evidence to prove more infringements of these three compositions or for two other compositions ("*A la Yumbae*" and "*Distinto y Diferente*") alleged in the complaint, plaintiffs stated they were only trying the infringements of the three compositions disposed of through summary judgment. **Docket No. 124**, at 3. Thus, the issues to be resolved are whether

defendants' conduct constitutes a willful infringement or whether the same is a breach of contract so material, adverse and substantial as to cause a rescission of their contractual relationship and what damages should be awarded to plaintiffs.

During the course of trial, the following witnesses testified: Ms. Hilda Curet-Velázquez ("Ms. Curet"); Mr. Richie Viera ("Mr. Viera"; Mr. Felix Norman Román-Negrón ("Mr. Román" or "the expert"), and defendant Mr. Luis Raúl Bernard ("Mr. Bernard"). At the conclusion of trial on March 25, 2009, the court heard each parties' closing arguments. During the course of trial and in its post-trial brief, defendants challenge and move to strike plaintiffs' expert's testimony and report. The court will briefly entertain defendants' challenges as to the expert's qualifications and report.

II. Expert's Qualifications and Report

Defendants challenged Mr. Román's qualifications to serve as an expert in copyright infringement as well as the methodology he used in his report to determine plaintiff's damages. After hearing defendants' arguments and Mr. Román's qualifications and experience in the music industry, the court found him qualified to serve as an expert in accounting, and that he possessed both the knowledge and reason to interpret the defendants' royalty reports and statements. Thus, the court denied defendants' oral motion to strike testimony. **Docket No. 129.** Again, at closings and in its post-trial brief, defendants reiterate their request that Mr. Román's testimony and report be stricken from the record. **Docket No. 139.** The brunt of defendants' objections go to the value theories the expert developed to assess plaintiffs' damages. In essence, Mr. Román's report reflects two value theories: (1) the Opportunity Cost Theory "OCT" and (2) the Conclusion of Value Theory "CVT". While admitting the expert's testimony and report, the court reserved its ruling on the expert's OCT value theory. Since the foundation for plaintiffs' case-in-chief relies on the expert's testimony, report and findings, the court will address these challenges first.

A. The *Daubert* Standard

The admissibility of expert testimony is analyzed under Rule 702 of the Federal Rules of Evidence, which provides:

[i]f scientific, technical, or other specialized knowledge will assist the trier of

> fact to understand the evidence or to determine a fact in issue, a witness qualified as an expert by knowledge, skill, experience, training, or education, may testify thereto in the form of an opinion or otherwise, if (1) the testimony is based upon sufficient facts or data, (2) the testimony is the product of reliable principles and methods, and (3) the witness has applied the principles and methods reliably to the facts of the case.

Fed. R. Evid. 702. Pursuant to *Daubert v. Merrell Dow Pharms., Inc.*, the district court must perform a gate-keeping function to ensure that "any and all scientific testimony or evidence admitted is not only relevant, but reliable." 509 U.S. 579, 597 (1993); *see also Kumho Tire Co. v. Carmichael*, 526 U.S. 137, 147-49 (1999) (expressly extending *Daubert* to technical and other specialized expert testimony); *Beaudette v. Louisville Ladder, Inc.*, 462 F.3d 22, 25 (1st Cir. 2006). "Expert testimony must be reliable, such that 'the reasoning or methodology underlying the testimony is scientifically valid and . . . that reasoning or methodology properly can be applied to the facts in issue.'" *U.S. v. Vargas*, 471 F.3d 255, 261-62 (1st Cir. 2006) (*citing Daubert*, 509 U.S. at 592-93). Further, the proposed expert testimony must also be relevant "not only in the sense that all evidence must be relevant, but also in the incremental sense that the expert's proposed opinion, if admitted, likely would assist the trier of fact to understand or determine a fact in issue." *Id.* (citing *Ruíz-Troche v. Pepsi Cola of P.R. Bottling Co.*, 161 F.3d 77, 80 (1st Cir.1998); *Daubert*, 509 U.S. at 591-92).

Proponents of the evidence, however, do not have to demonstrate that the assessments of their experts are correct, only that their opinions are reliable. *Ruíz-Troche*, 161 F.3d at 85 ("*Daubert* neither requires nor empowers trial courts to determine which of several competing scientific theories has the best provenance."). Although the "focus [of the court] must be solely on principles and methodology, not on the conclusions that they generate," *Daubert*, 509 U.S. at 595, "conclusions and methodology are not entirely distinct from one another." *General Elec. Co. v. Joiner*, 522 U.S. 136, 146 (1997). "[N]othing in either *Daubert* or the Federal Rules of Evidence requires a district court to admit opinion evidence which is connected to existing data only by the *ipse dixit* of the expert. A court may conclude that there is simply too great an analytical gap between the data and the opinion proffered." *Id.*

Finally, the proponent has the burden of establishing that the pertinent admissibility requirements are met by a preponderance of the evidence. *See Daubert*, 509 U.S. at 592 n. 10

("These matters should be established by a preponderance of proof.") (*citing Bourjaily v. United States*, 483 U.S. 171, 175-76 (1987)); *see also* Fed. R. Evid. 702 Advisory Committee's Note ("[T]he admissibility of all expert testimony is governed by the principles of Rule 104(a). Under that Rule, the proponent has the burden of establishing that the pertinent admissibility requirements are met by a preponderance of the evidence.").

B. Discussion

At trial, the court heard Mr. Félix Román's qualifications and experience as a Certified Public Accountant ("C.P.A.") and his experience within the music industry. Trial Transcript ("TT"), March 23, 2009, P95-100. He has been a C.P.A. since 1995 and has been involved in the music industry for approximately fifteen (15) years. *Id.* His experience ranges from making record deals to handling promoters, concerts, managing composer's music catalogs and royalty payments. He was hired by Disco Hits to serve as en expert in a copyright litigation case. *Id.* Although he has never served as an expert in federal court, he has served as an expert in other music industry cases that were settled before going to trial. *Id.* As highlighted above, his experience and knowledge of the music industry was evidenced by his background within this particular field. His responses to counsel and the court's questions were clear, convincing and logical. His demeanor and composure throughout his testimony made him a credible expert witness. In light of his credentials and experience within the music industry field, the court admitted the expert's testimony and report regarding his assessments, findings, and conclusions for all areas pertaining to defendants' accounting, royalty reports and statements. **Docket No. 129.** Mr. Román's testimony and analysis of defendants' reports and statements as well as his observations as to defendants' reporting anomalies are worthy of credence and are admitted. Thus, the court stands by its ruling, qualifying Mr. Román as an expert in accounting in the music industry.

The court, however, reserved its ruling on admissibility of the OCT subject to further inquiry as to whether the OCT's analysis was founded on a reasonable basis. TT, March 20, 2009, P124 -125, L 23. Mr. Román testified that the OCT is not an industry term, nor is it a copyright standard. *Id.* at P 101-102. He stated that he devised the OCT to assess plaintiffs' losses and has not used the OCT before this case. *Id*. at 102. Further, Mr. Román testified that

the OCT has not been used in any other report concerning copyright infringement or intellectual property rights. The reference material Mr. Román used to prepare the OCT theory was a newspaper article, that stated that Mr. Curet's compositions had been hijacked due to extensive copyright litigations, and a redacted affidavit of Curet. *Id.* at 105-106, L 1-21, TT, March 24, 2009, P42, L24-25, P43-50, L.1-7.

After careful consideration of the OCT and the *Daubert* standard, it is concluded that the OCT does not pass the *Daubert* muster for three reasons. First, the court was not satisfied with the OCT's methodology inasmuch as it lacked any link or connection to any accepted principle or theory within the music industry. Mr. Román did not reference or furnish any support that the OCT had been tested and/or was even a proven theory or accepted principle in any other industry to enable the court to draw an analogy. Second, since the OCT was admittedly developed for plaintiffs' case, it has never been tested in any other claim in order for the court to assess its reasonableness or conclude that the same is reliable. Third, outside of a newspaper article, Mr. Román could not point to any authority in support for his theory. Therefore, the OCT is not grounded on any reasonable basis and will not be considered.[1]

III. Findings of Fact

Following a bench trial, a court is required to articulate its findings of fact and conclusions of law. Fed.R.Civ.P. 52(a). Once a court has rendered its decision it may then enter judgment. Fed.R.Civ.P. 58. Thus, upon close consideration of the witness testimony at trial and the documents offered into evidence, the court hereby renders its Findings of Fact and Conclusions of Law, in accordance with the cited precepts.

A. The Parties

Plaintiffs are the heirs of the late Catalino "Tite" Curet-Alonso ("Curet-Alonso"). Curet-Alonso is regarded as one of the greatest Puerto Rican composers of all time. **Docket No. 1** at ¶ 4; **Docket No. 9** at ¶ 4. He was also recognized as one of the most prolific Puerto

[1]The court does note that defendants' records and the information defendants produced during discovery did not necessarily assist the expert in developing a damages theory or assessment. As will be discussed in more detail later, defendants' records left much to be desired in both accounting and record-keeping of Curet-Alonso's royalties and made it virtually impossible to recreate or establish a proper estimate.

Rican composers in the last decades. TT, March 20, 2009, P67, L 21 -68, L1. He passed away on August 5, 2003 in Baltimore, Maryland. **Docket No. 1** at ¶ 9; **Docket No.** 9 at ¶ 9. The Commonwealth of Puerto Rico Court of First Instance, San Juan Part, issued a Resolution, declaring that the sole heirs of Curet-Alonso are his daughter, Hilda de los Angeles Curet-Velázquez, Eduardo Luis Curet-Velázquez, and his widow, Hilda Velázquez-Coto. Joint Exhibit XXXVIII.

Defendants, LAMCO, which is an acronym for Latin American Music Company, and ACEMLA, which is the Spanish an acronym for Autores Compositores y Editores de Música, are two separate entities. LAMCO is a copyright and publishing company and ACEMLA is a Performance Rights Society involved with licensing and litigation related to licensing. TT, March 24, 2009, P88, L. 5-19, P90-P92, L 6-14, P 104 L 9-18. Mr. Bernard is the President of both entities. He has been LAMCO's President for over 28 years. Further, Mr. Bernard has been involved in the music industry for over 40 years. *Id.* at P 89 - 90, L 1-4. During trial, he testified about his understanding of copyright law, copyright infringement, and the registration process, as well as a plethora of licensing litigations he has been involved in since 1981. *See generally* TT of Mr. Bernard, March 24, 2009. Mr. Bernard has appeared before the Copyright Tribunal in Washington, D.C. regarding U Box, cable and performing licenses. TT, March 24, 2009, P90.

B. Copyrights at Issue

During the original term of copyright, Curet-Alonso assigned the song *Pueblo Latino* to Fania Publishing Co. Inc. *Certificate of Registration No. Eu 582712.* Exhibit XLII, at 1. The original term for *Pueblo Latino* expired on December 31, 2003. Curet's heirs filed a renewal registration, which secured their ownership of this song for the renewal term of the copyright. The U.S. Copyright Office granted Reg. No. RE 891-775 for *Pueblo Latino.* Exhibit XLII: *Certificate of Registration No. RE 891-775*.

During the original term of copyright, Curet-Alonso assigned the song *Planté Bandera* to Fania Publishing Co. Inc. *Certificate of Registration No. Eu 631931.* Joint Exhibit XLI, at 1. The original term for *Planté Bandera* expired on December 31, 2003. Curet's heirs filed a timely renewal registration, which secured their ownership of this song for the renewal term of the

copyright. Exhibit XLI: *Certificate of Registration No. RE 891-774*. The U.S. Copyright Office granted Reg. No. RE 891-774 for *Planté Bandera.* Exhibit XLI: *Certificate of Registration No. RE 891-774*.

During the original term of copyright, Curet-Alonso assigned the song *Periódico de Ayer* to Fania Publishing Co. Inc. *Certificate of Registration No. Eu 853501.* Exhibit XL, at 1. The original term for *Periódico de Ayer* expired on February 2, 2005. Curet's heirs filed a timely renewal registration, which secured their ownership of this song for the renewal term of the copyright. Exhibit XL: *Certificate of Registration No. RE 915-565*. The U.S. Copyright Office granted Reg. No. RE 891-774 for *Periódico de Ayer.* Exhibit XL: *Certificate of Registration No. RE 915-565.*

Mr. Bernard knew that Curet's heirs had renewed the copyright registrations of the songs *Planté Bandera*, *Periódico de Ayer* and *Pueblo Latino*. Notwithstanding, defendants filed an application in the United States Copyright Office ("USCO") to amend the renewal registration on LAMCO's behalf to be added as "claimant" and "owner of exclusive rights" for the song *Planté Bandera*; said application was rejected by the USCO on July 31, 2007. Exhibits XXXV, XLI. Defendants, without informing and/or obtaining the consent of Curet's heirs, also filed an application in the USCO to amend the renewal registration on LAMCO's behalf to be added as "claimant" and "owner of exclusive rights" for the song *Pueblo Latino*; said application was rejected by the USCA on July 31, 2007. Exhibits XXXV, XLII. TT, March 25, 2009, P33-42.

C. Curet-Alonso's Relationship with Defendants

Curet-Alonso signed a contract with defendants on or around August of 1995. Joint Exhibit XXII. From the onset of his business relationship with defendants, Curet-Alonso dealt with Mr. Bernard and his wife, Dolores. TT, March 19, 2009, P24, L. 23-25, P. 2525, L1-2. Although on occasions from 1999-2001, Ms. Curet would accompany her father to defendants' offices, she did not intervene with their business relationship. *Id.* at P. 26-29, L 1-9. Upon his daughter's inquiries, all Curet-Alonso told her was that defendants were paying royalties. Ms. Curet witnessed Curet-Alonso endorse checks to ACEMLA and ACEMLA would, in

turn, write checks to him. Upon Ms. Curet's inquiries regarding this procedure, Curet-Alonso told her that it was the way things were done. *Id.* at P. 27.

Ms. Curet testified that her father was appreciated, well-regarded and respected by the ACEMLA staff, including Mr. Bernard and his wife. She testified that Mr. Bernard had a personal relationship and good friendship with her father. TT, March 19, 2009, P29, L 2-16. During 2001 and 2002, Curet-Alonso became ill and was hospitalized. Mr. Bernard, his wife, and other staff members, visited Curet-Alonso at the hospital. TT, March 19, 2009, P31, L 18-23, P35, L3-19. Later, due to Curet-Alonso's illnesses, Ms. Curet took her father to her home in Maryland, to take care of him. TT, March 19, 2009, P36, L 3-9. Ms. Curet is a registered nurse. She had been living in the United States for the past twenty years. *Id.* at P15, P36. When her father died in Baltimore, Maryland on August 5, 2003, Ms. Curet called Mr. Bernard to inform him of Curet-Alonso's passing. At that time, Mr. Bernard offered to pay for his funeral expenses, but never mentioned that this money was to be reimbursed to the defendants as royalty advances. *Id*. at P36, L 11-25, P37, L1-16, TT, March 24, 2009, P125-126, L1-3. Curet-Alonso's funeral arrangements cost approximately $23,029.00.

After Curet-Alonso's passing, Ms. Curet began inquiring and requesting information to Mr. Bernard regarding her father's royalty reports and royalty payments. At the time, many different entities were claiming ownership rights to the Curet-Alonso's songs. Ms. Curet began to distrust defendants and Mr. Bernard based on various interactions, including Mr. Bernard's statement to her that Curet-Alonso was worth more dead than alive; defendants' failure to provide information of her father's royalties; and defendants' failure to send royalty reports to the heirs, as the terms of Curet-Alonso's contract stipulated. TT, March 19, 2009, P51, L15-25, P.52-53, L 1-9. Ms. Curet met with Mr. Bernard in December of 2003 and received copies of two contracts: the August 1995 contract and the 1998 Rider. In January of 2004, she wrote a letter to Mr. Bernard requesting more information regarding her father's music. Exhibit XXVII.

On or around September of 2004, Ms. Curet received the royalty reports for the years 2003 and 2004. TT, March 19, 2009, P54, Exhibit XV, XVI. Later, in December of 2008, Ms.

Curet received royalty reports for 2006 and 2007. March 19, 2009, P60, L4-10, Exhibit LXXIV, LXXV. Curet-Alonso's catalog with defendants includes approximately 1,100 to 1,200 compositions. TT, March 24, 2009, P105, L19-25. Notwithstanding defendants' voluminous catalog, Ms. Curet testified that plaintiffs have received more royalty payments from other companies with smaller catalogs of her father's music, such as Universal Music, E Music and Peer Music. March 19, 2009, P84-85, L.1-13. Defendants have never been audited and have never audited other companies. TT, March 24, 2009, P83-84, L1-13.

Although plaintiffs had renewed the copyright registrations of the songs *Planté Bandera*, *Periódico de Ayer* and *Pueblo Latino* (Exhibits XL, XLI, XLII), LAMCO filed an application in the U.S. Copyright Office to amend the renewal registration to be added as "claimant" and "owner of exclusive rights" for these three compositions, without informing or obtaining plaintiffs' consent. The U.S. Copyright Office rejected said applications on July 31, 2007. Exhibit XXXV.

D. Defendants' contracts Mr. Curet-Alonso

The first contract before this court is the August 4, 1995 contract between LAMCO and Curet-Alonso. According to the same, defendants were supposed to provide Mr. Curet with bi-annual Royalty Reports. These reports were due on August 15 and February 15 of each year. Exhibit XXII. However, defendants did not issue separate Royalty Reports for the years 1995, 1996, 1997, 1998, 1999, 2000 and 2001, as convened in the contract. Instead, defendants compiled the royalties data for these years and included the compiled data of 1995-2001 in the 2002 and 2003 Royalty Reports. Plaintiffs' Exhibit 3. Since LAMCO and ACEMLA are two separate entities; each entity should render its reports separately. TT, March 24, 2009, P104, L8-18. However, as highlighted above, defendants submitted compiled data in the 2002 and 2003 Royalty Reports, which contained information concerning both LAMCO and ACEMLA. TT, March 23, 2009, P106, Plaintiff's Exhibit 3.

Despite the fact that Mr. Bernard acknowledged defendants had to provide Royalty Reports to Curet-Alonso's heirs at least once a year (Exhibit XV), it was not until January 15, 2009 that defendants provided Royalty Reports for 2006 and 2007. Plaintiffs did not receive

any Royalty Reports for 2005. Exhibits XV; XX. Some of the Royalty Reports were prepared by defendants for this litigation. Exhibit VII. As was evidenced by plaintiffs' expert in his report and throughout his testimony at trial, defendants issued checks to Curet-Alonso as royalty reimbursements, but reported the payments as royalty advances. TT, March 23, 2009, P56-67, L1-7, P70-78. Similarly, defendants paid various performance-based "bonuses"to Curet-Alonso, but accounted them as royalty advances. *Id*. at 67-69. This created inconsistencies in the reports as well as in the data reported as royalty payments *vis a vis* royalty advances.

When questioned on the discrepancies, Mr. Bernard candidly acknowledged that the Royalty Reports could be inaccurate because the bookkeepers or accountants made the entries. TT, March 25, 2009, P. 13-14, L1. Mr. Bernard testified that ACEMLA does not have a formula to calculate the royalty revenues for Curet-Alonso's music. He stated that he simply weighed the possibilities of Curet-Alonso's songs having been played through the mechanical royalty reports and then assigns some percentage. TT, March 24, 2009, P.144, L11-22.

The second contract before the court is the June 9, 1998 Rider ("1998 Rider"). The 1998 Rider stipulated that Curet-Alonso was to receive and received $6,000.00 in consideration for his signing the contract. However, according to Mr. Román's findings regarding defendants' accounting statements, Curet-Alonso did not receive this consideration because defendants' records state that defendants only made one disbursement of $6,000.00, which was the one issued on August 4, 1995 . Defendants made this disbursement in consideration for Curet-Alonso's first contract with defendants in August of 1995. However, the 1998 Rider stipulated that the $6,000.00 consideration was made on June 9, 1998. TT, March 23, 2009, P.23-25, Exhibit XX. Defendants' records reflect no such payment to Curet-Alonso in consideration for the 1998 Rider.

E. Defendants' Failure to Report Royalties

Pursuant to the terms of the August 4, 1995 contract between ACEMLA and Curet-Alonso, ACEMLA had the duty to pay royalties per semester. Exhibit XXIV. Further,

pursuant to the terms of the contract between LAMCO and Curet-Alonso, LAMCO had the duty to furnish statements of royalties accompanied with the payment of royalties. Exhibit XXII. However, defendants sent only some of the royalty reports to plaintiffs, but never issued any payments. TT, March 19, 2009, P83-84, L1-12.

Outside of a $350.00 check made to Ms. Curet for songs played at the Hostos Community College Concert, check that she did not cash, only a $200.00 check and a $500.00 check were made to and cashed by her brother, Eduardo Curet for royalty advances. Plaintiffs have not received any other royalty payments from the defendants. Ms. Curet did not cash the $350.00 check because she did not approve of the retroactive license the defendants issued for the Hostos Community College Concert. TT, March 19, 2009, P56, L14-22, P69,L17-24, P70-73, L1-10, TT, March 20, 20009, P49-50, Exhibit XIII.

On March 3, 2000, Banco Popular issued a certified check, number 45-002487, payable to "ACEMLA Puerto Rico" for the amount of $49,276.26. Plaintiff's Exhibit 23. This certified check corresponds to royalty payments for a Banco Popular Special (the Special), titled "Con La Música Por Dentro" that was made in 1999. This Special payed homage to Curet-Alonso and all of his music. Plaintiff's Exhibit 23. Mr. Richie Viera[2] worked with the Banco Popular Specials and the copyrights for the songs played during these Specials. He testified that he hand-delivered the certified check to Mr. Bernard. TT, March 20, 2009, P73-79, P82, L1-2, Exhibits LXXI, LXXII, Plaintiffs' Exhibit XXIII. However, defendants have never reported to plaintiffs royalties for the Banco Popular's Special. Further, Mr. Viera testified that Mr. Bernard impeded the licensing to radio stations on the island of a musical medley of Curet-Alonso's compositions that Banco Popular prepared and was used for the Special. Upon Mr. Viera's insistence that he allow this licensing in order for Mr. Curet-Alonso, who was ill at the time, to hear his music on the radio, Mr. Viera testified that Mr. Bernard refused by stating that Curet-Alonso was more valuable dead than alive. *Id.* at P83, L13-25, P84-85, L1-10.

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[2] For the past 25 years, Mr. Viera has owned a music company named Richie Viera Entertainment, V & V Music. He testified that he worked for Banco Popular for four and a half years (1996-mid 2001), with their Christmas Specials. He dealt with all the licenses for the music, the arrangements, and identifying the music editor houses and the owners of the songs. TT, March 20, 2009, P65, L20-25, P66-69.

Mr. Bernard testified that he received a check from the Commonwealth of Puerto Rico's Treasury Department, dated February 24, 2006, in the amount of $49,152.24. TT, March 24, 2009, P170, L4-19, Exhibit II. Mr. Bernard acknowledged that the check corresponded to the royalties paid by Banco Popular for the 1999 Special. *Id.* at P167-170. He testified that the amount in the check issued from the Treasury Department was about a hundred dollars less than the amount of the original check issued by Banco Popular because a "processing" fee was charged. *Id.* Mr. Bernard testified that he does not believe (thus, admitted) defendants issued a Royalty Report regarding the $49,152.24 check. TT, March 25, 2009, P14-,L24-25, P15-16. Thus, the royalties payment for the use of Curet-Alonso's music in the Banco Popular Special still remain unaccounted.

F. The Hostos Community College Concert

Mr. Mario A. Torres, President of the entity that produced the concert at the Hostos Community College, contacted Ms. Curet to inquire about the possibility of obtaining a license for Curet-Alonso's music. Ms. Curet asked him general information about the concert and referred him to Mr. Bernard. At that time, Ms. Curet did not know the songs that were to be performed at the concert. TT, March 20, 2009, P37-39, TT, March 24, 2009, P138-139.

On September 25, 2004, the Hostos Community College in New York hosted a concert that featured the performance of songs written by Curet-Alonso, including *Pueblo Latino*. Exhibit XXI. Ms. Hilda Curet testified that she saw the concert, and the performance of *Pueblo Latino*, when the concert was re-broadcasted on a television network. She never authorized the college to play *Pueblo Latino* at the concert. TT, March 19, 2009, P69-71.

On or about December of 2004, LAMCO issued a retroactive license for the Hostos Community College concert (the "Hostos License"), including the song *Pueblo Latino.* TT, March 24, 2009, P138-139, Exhibit XXI. When LAMCO issued this license, defendants knew that they did not own *Pueblo Latino* because they had litigated the ownership of the song during its original term against Fania. *Special Master Report and Recommendation, Peer v. LAMCO, 96-cv-2312, Docket No. 317, Entry No. 44.* The court held that LAMCO's use of this song was copyright infringement. *Opinion and Order, Peer v. LAMCO, 96-cv-2312, Docket No. 362, pp. 22-24.* Notwithstanding, defendants issued a license for *Pueblo Latino* in 2004, without

the consent of Curet's heirs. Exhibits XXI; XLII.

Mr. Bernard informed Ms. Curet about the license for the Hostos Community College concert after the license had been issued. March 24, 2009, P148, L12-25. Defendants did not consult with, or ask for permission from, Curet's heirs to issue the license for the Hostos Community College concert. TT, March 19, 2009, P69-71, L1-17. Defendants received a payment of $850.00 for royalties from the Hostos Community College Concert, and issued a check to Ms. Hilda Curet for $350.00, less than half of the amount of royalties collected. Ms. Curet never cashed the check because she never gave the defendants the license or authorization to license the song. TT, March 19, 2009, P72-73, L1-10. Although Ms. Curet never cashed the $350.00 check, defendants continued to include the same in their disbursement report.

G. Expert Félix Román's Report and Findings

Plaintiffs hired Mr. Román to examine defendants' royalty reports and statements and render his own assessment as to defendants' royalties and payments to Curet-Alonso and his heirs. TT, March 20, 2009, P95. As already discussed, the court qualified Mr. Román as an expert in accounting in the music industry. **Docket No. 129.** Mr. Román's rendered his report on November 2008, detailing his findings regarding defendants' accounting procedures and royalty reports submitted to plaintiffs. Plaintiffs' Exhibit 3. Mr. Román testified that defendants submitted more evidence after he rendered the report that corroborated the inconsistencies and lack of proper record-keeping procedures, already identified in his report. TT, March 23, 2009, P10, L17-25, P11-16. Mr. Román testified that the publishing company did not have a proper accounting system, nor did they use proper software applications. Since defendants did not have proper record-keeping systems, Mr. Román found that neither LAMCO nor ACEMLA could tell the exact amounts paid to Mr. Curet. Further, he testified that defendants' reports were prepared in Microsoft Excel spreadsheets, which is not a proper accounting software inasmuch as it can be easily manipulated. TT, March 20, 2009, P130, L16-25, P131-132; TT, March 23, 2009, P12-16, L1-12, P96-97, P153, L12-15. As part of his findings, Mr. Román testified that defendants' reports reflected inconsistencies, overstatements, and duplicity that yielded under-reporting of royalties. Further, he concluded that defendants'

reports do not comport to music industry standards.

(1) Inconsistencies, Overstatements and Duplicity

Mr. Román found that from one worksheet to another, there were inconsistencies in defendants' payments: some payments had been duplicated, other payments varied from spreadsheets, and some simply were not included. For example, in one of the Excel spreadsheets, defendants stated that disbursements were made to Curet-Alonso for approximately $175,000.00. However, when he examined the payments in detail, he ascertained that the defendants had placed certain payments to Mr. Curet as royalty advances (payments drawing against future earnings) that had already been classified as royalty reimbursements (payments for royalties earned). Although two reports for the same period should contain the same information, regardless of the format used to make the report, Mr. Román testified that there are various Royalty Reports covering the same period of time that contain different data. TT, March 20, 2009, P133, L6-25, P134-137, L1-10, TT, March 23, 2009, P12-16, L-1-2, Exhibit V, VI, VII, VIII, X, XI; Plaintiffs' Exhibit 3. When he examined the underlying data of the reports, the same simply did not match. *Id.*

He found that, on more than one occasion, defendants received royalty payments for Curet-Alonso's music and did not report these payments. TT, March 23, 2009, P 59, L11-25, P60-79, Exhibits VI, LXXI, LXXII, XLVII-LXX. He also found that various disbursement amounts were duplicated and that defendants paid various bonuses (extra money for exceeding performance expectations) to Curet-Alonso, but accounted them as royalty advances. *Id.* Defendants reported to have paid in full Curet-Alonso's funeral expenses, totaling $23,029.03, when half of the amount was reimbursed by the Cultural Institute of Puerto Rico. Exhibit XI. Ehret Funeral Home's receipts evidence that two separate payments were made on different dates: one by ACEMLA for $11,200.00 and one by Cultural Institute for $11,829.00. TT, March 23, 2009, P53, L25-55, L1-14, Exhibits XI, LXXVIII. Further, even when defendants accredited the amount the Cultural Institute of Puerto Rico paid, the amount it accredited was understated. Defendants reported that the Cultural Institute of Puerto Rico paid only $11,200.00 of the funeral expenses when, in fact, they had paid more. *Id.*

Defendants overstated and/or duplicated the amounts paid and/or advanced to Curet-

Alonso. Defendants issued checks to Curet-Alonso for royalty payments as reimbursements of royalties earned, but reported the amounts as advances, that is, payments against future earnings. Defendants' accounting records were not accurate because the records did not show the actual disbursement or the purposes of the actual disbursement, to Curet-Alonso's disadvantage. For instance, Mr. Román found that the reports regarding the amounts paid (as royalty advances) to Curet-Alonso were overstated and the data displayed in the summary of payments is unreliable. Joint Exhibit XI. In fact, Mr. Román found one particular report to be overstated for approximately $81, 684.00. TT, March 23, 2009, P64, L9-19. Thus, Mr. Román concluded that under-reporting revenues and overstating advances and payments made Curet-Alonso's debt seem higher in the books than what it actually was. The under-reporting caused Curet-Alonso's actual earnings to appear less than what they actually were. Consequently, Curet-Alonso was never recouped in defendants' records. TT, March 23, 2009, P29, L4-17. For instance, in June 2, 1998, Banco Popular of Puerto Rico paid LAMCO $41,629.89 in royalties, corresponding to several licenses LAMCO issued to Banco Popular for Curet-Alonso's music. TT, March 20, 2009, P72-74, P77-78. However, defendants only accounted for $13,473.40 in the Royalty Report for 1998. Thus, defendants under-reported over $28,216.00 in royalties collected for Curet-Alonso's work. TT, March 25, 2009, P11-12, Exhibits VI, X, LXXI & LXXII. Therefore, Curet-Alonso was not credited his proper share of the revenues since the earnings in the royalty reports were understated and the royalty advances defendants paid were overstated. TT, March 23, 2009, P12-15, P52-55.

(2) Defendants' Accounting, Records, Reports

Mr. Román examined the underlying data provided by defendants and concluded that the same does not concur with the royalty reports or statements. March 23, 2009, P98-100, L1-23. For example, despite Mr. Bernard's testimony that defendants issued various checks to Curet-Alonso (check numbers 1013,1082, 1169, 1188 and 1764) in royalty payments for the Banco Popular Special, accounted for by defendants as advances (Exhibits X, XIII, LXXVIII), the checks were issued on different dates *after* defendants had already received and cashed the June 2, 1998 check from Banco Popular. Most of them were paid months, even up to a year, after the June 2, 1998 check for $41,629.89 was cashed. TT, March 24, 2009, P161-162, TT,

March 25, 2009, P23-31.

In an attempt to distance himself from the responsibility for the issue at hand, Mr. Bernard testified that he does not make the checks. Further, he acknowledged that the royalty reports could be inaccurate. TT, March 25, 2009, P11,P26-27. When Mr. Bernard was examined on the data and its discrepancies, he could not explain or clarify to the satisfaction of the court any of the inconsistencies, overstatements or inaccuracies found in the reports. His only response was that his bookkeeper or accountant entered the data of the reports. *Id.* In light of the above, Mr. Bernard's testimony on the same is totally unreliable.

Additionally, Mr. Román testified that royalty reports contain certain information that is standard within the music industry, such as: the song title; the name of the composer; which catalog contains the song; where it is being used; the name of the CD; the catalog number; amount of units sold or used; the royalty rate agreed upon, the percentage given to the publishing company and; the composer's net earnings. TT, March 20, 2009, P127, L1-15. Defendants' records do not contain these basic elements. Also, since LAMCO and ACEMLA are two separate entities, royalties for each entity should be reported separately. However, defendants issued joint reports containing data for both LAMCO and ACEMLA. TT, March 23, 2009, P103-109.

Mr. Román testified, and the court gives much credence to his testimony, that the intermingling of the reports of a publishing company with those of a performance rights society does not conform to music industry practice. He has never seen such reports in his years of experience in the music industry. He further noted that, even when a song is not being played, a statement should be sent to the composer in order for the composer to keep track of the music in his/her song catalog and be able to cross-check information, compare reports and audit the publishing company. Therefore, even if money has not been earned, a royalty statement must be prepared. The defendants did not prepare the reports as the contract with Curet-Alonso stipulated or as required by the music industry. TT, March 20, 2009, P132-137.

Mr. Román went on to note that the statements and reports issued by defendants are not prepared in an application that yields an audit trail where the underlying data can be

traced. Since the reports were prepared using "Microsoft Excel" spreadsheets (not an accepted software application for accounting purposes), the data and reports can be easily manipulated by the person who inputs the data to obtain different results. Therefore, the exact amount of the alleged advances made out to Curet-Alonso from LAMCO or ACEMLA could not be determined because of defendants' inexact records. However, the expert did conclude that defendants should have been recouped with Curet-Alonso's advances by 2002. TT, March 23, 2009, P11-16, P78-80, L1-3.

Mr. Román discussed at length how the information contained in the reports is misleading. Defendants excluded important data altogether (such as royalty payments for the Banco Popular Special), and the available information does not account for Curet-Alonso's actual earnings because the reports do not reflect the actual disbursements, nor the purpose of the disbursement. As was highlighted during Mr. Román's testimony, certain checks had been included in Curet-Alonso's account as advances, when the checks had been issued for different concepts, such as reimbursements, royalty payments, and bonuses. Given all the anomalies Mr. Román found in the defendants' records, he concluded that defendants' royalty reports and records do not comport with industry standard and are unreliable. TT, March 23, 2009, P96-97, L-15, P106,, L5-25, P107-108, L1-6.

(3) Expert's Conclusions on Plaintiffs' Losses

Under the CVT, Mr. Roman assessed that Mr. Curet's catalog should have produced between $6,000.00 to 10,000.00 every six-month period; around $12,000.00 to $20,000.00 a year. Mr. Román made this projection based on the information and reports the defendants provided plaintiffs, who, in turn, provided the information to him.

IV. Conclusions of Law

A. Statute of Limitations

Plaintiffs allege that the statute of limitations for a breach of contract claim, like the one at bar, is subject to the statute of limitations provided by the Commonwealth of Puerto Rico ("Commonwealth") Civil Code. Defendants contend that the applicable statute of limitations in a breach of contract, for the 1995 contract and the 1998 Rider is five years under Article 948 of the Commonwealth of Puerto Rico Commerce Code. P.R. Laws Ann., tit. 10, § 1910, *et seq*.

Despite defendants' statements at closing arguments that it would expand and brief this argument in its post-trial brief, defendants simply did not.

In its post-trial brief, defendants argue that the statute of limitations for plaintiffs' claim is five (5) years. However, defendants cite to Article 948 of the Commonwealth's Commerce Code,"Article 948 " (*see* **Docket No. 139**, at 25), which addresses actions that prescribe in one (1) year.[3] None of the actions included in said statute apply to the case at bar. Further, defendants have failed to cite to any case law or treatise that would move the court to consider that § 1910 or the prescription period stated therein, applies to the case at bar. In fact, defendants have not pointed to any specific provision in the Commerce Code, outside of Article 948.

The court notes that the statute of limitations for actions arising under the Commonwealth's Commerce Code may be set either by a specific provision of the code or, under Article 940 of the Commerce Code, P.R. Laws Ann. tit. 10, § 1902. Article 940 states: "The actions that by virtue of this Code do not have a fixed period to be elucidated in a trial, shall prescribe after five (5) years." However, defendants do not cite to any authority to support its contention that the five year statute of limitations should be applied. Since defendants have failed to properly brief the court as to the reasons it contends the prescription period is five years, the court need go no further or speculate whether the defendants actually meant or were relying on Article 940. Further, even if this statute applied, defendants actions are continuous. To date, defendants have not complied with their contractual obligation to timely submit the royalty statements and reports to Curet-Alonso's heirs.

Pursuant to Article 1864 of the Commonwealth's Civil Code, P.R. Laws Ann. tit. 31, §

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[3] § **1910. Actions which prescribe in one year**

The following shall prescribe after one year:

(1) Actions arising from services, works, or provisioning of vessels...
(2) Actions relating to the delivery of the cargo in maritime or land transportation...
(3) Actions to recover for the expenses of the judicial sale of vessels...

(...)

5294, the statute of limitations claims due to a breach of contractual obligations is fifteen (15) years. *King v. TL Dallas & Co., Ltd.*, 270 F. Supp. 2d 262, 268 (D.P.R. 2003)(internal citations omitted). This general fifteen year statute of limitations period applies to causes of action "which are personal and for which no special term of prescription is fixed." P.R. Laws Ann. tit. 31, § 5294. *See Rivera Surillo & Co., Inc., v. Falconer Glass Industries, Inc.*, 37 F.3d 25, 27 (1st Cir.1994)(the fifteen year statute of limitations period applies only of no other proscription were applicable to the case.)

As far as the court can tell from the record, the case is an action for breach of contract and the applicable statute of limitations under Commonwealth law is fifteen (15) years. Plaintiffs filed the present claim on January 5, 2006 (**Docket No. 1**), which is well within the fifteen year statute of limitation period. Accordingly, plaintiffs' claim is not time-barred.

B. Infringement

To prevail on a copyright infringement claim, a plaintiff must prove two elements: (1) ownership of a valid copyright, and (2) copying of constituent elements of the work that are original. *LAMCO v. Archediosis of San Juan*, 499 F.3d 32 (1st Cir. 2007). Plaintiff bears the burden of proof. *Grubb v. KMS Patriots, L.P.*, 88 F.3d 1, 3, 5 (1st Cir. 1996). Any copyright in its first term as of January 1, 1978 endures for 28 years from the date it was originally secured. 17 U.S.C. § 304. The copyright can be renewed by the author or, in the event of the author's death, the author's heirs for a term of 67 years. 17 U.S.C. § 304(a)(1)(B)-(C). Registration with the U.S. Copyright Office is *prima facie* evidence of copyright ownership, and as such, it shifts the burden to the adverse party to demonstrate why the duly registered copyright is invalid. *Lotus Dev. Corp. v. Borland Int'l, Inc.*, 49 F.3d 807, 813 (1st Cir. 1995).

Here, the ownership of the original copyright term for the songs at issue was Fania's. As the record shows, Ms. Curet filed timely renewal registrations for these songs. The court need not revisit its holding that plaintiffs are the sole owners of the copyrights for the renewal terms of the contested three songs. Plaintiffs, as Curet-Alonso's heirs, are the valid copyright owners, enjoying "exclusive rights to reproduce all or any part of the copyrighted work, prepare a work derivative of it, distribute copies of it, perform or display it, and authorize

others to exercise any of these rights." *Johnson v. Gordon*, 409 F.3d 12, 17 (1st Cir. 2005), *citing* 17 U.S.C. § 106.[4]

Defendants committed infringements of "*Pueblo Latino*" on two (2) occasions; "*Periódico de Ayer*" on one (1) occasion; and "*Planté Bandera*" on one (1) occasion. As a remedy to these infringements, the Copyright Act allows an award for infringement in the range from $750.00 to $30,000.00. 17 U.S.C. § 504 (c)(1). If an infringement is found to be willful, the court, in its discretion, may award damages up to a maximum of $150,000.00 for each infringement. "In the absence of a jury trial, it has been said that the determination of statutory damages within the applicable limits may turn upon such factors as 'the expenses saved and profits reaped by the defendants in connection with the infringements, the revenues lost by the plaintiffs as a result of the defendant's conduct, and the infringer's state of mind - - whether willful, knowing, or merely innocent.'" *N.A.S. Import, Corp. V. Chenson Enters., Inc.*, 968 F.2d 250, 252 (2d Cir. 1992); *Los Angeles News Service v. Reuters Television Int'l, Ltd.*, 942 F. Supp. 1275, 1282 (C.D. Cal. 1996), *aff'd in part, rev'd in part on other grounds*, 149 F.3d 987 (9th Cir. 1998), *cert. denied*, 498 U.S. 1109 (1991), as quoted in 4-14 Nimmer on Copyright § 14.04.

Further, the court may consider other factors, such as "whether a defendant has cooperated in providing particular records from which to assess the value of the infringing material produced . . . the potential for discouraging the defendant." *Video Café v. Del 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). "Another approach looks whether each party has complied with its contractual obligations to the other. Although the standards enunciated for awarding statutory damages run from approval of a punitive approach to disapproval of punishment, those standards are largely precatory; as long as the district court acts within the prescribed

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[4] "One who violates any of these exclusive rights is an infringer of the copyright, and the legal or beneficial owner of the copyright . . . may institute an action for infringement against him." *Id.* at 17, *citing* 17 U.S.C. § 501. "Infringement depends upon whether an infringing act, such as copying or performing, has occurred" *Archdiocese of San Juan*, 499 F.3d at 46, *citing Venegas-Hernández*, 424 F.3d at 58-59, regardless of whether the same was done knowingly or innocently. *Lexmark Int'l, Inc. v. Static Control Components, Inc.*, 387 F.3d 522, 537 (6th Cir. 2004), *citing Repp v. Webber*, 132 F.3d 882, 889 (2d Cir. 1997)(holding copyright infringement does not have a scienter requirement).

statutory limits. . . " 4-14 Nimmer on Copyright § 14.04.

Plaintiffs request that the court find defendants' infringements to be willful and award the maximum amount of statutory damages ($150,000.00) for each infringed work, for a total of $600,000.00. **Docket No. 140**, at 32.[5] The standard of willfulness is "whether the defendant had knowledge that [his] conduct represented infringement or perhaps recklessly disregarded the possibility." *Kepner-Trogoe, Inc. V. Vroom*, 186 F. 3d 283, 288 (2d Cir. 1999). As the court already found, the copyright infringements were not "willful" under the statute because, at the time of the infringements, the defendants were appealing the court's ruling on the ownership of *Pueblo Latino*. In said case, defendants were precisely arguing that the original term of the copyrights had not begun until 1995. The First Circuit rendered its decision in August 16, 2007. *LAMCO v. The Archdiosis of San Juan*, 499 F.3d 32 (1st Cir. 2007).[6] Even then, defendants, unsatisfied with the First Circuit's decision, filed a *writ of certiorari* before the United States Supreme Court, which was subsequently denied. *See LAMCO, et al. v. Southern Music Publ'g Co., Inc.*, 128 S. Ct. 1232 (2008). However, the fact remains that defendants issued the licenses while they were contesting ownership of the compositions. Since judgment was not final, as the Magistrate-Judge noted, "[h]owever misplaced defendants' position may have been, the fact remains that there was not yet a final determination when defendants issued the licenses." *See* **Docket No. 66**, at 16. Under these circumstances, the court may not determine defendants' actions were "willful" and consequently, can not impose the $150,000.00 maximum. 17 U.S.C. § 504 (c)(2). Instead, the evidence and testimonies plaintiffs presented goes more to establishing their burden of proof that defendants' actions and/or omissions caused breaches so material and substantial that rescission of the contractual relationship is warranted.

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[5] Upon a finding of willful infringement, the statutory damages available to plaintiffs increase from the normal range of between $750.00 to $30,000.00 to a sum of not more than $150,000.00. Here plaintiffs are seeking the maximum damages for each infringement.

[6] In their post-trial brief plaintiffs acknowledged that defendants, at the time, were similarly litigating the ownership of *Periódico de Ayer* and *Planté Bandera* during its respective original term of copyright. Docket No. 140, Page 28, pp. 54 (Citing to Special Master Report and Recommendation, Civil No. 96-2312, Docket 317, Entry No. 445.)

As highlighted above, the statutory damages under section 504(c) serves both compensatory and punitive purposes. *See also Video Café v. Del Tal*, 961 F. Supp. at 26. Here, given the fact that defendants' records vary from one report to the next and that defendants' records are incomplete, it is impossible for the court to determine the expenses saved or the profits reaped by the defendants, nor can it be established with any certainty the amount of revenues lost as a result of defendants' conduct. However, what the court can assesses is defendants' inability to provide clear records for each company, its intermingling of the reports, and its failure to fulfill its contractual obligations of rendering royalty reports to plaintiffs. This is exacerbated by the fact that the underlying data that supports the reports furnished to plaintiffs does not coincide and is unreliable, making it impossible to re-create or track the information, data and revenues supplied in defendants' reports.

When defendants' principal was questioned about his companies' record-keeping procedures, Mr. Bernard simply stated that the accountant or record-keepers input the data, expecting the court to believe that he is completely unaware of the figures or the revenues obtained by the compositions or that he is oblivious to what is being reported in defendants' statements. The court is unpersuaded by Mr. Bernard's response. Someone who has been in the music industry for over forty (40) years, has been involved in multiple copyright cases and litigations, has presided over two businesses dedicated to publishing, licensing and performance rights for almost thirty (30) years, and in the same, has managed catalogs of compositions of several renown composers, does not remain oblivious to the compositions' revenues because the revenues-making capacities of defendants' catalogs are what allows defendants to remain in business.

The fact that Mr. Bernard could not explain his own records, or lack thereof, poses a debilitating blow to the court's assessment of defendants' conduct and to Mr. Bernard's credibility and reliability as a witness. Turning a blind eye to its record-keeping responsibilities and reporting duties does not condone defendants' practices, nor does it provide a valid excuse to the fact that its records do not comport to industry standard, nor create a credible or reliable record of Curet-Alonso's royalties and defendants' payment of the same. Defendants' records make it seemingly impossible to retrace its steps and makes it

equally impossible to audit because an audit trail of defendants' entries does not exist. As plaintiffs' expert noted, the fact that defendants' reports were prepared in Excel spreadsheets make them easy to manipulate to reach a desired result.

Here, as the expert found, defendants' records and misstatements resulted in under-reporting royalties to defendants' advantage and Curet-Alonso's disadvantage. The court finds it convenient that each misstatement rendered disadvantages solely to the composer. Moreover, when confronted with the inconsistencies and the anomalies, Mr. Bernard's only explanation was that the accountant or record-keeper prepared them. This deliberate indifference is not only unreasonable and unsound, but incredible, especially given Mr. Bernard's experience within the music industry, and his involvement in multiple copyright litigations.

Although the court finds defendants conduct does not rise to the level of willful under the statute, the court does find its conduct and record-keeping highly sanctionable. Defendants knew that they had a contractual obligation to keep and provide royalty reports and statements to Curet-Alonso and later to his heirs. Defendants failed to provide these reports. Further, when defendants finally provided the reports, defendants co-mingled the two corporations' reports and included many years into one. Had defendants records been clear and comported to industry standard, parties and the court could have saved much time, effort and resources to reach its findings. In light of the above, the court awards the maximum of $30,000.00 in damages for each of the four infringements at bar, totaling $120,000.00 to be paid joint and severally by the defendants.

C. Breach of Contract

Defendants argue that plaintiffs failed to prove a *prima facie* case for breach of contract, rescission and nullity. Defendants rest their arguments on the following: (a) nullity of the contract is inappropriate because defendants promised to pay the $6,000.00, which is consideration that constitutes a valid bilateral contract between parties; and (b) the advances made to Mr. Curet, during his life through August 5, 2003, constitute consideration and compliance with its contract and estoppel argument as the composer never sought this relief during his lifetime. Further, defendants invite the court to, yet again, revisit their position that

the plaintiffs endowed defendants with a nonexclusive implied license to use Curet's compositions, due to the relationship between defendants and Curet-Alonso throughout the years, their conduct, and the payment of advances to Ms. Curet and her brother.[7] However, the issue of infringement was already disposed through summary judgment and, as discussed above, the court need not revisit its decision.

Plaintiffs, on the other hand, argue that the breaches committed by the defendants are essential, multiple, continuous and intentional. The breaches include the following: (1) defendants did not send the corresponding royalty reports, manipulated the information on the royalty reports with unreliable data and used data that does not correspond to the royalty reports; (2) the experts' findings that the defendants did not report certain royalties, under-reported royalties collected, and overstated the amounts that were actually paid to Curet; (3) when plaintiffs requested information regarding Curet's royalties, defendants failed to provide supporting evidence to corroborate the information of the royalty reports. Finally, at trial, plaintiffs' expert highlighted his assessment that the royalty reports do not comply with the industry standards and make it impossible to ascertain the proper amounts earned and/or owed to Curet or his heirs. Nonetheless, based on a reasonable estimate it was the expert's opinion that Curet-Alonso must have recouped by 2002. In light of the above, plaintiffs aver that the multiple breaches in defendants' contractual obligations are so critical and substantial in nature that the same constitute material breaches of contract. Therefore, plaintiffs request the court rescind the existing contracts with defendants in this case. **Docket No. 140**, at 32. The court agrees with plaintiffs.

Rescission is only available in limited circumstances where there is either original invalidity, fraud, failure of consideration, material breach or default. Thus, a contract which is fully executed or performed cannot be rescinded, nor can a contract which has been

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[7] There is no evidence of payments of advances to Curet-Alonso's heirs. The only check made to Ms. Curet was a $350.00 check in payment of royalties for the retroactive license defendants issued for the Hostos Community College Concert. This check was never cashed. Also two checks (one for $200.00 and the second one for $500.00) were paid to Mr. Eduardo Curet. These payments evidently, do not constitute consideration for the contracts. The evidence on record or at trial holds no payment in consideration for the signing of the 1998 Rider.

substantially performed. *See* 17B C.J.S. Contracts § 456. In order to determine whether a breach of a licensing agreement warrants rescission, "a district court must determine whether the complaint alleges a breach of a condition to, or a covenant of, the contract licensing or assigning the copyright" *Schoenberg v. Shapolsky Publishers*, 971 F. 2d 926, 932 (2d Cir. 1992)(internal citations omitted). "Generally, 'if the [licensee's] improper conduct constitutes a breach of a covenant undertaken by the [licensee] . . . and if such covenant constitutes an enforceable contractual obligation, then the [licensor] will have a cause of action for breach of contract,' not copyright infringement. 3 Nimmer on Copyright § 10.15[A], at 10-120. However, '[i]f the nature of a licensee's violation consists of a failure to satisfy a condition to the license . . ., it follows that the rights dependant upon satisfaction of such condition have not been effectively licensed, and therefore, any use by the licensee is without authority from the licensor and may therefore, constitute an infringement of copyright.' *Id.* at 10-121 (citations omitted); *see also Fantastic Fakes, Inc. v. Pickwick Int'l, Inc.*, 661 F.2d 479, 483-84 (5th Cir.1981)." *Graham v. James,* 144 F.3d 229, 237 (2d Cir.1998).

To justify rescission, the breach must be "material and willful, or, if not wilful, so substantial and fundamental as to strongly tend to defeat the object of the parties in making the contract." *Septembertide Publ'g, B.V. v. Stein and Day, Inc.*, 884 F.2d 675, 678 (2d Cir.1989) (internal quotation marks and citation omitted). Therefore, one party's breach, such as a failure to pay royalties,[8] does not automatically cause the rescission of a bilateral contract; the breach must be material. *See Peer Intern. Corp. v. Latin American Music Corp.*, 161 F.Supp.2d 38, 52 (D.P.R. 2001). Examples of material breaches warranting recision arise when the assignee or licensee fails to make true reports of royalties as required under contract, fails to permit inspection of books as required under contract or fails to render the copyright productive under the circumstances. 3-10 Nimmer on Copyright § 10.15. However, rescission based on the failure to pay royalties or to make copyright productive will not lie unless such failure has

[8] "The failure to pay royalties under 17 U.S.C. § 115 of the 1976 Act explicitly gives rise to an action for copyright infringement. Also, § 1(e) of the 1909 Act allows for federal jurisdiction in an action for failure to pay royalties." *Peer,* 161 F.Supp.2d at 53.

been gross and most serious. *Id.*

Here, the court finds that defendants incurred in material breaches of contract that warrant rescission. As was fully discussed in the prior section, the royalty reports were not sent to plaintiffs as the terms of the 1995 contract with Curet-Alonso proscribed. When defendants finally sent the reports to plaintiffs, LAMCO and ACEMLA's reports were co-mingled and the reports covered various years, while the 2005 royalty reports and statements were omitted altogether. Further, the court heard and gave much credence to the expert's testimony that defendants' reports did not comport to industry standard. The expert specifically identified various discrepancies in the reports, such as variations from one report to another, failure to report (and pay) royalties earned for Curet-Alonso's compositions, and misstatements of advances, disbursements and royalty payments. The expert could not trace the defendants' steps because the underlying data was unavailable and did not match the records, which was coupled and compounded by the fact that defendants did not use the proper software application to generate the reports. Since defendants' reports were prepared with improper software, an audit trail does not exist and there in no way of recreating the steps or view how the data was reported initially and subsequently edited. In light of this, the court finds defendants failed to make true reports of royalties, as required under the 1995 contract, that warrant rescission of the contract. *See* 3-10 Nimmer on Copyright § 10.15.

Additionally, defendants did not pay Curet-Alonso the agreed-upon consideration of $6,000.00 stipulated in the 1998 Rider. Under the basic principles of Commonwealth contract law, a contract has three elements: consent, a definitive object, and consideration. P.R. Laws. Ann. tit. 31 § 3431. Accordingly, "a bilateral obligation assumed by each one of the parties to the contract, has, as its consideration, the promise offered in exchange." *United States v. Perez,* 528 F.Supp. 206, 209 (D.P.R.1981) (citing *Del Toro v. Blasini,* 96 P.R.R. 662 (1968)). The Commonwealth's Civil Code defines: "In contracts involving a valuable consideration, the prestation or promise of a thing or services by the other party is understood as a consideration for each contracting party; in remuneratory contracts, the services or benefits remunerated, and in those of pure beneficence, the mere liberality of the benefactor." P.R. Laws Ann. 31 § 3431.

Although the 1998 Rider stipulated that defendants were to pay the consideration upon the signing of the contract, the consideration was never paid. More than eleven years have transpired since the signing of the 1998 Rider and the evidence on record clearly demonstrates that defendants did not pay and still have not paid the consideration owed to Curet-Alonso, or presented evidence of such payment to his heirs. Therefore, the consideration for this contract was never satisfied. Defendants' argument that its promise to pay the $6,000.00 is sufficient consideration to constitute a valid bilateral contract between parties is unavailing.[9] The fact remains that defendants have not paid Curet-Alonso or his heirs the consideration agreed upon in 1998. Thus, defendants have failed to comply with its part of the bilateral agreement and, more importantly, an essential element of the contract. As the Commonwealth's civil code states, "[t]he validity and fulfilment of contracts cannot be left to the will of one of the contracting parties." P.R. Laws Ann. 31 § 3373. Therefore, defendants breached the 1998 Rider. *Adria Intern. Group, Inc. v. Ferré Development, Inc.*, 241 F.3d 103, 108 n.2 (1st Cir. 2001)("A party's failure to pay agreed-upon consideration creates a breach of contract, but does not void the underlying agreement.")

Commonwealth law dictates the duty of good faith performance on contracting parties. *See Adria Intern. Group, Inc.*, 241 F.3d at 108 *citing An- Port, Inc. v. MBR Industries, Inc.*, 772 F. Supp. 1301, 1314 (D.P.R.1991) ("The requirement of good faith between the parties in a contract . . . must guide all contacts between the contracting parties during the existence of the relationship.") Here, the court calls to question the defendants' good faith dealings with Curet-Alonso and later his heirs. Defendants' failure to comply with its record-keeping and reporting duties, its failure to satisfy the consideration convened upon in the 1998 Rider, its continued pattern of overstating advances, under-reporting royalties and misstating the concepts and reasons for the disbursements, and its failure to report royalties earned for Curet-Alonso's

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[9] Defendants' argument that the advances made to Curet-Alonso during his life through August 5, 2003 constitute consideration and compliance with the 1998 Rider is equally unavailing. As was evidenced in trial and through the expert's testimony, defendants' records are inaccurate and defendants had a pattern of registering advances to Curet-Alonso that were payments made for other concepts such as advances and reimbursements. Thus, defendants' "advances" do not and can not constitute consideration for the 1998 Rider.

compositions altogether make for a tangled and highly suspect business practice. Each are a breach of defendants' contractual duties to plaintiffs that, compounded, are breaches so material and substantial in nature that they have affected irreparably "the very essence of the contract and serve to defeat the object of the parties." *Nolan v. William Music Co.*, 300 F. Supp. 1311, 1317 (S.D.N.Y. 1969). In light of the foregoing, the court hereby **GRANTS** plaintiffs' request that the contracts before this court be rescinded.

IV. Conclusion

The court finds as follows:

– Defendants' request for dismissal of plaintiffs' claims as a matter of law, pursuant to Fed.R.Civ.P. 52. of the copyright infringement claims is **DENIED**.

– Defendants' request that plaintiffs' expert's testimony and report be stricken from the record is **DENIED**. The court, however, will not considered the expert's OCT damages theory in reaching plaintiffs' damages award.

– Plaintiffs are hereby awarded $120,000.00 in damages for the four copyright infringements ($30,000.00 for each infringement) to be paid joint and severally by the defendants.

– Plaintiffs' request that the court find defendants' contractual breaches so material and substantial as to cause rescission of the contracts before this court, is **GRANTED**.

The Clerk of the Court is to enter judgment accordingly.

SO ORDERED.

At San Juan, Puerto Rico, on this 31st day of March, 2010.

S/AIDA M. DELGADO-COLÓN
United States District Judge