

UNITED STATES of AMERICA v. LIU

**United States Court of Appeals for the Ninth Circuit, 2013
731 F.3d 982**

NGUYEN, Circuit Judge:

Julius Liu appeals his convictions and sentence for criminal copyright infringement and trafficking in counterfeit labels. Liu’s company, Super DVD, commercially replicated CDs and DVDs for various clients on a scale that subjects him to substantial criminal liability if a client—and, by extension, Liu—lacked permission from the copyright holder to make the copies.

Under the relevant criminal statutes, Liu’s guilt turns on whether he acted “willfully” and “knowingly.” We hold that the term “willfully” requires the government to prove that a defendant knew he was acting illegally rather than simply that he knew he was making copies. Similarly, to “knowingly” traffic in counterfeit labels requires knowledge that the labels were counterfeit. Because the district court improperly instructed the jury otherwise, we vacate Liu’s convictions and remand

BACKGROUND

I. The Replication of CDs and DVDs

Commercial CD and DVD replication differs from the process of recording content onto CDs and DVDs in that prerecorded discs have their content stamped onto them—requiring a molding machine and a stamper—rather than burned. To create a CD stamper, a process known as “mastering,” some source material containing digital content is necessary, such as a tape, recordable CD, or music file. Counterfeiters making a “straight counterfeit,” i.e., an exact copy of an existing CD, can start with either a legitimate or counterfeit version of the CD. Counterfeiters making a previously nonexistent compilation of tracks take multiple legitimate disks and burn the relevant tracks onto a recordable CD, which then serves as the source material for the stamper.

Replication plants process orders for customers, who are typically the publishers (or persons purporting to be the publishers) who own the reproduction rights to the works in question. While a few plants specialize in mastering, most deal exclusively with replicating. Plants offering both types of services are rare because of the higher cost associated with mastering, which requires more expensive equipment, larger premises, a clean room environment, and greater expertise to operate. A replication plant that does not create stampers in-house will outsource the work to a mastering plant.

II. The Investigation of Liu and Super DVD

Liu has worked in the replication industry since the early 1990s. In 2000, he founded, and became the CEO of, a DVD-manufacturing company called Super DVD. By 2001, Super DVD employed about 65 people and operated four replication machines at its Hayward, California warehouse.

In mid-2001, Super DVD fell on hard financial times. The manufacturer of one of its replication machines went bankrupt and the machine was taken back to Irvine, California. Two of the other machines were repossessed because Super DVD fell behind on its lease payments. Use of the final replication machine was frozen due to a dispute over royalties between the machine manufacturer and another company. Super DVD's engineers left for other employment, and in 2003 the company did not renew its business license with the city. In an effort to lease the factory space, Liu showed the property to approximately 10-15 persons per week.

Meanwhile, the government had become suspicious of Super DVD's operations. In May 2003, Immigration and Customs Enforcement agents raided the warehouse of Vertex International Trading, a computer software reseller based in Coral Springs, Florida, where agents recovered counterfeit copies of the Symantec software "Norton Anti-Virus 2003" and related documentation. The documentation included purchase orders, handwritten notes, and FedEx shipping labels from more than 50 vendors, including Super DVD.

Later that month, private investigator Cynthia Navarro, working on behalf of Symantec, posed as a potential lessee to investigate Super DVD's warehouse. While there, Navarro observed a man using one of two machines that she believed were used for CD or DVD replication. Through a window, she could see into a locked room that was filled wall to wall with spindles of CDs.

At the end of July 2003, agents executed a search warrant on the Super DVD warehouse and recovered thousands of DVDs and CDs. One room stored CDs and DVDs, and another held stampers, artwork, and masters. The CDs included a compilation of rap tracks, *Rap Masters Vol. 2*; three compilations of Latin music tracks, *Los Tucanes de Tijuana: Romanticas*, *Lo Mejor de la Mafia*, and *3 Reyars [sic] del Tex Mex: Romanticas*; and a greatest hits album, *Beatles 1*. The agents also recovered DVD copies of the film *Crouching Tiger, Hidden Dragon*. Liu did not have authorization from the copyright holders to replicate any of these works.

During an interview and at trial, Liu admitted that Super DVD manufactured the *Crouching Tiger* DVDs in 2001 for a company called R & E Trading. R & E gave Super DVD a stamper with the name "Tiger" on it but not the full title of the film. The DVDs were still in Super DVD's warehouse at the time the search warrant was executed because R & E had rejected them, claiming that the movies would freeze. Liu stated that when R & E refused to pay for the order, he

became personally involved and realized that R & E did not have the rights to duplicate such a famous movie. Super DVD filed a lawsuit against R & E alleging that R & E deceived it about the copyrights. The lawsuit sought payment from R & E on about 40 invoices totaling approximately \$85,000, including work done on the *Crouching Tiger* movie. Super DVD obtained a jury verdict for approximately \$600.

Liu generally denied any knowledge of or involvement in replicating the other works. Liu explained that he became involved with the Latin music compilations when one of the former Super DVD engineers introduced Liu to his uncle, Juan Valdez, a famous mariachi singer. Liu and Valdez got together and played music—Liu on the guitar, Valdez singing. Valdez expressed interest in publishing CDs, and Liu told him that he didn't have the facility to do it but suggested companies that could take care of the mastering, printing, and even the sleeve. Liu volunteered to do the overwrapping for Valdez because it only cost him "pennies." Valdez told Liu that he created the tracks by mixing his voice with music from a Karaoke machine and that he had paid for the license. Liu listened to some of the tracks and, believing that it was Valdez's voice, thought that the music "belong[ed] to him."

III. Liu's Convictions and Sentence

The government charged Liu with three counts of criminal copyright infringement under 17 U.S.C. §506(a)(1)(A) and 18 U.S.C. §2319(b)(1) based on the music CDs, the *Crouching Tiger* DVD, and the Norton Anti-Virus software. A fourth count alleged that Liu trafficked in the counterfeit labels on the software, 18 U.S.C. §2318(a). Following a three-day jury trial, Liu was convicted on all counts. The district court sentenced Liu to four years in prison followed by three years of supervised release

ANALYSIS

I. The District Court Erred in Instructing the Jury on the "Willfulness" and "Knowledge" Elements

A. Standard of Review

"When a party properly objects to a jury instruction, we review *de novo* whether the instructions given 'accurately describe the elements of the charged crime.'" *United States v. Munguia*, 704 F.3d 596, 598 (9th Cir. 2012) (quoting *United States v. Heredia*, 483 F.3d 913, 921 (9th Cir. 2007) (en banc)). A district court's omission or misstatement of an element of an offense in the jury instructions is subject to harmless error review. *United States v. Wilkes*, 662 F.3d 524, 544 (9th Cir. 2011) (quoting *United States v. Kilbride*, 584 F.3d 1240, 1247 (9th Cir. 2009)). We review unpreserved errors in the jury instructions for plain error. *United States v. Phillips*, 704 F.3d 754, 762 (9th Cir. 2012).

* * *

B. The “Willfulness” Element of Criminal Copyright Infringement Requires Knowledge that the Conduct Was Unlawful

Copyright infringers have been subject to civil liability since the Nation’s founding. See Act of May 31, 1790, ch. 15, §2, 1 Stat. 124, 124-125. In a civil suit, liability for copyright infringement is strict. “[T]he innocent intent of the defendant constitutes no defense to liability.” *Monge v. Maya Magazines, Inc.*, 688 F.3d 1164, 1170 (9th Cir. 2012) (citing 4 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT §13.08[B][1] (Matthew Bender rev. ed. 2011)).

Congress first imposed criminal liability for certain types of infringement in the late nineteenth century. See Act of January 6, 1897, ch. 4, 29 Stat. 481, 482. The general approach to criminal copyright enforcement—then, as now—has been to punish only those violations that are both willful and economically motivated. See *id.* (punishing as misdemeanor infringement that is “willful and for profit”); accord Copyright Act of 1976, Pub. L. 94-553, ch. 5, §506(a), 90 Stat. 2541, 2586 (codified as amended at 17 U.S.C. §506(a)(1)(A)) (imposing criminal liability on “[a]ny person who infringes a copyright willfully and for purposes of commercial advantage or private financial gain”).

Of the two factors that distinguish criminal from noncriminal copyright violations, willfulness and commerciality, the latter is of little practical importance. The Copyright Act defines “financial gain” broadly to include “receipt, or expectation of receipt, of anything of value, including the receipt of other copyrighted works.” 17 U.S.C. §101. The commerciality requirement thus “does not meaningfully winnow down the population of copyright defendants potentially liable to incarceration.... [T]he only bar against an overzealous prosecutor criminalizing nearly every copyright infringement case lies in the other prerequisite to criminal liability: willfulness.” 4 NIMMER, *supra*, §15.01[A][2].

But the term “willfully” is ambiguous.² See *Ratzlaf v. United States*, 510 U.S. 135, 141 (1994) (“‘Willful’ ... is a ‘word of many meanings’” (quoting *Spies v. United States*, 317 U.S. 492, 497 (1943))). To infringe willfully could simply mean to intentionally commit the act that constitutes infringement. Alternatively, it could mean that the defendant must act with a “‘bad purpose’ or ‘evil motive’ in the sense that there was an ‘intentional violation of a known legal duty.’” *United States v. Moran*, 757 F. Supp. 1046, 1048 (D. Neb. 1991) (quoting *Cheek v. United*

² Even within the context of *civil* copyright infringement, we have defined “willful” to mean different things in different contexts. See *Barboza v. New Form, Inc. (In re Barboza)*, 545 F.3d 702, 707-708 (9th Cir. 2008) (“The term ‘willful’ as used in copyright infringement cases is not equivalent to ‘willful’ as used in determining whether a debt is nondischargeable under the bankruptcy code.”).

States, 498 U.S. 192, 200 (1991)). The 1976 Copyright Act does not define “willfully,” and its legislative history offers little guidance. *See id.* at 1049 n. 2.

When faced with a criminal statute containing an ambiguous “willfulness” element, courts normally resolve any doubt in favor of the defendant. *Ratzlaf*, 510 U.S. at 148 (citing *Hughey v. United States*, 495 U.S. 411, 422 (1990)). Although the general rule is that “ignorance of the law or a mistake of law is no defense to criminal prosecution,” the modern proliferation of statutes and regulations “sometimes ma[kes] it difficult for the average citizen to know and comprehend the extent of the duties and obligations imposed by the . . . laws.” *Cheek*, 498 U.S. at 199-200. Thus, the government must prove that the defendant acted “willfully”—that is, with “specific intent to violate the law”—to be convicted of certain federal criminal offenses. *Id.* at 200 (citing *United States v. Murdock*, 290 U.S. 389 (1933)); *see also Bryan v. United States*, 524 U.S. 184, 191-199 (1998) (“As a general matter, when used in the criminal context, a ‘willful’ act is one undertaken with a ‘bad purpose.’ In other words, in order to establish a ‘willful’ violation of a statute, ‘the Government must prove that the defendant acted with knowledge that his conduct was unlawful.’” (quoting *Ratzlaf*, 510 U.S. at 137 (footnote omitted))).

In reviewing a conviction for criminal copyright infringement, we, and numerous other circuits, have assumed that proof of the defendant’s specific intent to violate someone’s copyright is required. *See United States v. Beltran*, 503 F.3d 1, 2 (1st Cir. 2007); *United States v. Manzer*, 69 F.3d 222, 227 (8th Cir. 1995); *United States v. Minor*, 756 F.2d 731, 734 (9th Cir. 1985); *United States v. Gottesman*, 724 F.2d 1517, 1522 (11th Cir. 1984); *United States v. Whetzel*, 589 F.2d 707, 712 (D.C. Cir. 1978);³ *see also United States v. Heilman*, 614 F.2d 1133, 1137 (7th Cir. 1980) (holding so). *But compare United States v. Backer*, 134 F.2d 533, 535 (2d Cir. 1943) (finding sufficient evidence that the defendant had willfully copied where he “deliberately had the copies made and deliberately sold them for profit”), *with United States v. Rose*, 149 U.S.P.Q. 820, 824 (S.D.N.Y. 1966) (instructing, notwithstanding *Backer*, that the government must prove the defendant acted “voluntarily and purposely and with specific intent to do that which the law forbids—that is to say, with bad purpose either to disobey or disregard the law”). We now explicitly hold that “willfully” as used in 17 U.S.C. §506(a) connotes a “voluntary, intentional violation of a known legal duty.” *Cheek*, 498 U.S. at 201 (internal quotation marks omitted).

The Copyright Act’s legislative history supports our interpretation. In 1997,

³ Early prosecutions for criminal copyright infringement under the 1976 Copyright Act also charged the defendants with violating the National Stolen Property Act, which criminalizes the interstate transport of goods, wares, or merchandise that were “stolen, converted or taken by fraud.” 18 U.S.C. §2314. In *Dowling v. United States*, 473 U.S. 207 (1985), the Supreme Court held that copyright infringement did not constitute theft, conversion, or fraud, abrogating *Minor*, *Gottesman*, and *Whetzel*, which had held to the contrary.

Congress updated the statutory provision governing criminal copyright infringement by inserting the [following language]: “evidence of reproduction or distribution of a copyrighted work, by itself, shall not be sufficient to establish willful infringement.” No Electronic Theft (NET) Act, Pub. L. 105-147, § 2(b), 111 Stat 2678, 2678 (1997) (codified as amended at 17 U.S.C. §506(c)). This language was in response to the “on-going debate about what precisely is the ‘willfulness’ standard in the Copyright Act.” 143 Cong. Rec. S12,689 (daily ed. Nov. 13, 1997) (statement of Sen. Orrin Hatch); *see also id.* at 12,690 (statement of Sen. Patrick Leahy) (“This clarification was included to address the concerns expressed ... because the standard of ‘willfulness’ for criminal copyright infringement is not statutorily defined and the court’s interpretation[s] have varied somewhat among the Federal circuits.”); H.R. Rep. No. 105-339, at 9 (1997) (explaining that the Subcommittee on Courts and Intellectual Property amended the bill “to define ‘willful’ misconduct” in response to “questions concerning the meaning of the word and its application in the electronic environment”).⁴ Upon passage of the bill in the Senate, Senator Hatch stated that willful “ought to mean the intent to violate a known legal duty.... As Chairman of the Judiciary Committee, that is the interpretation that I give to this term. Otherwise, I would have objected and not allowed this bill to pass by unanimous consent.” 143 Cong. Rec. S12, 689.

As a practical matter, requiring only a general intent to copy as a basis for a criminal conviction would not shield any appreciable amount of infringing conduct from the threat of prosecution. Civil liability will not lie if an author fortuitously creates a work that is substantially similar to another author’s copyrighted work. *See Airframe Sys., Inc. v. L-3 Communications Corp.*, 658 F.3d 100, 106 (1st Cir. 2011) (“[E]ven when two works are substantially similar with respect to protectable expression, if the defendant did not copy as a factual matter, but instead independently created the work at issue, then infringement liability must be denied.” (quoting 4 NIMMER, *supra*, §13.01[B]) (internal quotation mark omitted)). To infringe a copyright, one must *copy* the protected work. *See, e.g., L.A. Printex Industries, Inc. v. Aeropostale, Inc.*, 676 F.3d 841, 846 (9th Cir. 2012) (“To establish copyright infringement, a plaintiff must prove two elements: ‘(1)

⁴ Industry representatives and other stakeholders testifying before Congress expressed their hope that the term “willful” would be “given the interpretation that [the majority of] courts ha[d] given [it] in the criminal context,” *i.e.*, “that it is not enough for the defendant in a criminal case to have had an intent to copy the work; he must have acted with knowledge that his conduct constituted copyright infringement.” *Copyright Piracy, and H.R. 2265, the No Elec. Theft (NET) Act: Hearing Before the Subcomm. on Courts and Intellectual Prop. of the Comm. on the Judiciary H.R.*, 105th Cong. 13-14 (1997) (statement of Marybeth Peters, Register of Copyrights); *see id.* at 157 (statement of David Nimmer, counsel, United States Telephone Association) (“The courts’ divergent interpretations of Section 506(a) yield uncertainty.... Congress should specify that ‘willful’ ... requires a specific intent to violate a known legal duty.”); *see also id.* at 37 (statement of Brad Smith, Associate General Counsel, Microsoft Corp.) (“[W]e are *only* talking about *willful infringement* of a copyright holder’s rights.... [U]nder criminal law a willful act requires that it be intentionally done with knowledge that it was prohibited by law.”).

ownership of a valid copyright, and (2) copying of constituent elements of the work that are original.” (quoting *Feist Publications, Inc. v. Rural Telephone Service Co.*, 499 U.S. 340, 361 (1991)). Copying is of necessity an intentional act. If we were to read 17 U.S.C. §506(a)’s willfulness requirement to mean only an intent to copy, there would be no meaningful distinction between civil and criminal liability in the vast majority of cases. That cannot be the result that Congress sought.

In the present case, notwithstanding the parties’ agreement to add an instruction that “[e]vidence of reproduction or distribution of a copyrighted work, by itself, shall not be sufficient to establish willful infringement of a copyright,” 17 U.S.C. §506(a)(2), the district court did not include the requested language. In fact, the district court exacerbated the omission by defining willful infringement without the crucial knowledge component:

In order for the defendant to be found guilty of [copyright infringement], the government must prove each of the following elements beyond a reasonable doubt:

First, that on a date beginning in 2001 and continuing to on or about July 31, 2003, in the Northern District of California, defendant willfully infringed, that is, without authorization, duplicated, reproduced, or sold compact disks that infringed the copyright belonging to the owners of the works

By defining “willfully infringed” without any requirement that the defendant knew he was committing copyright infringement, the district court instructed the jury to apply a civil liability standard.

The district court further compounded this error a short time later, instructing the jury that “[a]n act is done ‘willfully’ if the act is done knowingly and intentionally, not through ignorance, mistake, or accident.” We recently considered a virtually identical instruction in *United States v. Berry*, 683 F.3d 1015 (9th Cir.2012). The district court had instructed the jury that “an act is done willfully if the defendant acted or failed to act knowingly and intentionally and did not act or fail to act through ignorance, mistake, or accident.” *Id.* at 1021. Finding error, we explained that “the instruction given merged the concepts of ‘knowing’ and ‘willful’ without conveying the culpable state of mind that the term ‘willfully’ is designed to invoke in the criminal arena.” *Id.* (citing *Bryan*, 524 U.S. at 192).

We conclude that the district court in this case erred by defining willfulness such that the jury could have convicted Liu without finding that he knew that his actions were unlawful.

C. The Instructional Error Was Not Harmless

Liu's convictions on the copyright infringement counts cannot stand unless the instructional error was harmless. "An error in describing an element of the offense in a jury instruction is harmless only if it is 'clear beyond a reasonable doubt that a rational jury would have found the defendant guilty absent the error.'" *Munguia*, 704 F.3d at 603-604 (quoting *Neder v. United States*, 527 U.S. 1, 18 (1999)).

The conclusion was irresistible that the infringing CDs and DVDs were replicated in the Super DVD warehouse. The discs all were found there with the exception of the Norton Anti-Virus software, which was discovered at the Vertex warehouse along with purchase orders and shipping labels linking it to Liu and Super DVD. Almost all of the music CDs bore Liu's initials, "JL." Liu admitted to reproducing the *Crouching Tiger* DVDs for R & E Trading, and there was a written agreement from early 2001 between Super DVD and R & E to press 2,000 copies of the *Beatles* CD. Although Liu claimed to have no knowledge of how the other discs were made, suggesting that the orders may have been handled by his sales staff, it is unclear whether the jury disbelieved him, thought he had forgotten, or found his employees' acts attributable to him.⁵

Whatever the case, Liu's state of mind was critical. Liu was aware of copyright laws and admittedly had been sued for copyright infringement in the past. His guilt thus hinged on whether he knew that his clients did not have authorization to replicate the disks at issue.

Liu presented evidence that his customers signed agreements stating that they had the copyright to the works in question and promising "to be responsible for all copyright related legal responsibilities." His expert witness testified that other replicators also rely on such agreements rather than carefully investigate each customer. Liu testified that he attempted to verify that there were no copyright violations on the Latin music compilations by listening to the some of the tracks and satisfying himself that it was Valdez's voice. He further claimed that he did not realize R & E's order for *Crouching Tiger* DVDs was unauthorized until he became embroiled in the payment dispute, at which time he filed a lawsuit against R & E. The fact that he initiated a lawsuit over a dispute involving thousands of infringing copies of *Crouching Tiger*, *Hidden Dragon* that he created is arguably compelling evidence that he did not understand his conduct to have been wrongful.

We cannot say that the jury would not have credited some or all of this

⁵ While criminal liability for copyright infringement cannot lie purely on the basis of respondeat superior, we note in passing that the district court could have given the jury clearer guidance on this issue. It instructed only that "[a]n individual is liable for willful infringement even if the conduct on which you base your finding of willful infringement is performed as a representative of a corporation."

evidence had the jury appreciated its relevance. The evidence may have supported a finding that Liu did not know that he was illegally copying copyrighted material and thus he did not willfully infringe the copyrights. Therefore, the failure to provide a proper willfulness instruction was not harmless beyond a reasonable doubt.

We reject the government's contention that any error was harmless because, on the second day of trial, the district court correctly described the concept of willfulness to the jury. The court stated that "one of the issues in this case [is that] the government claims that Mr. Liu did certain conduct willfully, which means that he did it intentionally, that he knew what was going on and he knew that it was a violation of someone's rights under the copyright laws, or he had good reason to know that." But this statement is itself problematic. Having "good reason to know" one is violating the law is not tantamount to knowing it.

Even if the court's statement accurately conveyed the willfulness standard to the jury, a correct statement of the law given during trial does not cure an incorrect one delivered immediately prior to deliberations. *See Seltzer v. Chesley*, 512 F.2d 1030, 1035 (9th Cir. 1975) ("Erroneous instructions can be corrected by the trial judge only by expressly correcting them and by directing the members of the jury to expunge the erroneous statements from their minds."); *cf. Petrocelli v. Angelone*, 248 F.3d 877, 888-889 (9th Cir. 2001) (finding that court's improper statement of the law during trial did not violate due process "because the trial judge used the correct instruction at the end of trial and because the correct instruction was the only instruction given to the jury to take with them to the jury room" (quoting *Guam v. Ignacio*, 852 F.2d 459, 461 (9th Cir. 1988)) (internal quotation marks and brackets omitted).

Further, the district court's statement about willfulness was made in a context that had nothing to do with the elements of criminal copyright infringement. The court was in the middle of delivering unrelated comments about character evidence. It immediately minimized the need for the jury to pay attention to its comments, adding that "[t]hose are all things I'll tell you about when I give you my instructions on the law." Thus, it is inconceivable that the district court's partially correct statement on willfulness mid-trial overcame the effect of its erroneous statements in the oral and written jury instructions given to the jury immediately prior to deliberations.

Accordingly, we vacate Liu's convictions and sentence for criminal copyright infringement on counts one through three and remand to the district court. For reasons we will explain, count two must be dismissed.

* * *

CONCLUSION

We vacate Liu's convictions and sentences for criminal copyright

infringement and trafficking in counterfeit labels. We need not address the remaining issues raised on appeal and remand this matter to the district court for further proceedings consistent with this opinion.

VACATED and REMANDED with instructions.