

JUL 24 2006

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U.S. BKCY. APP. PANEL
OF THE NINTH CIRCUIT**

ORDERED PUBLISHED

**UNITED STATES BANKRUPTCY APPELLATE PANEL
OF THE NINTH CIRCUIT**

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In re:)	BAP No.	SC-05-1398-MaSPa
)		
LUCIA ALBARRAN and ANTONIO)	Bk. No.	04-04938
BARBOZA,)		
)	Adv. No.	04-90395
Debtors.)		
_____)		
)		
LUCIA ALBARRAN; ANTONIO)		
BARBOZA,)		
)		
Appellants,)		
)		
v.)		
)		
NEW FORM, INC.,)		
)		
Appellee.)		
_____)		

O P I N I O N

Argued and Submitted on February 24, 2006
at San Diego, California

Filed - July 24, 2006

Appeal from the United States Bankruptcy Court
for the Southern District of California

Honorable Peter W. Bowie, Chief Bankruptcy Judge, Presiding.

Before: MARLAR, SMITH, and PAPPAS, Bankruptcy Judges.

1 MARLAR, Bankruptcy Judge:

2

3

INTRODUCTION

4

5 The debtors, who reproduce and distribute motion picture
6 titles in the home video market, filed a voluntary chapter 7¹
7 petition after a district court judgment for willful copyright
8 infringement was entered against them for statutory damages plus
9 interest, attorney's fees and costs in the sum of \$893,077.11.
10 The judgment creditor then obtained a judgment, in bankruptcy
11 court, that the debt was a nondischargeable "willful and malicious
12 injury" pursuant to § 523(a)(6).

13 Debtors maintain that an award of statutory damages, without
14 proof of any actual damages, was not an "injury," and that mere
15 duplication of the films, without proof of sale, did not establish
16 the subjective intent requirement for "willfulness."

17 We conclude that an award for statutory damages for willful
18 copyright infringement is a debt for a categorically harmful
19 activity, which is a nondischargeable "injury" under § 523(a)(6)
20 if the bankruptcy court determines that the infringer had the
21 requisite subjective intent to injure another's property interest.
22 Here, the debtors' actual knowledge of the creditor's copyright
23 interest at the time of infringement was proof of their
24 "substantial certainty" of resultant harm. Therefore, we AFFIRM.

25

26

27 ¹ Unless otherwise indicated, all "Code," "chapter" and
28 "section" references are to the Bankruptcy Code, 11 U.S.C. §§ 101-
1330 prior to its amendment by the Bankruptcy Abuse Prevention and
Consumer Protection Act of 2005, Pub. L. 109-8, 119 Stat. 23
(2005). "Rule" references are to the Federal Rules of Bankruptcy
Procedure ("Fed. R. Bankr. P."), which make applicable certain
Federal Rules of Civil Procedure ("Fed. R. Civ. P.").

1 **FACTS**

2
3 Lucia Munguia Albarran ("Albarran") and her husband, Antonio
4 Barboza ("Barboza"), ("Debtors"), operated a business for the
5 duplication, distribution and sale of Spanish language films.
6 This appeal concerns ten films known as the India Maria Pictures.²

7 On May 15, 1999, appellee New Form, Inc. ("New Form")
8 acquired the exclusive rights to manufacture, sell and distribute
9 the India Maria Pictures.

10 Before New Form acquired its exclusive rights, Debtors had
11 purchased a large amount of inventory of India Maria Pictures from
12 Million Dollar Video Corp. ("Million Dollar Video"). Debtors also
13 utilized the services of Reel Picture Productions, LLC ("Reel
14 Picture") for reproduction of the India Maria Pictures. A copy of
15 each India Maria Picture ordered was made and packaged into a
16 finished VHS tape product. Debtors sold the India Maria Pictures,
17 but they kept no inventory or sale records.

18 In late summer, 1999, New Form learned that Debtors were
19 selling the India Maria Pictures. It sent Debtors a letter, dated
20 September 3, 1999, advising them of New Form's "exclusive right to
21 duplicate and sell" the India Maria Pictures.

22 Following their receipt of this letter, Debtors ordered 500
23 VHS tape finished product copies of the India Maria Pictures from
24 Reel Picture on or about September 9, 1999.

25 Albarran responded to New Form by letter, on September 17,
26 1999, stating that they: (1) did not know about New Form's
27 exclusive rights prior to receiving the September 3rd letter; (2)

28

² The ten titles are: Duro Pero Seguro; El Miedo No Anda En Burro; El Que No Corre Vuela; La Comadrta; La Madrecita; La Presidenta Municipal; O.K. (Okey) Mister Pancho; Pobre Pero Honrada; Sor Tequila; and Tonta Tonta Pero No Tanto.

1 were selling inventory of India Maria Pictures legally purchased
2 from Million Dollar Video;³ and (3) were "open to a purchase
3 proposal or to another reasonable agreement" with New Form.

4 New Form sent a final warning letter on December 9, 1999.
5 Debtors continued to sell the India Maria Pictures until March 20,
6 2002, when New Form filed a lawsuit against them for willful
7 copyright infringement in the District Court for the Central
8 District of California (the "District Court Action"). The
9 complaint alleged that Debtors had willfully infringed New Form's
10 copyright in the India Maria Pictures beginning on or after May
11 15, 1999 and ending in 2002.

12 New Form moved for partial summary judgment in the District
13 Court Action, arguing that Debtors had willfully infringed its
14 copyright by (1) duplication of the India Maria Pictures, and (2)
15 sale and distribution of the India Maria Pictures. Following a
16 hearing, the district court granted summary judgment on only one
17 issue--New Form's ownership of a valid copyright interest in the
18 India Maria Pictures effective May 15, 1999 and continuing to May
19 15, 2004.

20 A jury trial was held in April, 2004, on the infringement by
21 duplication issue.⁴ To establish statutory copyright infringement
22

23 ³ Even though New Form subsequently acquired the exclusive
24 rights to those titles, federal copyright law would protect
25 Debtors' right to resell any first-acquired inventory under the
26 "first sale doctrine." Under this doctrine, the sale of a
27 "lawfully made" copy of a work terminates the copyright holder's
28 authority to interfere with subsequent sales or distribution of
that particular copy. See 17 U.S.C. § 109(a) (2004).

27 ⁴ This appeal concerns infringement by duplication, which
28 was the only issue resolved in the district court trial. In
regards to the sale and distribution infringement claim, the
district court found that summary judgment was "not appropriate"
because New Form had not rebutted Debtors' evidence that they
lawfully sold and distributed the India Maria Pictures that they
had obtained from Million Dollar Video, under the "first sale

(continued...)

1 based on duplication under the Copyright Act, 17 U.S.C. §§ 101-
2 1332 (2004 & Supp. 2006), a plaintiff must prove: "(1) ownership
3 of a valid copyright, and (2) copying of constituent elements of
4 the work that are original." Feist Publ'ns, Inc. v. Rural Tel.
5 Serv. Co., 499 U.S. 340, 361 (1991).

6 The jury instructions on infringement of copyright stated:

7 If you find by a preponderance of the evidence that
8 [Albarran] reproduced and/or in any manner duplicated each
9 or all of the ten (10) India Maria Pictures at any time
10 between May 15, 1999, and the present, you are instructed
11 to find that Defendant infringed Plaintiff's copyright
12 interests for each India Maria Picture reproduced.

13 The jury was also instructed on "willful" infringement:

14 To prove willful infringement, the Plaintiff must
15 prove by a preponderance of the evidence that the
16 Defendants knew that they were infringing the Plaintiff's
17 copyrights or that they acted with reckless disregard as
18 to whether they were doing so. If you conclude that the
19 Defendants reasonably and in good faith believed that they
20 were not infringing the Plaintiff's copyrights, then you
21 may not find that they willfully infringed those
22 copyrights.

23 The jury returned special verdicts finding that Albarran and
24 Barboza had willfully infringed New Form's copyright in each of
25 the India Maria Pictures, and awarded statutory damages. Judgment
26 was entered on May 10, 2004, for \$750,000 (\$75,000 for each of the
27 ten films), plus costs and attorney's fees; the final judgment
28 amount was fixed at \$893,077.11.

Debtors filed a bankruptcy petition on May 28, 2004. New
Form timely filed a complaint seeking to have the entire judgment
debt declared nondischargeable as a "willful and malicious" injury
under § 523(a)(6). It promptly moved for summary judgment, and
requested that the bankruptcy court take judicial notice of the

⁴(...continued)
doctrine." Dist. Ct. Order on Motion for Partial Summary Judgment
(July 15, 2003), p. 13. Although the distribution issue was also
reserved for trial, it was not resolved. See Tr. of Proceedings
(Aug. 22, 2005), p. 20:1-24.

1 record and judgment in the District Court Action.

2 Debtors filed an opposition and a counter-motion for summary
3 judgment. Albarran filed her declaration in which she denied any
4 intent to injure New Form, and argued that the district court
5 verdict and judgment were based on mere "reckless" conduct.

6 In resolving the motion, the court applied collateral
7 estoppel, or issue preclusion, to the district court's finding
8 that Debtors had infringed New Form's copyright. Specifically, it
9 held that Albarran was "bound by the fact that she ordered" the
10 duplication of the India Maria Pictures." Tr. of Proceedings
11 (March 28, 2005), pp. 18-19.⁵

12 Since the jury instruction had defined "willful" infringement
13 as either "knowing" or "reckless" conduct, the bankruptcy court
14 reserved for trial the issue of whether Debtors had the
15 "subjective intent to injure [New Form] or its property, or
16 subjective knowledge that injury [was] substantially certain to
17 result." Order on Summary Judgment (June 7, 2005), p. 2.

18 New Form then moved for partial summary judgment on the issue
19 of subjective intent. It argued that the undisputed evidence
20 showed that there was no triable issue as to Debtors' knowledge
21 that an injury to New Form's copyright was substantially certain
22 to occur from their duplication of the India Maria Pictures.
23 Furthermore, it argued that the undisputed evidence was that
24 Debtors had sold the unlawfully duplicated India Maria Pictures.

25 New Form presented the declarations of Manuel Hinostroza
26 ("Hinostroza"), president of New Form, and Michael Ishayik

27

28 ⁵ The transcript was not included in the record, but is part
of the bankruptcy court records. We may take judicial notice of
it as well as other pleadings from the records in the underlying
bankruptcy case which are pertinent to this appeal. O'Rourke v.
Seaboard Sur. Co. (In re E.R. Fegert, Inc.), 887 F.2d 955, 957-58
(9th Cir. 1989).

1 ("Ishayik"), president of Reel Picture. Hinostroza averred that
2 New Form discovered that Debtors were duplicating and selling the
3 India Maria Pictures in late summer, 1999. He introduced the
4 series of letters between New Form and Albarran which gave notice
5 to Debtors of New Form's copyright on and after September 3, 1999.

6 Ishayik averred that, on and after May 14, 1999, Debtors had
7 ordered overflow services from Reel Picture which included
8 duplication and preparation of finished product of the India Maria
9 Pictures. He stated that the orders were picked up by either
10 Barboza or Albarran's son, Gustavo Munguia ("Gustavo"). The
11 relevant exhibits, i.e., those dated after the September 3, 1999,
12 notice to Debtors of New Form's copyright, were as follows:

- 13 1. A "Packing Slip," dated September 9, 1999, listing
14 quantities and titles of India Maria Films, and
signed by Gustavo.
- 15 2. A "Packing Slip," dated September 14, 1999, listing
16 the quantities and titles of India Maria Films
17 "shipped," totaling 2,091 reproductions. Under a
18 column marked "Carrier," were written the words,
"will call." At the bottom, after "Received By" was
printed the name "Antonio Barboza C."

19 New Form's "Statement of Uncontroverted Facts" cited the same
20 exhibits for the following allegations:

- 21
- 22 16. Subsequent to receiving actual written notice of
23 Plaintiff's exclusive ownership rights to the India
24 Maria Pictures, Defendants ordered and received 500
VHS Tape Finished Product copies of the India Maria
Pictures from Reel Picture on September 9, 1999.
- 25 17. Subsequent to receiving actual written notice of
26 Plaintiff's exclusive ownership rights to the India
27 Maria Pictures, Antonio Barboza picked up and
28 received on behalf of Defendants, 2,091 VHS Tape
Finished Product copies of the India Maria Pictures
from Reel Picture on September 14, 1999.

1 Debtors filed an opposition pleading, supported by
2 affidavits, in which they alleged that someone else had ordered
3 the duplication of the India Maria Pictures, and that someone else
4 had received and diverted the finished product.⁶ However, they
5 did not dispute either the date of duplication or their knowledge
6 of New Form's copyright on or after September 3, 1999.
7 Alternatively, they argued that the copyright violation was merely
8 "technical" because there was no evidence that they sold the
9 unlawfully duplicated copies rather than the inventory they had
10 legally purchased from Million Dollar Video.

11 At the August 22, 2005, hearing on the motion for partial
12 summary judgment, the bankruptcy court first concluded that
13 statutory damages, like punitive damages, would indeed support an
14 "injury" under § 523(a)(6). Second, it again found that the facts
15 established in the District Court Action were binding in the
16 adversary proceeding. Third, in regards to Debtors' subjective
17 intent, the bankruptcy court found that Debtors had notice of New

18 _____
19 ⁶ On appeal, Debtors have not challenged the bankruptcy
20 court's finding that they were responsible for the September,
21 1999, duplication order(s), as alleged by New Form, and that issue
22 has therefore been waived. Law Offices of Neil Vincent Wake v.
Sedona Inst. (In re Sedona Inst.), 220 B.R. 74, 76 (9th Cir. BAP
1998) (arguments not specifically and distinctly made in an
appellant's opening brief are deemed waived).

23 Neither have Debtors argued that there is a triable issue
24 regarding whether they received the finished product, and that
25 issue has also been waived. Id. The bankruptcy court did not
26 resolve the receipt issue, as being unnecessary to the judgment
27 based solely on the infringement for duplication. Even if it had
28 not been waived, we would agree that it was immaterial to this
proceeding and did not preclude judgment. See Anderson v. Liberty
Lobby, Inc., 477 U.S. 242, 247-48 (1986). "A 'material' fact is
one that is relevant to an element of a claim or defense and whose
existence might affect the outcome of the suit. The materiality
of a fact is thus determined by the substantive law governing the
claim or defense." T.W. Elec. Serv., Inc. v. Pac. Elec.
Contractors Ass'n, 809 F.2d 626, 630 (9th Cir. 1987).

1 Form's copyright and knew they were violating it, thereafter, by
2 duplicating the India Maria Pictures. It ruled:

3 [T]he evidence is uncontroverted that [Debtors] knew,
4 [sic] the April 19th letter.⁷ And I have to take the jury
5 finding that the copying occurred and combine that with
6 the uncontroverted evidence of the knowledge.

6 Tr. of Proceedings (Aug. 22, 2005), p. 27:8-13.

7 It entered an order granting partial summary judgment in
8 favor of New Form, on September 19, 2005, which stated:

9 Based on the evidence establishing Defendants' injury
10 to Plaintiff's property rights, and [that] Defendants'
11 acts were performed intentionally with knowledge that
12 injury was substantially certain to occur, Plaintiffs'
13 Motion for Partial Summary Adjudication . . . is GRANTED
14

13 A judgment of nondischargeability was entered in the sum of
14 \$893,077.11. Debtors timely appealed the order and judgment.

16 **ISSUES**

18 Debtors have raised several issues which can be distilled to
19 the following two:

21 1. Whether an award of statutory damages for copyright
22 infringement, without evidence of actual damages, can
23 constitute a debt for an "injury" to property, under
24 § 523(a)(6).

26 2. Whether the bankruptcy court erred in finding that
27 Debtors, by duplicating the India Maria Pictures, had

28 _____
⁷ In fact, the first letter notice to Debtors was on
September 3, 1999, and not April 19, 1999, for which date there is
no letter of record. Nonetheless, the evidence was uncontroverted
that Debtors had notice of New Form's copyright at the time of the
subject duplication, in September, 1999.

1 the requisite subjective intent to injure New Form.

2
3 **STANDARD OF REVIEW**
4

5 We review de novo a bankruptcy court's decision to grant
6 summary judgment. Fogal Legware of Switz., Inc. v. Wills (In re
7 Wills), 243 B.R. 58, 62 (9th Cir. BAP 1999). We affirm "only if
8 it appears from the record, after viewing all evidence and factual
9 inferences in the light most favorable to the nonmoving party,
10 that there are no genuine issues of material fact and that the
11 moving party is entitled to judgment as a matter of law." Yarbrow
12 v. FDIC (In re Yarbrow), 150 B.R. 233, 236 (9th Cir. BAP 1993);
13 Fed. R. Bankr. P. 7056; Fed. R. Civ. P. 56(c).

14 The inquiry is "whether reasonable jurors could find by a
15 preponderance of the evidence that the plaintiff [New Form] is
16 entitled to a verdict . . ." Anderson, 477 U.S. at 252. New
17 Form has the initial burden of establishing the absence of a
18 genuine issue of material fact. Celotex Corp. v. Catrett, 477
19 U.S. 317, 323 (1986). If it meets this burden, then Debtors must
20 go beyond the pleadings and identify facts, by affidavit or
21 otherwise, demonstrating a genuine issue for trial. Id. at 324;
22 Fed. R. Civ. P. 56(e). They "must do more than simply show that
23 there is some metaphysical doubt as to the material facts."
24 Matsushita Elec. Indus. Co. v. Zenith Radio Corp., 475 U.S. 574,
25 586 (1986). "If the evidence is merely colorable, . . . or is not
26 significantly probative, . . . summary judgment may be granted."
27 Anderson, 477 U.S. at 249-50.

28 We may uphold a summary judgment on any basis supported by

1 the record. Nahman v. Jacks (In re Jacks), 266 B.R. 728, 733 (9th
2 Cir. BAP 2001).

3
4 **DISCUSSION**

5
6 The general policy of bankruptcy law favors allowing an
7 honest debtor to discharge debts and to make a fresh start free
8 from the burden of past indebtedness. See Lines v. Frederick, 400
9 U.S. 18, 19 (1970). Thus, because a debtor in bankruptcy is
10 assumed to be poor but honest, there is a presumption that all
11 debts are dischargeable unless a party who contends otherwise
12 proves, with competent evidence, an exception to discharge. See
13 Brown v. Felsen, 442 U.S. 127, 128-29 (1979); Hon. Barry Russell,
14 BANKRUPTCY EVIDENCE MANUAL ¶ 301.60, p. 870 (2006 ed.).

15 The corollary to this policy is that only the "honest but
16 unfortunate" debtor is entitled to an entirely unencumbered fresh
17 start. Grogan v. Garner, 498 U.S. 279, 286-87 (1991). Under the
18 statute, a creditor must demonstrate nondischargeability by a
19 preponderance of the evidence. Id. at 291. When applying this
20 standard, "[i]n addition to what a debtor may admit to knowing,
21 the bankruptcy court may consider circumstantial evidence that
22 tends to establish what the debtor must have actually known when
23 taking the injury-producing action." Carrillo v. Su (In re Su),
24 290 F.3d 1140, 1146 n.6 (9th Cir. 2002).

25 Section 523(a)(6) provides that a chapter 7 discharge does
26 not discharge an individual debtor from a debt for a "willful and
27 malicious injury by the debtor to another entity or to the
28 property of another entity." 11 U.S.C. § 523(a)(6). The

1 "willfulness" and "maliciousness" prongs are analyzed separately.
2 Su, 290 F.3d at 1146.

3 Debtors have only argued the merits of the court's ruling
4 that there was a "injury" and that it was "willful." If we
5 affirm, then malice can be implied.⁸ See Thiara v. Spycher Bros.
6 (In re Thiara), 285 B.R. 420, 434 (9th Cir. BAP 2002) (stating if
7 a conversion was "willful," then the court could imply malice).

8

9 **A. Statutory Damages Are a Debt for a § 523(a)(6) "Injury"**

10

11 In the District Court Action, New Form elected statutory
12 damages, which are authorized by § 504(c) of the Copyright Act,
13 and there was no evidence of actual damages. Debtors maintain
14 that discharge of the debt was therefore mandated because
15 § 523(a)(6) requires an economic "injury" to property and actual
16 damages. Their argument is clearly twofold: (1) whether a claim
17 for copyright infringement is an "injury" to New Form's property,
18 as that term is used in § 523(a)(6); and (2) whether an award of
19 statutory damages constitutes a nondischargeable "debt" for such
20 injury.

21 We look first to the general law to determine the nature of
22 the injury. Johnson v. Miera (In re Miera), 926 F.2d 741, 745
23 (8th Cir. 1991) ("The language of section 523(a)(6) is directed at
24 the nature of the conduct which gives rise to the debt")

25

26

27

28 ⁸ The "maliciousness" prong requires proof of "(1) a
wrongful act, (2) done intentionally, (3) which necessarily causes
injury, and (4) is done without just cause or excuse." Petralia
v. Jercich (In re Jercich), 238 F.3d 1202, 1209 (9th Cir. 2001).

1 Pursuant to the Copyright Clause of the Constitution,⁹
2 Congress enacted the Copyright Act, which grants a limited
3 monopoly to authors or inventors in order to give the public
4 appropriate access to their work product, and to insure that such
5 persons reap, for a short time, the benefit of their imagination
6 and inventions. Such limited monopoly is intended to achieve an
7 important public purpose: "to motivate the creative activity of
8 authors and inventors by the provision of a special reward, and to
9 allow the public access to the products of their genius after the
10 limited period of exclusive control has expired." Sony Corp. of
11 Am. v. Universal City Studios, Inc., 464 U.S. 417, 429 (1984).
12 Thus, "[t]he copyright law, like the patent statute, makes reward
13 to the owner a secondary consideration." Id. (citation omitted).
14 "The immediate effect . . . is to secure a fair return for an
15 "author's" creative labor. But the ultimate aim is, by this
16 incentive, to stimulate artistic creativity for the general public
17 good." Id. at 432 (citation omitted).

18 The Federal Copyright Act provides the owner of a copyright
19 with an arsenal of remedies against an infringer who violates any
20 of the owner's exclusive rights, as set forth in the Copyright
21 Act. See 17 U.S.C. §§ 501(a), 502-505. Here, in accordance with
22 the statute, the district court jury instructions defined one such
23 right belonging to New Form as the "exclusive right to copy,"
24 which included both the right to reproduce and distribute copies
25 of the India Maria Pictures. See 17 U.S.C. § 106(1), (3).

27 ⁹ The Copyright Clause provides that
28 Congress shall have Power . . . To Promote the Progress
of Science and useful Arts, by securing for limited
Times to Authors and Inventors the exclusive Right to
their respective Writings and Discoveries.

U.S. Const., art. I, § 8, cl. 8 (2001).

1 These rights are intangible property interests. See 17
2 U.S.C. § 202; 3 Melville B. Nimmer & David Nimmer, NIMMER ON
3 COPYRIGHT, § 12.01[C] (LexisNexis Matthew Bender & Co. 2006) (a
4 copyright is an intangible, incorporeal right). A
5 nondischargeable injury need not be confined to physical damage;
6 it may also include an injury to intangible personal or property
7 rights. See 4 COLLIER ON BANKRUPTCY, ¶ 523.12[4], at 523-95 (Alan N.
8 Resnick & Henry J. Sommer eds., 15th ed. rev. 2005) (citing Herman
9 v. Remick (In re Remick), 96 B.R. 935 (Bankr. W.D. Mo. 1987)
10 (willful copyright infringement)).

11 Historically, and presently by preemption,¹⁰ copyright
12 infringement actions subsume certain tort actions. "At common
13 law, a cause of action for copyright infringement was analogous to
14 several tort actions" Broadcast Music Inc. v. Blumonday,
15 Inc., 818 F. Supp. 1352, 1353 (D. Nev. 1993). See generally 1
16 NIMMER ON COPYRIGHT, supra, § 1.01 (discussing the Act's impact on
17 state-law claims). See also Leo Feist, Inc. v. Young, 138 F.2d
18 972, 975 (7th Cir. 1943) (copyright infringement is properly
19 classified as a tort and ex delicto action); Sony Corp. of Am.,
20 464 U.S. at 433 ("[A]nyone who trespasses into his exclusive
21 domain by using or authorizing the use of the copyrighted work in
22 one of the five ways set forth in the statute, 'is an infringer of
23 the copyright.'" (citation omitted); A. Samuel Oddi,
24 "Contributory Copyright Infringement: the Tort and Technological
25 Tensions," 64 NOTRE DAME L. REV. 47, 51-52 & n.27 (1989)

27 ¹⁰ The Copyright Act preempts any actions which come within
28 its scope. See 17 U.S.C. § 301. "[T]wo conditions must be
satisfied. First, the content of the protected right must fall
within the subject matter of copyright as described in 17 U.S.C.
§§ 102 and 103. Second, the right asserted under state law must
be equivalent to the exclusive rights contained in section 106 of
the Copyright Act." Downing v. Abercrombie & Fitch, 265 F.3d 994,
1003 (9th Cir. 2001).

1 (infringement of intangible personal property is a trespass tort).
2 See also Dielsi v. Falk, 916 F. Supp. 985, 992(C.D. Cal. 1996)
3 (“[A] general claim for copyright infringement is fundamentally
4 one founded on strict liability.”).¹¹

5 Preempted actions can range from those brought under state
6 criminal statutes, to interference torts, to a conversion of
7 unauthorized reproductions. See Crow v. Wainwright, 720 F.2d
8 1224, 1226 (11th Cir. 1983) (finding a substantial equivalency
9 between the elements of “tort of copyright infringement” under the
10 federal act and the state crime of dealing in stolen property);
11 Maheu v. CBS, Inc., 201 Cal. App. 3d 662, 677-78, 247 Cal. Rptr.
12 304, 313 (1988) (interference with prospective economic
13 advantage); 1 NIMMER ON COPYRIGHT, supra, § 1.01, § 1.01[B][1][i] &
14 n.180 & 181.1 (citing conversion cases); cf. G.S. Rasmussen &
15 Assocs., Inc. v. Kalitta Flying Serv., Inc., 958 F.2d 896, 904
16 (9th Cir. 1992) (stating, in dicta, that a conversion action based
17 on a claim of an exclusive right to copy “would surely be
18 preempted by the Copyright Act.”)

19 An award of statutory damages is the “debt” which may result
20 from an infringer’s liability. See 11 U.S.C. 101(12) (a “debt”
21 means “liability on a claim”). Under the Copyright Act, the
22 infringer of a copyright is liable either for the copyright
23 owner's actual damages plus any additional profits of the
24 infringer, or statutory damages. 17 U.S.C. § 504(a). A copyright
25 owner may elect, at any time before final judgment, to recover an

27 ¹¹ It is appropriate to look to patent law for guidance
28 because of the kinship between it and copyright law. See Sony
Corp. of Am., 464 U.S. at 439 & n.19; Harris v. Emus Records
Corp., 734 F.2d 1329, 1333 (9th Cir. 1984). Patent infringement
has historically been viewed as a tort because it is an invasion
of another’s rights. See Monsanto Co. v. Trantham (In re
Trantham), 304 B.R. 298, 308 (6th Cir. BAP 2004); Thomson-Houston
Elec. Co. v. Ohio Brass Co., 80 F. 712, 721 (6th Cir. 1897)
(patent infringement is analogous to “trespass on the case”).

1 award based on statutory damages for any infringement. 17 U.S.C.
2 § 504(c)(1). A court has discretion to determine the amount of
3 statutory damages within specified minimum and maximum amounts and
4 guided by its sense of justice. Peer Int'l Corp. v. Pausa
5 Records, Inc., 909 F.2d 1332, 1336 (9th Cir. 1990). The maximum
6 amount increases in the case of a "willful" infringement. See 17
7 U.S.C. § 504(c)(2).

8 Such discretionary statutory damages were adopted
9 "to avoid the strictness of construction incident to a law
10 imposing penalties, and to give the owner of a copyright
11 some recompense for injury done him, in a case where the
12 rules of law render difficult or impossible proof of
13 damages or discovery of profits."
14 F.W. Woolworth Co. v. Contemporary Arts, Inc., 344 U.S. 228, 231
15 (1952) (quoting Douglas v. Cunningham, 294 U.S. 207, 209 (1935)).

16 The Ninth Circuit has held that awards of statutory damages
17 under the Copyright Act "serve both compensatory and punitive
18 purposes" Los Angeles News Serv. v. Reuters Television
19 Int'l, Ltd., 149 F.3d 987, 996 (9th Cir. 1998). Because of its
20 dual purpose, an award of statutory damages for copyright
21 infringement may be recovered "whether or not there is adequate
22 evidence of the actual damages suffered by plaintiff of the
23 profits reaped by defendant.'" Id. (quoting Harris, 734 F.2d at
24 1335); Columbia Pictures Television, Inc. v. Krypton Broadcasting
25 of Birmingham, Inc., 259 F.3d 1186, 1194 (9th Cir. 2001)
26 (plaintiff may elect statutory damages for copyright infringement
27 regardless of the adequacy of evidence offered of actual damages
28 or amount of defendant's profits). "The availability of statutory
damages ensures there will always be an avenue open to sanction an
infringer and vindicate the statutory policy of discouraging

1 infringement." Jackson v. Sturkie, 255 F. Supp. 2d 1096, 1101
2 (N.D. Cal. 2003).¹²

3 Debtors contend that, even if an award of statutory damages
4 is a penalty, it must be expressly excepted in § 523 in order to
5 be nondischargeable. See Jett v. Sicroff (In re Sicroff), 401
6 F.3d 1101, 1104 (9th Cir. 2005) (exceptions to discharge "'should
7 be confined to those plainly expressed'" (citation omitted).

8 This argument lacks merit for two reasons: first, the damages are
9 for an "injury," as that term is used in § 523(a)(6), and second,
10 the nondischargeable debt encompasses the entire liability.

11 The identical issue now before us was addressed in Star's
12 Edge, Inc. v. Braun (In re Braun), 327 B.R. 447 (Bankr. N.D. Cal.
13 2005), viz, whether an award of statutory damages for intentional
14 copyright infringement is a willful and malicious "injury" within
15 the meaning of § 523(a)(6) even without proof of any actual
16 damages. The Braun court reasoned that the award of statutory
17 damages resembled court-ordered sanctions that are allowable in
18 the absence of a proven economic injury, because "an act of
19 copyright infringement causes harm by its very nature." Id. at
20 450. It cited Zelis v. Papadakis (In re Zelis), 161 B.R. 469, 471
21 (9th Cir. BAP 1993) (sanctions imposed for filing a frivolous
22 appeal necessarily caused harm to opposing party and were
23 nondischargeable), aff'd in relevant part, 66 F.3d 205 (9th Cir.
24 1995), and Sicroff, 401 F.3d at 1107 (holding that libel

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27 ¹² Furthermore, an award of statutory damages was
28 particularly appropriate in this case, where Debtors failed to
keep records of their inventory of either the India Maria Pictures
which they obtained from Million Dollar Video or those they
ordered to be duplicated by Reel Picture, thereby increasing the
difficulty of ascertaining any actual damages.

1 necessarily caused harm to another's reputation and was a
2 "malicious" injury, where defendant had conceded "willfulness").
3 The Braun court concluded that "if conduct necessarily causes
4 harm, an independent finding of injury is unnecessary." Braun,
5 327 B.R. at 451 (emphasis added). We agree with this conclusion
6 that intentional copyright infringement is a categorically harmful
7 activity and thus is an "injury," as that term is used in
8 § 523(a)(6).¹³

9 Furthermore, Debtors' argument that an award of statutory
10 damages without proof of actual damages is not an "injury" has
11 been foreclosed by cases such as Palmer v. Levy (In re Levy), 951
12 F.2d 196, 199 (9th Cir. 1991), cert. denied, 504 U.S. 985 (1992)
13 (holding that punitive damages are nondischargeable under
14 § 523(a)(6)) and Cohen v. de la Cruz, 523 U.S. 213, 214-15 (1998)
15 (the § 523(a)(2)(A) fraud exception to discharge applies to the
16 underlying debt resulting from fraud and any statutory damages and
17 attorney's fees and costs awarded on account of the debtor's
18 fraud).

19 Both Levy and Cohen specifically rejected the theory that a
20 value of a loss or injury must be reflected in the debt. The
21 Supreme Court held, in the context of § 523(a)(2)(A):

22 [T]he text of § 523(a)(2)(A), the meaning of parallel
23 provisions in the statute, the historical pedigree of the
24 fraud exception, and the general policy underlying the
25 exceptions to discharge all support our conclusion that

26 ¹³ In Braun, the debtor had conceded that the infringing
27 conduct was willful and malicious. See Braun, 327 B.R. at 449.
28 The Braun court's conclusion about the inherently harmful nature
of a copyright infringement implicitly, and correctly, confirmed
the element of malice. See Sicroff, 401 F.3d at 1106. We do not
agree, however, with any dictum in Braun which may suggest that a
separate test for willfulness was unnecessary. See id., 327 B.R.
at 450.

1 'any debt . . . for money, property, services, or . . .
2 credit, to the extent obtained by' fraud encompasses any
3 liability arising from money, property, etc., that is
4 fraudulently obtained, including treble damages,
attorney's fees, and other relief that may exceed the
value obtained by the debtor.

5 Cohen, 523 U.S. at 223 (emphasis added). See also Muegler v.
6 Bening, 413 F.3d 980, 982-83 (9th Cir. 2005) (rejecting argument
7 that a debtor must have obtained some benefit from the fraud for a
8 debt to be held nondischargeable under § 523(a)(2)(A)).

9 Under the Copyright Act, the value of loss is expressly
10 irrelevant if an award of statutory damages is elected. Cohen
11 made clear that Congressional policy is to except from discharge
12 debts as a result of, with respect to, and by reason of a claim.
13 Therefore, an award of statutory damages, which meets the
14 requirements of a "willful and malicious injury," is a
15 nondischargeable debt. See, e.g., Atlantic Recording Corp. v.
16 Chin-Liang Chan (In re Chin-Liang Chan), 325 B.R. 432, 441-42 &
17 n.7 (Bankr. N.D. Cal. 2005) (willful copyright infringement);
18 Braun, 327 B.R. at 452 (holding that the term "debt for," in
19 § 523(a)(6) and throughout § 523(a) "refers to any debt incurred
20 as a result of that injury and does not limit the nondischargeable
21 debt to liability for the injury"); DirectTV v. Karpinsky (In re
22 Karpinsky), 328 B.R. 516, 528 (Bankr. E.D. Mich. 2005) (statutory
23 liability under the Federal Communications Act); CSC Holdings,
24 Inc. v. Feiner (In re Feiner), 254 B.R. 266, 272-73 (Bankr. D.
25 Kan. 2000) (Federal Communications Act); Stokes v. Ferris, 150
26 B.R. 388, 393 (W.D. Tex. 1992), aff'd, 995 F.2d 76 (5th Cir. 1993)
27 (making no distinction between § 523(a)(6) nondischargeable
28 punitive damages and statutory damages).

1 Finally Debtors maintain that mere copying without
2 commercial use was not an actionable "injury" under § 523(a)(6).
3 This argument raises affirmative defenses that could and should
4 have been resolved in the district court proceedings and are now
5 precluded. Specifically, Debtors are arguing de minimis copying.
6 "The legal maxim of de minimis non curat lex applies to copyright
7 actions" ¹⁴ 2 NIMMER ON COPYRIGHT, supra, § 8.01[G]. "Fair
8 use" of the copies may also be a defense to infringement. See
9 Sony Corp. of Am., 464 U.S. at 433; 17 U.S.C. § 107. Because a
10 final judgment of willful infringement was entered, however, such
11 arguments were precluded in the bankruptcy court proceeding under
12 the doctrine of res judicata, or claim preclusion.

13 Claim preclusion bars all grounds for recovery that could
14 have been asserted in the prior action involving a claim where a
15 court of competent jurisdiction has rendered a final judgment on
16 the merits on the same cause of action in a previous action
17 involving the same parties. Siegel v. Fed. Home Loan Mortg.
18 Corp., 143 F.3d 525, 528 (9th Cir. 1998).

19 In summary, the essence of all copyright infringement is the
20 act of copying. See Rasmussen, 958 F.2d at 904; 2 NIMMER ON
21 COPYRIGHT, supra, § 8.02[A]. Infringement is a codified injury to
22 an intangible property interest which Congress has protected and
23 for which the law provides a remedy of statutory damages. The
24 damages are awarded for such injury even though they may not
25 constitute actual loss. We conclude that, despite the lack of
26 evidence of actual damages from Debtors' duplication of the India

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28 ¹⁴ Translated as: "The law does not concern itself with trifles." BLACK'S LAW DICTIONARY (8th ed. 2004).

1 Maria Pictures, New Form's statutory damages award was
2 uncontroverted evidence of a debt for an "injury" to New Form's
3 copyright interest as that term is used in § 523(a)(6).
4

5 **B. "Willfulness" Was Shown by Debtors' Knowledge**
6 **of Substantial Certainty of Harm**

7 An injury is "willful" under § 523(a)(6) if the debtor
8 intends the consequences of his action. Kawaauhau v. Geiger, 523
9 U.S. 57, 61 (1998). This definition of intent includes the
10 category "intentional torts," as distinguished from negligent or
11 reckless torts. Id. The focus is on the debtor's state of mind
12 at the time the injurious action is taken: either the debtor must
13 have the subjective intent to cause harm, or have the subjective
14 belief, i.e., actual knowledge, that harm is substantially certain
15 to result. Su, 290 F.3d at 1145-46.

16 Subjective intent or substantial certainty may be inferred
17 from all of the facts and circumstances established. Jacks, 266
18 B.R. at 742 ("subjective intent may be gleaned from objective
19 factors"); Su, 290 F.3d at 1146 n. 6 ("[T]he bankruptcy court may
20 consider circumstantial evidence that tends to establish what the
21 debtor must have actually known when taking the injury-producing
22 action.")

23 The bankruptcy court found that Debtors' "acts were performed
24 intentionally with knowledge that injury was substantially certain
25 to occur" Debtors, however, maintain that New Form's
26 evidence of the copyright infringement judgment failed to prove
27 that the duplication was not merely reckless disregard of New
28 Form's copyright, based on an objective standard. See RESTATEMENT

1 (SECOND) OF TORTS § 500 cmt. a (1965).

2 Under the Copyright Act, the infringer's state of mind
3 basically determines the amount of statutory damages available:
4 "willful" infringement warrants the highest measure, "innocent"
5 infringement warrants the least, and in between are damages for
6 "knowing" infringement. 4 NIMMER ON COPYRIGHT, supra, § 14.04
7 [B][1][a].

8 "Willful" is not defined in the statute or its legislative
9 history. Peer, 909 F.2d at 1335 n.3. A "willful" copyright
10 infringement may be proven by showing either knowledge (actual or
11 constructive) of infringement or reckless disregard of the
12 possibility of infringement. See id. at 1335 & n.3 ("willfully"
13 means with knowledge that the conduct constitutes copyright
14 infringement); Knitwaves, Inc. v. Lollytogs Ltd., 71 F.3d 996,
15 1010-11 (2d Cir. 1995) (constructive knowledge or reckless
16 disregard of the copyright holder's rights suffices to warrant an
17 award of enhanced damages); 4 NIMMER ON COPYRIGHT, supra, § 14.04
18 [B][3][a].

19 "Reckless disregard" is insufficient to establish willfulness
20 under § 523(a)(6). Geiger, 523 U.S. at 61; Su, 290 F.3d at 1145-
21 46. Therefore, the bankruptcy court looked behind the district
22 court judgment and jury verdict and did not merely apply
23 collateral estoppel to the "willful" infringement finding in
24 determining Debtors' intent.¹⁵

25 In order to achieve partial summary judgment on the
26

27 ¹⁵ Collateral estoppel, or issue preclusion, bars
28 relitigation of an issue previously decided if the party against
whom the prior decision is asserted had "a full and fair
opportunity to litigate that issue in the earlier case." Allen v.
McCurry, 449 U.S. 90, 94-95 (1980). It only applies if the
identical issue was raised and actually litigated in, and
necessary to, the prior judgment. Chin-Liang Chan, 325 B.R. at
437.

1 "willfulness" prong under § 523(a)(6), New Form had to show that
2 there was no genuine factual issue regarding Debtors' subjective
3 intent to harm New Form by duplicating the India Maria Pictures.
4 Specifically, New Form had to present sufficient evidence that
5 Debtors either intended to harm New Form or knew that harm to New
6 Form was substantially certain to occur. See Su, 290 F.3d at 1146
7 (debtor must have "actual knowledge that harm to the creditor was
8 substantially certain").

9 We have already held that an award of statutory damages based
10 on willful copyright infringement is a debt for an injury to the
11 owner's property interest. The only remaining proof required was
12 that Debtors were aware of New Form's copyright at the time they
13 infringed it. Id.; Chin-Liang Chan, 325 B.R. at 448 (inferring
14 subjective substantial certainty of copyright infringement from
15 the undisputed evidence); cf. Thiara, 285 B.R. at 432-33 (in a
16 case of conversion of collateral, subjective intent is shown by
17 "[p]roof of the debtor's knowledge that he or she is harming the
18 secured creditor or the creditor's lien interest").

19 New Form's evidence included the September 3, 1999, letter,
20 in which it gave notice of its "exclusive right to duplicate and
21 sell" the India Maria Pictures, as well as the September 9 and 14,
22 1999 packing slips. In response to New Form's evidence and
23 Statement of Uncontroverted Facts, Debtors did not dispute the
24 timing of their knowledge of New Form's copyright interest--that
25 they were given such notice in the September 3, 1999 letter. In
26 addition, they did not dispute the allegation that a duplication
27 order was placed with Reel Picture for the India Maria Pictures on
28 or about September 9, 1999. The district court judgment was

1 binding evidence that Debtors ordered duplication during the
2 infringement period, which included September, 1999. Therefore,
3 the undisputed evidence showed that Debtors knew, in early
4 September, 1999, of New Form's exclusive copyright interest in the
5 India Maria Pictures, by virtue of New Form's September 3, 1999,
6 letter notice, and they nonetheless thereafter ordered duplication
7 of the films from Reel Picture. Such undisputed evidence was
8 sufficient to satisfy the Su willfulness test.

9 In addition, there was circumstantial evidence that Debtors
10 were motivated to duplicate the India Maria Pictures in order to
11 sell them. It was undisputed that Debtors had been selling the
12 India Maria Pictures during the infringement period, even though
13 it was never resolved whether the films they sold were those
14 legally purchased from Million Dollar Video or the newly
15 duplicated films. Furthermore, New Form presented Albarran's
16 letter of September 17, 1999, in which she offered to sell the
17 India Maria Pictures to New Form. There was no evidence to rebut
18 these facts or to show that Debtors would compensate New Form for
19 any profits they made or would make from these sales. This was
20 evidence from which the court could infer subjective intent to
21 harm. See Trantham, 304 B.R. at 308 (harm is inherent whenever
22 the defendant can only gain at the patent holder's expense).

23 Therefore, there was no genuine factual issue concerning
24 Debtors' actual knowledge that duplication of the India Maria
25 Pictures was substantially certain to result in harm to New Form's
26 copyright. The bankruptcy court did not err in granting partial
27 summary judgment on the "willfulness" prong of § 523(a)(6).

28

CONCLUSION

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3 New Form's award of statutory damages for willful copyright
4 infringement under the Copyright Act was a debt for a willful and
5 malicious injury under § 523(a)(6). Therefore, we **AFFIRM** the
6 bankruptcy court's order on partial summary judgment and final
7 judgment of nondischargeability.
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