NOT FOR PUBLICATION

UNITED STATES BANKRUPTCY APPELLATE PANEL

OF THE NINTH CIRCUIT

In re:	BAP No. CC-08-1055-PaMkK
CHARLES M. FRYE,	Bk. No. LA 06-16118-BB
Debtor.	Adv. No. LA 07-01150-BB
CHARLES M. FRYE,	
Appellant,	**M E M O R A N D U M**[1]
v.	
EXCELSIOR COLLEGE,	
Appellee.	

Submitted Without Oral Argument
on August 7, 2008

Filed - August 19, 2008

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

Honorable Sheri Bluebond, Bankruptcy Judge, Presiding

Before: PAPPAS, MARKELL, and KLEIN, Bankruptcy Judges.

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[1] This disposition is not appropriate for publication. Although it may be cited for whatever persuasive value it may have (see Fed. R. App. P. 32.1), it has no precedential value. See 9th Cir. BAP Rule 8013-1.

Debtor Charles Mitchell Frye ("Frye") appeals the order of the bankruptcy court applying issue preclusion in determining that a federal district court judgment's award of damages for willful copyright infringement, copyright infringement, and misappropriation of trade secrets was excepted from discharge under § 523(a)(6).[2] We AFFIRM.

FACTS

Excelsior College ("Excelsior") is a New York nonprofit corporation that provides distance learning higher education, including courses and examinations in nursing.[3] Approximately 900 other colleges and universities use and grant credit for Excelsior's examinations. Excelsior creates and publishes "Content Guides," which prepare students to take Excelsior's examinations. The Content Guides contain detailed summaries of the material covered in the nursing examinations, sample exam questions, and bibliographies. Excelsior has registered its nursing examinations and Content Guides with the U.S. Copyright Office.

In 1989, Frye began offering nursing education courses under the business name Professional Development Systems ("PDS"). Frye obtained a license in 1993 from Regents College to provide test

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[2] Unless specified otherwise, all references are to the Bankruptcy Code, 11 U.S.C. §§ 101-1532, and to the Federal Rules of Bankruptcy Procedure, Rules 1001-9037.

[3] Excelsior was originally known as Regents College, a division of the state education department of New York. It became an independent institution of higher education in 1998.

preparation for Regents College nursing examinations.[4]

At some time not clear in the record before us, Frye established West Haven University ("West Haven").[5] In November 2000, Frye submitted an application to the California Bureau for Private Postsecondary and Vocational Education (the "California Bureau") for a license to operate a nursing-degree program through West Haven. In his application to the California Bureau, Frye's proposed curriculum included three nursing examinations offered by Excelsior. The California Bureau requested copies of sample examinations. Frye informed the California Bureau that the examinations were owned by Excelsior but that he could provide Content Guides that included sample questions.[6] Frye explained what happened next:

> (1) My staff downloaded the content guide from Excelsior's website. (2) I discarded the approximate 10 pages which were not necessary to satisfy the California Bureau's request for information. (3) I then removed extraneous Excelsior internal codes, extraneous references to Excelsior, extraneous internet codes, and the page numbers (because they did not now conform with the actual page numbers). (4) I gave the document a title (i.e., "Professional Concepts in Nursing"), and (5) I prominently placed West Haven University's name on the first page to make certain that there was no

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[4] There is no information in the record before us concerning the terms of this license or if it is still in effect.

[5] Both PDS and West Haven were originally established as proprietary businesses wholly owned by Frye. Frye incorporated PDS on September 6, 2002, and he incorporated West Haven on October 4, 2002. Frye dissolved the corporations on October 13, 2004. Whether sole proprietorships or corporations, Frye was at all times the sole owner, stockholder, director, and/or officer.

[6] Frye admitted later in a deposition that, at the time he submitted them, he knew he had no authorization from Excelsior to use the Content Guides in his application, and that he knew that Excelsior would not have permitted him to use them in his application.

> misunderstanding that this submission to the California Bureau was being made on behalf of West Haven University, and not Excelsior.[7]

Upon receipt of the copied Content Guides, the California Bureau concluded that the West Haven application had plagiarized Excelsior's Content Guides and "determined that [West Haven] had provided false information to the Bureau in violation of Education Code Section 94830(b)." Frye voluntarily withdrew the application.[8]

On May 9, 2003, Excelsior filed suit against Frye, PDS, and West Haven in the U.S. District Court for the Northern District of New York (the "Infringement Action"). On February 12, 2004, venue in the Infringement Action was transferred to the Southern District of California for the convenience of the parties.

On March 30, 2004, Excelsior filed its first amended complaint in the Infringement Action. Among the claims asserted were copyright infringement under the Copyright Act, 17 U.S.C. §§ 101 et seq., of Excelsior's nursing Content Guides (Counts I, II and III); copyright infringement of six nursing examinations (Count IV); and misappropriation of trade secrets (Count VI).[9] Excelsior alleged that Frye copied and used Excelsior's nursing

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[7] Frye made this statement at ¶ 9 in his "Supplemental Declaration of Charles M. Frye in Support of Defendants' Motions for Summary Judgment" submitted to the district court in the Infringement Action.

[8] Frye resubmitted West Haven's application without the offending Content Guides and it was approved. The copy of the institutional license in the record before us shows an effective date of approval of January 3, 2006.

[9] The other counts in the amended complaint (V, VII-XII) were not at issue in the bankruptcy case or in this appeal.

examinations and questions as the primary medium for operating his businesses, and that in doing so, Debtor "engaged in a systematic commercial scheme to provide [Frye's students] with advanced knowledge of actual examination questions and answers that appear on Excelsior College's Nursing Concepts exams." Frye's amended answer admitted the use of copyrighted Excelsior materials, but asserted forty-three affirmative defenses.

On June 10, 2004, the parties stipulated to entry of a Temporary Restraining Order, enjoining Frye from using or copying Excelsior's copyrighted materials. Upon expiration of the TRO, and after a hearing on February 18, 2005, the district court granted a preliminary injunction in Excelsior's favor on March 8, 2005, enjoining Frye from making unauthorized use of its copyrighted nursing concepts exams and other works, from preparing derivative works based on Excelsior's copyrighted works, or debriefing students or otherwise obtaining questions or answers from Excelsior nursing concepts exams. In granting the preliminary injunction, the court "conclude[d] that [Excelsior] has established a likelihood of success on the merits on its copyright infringement claims against Frye and [PDS]."

Excelsior then moved on October 3, 2005, for partial summary judgment for copyright infringement arising out of Frye's submission of the copied Content Guides to the California Bureau. After a hearing on May 8, 2006, the district court granted Excelsior partial summary judgment, concluding that there was no genuine issue of material fact as to the propositions that Frye "copied and submitted substantial portions" of the three Nursing Content Guides, that his "use of the Content Guides was intended

to help derive prospective income from operating a for-profit nursing-degree program, and to avoid having to pay Excelsior for the use of its Content Guides" and that he appears "to have copied virtually the entirety of each Content Guide, excising only certain introductory pages, and adding the West Haven logo."

A jury trial was conducted by the district court over two weeks in November 2006 concerning whether Excelsior should recover statutory damages for willful infringement of the copyrights to the three Nursing Content Guides (Counts I, II, and III), for damages for copyright infringement of Nursing Examinations (Count IV) and for damages for misappropriation of trade secrets (Count VI).

The jury returned its verdict on November 14, 2006. Regarding Counts I, II, and III, the jury found that Frye's copyright infringement of the Content Guides was willful, and it awarded Excelsior the maximum statutory damages allowed under 17 U.S.C. § 504(c)(2) of $150,000 for each Content Guide, or $450,000 for the three guides. Regarding Count IV for copyright infringement of the six nursing examinations, the jury awarded Excelsior actual damages of $693,588, and $3,500,481.70 for Frye's profits. And for Count VI, the jury awarded Excelsior $693,588 in actual damages and $1,082,101.00 in punitive damages.[10]

Frye filed a chapter 7 petition on November 22, 2006. On February 15, 2007, the bankruptcy court granted Excelsior's motion for relief from the stay so that the Infringement Action could proceed to entry of a final judgment. Also on February 15, 2007,

[10] We list here only the damages for which Frye was found personally liable or jointly liable through his controlled entities, West Haven and PDS.

Excelsior filed an adversary complaint in Frye's bankruptcy case in which it asked the bankruptcy court to determine that the debts arising from the Infringement Action were excepted from Frye's discharge under § 523(a)(6).

On March 23, 2007, the district court entered a final judgment (the "District Court Judgment") confirming the jury's awards, but striking the actual damages awarded under Count VI. On June 14, 2007, the district court denied Frye's motion for new trial and to reduce damage award. Frye appealed the District Court Judgment to the Ninth Circuit; the appeal is pending.

Meanwhile, Excelsior and Frye both moved for summary judgment in the adversary proceeding in the bankruptcy court. Before the hearing on the motions, the court issued tentative rulings in which it indicated that it was inclined to deny Frye's motion and grant Excelsior's motion, because the issue of whether Frye had inflicted a willful and malicious injury to Excelsior's property, the essence of a § 523(a)(6) action for nondischargeability, had been fully litigated in the Infringement Action. The bankruptcy court indicated it was inclined to exercise its discretion to apply issue preclusion and to determine that the District Court Judgment was nondischargeable under § 523(a)(6).

The hearing on the summary judgment motions occurred on October 30, 2007. Excelsior was represented by counsel and Frye appeared pro se. Both were heard. After hearing the parties' arguments, and making comments on the record, the bankruptcy court adhered to its tentative rulings and ruled that it would deny Frye's motion and grant Excelsior's motion for summary judgment. Tr. Hr'g 36:1-7 (October 30, 2007). A final judgment in the

adversary proceeding was entered on February 13, 2008, determining that the awards against Frye in the District Court Judgment were nondischargeable under § 523(a)(6). Frye filed a timely appeal on February 15, 2008.

JURISDICTION

The bankruptcy court had jurisdiction under 28 U.S.C. §§ 1334 and 157(b)(2)(I). We have jurisdiction under 28 U.S.C. § 158.

ISSUE

Whether the bankruptcy court erred in granting summary judgment to Excelsior, thereby giving preclusive effect to the District Court Judgment.

STANDARD OF REVIEW

Summary judgment is reviewed de novo, viewing the facts in the light most favorable to the nonmoving party, to determine whether genuine issues of material fact remain for determination by the trier of fact and which party is entitled to judgment as a matter of law. Wolkowitz v. Beverly (In re Beverly), 374 B.R. 221, 230 (9th Cir. BAP 2007).

The availability of issue preclusion is reviewed de novo. George v. City of Morro Bay (In re George), 318 B.R. 729, 732-33 (9th Cir. BAP 2004), aff'd, 144 F.App'x. 636 (9th Cir. 2005), cert. denied, 546 U.S. 1094 (2006). Once it is determined that issue preclusion may be applied, the trial court's decision to do so is reviewed for abuse of discretion. Id. at 733. In determining whether to apply issue preclusion, the trial court is

to be given broad discretion in light of the advantages of avoiding burdensome litigation and promoting judicial economy. Parklane Hosiery Co. v. Shore, 439 U.S. 322, 331 (1979). Reasonable doubts about what was decided in a prior judgment are resolved against applying issue preclusion. Lopez v. Emergency Serv. Restoration, Inc. (In re Lopez), 367 B.R. 99, 107-08 (9th Cir. BAP 2007).

DISCUSSION

Section 523(a)(6) provides that a debt is excepted from discharge in bankruptcy if it is "for willful and malicious injury by the debtor to another entity or to the property of another entity[.]" The bankruptcy court determined that the issue of whether Frye committed willful and malicious injury to Excelsior's property rights was previously litigated in the Infringement Action, and that the jury had returned a verdict finding Frye engaged in willful infringement of Excelsior's copyrights and misappropriation of its trade secrets. Based on that verdict, the district court had awarded Excelsior statutory, actual, and punitive damages. Thus, the bankruptcy court decided, issue preclusion should be applied to bar relitigation of these issues in the adversary proceeding, and Excelsior's money judgment against Frye was nondischargeable.

I.

Application of Issue Preclusion to a Prior Federal Judgment

The Supreme Court has held that issue preclusion applies in bankruptcy discharge proceedings. Grogan v. Garner, 498 U.S. 279,

284 (1991). Issue preclusion serves as a barrier to relitigation of issues that have been actually litigated in a prior action. "The doctrine is intended to avoid inconsistent judgments and the related misadventures associated with giving a party a second bite at the apple."[11]

Here, the bankruptcy court applied issue preclusion to a federal court judgment, the District Court Judgment. The preclusive effect of a federal court decision is determined by federal common law. Taylor v. Sturgell, 128 S.Ct. 2161, 2171 (2008); W. Sys., Inc. v. Ulloa, 958 F.2d 864, 871 (9th Cir. 1992). The Supreme Court treats the RESTATEMENT (SECOND) OF JUDGMENTS as an authoritative statement of federal issue preclusion doctrine. New Hampshire v. Maine, 532 U.S. 742, 748-49 (2001). According to the Restatement,

> Issue Preclusion – General Rule
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> When an issue of fact or law is actually litigated and determined by a valid and final judgment, and the determination is essential to the judgment, the determination is conclusive in a subsequent action between the parties, whether on the same or a different claim.

RESTATEMENT (SECOND) OF JUDGMENTS § 27 (1982). Therefore, the elements of issue preclusion that must be present for it to be applied to a federal court proceeding are: (1) the issue was actually decided by a court in an earlier action, (2) the issue was necessary to the judgment in that action, and (3) there was a valid and final

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[11] Christopher Klein, Lawrence Ponoroff, & Sarah Borrey, Principles of Preclusion and Estoppel in Bankruptcy Cases, 79 AM. BANKR. L.J. 839, 852 (2005)(hereafter, Principles of Preclusion).

judgment.[12]

The District Court Judgment appears to satisfy these factors. First, the precise issues as formulated in the Infringement Action (willful copyright infringement, the award of punitive damages for misappropriation of trade secrets, and a finding of copyright infringement of examinations which was the product of the same conduct that led to punitive damages for the trade secret misappropriation) mirror the requirements for nondischargeability under § 523(a)(6). Second, a determination that Frye's actions were both willful and malicious was necessary for the award of the statutory and punitive damages in the District Court Judgment. And the District Court Judgment was a final judgment. FED. R. CIV. P. 54(b); In re George, 318 B.R. at 733-34 (finality occurs when a court enters judgment disposing of all claims; pendency of appeals does not affect finality).

The District Court Judgment, however, is a complex decision. Before reaching a firm conclusion on the availability of issue preclusion in this context, we examine the three different kinds

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[12] Principles of Preclusion at 853. We present this brief exposition on federal issue preclusion because the parties in this appeal incorrectly rely upon California issue preclusion law in their briefs. As noted, whether issue preclusion should apply to a federal court decision is always a matter of federal common law. Although California issue preclusion law is generally consistent with federal common law, there are some differences. For example, California requires a court to consider California public policy before applying issue preclusion. In re Baldwin, 249 F.3d 912, 917 (9th Cir. 2001). Additionally, a judgment of a California court is not considered final until the appeals process has been completed. These are not requirements of federal law.

Although not strictly germane to the question of federal issue preclusion, we also note that the substantive legal issues in the Infringement Action were governed by federal copyright law, and by the common law applicable to misappropriation of trade secrets in this case, which was determined by the district court to be New York law.

of damage awards contained in the District Court Judgment to ensure that the trial jury and district court reached a decision that can be equated with that required to show Frye inflicted willful and malicious injuries against the property of Excelsior.

II.

Counts I, II, and III:

Willful Infringement of Copyright of the Content Guides

Before the district court sent the issues raised by Counts I, II, and III of Excelsior's complaint to the jury, it had already determined as a mixed question of law and fact that Frye had infringed the copyrights protecting the three Nursing Content Guides. The district court's instructions to the jury on Counts I, II, and III, therefore, were restricted to the question of whether Frye's conduct was willful.

According to Jury Instruction 11, "an infringement was willful when the Defendants engaged in acts that infringed the copyrights, and knew that those actions may infringe the copyrights." Instruction 11 also noted that Frye admitted to infringement, but that he had argued that his infringement was innocent. If the jury found Frye acted willfully by a preponderance of the evidence, Instruction 11 provided that the jury could increase the amount of damages awarded to Excelsior up to a maximum of $150,000 per infringement. If the jury found Frye's actions to have been innocent, the instruction allowed the jury to award Excelsior as little as $200 per infringement. Presumably acting on these instructions, the jury's verdict found that Frye willfully infringed Excelsior's copyrights of the three

Nursing Content Guides, and awarded Excelsior the maximum amount of statutory damages, $450,000 ($150,000 x 3), for Counts I, II and III.

The Panel has previously ruled that willful copyright infringement is a "categorically harmful activity and thus is an 'injury' as that term is used in § 523(a)(6)." Albarran v. New Forms, Inc. (In re Albarran), 347 B.R. 369, 382 (9th Cir. BAP 2006). Relying on Albarran, the bankruptcy court repeatedly pointed out that Frye's willful copyright infringement, in and of itself, was a harmful activity and constituted an inherent injury to property as that term is used in § 523(a)(6).

In addition to establishing an injury under § 523(a)(6), the jury's verdict that Frye committed a willful infringement of Excelsior's copyrights satisfies the willfulness prong under § 523(a)(6). An injury is willful under that subsection if the debtor intends the consequences of his action. Kawaauhau v. Geiger, 523 U.S. 57, 61 (1998). The focus, as the Panel discussed in Albarran, is on the debtor's state of mind at the time the injurious action is taken; either the debtor must have the subjective intent to cause harm (i.e., infringe the copyright) or have actual knowledge that harm is substantially certain to result. In re Albarran, 347 B.R. at 384; see also Carillo v. Su (In re Su), 290 F.3d 1140, 1146 (9th Cir. 2002). The district court's Jury Instruction 11 explicitly provided that an "infringement was willful when the Defendants engaged in acts that infringed the copyrights, and knew that those actions may infringe the copyrights." This jury instruction describing willful infringement mirrors the Albarran understanding of willful injury

under § 523(a)(6),[13] and the jury's verdict entered pursuant to that instruction is sufficient for § 523(a)(6) purposes.

Once it is established that there has been an injury inflicted as the result of a willful act, malice can be implied. In re Albarran, 348 B.R. at 382; see Thiara v. Spycher Bros. (In re Thiara), 285 B.R. 420, 434 (9th Cir. BAP 2002) (if a tortious act is performed willfully and causes harm, the court can imply malice). These rulings of the Panel are consistent with the case law of the Ninth Circuit on the maliciousness prong of § 523(a)(6):

> An injury is "malicious," as that term is used in Section 523(a)(6), when it is: "(1) a wrongful act, (2) done intentionally, (3) which necessarily causes injury, and (4) is done without just cause or excuse." In re Jercich, 238 F.3d at 1209. Within the plain meaning of this definition, it is the wrongful act that must be committed intentionally rather than the injury itself. See Murray v. Bammer (In re Bammer), 131 F.3d 788, 791 (9th Cir. 1997) ("This four-part definition does not require a showing of . . . . an intent to injure, but rather it requires only an intentional act which causes injury.").

In re Sicross, 401 F.3d 1101, 1106 (9th Cir. 2005). The bankruptcy court acknowledged these criteria in its tentative ruling that it adopted in its final ruling and made part of the record: "The plaintiff must show that the debtor intentionally committed a wrongful act without just cause or excuse that

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[13] Even if we were to look behind the jury's instructions at the evidence before it, Frye's willful intent is manifest. Frye presented himself to the district court and the jury as a graduate of a law school. He admitted under oath that he copied the Content Guides verbatim, excising only information that identified the Content Guides as Excelsior's property including Excelsior's trademarks and copyright notices, and created a West Haven cover page in place of the Excelsior cover page. Additionally, Frye admitted that he knew he had no authorization from Excelsior to use the Content Guides in his application and that he knew at the time he submitted the Content Guides that Excelsior would not have permitted him to use them in the application.

resulted in harm to the plaintiff[.]"[14] The bankruptcy court then noted that the district court and jury's determinations fulfilled these criteria.

Our independent review of the record before us confirms this conclusion. The district court ruled, as a matter of fact and law, that Frye committed infringements, that is, wrongful acts. The court also determined that the infringements were necessarily harmful, because it found that Frye used the Content Guides for commercial gain, and thus "commercial harm to the plaintiff is presumed." The jury then determined Frye acted intentionally. Finally, in determining the amount of statutory damages, the jury was presented with alternatives. If the jury accepted Frye's argument that his infringement was innocent, they could have reduced the statutory damages to as little as $200 for each infringement. The jury rejected Frye's claim of innocent infringement, and instead imposed the maximum statutory damages permitted by law, thus fulfilling the fourth criterion that the infringements were "done without just cause or excuse." In short, the record before us supports a conclusion that the infringements of the Content Guides were malicious within the meaning of § 523(a)(6).

Based on the district court's summary judgment, the jury's verdict, and the resulting District Court Judgment, that Frye committed a willful and malicious injury to the property of Excelsior was fully and fairly litigated in the Infringement

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[14] Bankr. C.D. Cal. Adv. Proc. 07-1150, Court's Tentative Ruling re: "Defendant's Motion for Partial Summary Adjudication and Statement of Facts," October 30, 2007, at p. 1.

Action. Therefore, issue preclusion may be applied as to Counts I, II and III, such that the damages awarded against Frye under those counts can be excepted from discharge under § 523(a)(6).[15]

III.

Count VI: Misappropriation of Trade Secrets

The claim alleged in Count VI is a departure from the substantive federal law of copyright. Excelsior contends that Frye misappropriated its trade secret information, the protected nursing concept examination questions that had been registered with the U.S. Copyright Office under special provisions for secure tests. Although federal law applies to the requirements for issue preclusion, the substantive law of misappropriation of trade secrets on which this claim is based is New York law. The action was originally filed in the Northern District of New York; the New York federal court granted a change of venue to the Southern District of California for the convenience of the parties.

The district court in Southern California recognized that New York law controlled the disposition of the trade secret misappropriation count. In preparing the jury instructions on

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[15] We are not alone in ruling that willful copyright infringement is a willful and malicious injury and nondischargeable under § 523(a)(6). See Yash Raj Films v. Ahmed (In re Ahmed), 359 B.R. 34 (E.D.N.Y. 2005) (granting summary judgment that an award of enhanced statutory damages (as in this case) for willful copyright infringement is a willful and malicious injury within the meaning of § 523(a)(6)); Continental Map, Inc. v. Massier (In re Massier), 51 B.R. 229, 230-31 (D. Colo. 1985) (liability resulting from intentional copyright infringement is nondischargeable). Interestingly, the Massier court found probative of intentional copyright infringement that the debtor in that case had removed the original copyright symbols and information from the infringed text, conduct also present in this case. Id. at 231.

Count VI, the court rejected Frye's proposed instructions based on the Uniform Trade Secrets Act (which has not been adopted in New York), in favor of those submitted by Excelsior based on New York Pattern Jury Instructions.[16] The specific instruction on the elements required to be proven by a preponderance of the evidence to establish a misappropriation of trade secrets, Instruction 26, is taken from Integrated Case Mgmt. Serv. v. Digital Transactions, 920 F.2d 171, 173 (2d Cir. 1990).[17] And the six factors the jury was directed to consider in determining what information constitutes a trade secret, also in Instruction 26, were taken verbatim from N. Atl. Instr. v. Haber, 188 F.3d 38, 44 (2d Cir. 1999).[18]

Most importantly for our concerns, Instruction 28, dealing with the award of punitive damages, is also consistent with New York law. The jury was told in that instruction that "You may award punitive damages only if you find that Defendant's conduct

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[16] N.Y. Pattern Jury Instruction, Civil, PJI 3:58.

[17] The instruction reads: "In order to prevail on its claim, Plaintiff Excelsior College must prove by a preponderance of the evidence the following elements: (1) the existence of a trade secret; (2) that the Defendant obtained Plaintiff's trade secret through improper means; (3) the unauthorized use of Plaintiff's trade secret by the Defendant; and (4) that Plaintiff suffered harm as a result of Defendant's improper conduct."

[18] "The factors to be considered in determining whether information constitutes a trade secret include: (1) the extent to which the information is known outside of [Plaintiff's] business; (2) the extent to which it is known by employees and others in the business; (3) the extent of measures taken by [plaintiff] to guard the secrecy of the information; (4) the value of the information to the business and its competition; (5) the amount of effort or money expended by the business in developing the information; and (6)the ease or difficulty with which the information could be properly acquired or duplicated by others."

has been done willfully, wantonly or maliciously. . . . In considering punitive damages, you may consider the degree of reprehensibility of the Defendant's conduct[.]" Indeed, the words "willful" and "wanton" are hallmarks of New York punitive damage law, as demonstrated by a recent survey of New York punitive damage law in the decision of a local district court:

> New York law apparently allows the recovery of punitive damages in a trade secrets case if the defendant's conduct has been sufficiently "gross and wanton." A.F.A. Tours, Inc. v. Whitchurch, 937 F.2d 82, 87 (2d Cir. 1991) . . . . See also, General Aniline & Film Corp. v. Frantz, 50 Misc. 2d 994, 272 N.Y.S.2d 600, 610 (N.Y.Sup. 1966) (awarding $ 50,000 in a trade secret misappropriation case due to defendant's "wilful [sic] and intentional breach of confidence and wanton disregard of the property rights of others"). . . . Softel, Inc. v. Dragon Medical and Scientific Communications Ltd., 891 F.Supp. 935 (S.D.N.Y., 1995) (awarding $ 250,000 in punitive damages for "willful" trade secret misappropriation). . . . The Rule delineated in the Restatement of Torts -- which New York Courts regularly cite as the basis for the tort of misappropriation -- "rests not upon a view of trade secrets as physical objects of property but rather upon abuse of confidence or impropriety in learning the secret." RESTATEMENT OF TORTS § 757 cmt. b (1939). Therefore, damages are not necessarily awarded simply to compensate the aggrieved party, but also to punish the egregious offender and deter future offenders. Hence, under New York law punitive damages are available for a misappropriation of trade secrets claim. . . . The decision whether an individual's conduct [merits punitive damages] is a question best answered by the finder of fact. Loughry v. Lincoln First Bank, 67 N.Y.2d 369, 378, 494 N.E.2d 70, 502 N.Y.S.2d 965 (1986) ("the decision to award punitive damages in any particular case, as well as the amount, are generally matters within the sound discretion of the trier of fact").

Topps Co. v. Cadbury Stani SAIC, 380 F.Supp.2d 250, 266-69 (S.D.N.Y. 2005).

Simply put, New York law allows an injured party to recover punitive damages for trade secret misappropriation where the trier of fact (here, the jury) determines that the conduct of the offending party is sufficiently gross, willful or intentional, or

wanton. This is the essence of the instruction given by the district court to the jury in this case, which also counseled its members that they may take into consideration the "reprehensibility of [Frye's] conduct." In sum, the sort of conduct sufficient to support an award of punitive damages under New York law is sufficient to also justify a finding of willful and malicious injury under § 523(a)(6).

Here, the jury had evidence that Frye gained access to the questions on Excelsior's nursing concepts examinations by unfair and improper means. Frye himself testified that he encouraged students who had taken examinations to provide the questions and proffered answers to him. Frye admitted to then copying, compiling and distributing the students' recollections. Frye also admitted gaining access to nursing examination questions and answers by taking the tests himself.

In In re Lopez, the Panel held that the bankruptcy court may apply issue preclusion if there has been a prior determination of willful and malicious conduct and an award of punitive damages for trade secret misappropriation. 367 B.R. at 104 n.2. Other courts have likewise held that a determination of willful and malicious conduct for purposes of awarding punitive damages for trade secret misappropriation collaterally estops a debtor from relitigating the same issue under § 523(a)(6). Hobson Mould Works, Inc. v. Madsen (In re Madsen), 195 F.3d 988 (8th Cir. 1999); Works, Inc. v. Sarff (In re Sarff), 242 B.R. 620, 627 (6th Cir. BAP 2000) (additionally finding that award of punitive damages alone is sufficient to support finding of malice); In re Read & Lundy, Inc. v. Brier (In re Brier), 274 B.R. 37, 45 (Bankr. D. Mass 2002).

Since the jury had the option of awarding punitive damages, and under New York law and the district court's jury instructions it could do so only if its members found Frye's conduct in obtaining the Excelsior trade secrets was willful, wanton or malicious, we conclude that the jury's award of punitive damages under Count VI was equivalent to a finding of willful and malicious injury to Excelsior's property, and precludes Frye from relitigating that issue in the bankruptcy case.

IV.

Count IV: Infringement of Nursing Examinations

Unlike the jury determinations concerning Counts I, II, III, and VI, the jury was not instructed to make a finding of Frye's willfulness as to his alleged infringement of the Excelsior copyrights on the nursing examinations.[19] But even though a specific determination as to Frye's willfulness in the infringement of the nursing examinations was not made by the jury, we conclude that Frye's conduct in regard to Count IV, that is, inducing students to submit questions and answers to him, then copying and distributing that information, is the same conduct that the jury determined in Count VI was willful, wanton or malicious.

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[19] Were we to speculate, Excelsior likely made a tactical decision to pursue a much larger recovery for actual damages caused by the infringement and loss of profits allowed by 17 U.S.C. § 704(b) of the Copyright Act than would have been allowed for willful infringement under 17 U.S.C. § 704(c). Such an election is mandatory, in that 17 U.S.C. § 704(a) prohibits recovery under both 17 U.S.C. § 704(b) and (c).

One indication of the jury's belief that the conduct under Counts IV and VI were the same is the direct link between the jury's actual damage award in Count VI and the actual damage award in Count IV. Originally, the jury was instructed that actual damages recoverable under Count VI are Excelsior's "losses sustained by reason of Defendant's improper conduct." Instruction 27 (emphasis added). The jury awarded $693,588 in actual damages under Count VI. This amount is precisely the same as the amount Excelsior alleged was needed to replace the six nursing examinations. It is also precisely the same amount awarded by the jury for actual damages under Count IV. The district court judge later struck the actual damages awarded by the jury under Count VI, observing that "Plaintiff has failed to suggest any theory under which this Court could find that the actual damages awarded on Count IV copyright infringement of examination questions are not duplicative of the actual damages awarded on Count VI trade secret misappropriation." S.D. Cal. 04-0535, Dkt. no. 394 at 6. Interestingly, Frye himself seems to concede that the damages awarded in Count VI were for the same conduct as Count IV:

> Clearly, [the district court judge] was aware that actual damages awarded in Count VI was [sic] duplicative of damages awarded in Count IV. If in fact Excelsior had presented evidence that was different for Counts IV and VI, it is not likely that [the judge] would have stricken the damage award for Count VI.[20]

Under these circumstances, we confidently conclude that the conduct targeted by the jury's award of punitive and actual

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[20] Statement made in "Defendant Charles M. Frye's Memorandum of Points and Authorities in Support of Motion for Partial Summary Adjudication," C.D. Cal. Adv. Proc. 07-1150, Dkt. no. 35 at 21.

damages in Count VI was the same conduct for which it awarded actual damages to Excelsior under Count IV. Since the jury determined that conduct in Count VI was willful, wanton or malicious, which we have determined is equivalent to a finding of willful and malicious conduct, it follows that Frye's conduct that gave rise to his debt to Excelsior under the judgment relating to Count IV was also willful and malicious. Again, based on the jury's determination, the § 523(a)(6) issue was fully and fairly litigated in the Infringement Action, and Frye properly was precluded from attempting to relitigate it in the bankruptcy case.

V.

The bankruptcy court did not abuse its discretion in applying issue preclusion.

The sole material issue involved in determining the dischargeability of Frye's debt to Excelsior under the District Court Judgment was whether, in the Infringement Action, it had been determined that Frye acted willfully and maliciously for purposes of § 523(a)(6). Determining that the issue has been fairly and fully litigated, the bankruptcy court could grant summary judgment to Excelsior under FED. R. CIV. P. 56(c), incorporated in Rule 7056 (the court may grant a motion for summary judgment "if the pleadings, depositions, answers to interrogatories, and admissions on file, together with affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to judgment as a matter of law.").

Although, as we conclude above, issue preclusion was available in this context, the decision on whether to apply the doctrine was still a matter for the bankruptcy court's discretion. In re George, 318 B.R. at 733. Frye raised numerous objections to application of issue preclusion based on his contention that he had not been treated equitably in the district court. However, in spite of Frye's protests, the bankruptcy court explained the basis for exercising its discretion to apply preclusion:

> Defendant claims that there were numerous misrepresentations and errors at the time of trial and urges this court to disregard the summary judgment and jury verdict rendered in the district court action. He moved for a new trial based on a number of these contentions, and that motion was denied. He has also filed a notice of appeal before the 9th Circuit. That appeal is currently pending. This court is of the opinion that the debtor's direct right of appeal is an adequate forum for the consideration and, if necessary, correction of the kinds of mistakes and errors that defendant claims occurred in connection with the district court's summary judgment and jury verdict. Therefore, in the discretion of this court, unless the defendant succeeds in having the summary judgment vacated or reversed on appeal, it would be fair and equitable for the court to rely upon principles of issue preclusion, to the extent applicable, to resolve this adversary proceeding.

Under these circumstances, the bankruptcy court's decision not to allow Frye to raise his objections to the propriety of the Infringement Action in that court is reasonable and is supported by Ninth Circuit case law.

Where a judgment is based on an earlier judgment and issue preclusion applies, the aggrieved party may seek relief from the later judgment through Fed. R. Civ. P. 60(b)(5) (providing that "On motion and just terms, the court may relieve a party or its legal representative from a final judgment, order, or proceeding for the following reasons: . . . (5) . . .; it is based on an

earlier judgment that has been reversed or vacated"); Tomlin v. McDaniel, 865 F.2d 209, 210-11 (9th Cir. 1989). Thus, the pendency of the Ninth Circuit appeal was not an impediment to imposition of preclusion, and the bankruptcy court did not abuse its discretion in applying issue preclusion in entering summary judgment determining that Frye's debts arising out of the District Court Judgment were excepted from discharge.

CONCLUSION

We AFFIRM the decision of the bankruptcy court.