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NOT FOR PUBLICATION

HAROLD S. MARENUS, CLERK
U.S. BKCY. APP. PANEL
OF THE NINTH CIRCUIT

UNITED STATES BANKRUPTCY APPELLATE PANEL
OF THE NINTH CIRCUIT

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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,)		
)		
v.)		
)		
EXCELSIOR COLLEGE,)		
)		
Appellee.)		
_____)		

M E M O R A N D U M¹

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.

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.

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

7
8 **FACTS**

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

20 In 1989, Frye began offering nursing education courses under
21 the business name Professional Development Systems ("PDS"). Frye
22 obtained a license in 1993 from Regents College to provide test
23

24
25 ² Unless specified otherwise, all references are to the
26 Bankruptcy Code, 11 U.S.C. §§ 101-1532, and to the Federal Rules
of Bankruptcy Procedure, Rules 1001-9037.

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

1 preparation for Regents College nursing examinations.⁴

2 At some time not clear in the record before us, Frye
3 established West Haven University ("West Haven").⁵ In November
4 2000, Frye submitted an application to the California Bureau for
5 Private Postsecondary and Vocational Education (the "California
6 Bureau") for a license to operate a nursing-degree program through
7 West Haven. In his application to the California Bureau, Frye's
8 proposed curriculum included three nursing examinations offered by
9 Excelsior. The California Bureau requested copies of sample
10 examinations. Frye informed the California Bureau that the
11 examinations were owned by Excelsior but that he could provide
12 Content Guides that included sample questions.⁶ Frye explained
13 what happened next:

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

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

23 ⁵ Both PDS and West Haven were originally established as
24 proprietary businesses wholly owned by Frye. Frye incorporated
25 PDS on September 6, 2002, and he incorporated West Haven on
26 October 4, 2002. Frye dissolved the corporations on October 13,
27 2004. Whether sole proprietorships or corporations, Frye was at
28 all times the sole owner, stockholder, director, and/or officer.

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

1 misunderstanding that this submission to the California
2 Bureau was being made on behalf of West Haven
3 University, and not Excelsior.⁷

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

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

15 On March 30, 2004, Excelsior filed its first amended
16 complaint in the Infringement Action. Among the claims asserted
17 were copyright infringement under the Copyright Act, 17 U.S.C.
18 §§ 101 et seq., of Excelsior's nursing Content Guides (Counts I,
19 II and III); copyright infringement of six nursing examinations
20 (Count IV); and misappropriation of trade secrets (Count VI).⁹
21 Excelsior alleged that Frye copied and used Excelsior's nursing

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

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

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

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

8 On June 10, 2004, the parties stipulated to entry of a
9 Temporary Restraining Order, enjoining Frye from using or copying
10 Excelsior's copyrighted materials. Upon expiration of the TRO,
11 and after a hearing on February 18, 2005, the district court
12 granted a preliminary injunction in Excelsior's favor on March 8,
13 2005, enjoining Frye from making unauthorized use of its
14 copyrighted nursing concepts exams and other works, from preparing
15 derivative works based on Excelsior's copyrighted works, or
16 debriefing students or otherwise obtaining questions or answers
17 from Excelsior nursing concepts exams. In granting the
18 preliminary injunction, the court "conclude[d] that [Excelsior]
19 has established a likelihood of success on the merits on its
20 copyright infringement claims against Frye and [PDS]."

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

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

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

13 The jury returned its verdict on November 14, 2006.
14 Regarding Counts I, II, and III, the jury found that Frye’s
15 copyright infringement of the Content Guides was willful, and it
16 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
18 for the three guides. Regarding Count IV for copyright
19 infringement of the six nursing examinations, the jury awarded
20 Excelsior actual damages of \$693,588, and \$3,500,481.70 for Frye’s
21 profits. And for Count VI, the jury awarded Excelsior \$693,588 in
22 actual damages and \$1,082,101.00 in punitive damages.¹⁰

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

27
28 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.

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

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

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

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

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

5
6 **JURISDICTION**

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

9
10 **ISSUE**

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

14
15 **STANDARD OF REVIEW**

16 Summary judgment is reviewed de novo, viewing the facts in
17 the light most favorable to the nonmoving party, to determine
18 whether genuine issues of material fact remain for determination
19 by the trier of fact and which party is entitled to judgment as a
20 matter of law. Wolkowitz v. Beverly (In re Beverly), 374 B.R.
21 221, 230 (9th Cir. BAP 2007).

22 The availability of issue preclusion is reviewed de novo.
23 George v. City of Morro Bay (In re George), 318 B.R. 729, 732-33
24 (9th Cir. BAP 2004), aff'd, 144 F.App'x. 636 (9th Cir. 2005),
25 cert. denied, 546 U.S. 1094 (2006). Once it is determined that
26 issue preclusion may be applied, the trial court's decision to do
27 so is reviewed for abuse of discretion. Id. at 733. In
28 determining whether to apply issue preclusion, the trial court is

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

8 9 **DISCUSSION**

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

24 25 I.

26 Application of Issue Preclusion to a Prior Federal Judgment

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

1 284 (1991). Issue preclusion serves as a barrier to relitigation
2 of issues that have been actually litigated in a prior action.
3 "The doctrine is intended to avoid inconsistent judgments and the
4 related misadventures associated with giving a party a second bite
5 at the apple."¹¹

6 Here, the bankruptcy court applied issue preclusion to a
7 federal court judgment, the District Court Judgment. The
8 preclusive effect of a federal court decision is determined by
9 federal common law. Taylor v. Sturgell, 128 S.Ct. 2161, 2171
10 (2008); W. Sys., Inc. v. Ulloa, 958 F.2d 864, 871 (9th Cir. 1992).
11 The Supreme Court treats the RESTATEMENT (SECOND) OF JUDGMENTS as an
12 authoritative statement of federal issue preclusion doctrine. New
13 Hampshire v. Maine, 532 U.S. 742, 748-49 (2001). According to the
14 Restatement,

15 Issue Preclusion - General Rule

16 When an issue of fact or law is actually litigated and
17 determined by a valid and final judgment, and the
18 determination is essential to the judgment, the
19 determination is conclusive in a subsequent action
between the parties, whether on the same or a different
claim.

20 RESTATEMENT (SECOND) OF JUDGMENTS § 27 (1982). Therefore, the elements
21 of issue preclusion that must be present for it to be applied to a
22 federal court proceeding are: (1) the issue was actually decided
23 by a court in an earlier action, (2) the issue was necessary to
24 the judgment in that action, and (3) there was a valid and final
25

26
27 ¹¹ Christopher Klein, Lawrence Ponoroff, & Sarah Borrey,
28 Principles of Preclusion and Estoppel in Bankruptcy Cases, 79 AM.
BANKR. L.J. 839, 852 (2005) (hereafter, Principles of Preclusion).

1 judgment.¹²

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

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

19 _____
20 ¹² Principles of Preclusion at 853. We present this brief
21 exposition on federal issue preclusion because the parties in this
22 appeal incorrectly rely upon California issue preclusion law in
23 their briefs. As noted, whether issue preclusion should apply to
24 a federal court decision is always a matter of federal common law.
25 Although California issue preclusion law is generally consistent
26 with federal common law, there are some differences. For example,
27 California requires a court to consider California public policy
28 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.

26 Although not strictly germane to the question of federal
27 issue preclusion, we also note that the substantive legal issues
28 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.

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

5
6 II.

7 Counts I, II, and III:

8 Willful Infringement of Copyright of the Content Guides

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

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

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

4 The Panel has previously ruled that willful copyright
5 infringement is a "categorically harmful activity and thus is an
6 'injury' as that term is used in § 523(a)(6)." Albarran v. New
7 Forms, Inc. (In re Albarran), 347 B.R. 369, 382 (9th Cir. BAP
8 2006). Relying on Albarran, the bankruptcy court repeatedly
9 pointed out that Frye's willful copyright infringement, in and of
10 itself, was a harmful activity and constituted an inherent injury
11 to property as that term is used in § 523(a)(6).

12 In addition to establishing an injury under § 523(a)(6), the
13 jury's verdict that Frye committed a willful infringement of
14 Excelsior's copyrights satisfies the willfulness prong under
15 § 523(a)(6). An injury is willful under that subsection if the
16 debtor intends the consequences of his action. Kawaauhau v.
17 Geiger, 523 U.S. 57, 61 (1998). The focus, as the Panel discussed
18 in Albarran, is on the debtor's state of mind at the time the
19 injurious action is taken; either the debtor must have the
20 subjective intent to cause harm (i.e., infringe the copyright) or
21 have actual knowledge that harm is substantially certain to
22 result. In re Albarran, 347 B.R. at 384; see also Carillo v. Su
23 (In re Su), 290 F.3d 1140, 1146 (9th Cir. 2002). The district
24 court's Jury Instruction 11 explicitly provided that an
25 "infringement was willful when the Defendants engaged in acts that
26 infringed the copyrights, and knew that those actions may infringe
27 the copyrights." This jury instruction describing willful
28 infringement mirrors the Albarran understanding of willful injury

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

3 Once it is established that there has been an injury
4 inflicted as the result of a willful act, malice can be implied.
5 In re Albarran, 348 B.R. at 382; see Thiara v. Spycher Bros. (In
6 re Thiara), 285 B.R. 420, 434 (9th Cir. BAP 2002) (if a tortious
7 act is performed willfully and causes harm, the court can imply
8 malice). These rulings of the Panel are consistent with the case
9 law of the Ninth Circuit on the maliciousness prong of
10 § 523(a) (6):

11 An injury is "malicious," as that term is used in Section
12 523(a) (6), when it is: "(1) a wrongful act, (2) done
13 intentionally, (3) which necessarily causes injury, and
14 (4) is done without just cause or excuse." In re Jercich,
15 238 F.3d at 1209. Within the plain meaning of this
16 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.").

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

22 ¹³ Even if we were to look behind the jury's instructions at
23 the evidence before it, Frye's willful intent is manifest. Frye
24 presented himself to the district court and the jury as a graduate
25 of a law school. He admitted under oath that he copied the Content
26 Guides verbatim, excising only information that identified the
27 Content Guides as Excelsior's property including Excelsior's
28 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.

1 resulted in harm to the plaintiff[.]”¹⁴ The bankruptcy court then
2 noted that the district court and jury’s determinations fulfilled
3 these criteria.

4 Our independent review of the record before us confirms this
5 conclusion. The district court ruled, as a matter of fact and
6 law, that Frye committed infringements, that is, wrongful acts.
7 The court also determined that the infringements were necessarily
8 harmful, because it found that Frye used the Content Guides for
9 commercial gain, and thus “commercial harm to the plaintiff is
10 presumed.” The jury then determined Frye acted intentionally.
11 Finally, in determining the amount of statutory damages, the jury
12 was presented with alternatives. If the jury accepted Frye’s
13 argument that his infringement was innocent, they could have
14 reduced the statutory damages to as little as \$200 for each
15 infringement. The jury rejected Frye’s claim of innocent
16 infringement, and instead imposed the maximum statutory damages
17 permitted by law, thus fulfilling the fourth criterion that the
18 infringements were “done without just cause or excuse.” In short,
19 the record before us supports a conclusion that the infringements
20 of the Content Guides were malicious within the meaning of
21 § 523(a)(6).

22 Based on the district court’s summary judgment, the jury’s
23 verdict, and the resulting District Court Judgment, that Frye
24 committed a willful and malicious injury to the property of
25 Excelsior was fully and fairly litigated in the Infringement
26

27 ¹⁴ Bankr. C.D. Cal. Adv. Proc. 07-1150, Court’s Tentative
28 Ruling re: “Defendant’s Motion for Partial Summary Adjudication
and Statement of Facts,” October 30, 2007, at p. 1.

1 Action. Therefore, issue preclusion may be applied as to Counts
2 I, II and III, such that the damages awarded against Frye under
3 those counts can be excepted from discharge under § 523(a)(6).¹⁵
4

5 III.

6 Count VI: Misappropriation of Trade Secrets

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

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

21 ¹⁵ We are not alone in ruling that willful copyright
22 infringement is a willful and malicious injury and
23 nondischargeable under § 523(a)(6). See Yash Raj Films v. Ahmed
24 (In re Ahmed), 359 B.R. 34 (E.D.N.Y. 2005) (granting summary
25 judgment that an award of enhanced statutory damages (as in this
26 case) for willful copyright infringement is a willful and
27 malicious injury within the meaning of § 523(a)(6)); Continental
28 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.

1 Count VI, the court rejected Frye's proposed instructions based on
2 the Uniform Trade Secrets Act (which has not been adopted in New
3 York), in favor of those submitted by Excelsior based on New York
4 Pattern Jury Instructions.¹⁶ The specific instruction on the
5 elements required to be proven by a preponderance of the evidence
6 to establish a misappropriation of trade secrets, Instruction 26,
7 is taken from Integrated Case Mgmt. Serv. v. Digital Transactions,
8 920 F.2d 171, 173 (2d Cir. 1990).¹⁷ And the six factors the jury
9 was directed to consider in determining what information
10 constitutes a trade secret, also in Instruction 26, were taken
11 verbatim from N. Atl. Instr. v. Haber, 188 F.3d 38, 44 (2d Cir.
12 1999).¹⁸

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

17

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

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

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

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

7 New York law apparently allows the recovery of punitive
8 damages in a trade secrets case if the defendant's conduct
9 has been sufficiently “gross and wanton.” A.F.A. Tours,
10 Inc. v. Whitchurch, 937 F.2d 82, 87 (2d Cir. 1991)
11 See also, General Aniline & Film Corp. v. Frantz, 50
12 Misc. 2d 994, 272 N.Y.S.2d 600, 610 (N.Y.Sup. 1966)
13 (awarding \$ 50,000 in a trade secret misappropriation case
14 due to defendant's "wilful [sic] and intentional breach of
15 confidence and wanton disregard of the property rights of
16 others"). . . . Softel, Inc. v. Dragon Medical and
17 Scientific Communications Ltd., 891 F.Supp. 935 (S.D.N.Y.,
18 1995) (awarding \$ 250,000 in punitive damages for
19 "willful" trade secret misappropriation). . . . The Rule
20 delineated in the Restatement of Torts -- which New York
21 Courts regularly cite as the basis for the tort of
22 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").

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

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

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

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

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

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

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10 IV.

11 Count IV: Infringement of Nursing Examinations

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

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25 ¹⁹ Were we to speculate, Excelsior likely made a tactical
26 decision to pursue a much larger recovery for actual damages
27 caused by the infringement and loss of profits allowed by 17
28 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).

1 One indication of the jury's belief that the conduct under
2 Counts IV and VI were the same is the direct link between the
3 jury's actual damage award in Count VI and the actual damage award
4 in Count IV. Originally, the jury was instructed that actual
5 damages recoverable under Count VI are Excelsior's "losses
6 sustained by reason of Defendant's improper conduct." Instruction
7 27 (emphasis added). The jury awarded \$693,588 in actual damages
8 under Count VI. This amount is precisely the same as the amount
9 Excelsior alleged was needed to replace the six nursing
10 examinations. It is also precisely the same amount awarded by the
11 jury for actual damages under Count IV. The district court judge
12 later struck the actual damages awarded by the jury under Count
13 VI, observing that "Plaintiff has failed to suggest any theory
14 under which this Court could find that the actual damages awarded
15 on Count IV copyright infringement of examination questions are
16 not duplicative of the actual damages awarded on Count VI trade
17 secret misappropriation." S.D. Cal. 04-0535, Dkt. no. 394 at 6.
18 Interestingly, Frye himself seems to concede that the damages
19 awarded in Count VI were for the same conduct as Count IV:

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

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

28 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.

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

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V.

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The bankruptcy court did not abuse its

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discretion in applying issue preclusion.

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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.").

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

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

27 Under these circumstances, the bankruptcy court's decision
28 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

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

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CONCLUSION

We AFFIRM the decision of the bankruptcy court.