UNITED STATES BANKRUPTCY COURT
Eastern District of California
Sacramento Division

In re Scott R. Smith, Debtor.	Case No. 01-25334
Entrepreneur Media, Inc., a corporation, Plaintiff, v. Scott R. Smith, Defendant.	Adv. Proc. No. 01-2219-E

ORDER DENYING PLAINTIFF'S MOTION FOR PARTIAL SUMMARY JUDGMENT AND DENYING DEFENDANT'S COUNTER-MOTION FOR SUMMARY JUDGMENT

Plaintiff's motion for partial summary judgment and defendant's counter-motion for summary judgment came on for final hearing on May 25, 2005. Plaintiff seeks a judgment that its District Court judgment against the defendant be declared non-dischargeable pursuant to 11 U.S.C. § 523(a)(6). The complaint in this adversary proceeding also seeks relief under 11 U.S.C. § 523(a)(4) and further seeks to deny defendant's bankruptcy discharge under designated sub-sections of 11 U.S.C. § 727(a). Defendant seeks summary judgment on a theory of *res judicata* asserting that the plaintiff was required to obtain a ruling as to the dischargeability of the debt in the District Court action.

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The Plaintiff's Motion

Bankruptcy Code § 523(a)(6) provides that a debtor is not discharged from a debt "for willful and malicious injury by the debtor to another entity or to the property of another entity." Under § 523(a)(6), a court must analyze the "willful" and "malicious" prongs under separate tests. *Jett v. Sicroff (In re Sicroff)*, 401 F.3d 1101 (9th Cir. 2005); *Carrillo v. Su (In re Su)*, 290 F.3d 1140 (9th Cir. 2002).

The Ninth Circuit has defined a "malicious" injury as "one involving (1) a wrongful act, (2) done intentionally, (3) which necessarily causes injury, and (4) is done without *just* cause or excuse." *Murray v. Bammer (In re Bammer)*, 131 F.3d 788, 791 (9th Cir. 1997) (emphasis in original). Moreover, the four-part definition of "malicious" does not require a "showing of biblical malice, i.e., personal hatred, spite, or ill-will." *Id*. The "malicious" prong "does not require a showing of intent to injure, but rather it requires only an intentional act which causes injury." *Id*. The *Bammer* court did not address the "willful" prong of section 523(a)(6) because the defendant accepted the lower court's ruling that the fraud he perpetrated was willful.

In 1998, the U.S. Supreme Court addressed the "willful" prong of § 523(a)(6). *Kawaauhau v. Geiger (In re Geiger)*, 523 U.S. 57 (1998). In *Geiger*, the Court held that a medical malpractice judgment against a doctor was dischargeable and did not fall within the § 523(a)(6) exception because the conduct was reckless or negligent, *i.e*., the doctor did not intend to injure his patient.

In *Geige*r, the Court addressed the pivotal question concerning the scope of the "willful and malicious injury" exception. The Court stated the question as follows: "Does § 523(a)(6)'s compass cover acts, done intentionally, that cause injury . . . or only acts done with the actual intent to cause injury . . . ?" *Id*. at 61. In affirming the Eighth Circuit, the Court held that the latter approach is correct. *Id*. The Court analyzed the word "willful" and concluded that it modified the word "injury," indicating "that non-dischargeability takes a deliberate or intentional *injury*, not merely a deliberate or intentional act that leads to injury." *Id*. (emphasis in original). It should be noted, although it is not clearly stated, that the Court was only addressing the willful prong. This is supported by the Eighth Circuit's opinion, which states: "[s]ince it is not necessary

to a decision in this case that we decide the meaning of the word 'malicious' and the bearing, if any, that the interpretation given to that word might have on the dischargeability of a judgment debt, we have no occasion to discuss this matter, and thus we venture no opinion on it." *Geiger v. Kawaauhau (In re Geiger)*, 113 F.3d 848, 854 (8th Cir. 1997) (en banc).

In 2001, the Ninth Circuit again addressed § 523(a)(6) in *Petralia v. Jercich (In re Jercich)*, 238 F.3d 1202 (9th Cir. 2001). The *Jercich* court addressed both the "willful" and "malicious" prongs. The issue in *Jercich* was the intent required to meet the "willful" prong of § 523(a)(6). The *Jercich* court explained the general holding of *Geiger*, as discussed above, but noted that *Geiger* did not answer the question, what is "the precise state of mind required to satisfy § 523(a)(6)'s 'willful' standard." *Id.* at 1207. The *Jercich* court held that under *Geiger*, "the 'willful' injury requirement of § 523(a)(6) is met when it is shown either that the debtor had a subjective motive to inflict the injury *or* that the debtor believed that injury was substantially certain to occur as a result of his conduct." *Id*. at 1208 (emphasis in original). This is consistent with the approaches taken by the Fifth and Sixth Circuits. *Id*.

The *Jercich* court also briefly set forth the definition of a "malicious" injury under § 523(a)(6). The definition remains the same (after the Supreme Court's decision in *Geiger*) as it was set forth in *Bammer*. This should come as no surprise as *Geiger* only addressed the "willful" prong.

The Ninth Circuit's most recent case interpreting § 523(a)(6) is *Jett v. Sicroff, supra.* The plaintiff has brought this case to the court's attention, but it does nothing more than restate the definition of "malicious" as previously defined in *Bammer* and *Jercich*.

The issue before this Court is whether issue preclusion prevents the parties from relitigating the issues in the District Court's Findings of Fact and Conclusions of Law. Issue preclusion is by no means a black and white test. In *Clark v. Bear Sterns & Co., Inc.*, 966 F.2d 1318 (9th Cir. 1992), the Ninth Circuit set forth the following test to determine if issue preclusion applies in a particular case:

> To foreclose relitigation of an issue under collateral estoppel: (1) the issue at stake must be identical to the one alleged in the prior

> litigation; (2) the issue must have been actually litigated in the prior litigation; and (3) the determination of the issue in the prior litigation must have been a critical and necessary part of the judgment in the earlier action. (*Clark*, at 1320.)

Moreover, "the party asserting preclusion bears the burden of showing with clarity and certainty what was determined by the prior judgment." *Id.* at 1321 (citing *United States v. Lasky*, 600 F.2d 765, 769 (9th Cir.), *cert. denied*, 444 U.S. 979).

However, one of the most difficult problems of issue preclusion "is to delineate the issue on which litigation is, or is not, foreclosed by the prior judgment." Charles Alan Wright et al., *Federal Practice and Procedure* § 4417 (2d ed. 2002). In this case, the issue appears to be whether "just cause or excuse," the fourth element of the "malicious" prong of § 523(a)(6), has any role in a trademark case, i.e., whether "just cause or excuse" would be litigated, decided, and necessary for disposing of a trademark case.

The "just cause or excuse" prong of § 523(a)(6) plays no part in a trademark case. The Lanham Act provides that "any person who shall, without consent of the registrant . . . use in commerce any reproduction . . . of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services . . . which is likely to cause confusion . . . shall be liable in a civil action by the registrant . . . ." 15 U.S.C. § 1114.

With respect to identity of issues, the issues do not appear to be the same. Section 1114 makes it clear that a person who infringes upon another party's trademark is liable to the trademark holder without a showing of intent to infringe, i.e., there is no intent element found in § 1114. Section 523(a)(6), on the other hand, has intent built into both the willful and malicious prongs. Moreover, "just cause or excuse" is not a defense to trademark infringement. Again, § 1114 imposes liability on the mere finding that a party has infringed upon another party's trademark. Based on the different elements of 15 U.S.C. § 1114 and 11 U.S.C. § 523(a)(6), the issues do not appear to be identical and issue preclusion should not apply.

With respect to actually litigated, the District Court's Findings of Fact and Conclusions of Law does not indicate that the issue of "just cause or excuse" was litigated. In fact, the Findings of Fact and Conclusions of Law does not set forth any facts relevant to "just cause or excuse."

With respect to actually decided, the District Court's Findings of Fact and Conclusions of

Law does not indicate that the issue of "just cause or excuse" was ever litigated, much less actually decided.

With respect to necessary to decide, trademark law does not require an intent to infringe. The mere infringement is sufficient to impose liability, and therefore intent is not necessary to determine liability in a trademark case. Moreover, "just cause or excuse" is not a defense to trademark infringement, but it is an element of § 523(a)(6). Therefore, "just cause or excuse" is not necessary to a decision in a trademark case.

Attorney's fees may be awarded in trademark cases in "exceptional" cases. 15 U.S.C. §1117(a). A trademark case is exceptional "where the district court finds that the defendant acted maliciously, fraudulently, deliberately, or willfully." *Earthquake Sound Corp. v. Bumper Indus.*, 352 F.3d 1210 (9th Cir. 2003). Here, the District Court's awarding of attorney fees was based on the court's finding that the defendant deliberately infringed on the plaintiff's trademark.

As the fourth prong issue of "just cause or excuse" in determining whether a malicious injury has occurred was neither determined nor necessary in the District Court action, the plaintiff is not entitled to summary judgment on its § 523(a)(6) claim.

The Defendant's Motion for Summary Judgment

The defendant urges that because the bankruptcy case was pending at the time of the trial in the District Court, the plaintiff had the obligation to seek a determination of non-dischargeablily under § 523(a) as a part of that proceeding. Section 523(c) requires that determinations as to non-dischargeability under §§ 523(a)(4) and 523(a)(6), the sections under which plaintiff here seeks determinations as to non-dischargeability of its claim, be brought in the court where the bankruptcy case is pending. As such, the District Court lacked jurisdiction to determine the issues of non-dischargeability before this court. Further, it is noted that the complaint also seeks denial of defendant's discharge pursuant to § 727(a).

Order

For the reasons set forth above,

IT IS ORDERED that plaintiff's motion for partial summary judgment is denied, provided, however, that pursuant to Fed.R.Civ.P. 56(d), made applicable to this adversary

proceeding by Fed.R.Bankr..P. 7056, a separate order will issue setting forth those material facts which exist without substantial controversy, and

IT IS FURTHER ORDERED that defendant's motion for summary judgment is denied.

Dated: August 11, 2005

/s/ Brett Dorian

Brett Dorian
United States Bankruptcy Judge