

DEC 17 2009
SUSAN M SPRAUL, CLERK
U.S. BKCY. APP. PANEL
OF THE NINTH CIRCUIT

NOT FOR PUBLICATION

UNITED STATES BANKRUPTCY APPELLATE PANEL
OF THE NINTH CIRCUIT

6	In re:)	BAP No.	EC-09-1117-MkMoJu
)		
7)	Bk. No.	01-25334
8	SCOTT R. SMITH,)	Adv. No.	01-02219-A
)		
9	Debtor.)		
	_____)		
10	SCOTT R. SMITH,)		
)		
11	Appellant,)		
)		
12)		
13	v.)	MEMORANDUM*	
)		
14	ENTREPRENEUR MEDIA, INC.,)		
)		
15	Appellee.)		
	_____)		

Argued And Submitted On November 20, 2009
at Sacramento, California

Filed - December 17, 2009

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

Honorable Michael S. McManus, Bankruptcy Judge, Presiding

Before MARKELL, MONTALI and JURY, Bankruptcy Judges.

*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.

INTRODUCTION

1
2 After several years of litigation and two trips to the Ninth
3 Circuit Court of Appeals, the appellee herein, Entrepreneur
4 Media, Inc. ("EMI"), obtained a final, non-appealable judgment
5 against appellant and debtor Scott Smith ("Smith") for
6 intentional infringement of EMI's trademarks. While the
7 trademark infringement litigation was pending, Smith had filed
8 for bankruptcy under chapter 7 of the Bankruptcy Code. EMI
9 thereafter sought to have its final judgment declared
10 nondischargeable under § 523(a)(6).¹

11 Applying the doctrine of issue preclusion, the bankruptcy
12 court concluded that the federal district court's factual
13 findings in the trademark infringement litigation conclusively
14 established all but one of the elements for nondischargeability
15 under § 523(a)(6). As to the sole unresolved issue of "just
16 cause or excuse," the bankruptcy court held a trial, after which
17 it found that Smith had not acted with just cause or excuse.
18 Consequently, the bankruptcy court entered a judgment determining
19 that Smith's debt arising from his intentional trademark
20 infringement was nondischargeable.

21 We conclude that the bankruptcy court properly applied the
22 doctrine of issue preclusion and that the bankruptcy court's
23

24 ¹Unless otherwise indicated, all section references are to
25 the Bankruptcy Code, 11 U.S.C. §§ 101-1330, as enacted and
26 promulgated prior to the effective date (October 17, 2005) of the
27 relevant provisions of the Bankruptcy Abuse Prevention and
28 Consumer Protection Act of 2005, Pub. L. 109-8, April 20, 2005,
119 Stat. 23. All "Rule" references are to the Federal Rules of
Bankruptcy Procedure, and all "Civil Rule" references are to the
Federal Rules of Civil Procedure.

1 findings that Smith acted without just cause or excuse were not
2 clearly erroneous. Accordingly, we AFFIRM the bankruptcy court's
3 judgment of nondischargeability.

4 Smith also separately challenges a minute order of the
5 bankruptcy court, entered on February 1, 2007, discharging a
6 prior sua sponte Order to Show Cause regarding the potential
7 dismissal of EMI's denial of discharge complaint and the
8 potential imposition of sanctions against EMI. Smith asserts
9 that, pursuant to Rule 9011, the bankruptcy court erred in not
10 imposing monetary sanctions against EMI in furtherance of the
11 Order to Show Cause. We conclude that Smith lacks standing to
12 appeal the bankruptcy court's denial of sanctions. Accordingly,
13 we DISMISS Smith's appeal of the February 1, 2007 minute order.

14 **FACTS**

15 EMI publishes a magazine named "Entrepreneur" and holds a
16 trademark on that name. Smith published a magazine named
17 "Entrepreneur Illustrated." EMI contacted Smith, asserted that
18 the name of Smith's magazine infringed on EMI's mark, and
19 demanded that Smith stop using that name; Smith refused.

20 **1. The Trademark Infringement Litigation**

21 Following Smith's refusal, in 1998, EMI commenced a lawsuit
22 against Smith in federal district court, alleging trademark
23 infringement, unfair competition and counterfeiting.

24 Entrepreneur Media, Inc. v. Smith, Case No. CV 98-3607 FMC
25 (Ctx)(C.D. Cal. 1998). By way of its complaint, EMI sought,
26 among other things, "an order directing Smith to account and
27 disgorge to plaintiff any and all profits derived by reason of
28 said acts of infringement and unfair competition complained of

1 herein." First Amended Complaint (March 24, 1999) at 14:24-
2 14:26. The district court granted summary judgment to EMI, but
3 the Ninth Circuit reversed in part and remanded for trial.
4 Entrepreneur Media, Inc. v. Smith, 279 F.3d 1135 (9th Cir. 2002).
5 According to the Ninth Circuit, the district court correctly
6 determined as a matter of law that the manner in which Smith used
7 the name "Entrepreneur Illustrated" on the cover of his magazine
8 constituted trademark infringement. Id. at 1152-53. However,
9 the Ninth Circuit also concluded that there were genuine issues
10 of triable fact as to all of the other instances of alleged
11 trademark infringement. Id. It remanded the case to the
12 district court, which then held a bench trial. At the conclusion
13 of the trial, the district court determined that Smith had
14 intentionally committed trademark infringement.

15 The district court entered findings of fact and conclusions
16 of law (hereinafter, "District Court Findings and Conclusions"),
17 which describe in detail EMI's business and trademarks. As set
18 forth in the District Court Findings and Conclusions, EMI had
19 been continuously using the mark ENTREPRENEUR in connection with
20 its magazine, Entrepreneur, since at least 1978. EMI also had
21 been using the mark ENTREPRENEUR on its website,
22 entrepreneur.com. District Court Findings and Conclusions at
23 1:22-1:27. The district court found that EMI had duly registered
24 under United States trademark laws a number of incontestable
25 trademark registrations for a number of different marks,
26 including the mark ENTREPRENEUR. The district court noted that
27 the registration of the marks generally entitled EMI to their
28 exclusive use. Id. at 2:8-2:27.

1 According to the district court, EMI was well known for its
2 magazines and online services, especially for Entrepreneur
3 magazine, which had a paid U.S. circulation of approximately
4 550,000, based on subscriptions and newsstand sales, and a total
5 audience of approximately 2 million readers per issue. In
6 addition, *entrepreneur.com* had approximately 2-3 million visitor
7 sessions each month. The district court further noted EMI's
8 efforts to promote its products and services, by sending out
9 complimentary copies of its magazines to the media, by
10 advertising, by promoting events featuring small businesses, and
11 by way of *entrepreneur.com*. Id. at 1:28-2:7, 2:28-3:4.

12 The following findings of the district court enumerate
13 Smith's business history, the events leading up to his
14 infringement of EMI's marks and the infringement itself:

15 10. In 1995, defendant Scott Smith dba
16 EntrepreneurPR ("Smith" or "Defendant")
17 started a business called ICON Publications,
18 which promoted small businesses. In 1997,
19 ICON created a magazine that featured
20 articles about small businesses, which was
21 distributed to members of the media so that
22 the media could report on the companies
23 within the featured articles.

24 11. ICON Publications' magazine was entitled
25 Yearbook of Small Business Icons.

26 12. As part of Entrepreneur's efforts to
27 promote small businesses, in or about
28 December 1996, Entrepreneur listed ICON
Publications on Entrepreneur's "Small
Business Links" pages of Entrepreneur's
website, and provided a direct link to
Smith's website, *iconpub.com*.

13. Smith sent out letters to his clients
touting *iconpub.com's* selection on
Entrepreneur's Small Business Links page.

14. Shortly after *iconpub.com* was selected
to appear on Entrepreneur's Small Business

1 Links page, Smith decided to change the name
2 of his company, magazine, and domain name.

3 15. Smith was familiar with Entrepreneur and
4 its services. In addition, Smith conducted a
5 trademark search that revealed Entrepreneur's
6 federal registrations for the mark
7 ENTREPRENEUR.

8 16. In soliciting customers for his
9 yearbook, Smith often represented that he was
10 affiliated or associated with Entrepreneur
11 magazine in order to persuade people to sign
12 up for his services.

13 17. In October 1997, Smith changed the name
14 of his company to EntrepreneurPR, the name of
15 his magazine to Entrepreneur Illustrated, and
16 his domain name to *entrepreneurpr.com*.

17 18. Press releases on [Entrepreneur's]
18 masthead concerning ICON's yearbook
19 publication were distributed by [Smith]. At
20 the bottom of the page is a list of
21 characteristics, which includes the phrase,
22 "PR firm: EntrepreneurPR." The clear import
23 of this phrase was the implication that
24 [Smith] had been hired as the public
25 relations firm for [Entrepreneur].

26 19. Thereafter, Smith printed on his web
27 site statements Entrepreneur made about his
28 former company, magazine, and domain name.

20 20. Smith's new company name and magazine
21 were prominently featured on his website,
22 located at *entrepreneurpr.com*.

23 21. Smith sent out his publication of
24 Entrepreneur Illustrated to thousands of
25 members of the media four times each year.

26 22. Smith featured on his web site
27 Entrepreneur's registered design mark SMALL
28 BUSINESS SQUARE after being expressly told he
did not have permission to do so.

23 23. The marks ENTREPRENEUR, on the one hand,
24 and ENTREPRENEURPR, ENTREPRENEUR ILLUSTRATED
25 and ENTREPRENEURPR.COM are substantially
26 similar in appearance, sound and meaning in
27 that the dominant portion of all the marks is
28 identical - "entrepreneur."

1 24. Entrepreneur and Smith both use their
2 marks in connection with identical goods and
3 services, in that the marks are all used in
4 connection with magazines featuring articles
5 about small businesses, as well as on the
6 Internet. In addition, Entrepreneur offers
7 public relations services on its website
8 through its partnership with PR Newswire,
9 which services are substantially similar to
10 Smith's public relations services.

11 25. Entrepreneur and Smith's marketing
12 channels overlap, since both entities target
13 small businesses, send their publications
14 free of charge to the media, and use the
15 Internet to market and advertise their
16 services.

17 26. There is substantial evidence that
18 EntrepreneurPR's clients believed there was a
19 relationship between Entrepreneur and
20 EntrepreneurPR, which constitutes evidence of
21 factual confusion.

22 27. Many witnesses, whom the Court found to
23 be very credible, testified that they
24 believed, when they were solicited by Smith,
25 that defendant was associated with
26 Entrepreneur Media or Entrepreneur Magazine,
27 or that the two publications were the same.
28 They testified that they were led to believe
that by signing up for defendant's services,
they would be featured in Entrepreneur
Magazine. They were almost uniform in their
position that they would not have paid any
money to defendant had they known he was not
connected with plaintiff. Defendant Smith
denied the allegations of all of those
witnesses. His testimony in that, and many
other respects, was not credible.

29 28. The court accepts the testimony of
30 plaintiff's expert, who calculated
31 defendant's net profit throughout the period
32 of infringement at \$544,998, plus interest of
33 \$124,658, representing total profits of
34 \$669,656.

35 Id. at 3:5 - 5:16.

36 Several of the District Court Findings and Conclusions
37 either explicitly reference the court's determination that
38

1 Smith's infringement was intentional or grant relief that is
2 predicated on intentional infringement:

3 17. With full knowledge of Entrepreneur's
4 prior rights to the mark ENTREPRENEUR, Smith
5 selected EntrepreneurPR for his business
6 name, Entrepreneur Illustrated for the title
7 of his magazine, and entrepreneurpr.com for
8 his domain name. "When the alleged infringer
9 knowingly adopts a mark similar to another's,
10 reviewing courts *presume* that the defendant
11 can accomplish his purpose: that is, *that the
12 public will be deceived.*" Entrepreneur
13 Media, 279 F.3d at 1148 [emphasis in
14 original]. In addition, Smith's conduct
15 establishes that he intended to trade off of
16 Entrepreneur's goodwill. Smith's intent to
17 deceive the public is "strong evidence of a
18 likelihood of confusion." Id. at 1150.

11 * * *

12 22. In a case, such as this, when a party
13 deliberately infringes another's trademarks,
14 damages should be awarded. Indeed, "where
15 trademark infringement is deliberate and
16 willful both the trademark owner and the
17 buying public are slighted if a court
18 provides no greater remedy than an
19 injunction." Playboy Enters., Inc. v.
20 Baccarat Clothing Co., 692 F.2d 1272, 1276
21 (9th Cir. 1982).

18 * * *

19 24. Plaintiff is entitled to recover the
20 profits derived by defendant through its
21 infringing use of plaintiff's trademark, in
22 the amount of \$669,656. The court finds this
23 damage award to be adequate to compensate
24 plaintiff for the harm, and will not treble
25 the damages.

23 * * *

24 26. A case is "exceptional" such that an
25 award of attorneys' fees is appropriate if
26 the case involves deliberate or willful
27 infringement. Gucci Am., Inc. v. Rebecca
28 Gold Enters., Inc., 802 F.Supp. 1048, 1050-51
(S.D.N.Y. 1992). As set forth above, this
case involves intentional infringement, and
therefore is an exceptional case.
Accordingly, this court awards Entrepreneur

1 reasonable attorneys' fees under 15 U.S.C.
2 [§] 1117(a), to be fixed following submission
3 of a fee application.

4 Id. at 9:1-9:9, 10:2-10:7, 10:14-10:17, 10:26-11:4.

5 On July 10, 2003, the district court entered judgment
6 against Smith (the "Judgment") permanently enjoining him from
7 infringing upon EMI's trademarks. The Judgment awarded EMI
8 monetary damages of \$669,656, based on its determination at trial
9 of the net profits that Smith derived from his infringement.
10 Shortly thereafter, the district court entered an order awarding
11 to EMI attorney fees in the amount of \$680,895, and costs in the
12 amount of \$39,267.46, based on the court's finding "that Smith
13 had intentionally infringed upon Entrepreneur's
14 trademark" Order Granting Plaintiff's Motion For
15 Attorneys' Fees And Related Costs (Aug. 13, 2003) at 2:10-2:11.
16 Smith again appealed to the Ninth Circuit, which affirmed the
17 district court's judgment in 2004. Entrepreneur Media, Inc. v.
18 Smith, 101 Fed. Appx. 212 (9th Cir. 2004).

19 **2. The Bankruptcy Court Litigation**

20 Meanwhile, in 2001, during the pendency of Smith's first
21 appeal to the Ninth Circuit, Smith filed a petition under
22 chapter 7 of the bankruptcy code. Within weeks of the bankruptcy
23 filing, EMI commenced an adversary proceeding generally objecting
24 to debtor's discharge under § 727 and also seeking a
25 determination that Smith's indebtedness to EMI was
26 nondischargeable under § 523. In relevant part, EMI alleged that
27 Smith's indebtedness arising from his infringement of EMI's
28 trademarks constituted a debt for willful and malicious injury to
EMI's property, nondischargeable under § 523(a)(6).

1 In 2005, after the conclusion of the trademark infringement
2 litigation, the bankruptcy court, Judge Dorian presiding, heard
3 and ultimately denied the parties' cross-motions for summary
4 judgment in the adversary proceeding. In relevant part, the
5 bankruptcy court held that issue preclusion could be applied to
6 establish most but not all of the elements for
7 nondischargeability under § 523(a)(6). The bankruptcy court
8 pointed to the four factors that must be found in order to
9 declare an injury malicious. Citing to Murray v. Bammer
10 (In re Bammer), 131 F.3d 788 (9th Cir.1997), the bankruptcy court
11 identified the maliciousness factors as: "(1) a wrongful act,
12 (2) done intentionally, (3) which necessarily causes injury, and
13 (4) is done without just cause or excuse." Summary Judgment
14 Order (Aug 11, 2009) at 2:7-2:8 (emphasis in original).
15 According to the bankruptcy court, issue preclusion did not apply
16 here to the "just cause or excuse" factor because that factor had
17 neither been actually litigated or necessarily decided in the
18 trademark infringement litigation. Id. at 4:11-5:14.

19 Even though the bankruptcy court denied summary judgment,
20 the bankruptcy court issued a separate order pursuant to Rule
21 7056 (incorporating Civil Rule 56(d)) setting forth facts without
22 substantial controversy (the "Civil Rule 56(d) Order"), which
23 contained virtually all of the findings of fact rendered by the
24 district court in the trademark infringement litigation.²

25
26 ²The only district court findings of fact that the
27 bankruptcy court did not include at all in its Civil Rule 56(d)
28 Order were the district court findings numbered 26 and 27.
According to the bankruptcy court, these two findings were
(continued...)

1 According to the Civil Rule 56(d) Order, all of the facts
2 listed therein were "deemed established in this action for all
3 purposes, including for purposes of trial" Id. at
4 1:27-2:2 (footnote omitted).

5 In 2007, the bankruptcy court bifurcated EMI's claims based
6 on § 727 from its claims based on § 523. In December 2007, a
7 different bankruptcy judge, Judge McManus, took over from Judge
8 Dorian as presiding judge and tried the § 727 claims first.
9 After denying all relief under EMI's § 727 claims, the court
10 tried EMI's § 523(a)(6) claim in June 2008.³

11 During the summary judgment proceedings before Judge Dorian,
12 the parties addressed the issue of the preclusive effect of the
13 district court rulings. Smith conceded that he was precluded
14 from arguing the willfulness prong under the § 523(a)(6) claim by
15 virtue of the rulings in the trademark infringement litigation.
16 However, in the pretrial proceedings before Judge McManus leading
17 up to trial on the § 523(a)(6) claim, the preclusive effect of
18 the district court's rulings came up repeatedly. Among other
19 things, Smith argued that he should not be precluded from trying
20 the issue of his subjective state of mind - that he neither

21
22

²(...continued)

23 "essentially commentary on the evidence as opposed to clear
24 statements of facts." Id. at n.3; see also Id. at n.1. However,
25 the bankruptcy court ultimately ruled after trial in 2008 that
26 all of the district court's findings and conclusions bound the
parties in the nondischargeability litigation. See Findings of
Fact and Conclusions of Law (March 11, 2009) at 2:8-2:12.

27 ³EMI originally had another claim for relief, this one under
28 § 523(a)(4), but the parties stipulated to dismissal of this
claim before the trial on the § 523(a)(6) claim.

1 harbored the subjective intent to injure EMI's property, nor did
2 he subjectively believe that such injury was substantially
3 certain to occur. According to Smith, the trademark infringement
4 action did not deal with his intent to injure EMI, so he should
5 be able to offer any evidence relevant to that issue. Hearing
6 Transcript (Oct. 23, 2007) at 28:16-29:12. The bankruptcy court
7 disagreed. According to Judge McManus, Judge Dorian's prior
8 summary judgment ruling meant that all issues other than "just
9 cause or excuse" had been conclusively determined by the
10 trademark infringement litigation. Hearing Transcript (Jan. 16,
11 2008) at 18:2-18:22, 27:13-27:23. Judge McManus acknowledged to
12 Smith that much or all of what he wanted to introduce at trial as
13 evidence regarding his state of mind might be relevant to the
14 "just cause or excuse" issue, but the judge also cautioned Smith
15 that he could not offer that same evidence to show that he
16 subjectively believed that his conduct was innocent - that he
17 believed that he was not infringing EMI's marks. According to
18 Judge McManus, Smith's state of mind evidence needed to be tied
19 to some theory that could prove just cause or excuse. Id. at
20 18:14-18:22, 47:20-48:7. With those limitations in mind, Judge
21 McManus directed the parties to streamline their pretrial
22 statements, and ultimately, the court's May 2008 pretrial order
23 limited the parties to the sole issue of "whether defendant acted
24 with 'just cause or excuse' such that his actions were not
25 'malicious'". Pretrial Order (May 13, 2008) at 4:25 - 4:26.
26 See also Minute Order (June 23, 2008) at p. 1 ("the issues at
27 trial are limited to whether the defendant acted with just cause
28 or excuse such that his infringement of the plaintiff's

1 intellectual property was not willful and malicious. This will
2 be established, largely, by Mr. Smith's testimony as to his
3 motivations and state of mind.")

4 After a trial on the issue of just cause or excuse, at the
5 direction of the bankruptcy court, the parties provided post-
6 trial briefs on the impact, if any, of a recently-decided Ninth
7 Circuit case, Barboza v. New Form, Inc. (In re Barboza),
8 545 F.3d 702 (9th Cir. 2008). Smith again argued that the
9 trademark infringement litigation did not conclusively determine
10 that he subjectively intended to injure EMI's property, and the
11 bankruptcy court again disagreed. The bankruptcy court applied
12 the findings and conclusions from the trademark infringement
13 litigation and the Civil Rule 56(d) Order and determined that all
14 of the debt arising from the trademark infringement litigation
15 was nondischargeable under § 523(a)(6).

16 The bankruptcy court also made a new and independent finding
17 that "Smith willfully committed trademark infringement against
18 EMI." Findings of Fact and Conclusions of Law (March 11, 2009)
19 at 2:22-2:24. According to the bankruptcy court, "[t]his injury
20 to EMI's property was deliberate and intentional." Id. (Emphasis
21 added). In making this finding, the bankruptcy court expressly
22 relied on the district court's findings in the trademark
23 infringement litigation. There is no indication in the
24 bankruptcy court's finding of intentional injury that it relied
25 on the evidence presented during the trial on "just cause and
26 excuse."

27 The court entered judgment on March 13, 2009, and Smith
28 timely appealed.

1 **3. The Order To Show Cause**

2 Smith has also appealed from a February 1, 2007 order
3 discharging an Order to Show Cause. On August 14, 2006, during
4 the pretrial proceedings leading up to the trial of the § 727(a)
5 claims, the bankruptcy court sua sponte issued an Order to Show
6 Cause. According to the Order to Show Cause, EMI had alleged in
7 its complaint claims under § 727(a), but had failed to state in
8 its pretrial statement "that any evidence will be offered in
9 support of such claims. . . ." Order to Show Cause (Aug. 14
10 2006), at 1:23-1:24. The show cause order threatened EMI with
11 \$10 million in monetary sanctions, as well as dismissal of the
12 § 727(a) claims.

13 Both parties later amended their pretrial statements, and
14 the bankruptcy court held a four-day trial on the § 727(a)
15 claims, ultimately ruling in favor of Smith as to all of these
16 claims. At a subsequent hearing on the Order to Show Cause, the
17 bankruptcy court concluded that EMI had satisfied the concerns of
18 the court when it amended its pretrial statement, and that Smith
19 had not been prejudiced or harmed in any way by EMI's delay in
20 addressing the § 727(a) claims. Hearing Transcript
21 (Feb. 1, 2007) at 158-69. Accordingly, the court issued its
22 February 1, 2007 order discharging the prior Order to Show Cause.

23 **ISSUES**

24 1. Did the bankruptcy court properly preclude Smith from
25 relitigating the issue of willfulness?

26 2. Did the trademark infringement judgment conclusively
27 establish that EMI was harmed by Smith's intentional trademark
28 infringement?

1 3. Did the bankruptcy court shift the burden of proof to
2 Smith, thereby improperly imposing on him the burden to establish
3 that his trademark infringement liability was dischargeable?

4 4. Is § 523(a)(6) applicable to liability arising from
5 willful trademark infringement?

6 5. Did the bankruptcy court err when it found that Smith
7 acted without just cause or excuse?

8 6. Does Smith have standing to challenge the bankruptcy
9 court's denial of sanctions against EMI under rule 9011?

10 STANDARDS OF REVIEW

11 The bankruptcy court's determination that issue preclusion
12 applies presents a mixed question of law and fact where the legal
13 issues predominate, so we review this determination de novo.
14 Khaligh v. Hadaegh (In re Khaligh), 338 B.R. 817, 823 (9th Cir.
15 BAP 2006), aff'd, 506 F.3d 956 (9th Cir. 2007).

16 We review findings of fact under the clearly erroneous
17 standard and conclusions of law de novo. Rule 8013;
18 United States v. Gould (In re Gould), 401 B.R. 415, 412
19 (9th Cir. BAP 2009).

20 To reverse the bankruptcy court's factual findings under the
21 clearly erroneous standard, we must have "a definite and firm
22 conviction that a mistake has been committed."
23 In re Brooks-Hamilton, 400 B.R. 238, 245 (9th Cir. BAP 2009).

24 DISCUSSION

25 1. Section 523(a)(6) - Elements, Factors and Definitions

26 A debt is nondischargeable under § 523(a)(6) if it results
27 from debtor's willful and malicious injury to another or to the
28 property of another. Thus, there are three elements:

1 (1) willfulness; (2) maliciousness and (3) injury. These terms
2 are not defined in the statute, but they have been defined in
3 subsequent case law.

4 A debtor willfully injures another if he subjectively
5 intends to injure him, or subjectively believes that harm is
6 substantially certain to occur. Carrillo v. Su (In re Su),
7 290 F.3d 1140, 1143-45 (9th Cir. 2002).

8 An injury is malicious if it "involves '(1) a wrongful act,
9 (2) done intentionally, (3) which necessarily causes injury, and
10 (4) is done without just cause or excuse.'" Barboza v. New Form,
11 Inc. (In re Barboza), 545 F.3d 702, 706 (9th Cir. 2008)(citation
12 omitted).

13 As discussed below, the application in this case of the
14 first three factors for maliciousness is straightforward. The
15 bankruptcy court held trial on the fourth factor, "just cause or
16 excuse," and found that Smith acted without just cause or excuse,
17 so we pause here to consider this factor.

18 The leading Ninth Circuit cases on just cause or excuse are
19 Jett v. Sicroff (In re Sicroff), 401 F.3d 1101 (9th Cir. 2005),
20 and Murray v. Bammer (In re Bammer), 131 F.3d 788 (9th Cir.
21 1997). Rather than defining what is just cause or excuse, these
22 two cases defined what is not just cause or excuse. Sicroff held
23 that, where the debtor intentionally defamed another, the
24 debtor's self-professed goal to protest the closure of his
25 university's geography department did not constitute just cause
26 or excuse. Sicroff, 401 F.3d at 1106-07. Similarly, Bammer held
27 that, where the debtor intentionally committed fraud in an
28 attempt to facilitate his mother's felonious embezzlement scheme,

1 his subjective intent to act out of compassion for his mother,
2 and to not personally receive any monetary benefit from the
3 fraud, did not constitute just cause or excuse. Bammer, 131 F.3d
4 at 792-93.

5 The final element under § 523(a)(6) is injury. In Suarez v.
6 Barrett (In re Suarez), 400 B.R. 732 (9th Cir. BAP 2009), we held
7 that the definition of injury under § 523(a)(6) includes more
8 than just compensatory damages, that intentional conduct which
9 necessarily caused identifiable harm can satisfy the injury prong
10 of § 523(a)(6), even if no compensatory damages were proven,
11 found or awarded. Id. at 738-40.

12 With these standards, factors and definitions in mind, we
13 turn to our discussion of the issues raised by this appeal.

14 **2. The Bankruptcy Court Properly Precluded Smith From**
15 **Relitigating the Issue of Willfulness.**

16 The bankruptcy court ruled that the findings in the
17 trademark infringement litigation barred Smith, under the
18 doctrine of issue preclusion, from relitigating the issue of
19 willfulness.

20 The doctrine of issue preclusion applies in dischargeability
21 litigation. Grogan v. Garner, 498 U.S. 279, 284, 111 S.Ct. 654,
22 658 (1991). Garner held that ". . . a bankruptcy court could
23 properly give collateral estoppel effect to those elements of the
24 claim that are identical to the elements required for discharge
25 and that were actually litigated and determined in the prior
26 action." Id.

27 The application of issue preclusion to a prior federal
28 judgment is determined by federal law. FDIC v. Daily

1 (In re Daily), 47 F.3d 365, 368 (9th Cir. 1995); Frankfort
2 Digital Servs., Ltd. v. Neary (In re Reynoso), 315 B.R. 544, 551
3 (9th Cir. BAP 2004). For preclusive effect to apply:

4 "(1) the issue at stake must be identical to
5 the one alleged in the prior litigation;
6 (2) the issue must have been actually
7 litigated in the prior litigation; and
8 (3) the determination of the issue in the
9 prior litigation must have been a critical
10 and necessary part of the judgment in the
11 earlier action."

12 Reynoso, 315 B.R. at 551 (quoting Clark v. Bear Stearns & Co.,
13 Inc., 966 F.2d 1318, 1320-21 (9th Cir. 1992)).

14 **a. Critical And Necessary**

15 In this case, the district court's findings concerning
16 Smith's intent to infringe were a critical and necessary part of
17 the district court's judgment. When, as in the original district
18 court action, there is no proof of direct competition between the
19 infringer and the owner of the trademark, intent to infringe must
20 be proven to obtain a disgorgement of defendant's profits. See
21 Maier Brewing Co. v. Fleischmann Distilling Corp., 390 F.2d 117,
22 123-124 (9th Cir. 1968) (affirming award of defendants' profits
23 based on district court finding that defendants "knowingly,
24 wilfully and deliberately infringed" plaintiff's trademark).

25 Where trademark infringement is deliberate
26 and willful, this court has found that a
27 remedy no greater than an injunction
28 "slights" the public. **This standard applies,**
however, only in those cases where the
infringement is "willfully calculated to
exploit the advantage of an established
mark." The intent of the infringer is
relevant evidence on the issue of awarding
profits and damages and the amount.

29 Lindy Pen Co., Inc. v. Bic Pen Corp., 982 F.2d 1400, 1405
30 (9th Cir. 1993) (citations omitted and emphasis added). See also

1 Bandag, Inc. v. Al Bolser's Tire Stores, Inc., 750 F.2d 903 (Fed.
2 Cir. 1984) (reversing damages award in part because there was no
3 evidence that infringement therein was done with the intent to
4 trade off of the plaintiff's goodwill). Similarly, intent to
5 infringe plays a pivotal role where the owner of the trademark
6 seeks to recover attorneys' fees. See Earthquake Sound Corp. v.
7 Bumper Indus., 352 F.3d 1210, 1216-17 (9th Cir. 2003). These
8 cases establish that Smith's subjective intent to infringe was an
9 essential component of the trademark infringement litigation.

10 **b. Actually Litigated**

11 In addition, Smith's intent to infringe was actually
12 litigated. Smith's intent to infringe is alleged in EMI's First
13 Amended Complaint, is raised repeatedly in the district court's
14 pretrial conference order, and was the subject of several of the
15 district court's findings of fact and conclusions of law, both as
16 statements of evidentiary fact supporting the determination of
17 intent to infringe, and as statements of ultimate fact that
18 Smith's infringement was intentional, deliberate, knowing and
19 willful.

20 **c. Identical Issues**

21 There is one remaining factor to consider: whether the
22 intent issue is identical in both actions. Smith asserts that
23 the intent issue litigated and determined in the trademark
24 infringement litigation is not the same as that raised by EMI's
25 § 523(a)(6) claim.

26 To resolve this issue, we must identify precisely what state
27 of mind is sufficient to constitute willful injury under
28

1 § 523(a)(6), and also determine whether the trademark
2 infringement litigation involved that same state-of-mind issue.

3 The Supreme Court has held, in the context of medical
4 malpractice, that it is insufficient under § 523(a)(6) to show
5 that the debtor's conduct was intentional and that the injury was
6 negligently or recklessly inflicted; rather, the plaintiff must
7 show that the debtor inflicted the injury intentionally.

8 Kawaauhau v. Geiger, 523 U.S. 57, 61-62, 118 S.Ct. 974, 977
9 (1998). Thus, in order to decide whether the intent issue in the
10 trademark litigation and in the § 523(a)(6) action is identical,
11 we must consider whether the district court's findings that Smith
12 subjectively intended to infringe on EMI's trademarks and
13 subjectively intended to trade off of EMI's goodwill mean the
14 same thing as Smith subjectively desired to injure EMI's
15 property.

16 In trademark infringement litigation, we believe that
17 intentional infringement is tantamount to intentional injury
18 under bankruptcy law. Unlike in In re Geiger, where the debtor
19 had committed medical malpractice, and In re Su, where the debtor
20 had recklessly sped through a red light, it is impossible to
21 separate the "conduct" of trademark infringement from the
22 "injury" of trademark infringement when considering the
23 defendant's intent. In other words:

24 Performing a medical procedure and driving an
25 automobile are activities that can be
26 executed intentionally, but in a manner that
27 is reckless or negligent with regard to the
28 outcome. On the other hand, activities such
as filing a frivolous lawsuit . . . or
infringing a copyright . . . do not have
uncertain or variable outcomes. While a
medical procedure can result in either

1 healing or harm, and a physician may cause
2 harm by negligence, copyright infringement is
3 a categorically harmful activity.

4 Star's Edge, Inc. v. Braun (In re Braun), 327 B.R. 447, 450-51
(Bankr. N.D. Cal. 2005).

5 Like intentional copyright infringement, intentional
6 trademark infringement is a "categorically harmful activity."
7 The seminal Ninth Circuit case on intentional trademark
8 infringement, Maier Brewing Co., 390 F.2d at 121-23, discusses in
9 detail the harm caused by trademark infringement. In the course
10 of this discussion, the Maier court refers to the intentional
11 trademark infringer as someone who desires to "gain the value of
12 an established name of another," id. at 123, and who "poaches
13 upon the commercial magnetism of the [trademark registrant's]
14 symbol." Id. at 122. According to Maier, the intentional
15 infringer wants to "reap the benefits of the trademark he has
16 stolen." Id. at 123.

17 Maier's progeny similarly talk about the subjective desire
18 of intentional trademark infringers to take the value and
19 benefits of the trademark owner's goodwill and use them for their
20 own benefit. See e.g., Lindy Pen, 982 F.2d at 1405 (explaining
21 that intentional trademark infringement must be "willfully
22 calculated to exploit the advantage of an established mark.");
23 Playboy Enters., Inc. v. Baccarat Clothing Co., Inc., 692 F.2d
24 1272, 1274 (9th Cir. 1982) (explaining the need for an economic
25 deterrent against "the profit maximizing entrepreneur who engages
26 in trademark piracy.").

27 Simply put, the intent to infringe and the intent to deprive
28 the mark's owner of the value and benefit of his property are

1 opposite sides of the same coin. In other words, when someone
2 intentionally infringes on the copyright or trademark of another,
3 they subjectively desire to harm property belonging to the mark's
4 owner - that is, they seek to deprive the mark's owner of the
5 benefit and value of his or her property.

6 On this issue, Smith relies on Barboza v. New Form, Inc.
7 (In re Barboza), 545 F.3d 702 (9th Cir. 2008). According to
8 Smith, Barboza establishes that a finding of willfulness in
9 infringement litigation is not the same thing as a finding of
10 willfulness in an action under § 523(a)(6). Barboza does not
11 help Smith. In fact, in Barboza, the Ninth Circuit had the
12 opportunity to quash the notion of intentional copyright
13 infringement as a categorically harmful activity, but it did not
14 do so.

15 In Barboza, the plaintiff brought a nondischargeability
16 action under § 523(a)(6) based on a prior federal court judgment
17 of copyright infringement. However, in the prior copyright
18 litigation it was impossible to tell whether the jury
19 specifically found that the defendants intentionally infringed or
20 merely were reckless, as mere reckless conduct was sufficient to
21 support a claim for willful copyright infringement, and the
22 jury's verdict didn't say precisely what they found.

23 Consequently, the Ninth Circuit held that the finding of willful
24 copyright infringement did not preclude litigation of the
25 willfulness issue in the subsequent action under § 523(a)(6).

26 Id. at 709. In short, the prior copyright litigation in Barboza
27 failed to conclusively establish intent to injure simply because
28 there was no specific finding of intent to infringe; rather, the

1 infringement might only have been reckless. According to the
2 Ninth Circuit, the BAP erred in its decision in Barboza,
3 347 B.R. 369 (9th Cir. BAP 2008), by implying malice from the
4 bankruptcy court's finding of willfulness. Notably, the Ninth
5 Circuit acknowledged the BAP's characterization of copyright
6 infringement as a "categorically harmful activity" (545 F.3d at
7 704), but did not point to any error in that characterization.

8 In contrast to Barboza, the district court explicitly found
9 here that Smith intended to infringe and intended to exploit
10 EMI's goodwill for his own benefit, and these findings were
11 essential before the district court could order disgorgement of
12 Smith's profits and award EMI its attorneys' fees. Accordingly,
13 we hold that the district court's findings on intent in the
14 trademark infringement litigation were made against the same
15 legal standard of intent as presented here in EMI's action under
16 § 523(a)(6).

17 Based on the reasoning set forth above, we conclude that the
18 bankruptcy court did not err in precluding Smith from
19 relitigating the issue of willfulness.

20 **3. The Trademark Infringement Judgement Conclusively**
21 **Established That EMI Was Harmed By Smith's Intentional**
22 **Trademark Infringement.**

23 Smith argues that EMI was not harmed by his intentional
24 trademark infringement and that the trademark infringement
25 litigation did not establish any harm to EMI or its property.
26 According to Smith, intentional trademark infringement might
27 deceive or confuse the public, but it does not necessarily harm
28 the trademark owner. Smith's contention is contrary to Ninth
Circuit law. The Ninth Circuit cases on intentional trademark

1 infringement cited in section two, above, explained that
2 intentional trademark infringement is inherently harmful to the
3 property interests of the trademark owner. See e.g. Maier,
4 390 F.2d at 121-23; Playboy, 692 F.2d 1274-75. That explains why
5 those cases held that, even when a trademark owner cannot prove
6 direct competition or direct damages in the form of their own
7 lost profits, it still may be appropriate in cases of intentional
8 infringement to award statutory damages equal to the profits
9 obtained by the infringer as a result of its infringing conduct.
10 Id. Here, in the district court's findings and conclusions, the
11 district court made express reference to the harm to EMI and the
12 disgorgement of Smith's profits as compensating EMI for that
13 harm:

14 24. Plaintiff is entitled to recover the
15 profits derived by defendant through its
16 infringing use of plaintiff's trademark, in
17 the amount of \$669,656. The court finds this
18 damage award to be adequate to compensate
19 plaintiff for the harm, and will not treble
20 the damages.

21 District Court Findings And Conclusions at 10:14-10:17.

22 In essence, Smith confuses the concept of harm or injury
23 with the concept of the existence and amount of direct damages.
24 Because direct damages can be difficult to prove and difficult to
25 quantify in infringement actions, Congress has provided for the
26 possibility of statutory damages awards. See Braun, 327 B.R. at
27 450-52. Further, any liability duly imposed as a direct, but-for
28 result of the defendant's nondischargeable conduct constitutes a
nondischargeable debt, regardless of whether the liability
reflects the actual damages incurred by the plaintiff. See
Cohen v. de la Cruz, 523 U.S. 213, 220 118 S.Ct. 1212, 1217

1 (1998)(holding nondischargeable under § 523(a)(2)(A) treble
2 damages based on debtor's fraudulent conduct); Suarez v. Barrett
3 (In re Suarez), 400 B.R. 732, 738-39 (9th Cir. BAP 2009)(applying
4 Cohen holding to affirm bankruptcy court's determination under
5 § 523(a)(6) that attorneys' fees and costs were nondischargeable,
6 even though there was no award of compensatory damages.);
7 Papadakis v. Zelis (In re Zelis), 66 F.3d 205, 208-09 (9th Cir.
8 1995)(holding that sanctions imposed for filing a frivolous
9 appeal were nondischargeable because the filing of the appeal
10 necessarily harmed the respondents, even though they were not
11 awarded any compensatory damages).

12 Accordingly, the trademark infringement litigation
13 conclusively established that Smith injured EMI's property
14 interests.

15 **4. The Bankruptcy Court Did Not Shift The Burden of Proof to**
16 **Smith.**

17 To succeed in an action under § 523(a), the creditor must
18 prove the elements of that claim by a preponderance of the
19 evidence. Grogan v. Garner, 498 U.S. at 291, 111 S.Ct. at 661.
20 Meanwhile, in a trademark infringement action, a claim of
21 intentional trademark infringement must be proven by clear and
22 convincing evidence. Collegenet, Inc. v. XAP Corp., 483 F. Supp.
23 2d 1058, 1065 (D. Or. 2007)(stating that "[a] finding of willful
24 misconduct under the Lanham Act must be supported by clear and
25 convincing evidence."). As explained in Grogan, the clear and
26 convincing standard is a higher standard of proof than the
27 preponderance of the evidence standard, and where the issues were
28 subject to an equal or greater standard of proof in the prior

1 litigation, those issues are eligible for issue preclusion in the
2 subsequent litigation if the other elements for issue preclusion
3 are met. Grogan 498 U.S. at 284-85, 111 S.Ct. at 658.

4 Smith claims that the bankruptcy court shifted the burden of
5 proof from EMI to Smith. The record does not support this claim.
6 The record reflects that the bankruptcy court applied the
7 doctrine of issue preclusion and determined that the findings of
8 fact from the trademark infringement litigation conclusively
9 established the willfulness prong of § 523(a)(6), as well as the
10 first three of the four elements of the maliciousness prong. See
11 Barboza, 545 F.3d at 706 (“(1) a wrongful act, (2) done
12 intentionally, (3) which necessarily causes injury, and (4) is
13 done without just cause or excuse.”).

14 We already have addressed the propriety of the bankruptcy
15 court’s application of issue preclusion to the willfulness prong.
16 Smith does not argue in his opening brief in any meaningful way
17 that the bankruptcy court erred in applying issue preclusion to
18 the first three elements of the maliciousness prong. Nor have we
19 independently found any error in this application. The district
20 court specifically found a wrongful act (infringement) and
21 specifically found that Smith did this wrongful act intentionally
22 (intentional infringement). In addition, based on the case law
23 and reasoning set forth in section two above, we conclude, as a
24 matter of law, that intentional trademark infringement
25 necessarily causes injury (categorically harmful activity).
26 Thus, we perceive no error in the bankruptcy court’s application
27 of issue preclusion to the first three elements of the
28 maliciousness prong.

1 Similarly, the bankruptcy court did not shift the burden of
2 proof regarding the just cause or excuse element. The record
3 demonstrates that the bankruptcy court held trial on this
4 element, and took into consideration both the findings in the
5 Civil Rule 56(d) Order and the evidence offered by both parties
6 at trial, before it rendered its finding on the just cause or
7 excuse issue. Smith here confuses EMI's burden of persuasion -
8 which the bankruptcy court always placed on EMI - with Smith's
9 need to come forward with evidence after EMI's initial proffer
10 satisfied the prima facie standard for finding liability. Here
11 EMI introduced sufficient evidence to prove its case, and the
12 bankruptcy court determined that Smith's evidence did not change
13 that result.

14 In sum, the bankruptcy court did not preclude litigation of
15 this issue, nor did it improperly shift the burden of proof to
16 Smith; rather, the bankruptcy court drew reasonable inferences
17 from the adopted findings and the evidence presented at trial to
18 make its factual determination that Smith acted without just
19 cause or excuse. We see no error in the bankruptcy court's
20 process, nor in the result it reached.

21 **5. Section 523(a)(6) Can Be Applied To Liability Arising From**
22 **Willful Trademark Infringement.**

23 Smith argues that, based on his plain-language reading of
24 § 523(a)(6), liability arising from intentional trademark
25 infringement is beyond the scope of the statute. Under Smith's
26 construction, liability arising from any intentionally tortious
27 conduct is not covered by the express terms of the statute.
28

1 Smith cites to no authority interpreting § 523(a)(6) in this
2 narrow manner, nor are we aware of any.

3 The United States Supreme Court has stated that
4 "§ 523(a)(6)'s formulation triggers in the lawyer's mind the
5 category 'intentional torts,'" Geiger, 523 U.S. at 61-62,
6 118 S.Ct. at 977, and the Ninth Circuit has held that actions
7 under § 523(a)(6) generally arise from conduct sounding in tort
8 rather than contract. Petralia v. Jercich (In re Jercich),
9 238 F.3d 1202, 1206-07 (9th Cir. 2001). It also is settled law
10 that actions for trademark infringement sound in tort. Polar
11 Bear Productions, Inc. v. Timex Corp., 384 F.3d 700, 720
12 (9th Cir. 2004).

13 In short, Smith's claim regarding the scope of § 523(a)(6)
14 is wholly without merit. Liabilities arising from intentional
15 trademark infringement are within the scope of debts covered
16 under § 523(a)(6).

17 **6. The Bankruptcy Court's Finding That Smith Acted Without Just
18 Cause Or Excuse Is Not Clearly Erroneous.**

19 Smith challenges the bankruptcy court's finding that Smith
20 acted without just cause or excuse. Specifically, Smith asserts
21 that this finding is in part based on the bankruptcy court's
22 allegedly inaccurate finding that "Smith never sought, or
23 received, any legal advice regarding the propriety of adopting
24 his infringing names." Findings of Fact and Conclusions of Law
25 (March 13, 2009) at 3:26-3:27. Smith relies on the testimony of
26 Ilene Goldstein Block and Jeffrey S. Kravitz to support his
27 point. We have reviewed Ms. Goldstein's direct testimony, and it
28 does not support Smith's point. In fact, it supports the court's

1 finding. Ms. Goldstein specifically stated in her revised direct
2 testimony: "While Mr. Smith told me that he was going to change
3 the name of his business to EntrepreneurPR and the name of his
4 publication to Entrepreneur Illustrated, Mr. Smith did not seek
5 my legal opinion regarding those name changes. Furthermore, I
6 did not give Mr. Smith any legal advice regarding those name
7 changes." Revised Direct Testimony of Ilene Goldstein Block
8 (June 26, 2008) at 3:6-3:10.

9 Similarly, Mr. Kravitz's testimony does not support Smith's
10 point. According to Mr. Kravitz, his representation of Smith did
11 not begin until 2000, well after Smith's 1997 adoption of the
12 business name EntrepreneurPR and the magazine name Entrepreneur
13 Illustrated. Direct Testimony of Jeffrey Kravitz (June 26, 2008)
14 at 1:26-2:12. In short, Smith points us to no evidence in the
15 record inconsistent with the bankruptcy court's finding that he
16 did not seek or obtain any legal advice regarding the name
17 changes in question before adopting the new names.

18 More broadly, Smith appears to assert that the bankruptcy
19 court should have drawn the inference from the evidence he
20 presented that he acted with just cause and excuse. Assuming
21 without deciding that the bankruptcy court reasonably could have
22 drawn this inference, the bankruptcy court as the trier of fact
23 instead drew the inference from the totality of the evidence in
24 the record that Smith acted without just cause or excuse. "If two
25 views of the evidence are possible, the trial judge's choice
26 between them cannot be clearly erroneous." Hansen v. Moore
27 (In re Hansen), 368 B.R. 868, 874-75 (9th Cir. BAP 2007)(citing
28 Anderson v. Bessemer City, 470 U.S. 564, 573-575, 105 S.Ct. 1504,

1 1511 (1985)). On the entire record, we cannot say that the
2 bankruptcy court's choice of inferences was implausible. Thus,
3 we conclude that the bankruptcy court did not err in finding that
4 Smith acted without just cause or excuse.

5 **7. Smith Lacks Standing To Challenge The Bankruptcy Court's**
6 **Denial Of Sanctions Against EMI Under Rule 9011.**

7 Having addressed all of the issues raised by Smith
8 concerning the bankruptcy court's nondischargeability judgment,
9 we turn our attention to Smith's separate challenge of the
10 bankruptcy court's decision to not sanction EMI in furtherance of
11 an Order to Show Cause issued on August 14, 2006. The bankruptcy
12 court discharged the show cause order without imposing any
13 sanctions against EMI. According to Smith, the bankruptcy court
14 abused its discretion by not imposing sanctions pursuant to
15 Rule 9011.

16 Prior to considering the merits of Smith's challenge, we
17 must consider whether Smith has standing to appeal. Only a
18 "person aggrieved" has standing to appeal. In re Fondiller,
19 707 F.2d 441, 442-43 (9th Cir.1983). "Whether an appellant is a
20 'person aggrieved' for purposes of appealing an order of the
21 bankruptcy court is a factual finding." Paine v. Dickey
22 (In re Paine), 250 B.R. 99, 104 (9th Cir. BAP 2000). (citing
23 Duckor Spradling & Metzger v. Baum Trust (In re P.R.T.C., Inc.),
24 177 F.3d 774, 777 (9th Cir. 1999)). See also Int'l Ass'n of
25 Firefighters v. City of Vallejo (In re Vallejo), 408 B.R. 280,
26 299 (9th Cir. BAP 2009) ("The oft-cited rationale for this
27 restrictive approach to bankruptcy appellate standing is the
28 concern that if appellate standing is not limited, bankruptcy

1 litigation will become mired in endless appeals brought by the
2 myriad parties who are indirectly affected by every bankruptcy
3 court order.").

4 "Only persons who are directly and adversely affected
5 pecuniarily by an order have standing to appeal the order. A
6 person is 'directly and adversely affected pecuniarily' if the
7 order would 'diminish the debtor's property, increase his
8 burdens, or detrimentally affect his rights.'" Paine, 250 B.R.
9 at 104 (quoting Fondiller, 707 F.2d at 442-43). Each party must
10 establish its standing on appeal. Vallejo, 408 B.R. at 288-99.
11 When appellant does not factually establish that it is a person
12 aggrieved, dismissal of the appeal for lack of standing is
13 appropriate. See e.g. In re Cosmopolitan Aviation Corp.,
14 763 F.2d 507, 513-14 (2nd Cir. 1985), partially overruled on
15 other grounds, Pioneer Investment Services Co. v. Brunswick
16 Associates Limited Partnership, 507 U.S. 380, 113 S.Ct. 1489
17 (1993).

18 In assessing Smith's standing, we start with the complete
19 text of the Order to Show Cause, which was issued sua sponte by
20 Judge Dorian:

21 ORDER TO SHOW CAUSE

22 TO PLAINTIFF ENTREPRENEUR MEDIA, INC., ITS
23 ATTORNEYS OF RECORD AND OTHER PARTIES IN
INTEREST:

24 It appearing that plaintiff alleged claims in
25 its complaint herein pursuant to 11 U.S.C.
26 § 727 (a) seeking a denial of defendant's
27 discharge, and it further appearing that the
pre-trial statement submitted by plaintiff
28 fails to state that any evidence will be
offered in support of such claims, and it
further appearing that defendant's discharge
has been withheld for more than five years

1 because of plaintiffs claims under § 727,
2 thereby impairing defendant's fresh start,

3 YOU ARE HEREBY ORDERED TO APPEAR AND SHOW
4 CAUSE on September 13, 2006, at 11:00 a.m.,
5 in Courtroom 28, Seventh Floor, United States
6 Courthouse, 501 "I" Street, Sacramento,
7 California, and show cause why the claims
8 stated in the complaint herein pursuant to
9 § 727(a) should not be dismissed and why
10 sanctions in the amount of \$10,000,000.00
11 should not be ordered against plaintiff and
12 its attorneys pursuant to 11 U.S.C. § 105(a)
13 and Federal Rule of Bankruptcy Procedure
14 9011.

15 IT IS FURTHER ORDERED that opposition to the
16 court's proposed action shall be in writing
17 and filed no later than September 6, 2006.

18 Order to Show Cause (August 14, 2006).

19 After the issuance of the show cause order, both parties
20 amended their pretrial statements, trial was held before
21 Judge McManus, and a judgment was entered in favor of Smith on
22 the § 727(a) claims. On February 1, 2007, the bankruptcy court
23 held a hearing on the show cause order. At the hearing,
24 Judge McManus interpreted the court's order as being essentially
25 to encourage EMI and its attorneys to comply with their duty to
26 prosecute the § 727(a) claims. Hearing Transcript (Feb. 1, 2007)
27 at 158-62. The court further noted that EMI had complied with
28 the show cause order by amending its pretrial statement, that a
four-day trial had been held on the § 727(a) claims, and that
there was no evidence whatsoever of prejudice or harm to Smith
resulting from EMI's initial failure to address the § 727(a)
claims in its pretrial statement. Id. at 163-64. Based on this

1 reasoning, the court discharged the Order to Show Cause without
2 imposing any sanctions. Id. at 167-69.⁴

3 Tellingly, the Order to Show Cause did not state that the
4 court was considering awarding sanctions payable to Smith. At
5 the February, 1, 2007 hearing, the court confirmed that the order
6 did not contemplate any award payable to Smith: "You know, this -
7 - we're talking about money that would go to the Treasury, not to
8 the parties." Id. at 169. Moreover, the Order to Show Cause did
9 not provide or allow for any role for Smith or his counsel in the
10 show cause proceedings. Smith confirmed this at the
11 February 1, 2007 hearing: "Yes, but may I just indicate to the
12 Court that [Judge Dorian] not only didn't entertain response from
13 us for the OSC, he precluded any response."

14 Perhaps most fatally, under Rule 9011, on which Smith
15 relies, monetary sanctions may not be awarded to a party when the
16 bankruptcy court initiates the Rule 9011 proceedings; such
17 sanctions only may be so awarded when the party brings its own
18 motion under Rule 9011. See Rule 9011(c)(2); In re Deville,
19 280 B.R. 483, 494 (9th Cir. BAP 2002), aff'd, 361 F.3d 539
20 (9th Cir. 2004). Notably, if Smith had desired to seek a
21 compensatory award of sanctions under Rule 9011 based on EMI's
22 filing of the § 727(a) claims, he could have filed his own motion
23 to that effect, but the record reflects that he did not do so.

26 ⁴On October 30, 2009, Smith filed in the BAP Clerk's Office
27 a motion for sanctions against EMI and others. By separate order
28 to be issued concurrently with the issuance of this Memorandum
Decision, we are denying Smith's sanctions motion.

1 Under these circumstances, Smith has not established that he
2 has any standing on appeal to challenge the bankruptcy court's
3 denial of sanctions under Rule 9011. Accordingly, we must
4 DISMISS Smith's appeal of the bankruptcy court's February 1, 2007
5 order discharging the Order to Show Cause.⁵

6 CONCLUSION

7 For all of the reasons set forth above, we AFFIRM the
8 bankruptcy court's judgment determining that Smith's debt arising
9 from his intentional trademark infringement is nondischargeable.
10 In addition, we DISMISS for lack of standing Smith's appeal of
11 the bankruptcy court's February 1, 2007 minute order.

12
13
14
15
16
17 ⁵While the Order to Show Cause also referenced 11 U.S.C.
18 § 105(a), apparently referring to the court's inherent authority
19 to sanction parties, the Order provided no indication whether EMI
20 was being charged with bad faith conduct, or any particularized
21 statement setting forth any alleged bad faith conduct. Under
22 these circumstances, the Order was insufficient to serve as basis
23 for inherent authority sanctions, and it would have been an abuse
24 of discretion if the bankruptcy court had granted inherent
25 authority sanctions based on this order. See generally (Price v.
26 Lehtinen) In re Lehtinen, 564 F.3d 1052, 1060-61 (9th Cir.
2009)(acknowledging requirement of particularized notice of
alleged bad faith conduct), cert. denied, 78 U.S.L.W. 3065,
78 U.S.L.W. 3310, 78 U.S.L.W. 3319 (U.S. Nov 30, 2009)
(No. 09-113). In any event, Smith did not challenge the denial
of sanctions under 11 U.S.C. § 105(a), so he has waived that
argument.

27 Finally, were we to reach the merits, our review of the
28 record reveals no abuse of discretion in the bankruptcy court's
discharge of the order following the conclusion of the trial
regarding the denial of Smith's discharge under § 727.