

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

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CIVIL MINUTES - GENERAL

Case No. SACV 05-905 JVS (ANx) Date July 17, 2006

Title Vertical Doors, Inc. v. J T Bonn, et al.

DOCKETED ON CVM
JUL 20 2006
BY [Signature]

Present: The Honorable James V. Selna

Karla J. Tunis

Not Present

Deputy Clerk

Court Reporter

Attorneys Present for Plaintiffs:

Attorneys Present for Defendants:

Not Present

Not Present

Proceedings: (IN CHAMBERS)

Order Granting in Part and Denying in Part
Vertical Doors, Inc.'s Motion for Sanctions
Against Bill Yip, Tony Yip and JT Bonn, Inc.
For Falsifying Documents, Perjury and
Perpetuating a Fraud on the Court
(Fld 6-16-06)

This action was brought by Plaintiff Vertical Doors, Inc. ("Vertical Doors") seeking to enforce patent rights against JT Bonn, Inc. ("JT Bonn"), Tony Yip, Bill Yip, and John Yip (collectively "Defendants"). In the course of the discovery process, Defendants produced to Vertical Doors four documents, which Vertical Doors now claims are fraudulent. On this basis, Vertical Doors moves the Court to use its inherent authority to impose monetary and evidence sanctions on Defendants. For the following reasons, the motion is granted in part and denied in part.

I. BACKGROUND

Vertical Doors contends that the following four documents were falsified and that Defendants misrepresented to the Court that the documents were authentic.

1. Document Number JT000093, Exhibit 15 to the Deposition of JT Bonn: Sale Order Contract fax for car parts from International Business Concept Co., LTD in Thailand to J-T Auto Body Paint, dated February 1, 1997, containing the phone number 626-571-2636 and the fax number 626-571-2635.

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2. Document Number JT000117-118, Exhibit 8 to the Deposition of JT Bonn: Fax

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to Bill Yip, JT-Auto Style from International Business Concepts Co., LTD dated October 11, 1996 containing the phone number and fax number listed above, along with the fax from Bill Yip dated January 1, 1996, to which the October fax responds. The original of these two documents is allegedly rolled fax paper.

3. Document Number JT000144, Exhibit 9 to the Deposition of JT Bonn: Sales receipt for the installation of a JT Lambo, signed by Sally Luu, December 13, 1993, containing the fax and phone numbers listed above, as well as Ms. Luu's number as 626-287-8628.

4. Document Number JT000145, Exhibit 10 to the Deposition of JT Bonn: Sales receipt for the installation of a JT Evo door, signed by Marck Fernandez, dated May 30, 1994, and listing the same fax and phone number as above.

II. LEGAL STANDARD

The Supreme Court has recognized that a court has the inherent power to assess fees and sanctions against parties. Chambers v. Nasco, Inc., 501 U.S. 32, 43 (1991). In the Ninth Circuit, conduct that is "tantamount to bad faith" is sanctionable. B.K.B. v. Maui Police Department, 276 F.3d 1091, 1107 (9th Cir. 2002) (quoting Roadway Express, Inc. v. Piper, 447 U.S. 752, 757 (1980)). Bad faith does not require that the legal and factual basis of the action prove frivolous, but rather where a litigant is motivated by "vindictiveness, obduracy, mala fides," sanctions may be appropriate. Fink v. Gomez, 239 F.3d 989, 992 (9th Cir. 2001). Furthermore, sanctions are available for several kinds of willful behavior, including frivolousness, harassment, or improper purpose. Id. at 994. Recklessness combined with an improper purpose is also sanctionable. Id.

III. DISCUSSION

A. Judicial Notice

Vertical Doors requests this Court take judicial notice of four facts: (1) the 626 area code did not exist in 1993; (2) the 626 area code did not exist in 1994; (3) the 626 area code did not exist before November 27, 1996; and (4) the 626 area code did not exist for public use until June 14, 1997. To prove up the accuracy of these four facts,

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

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Vertical Doors present the following: (1) a copy of a California Public Utilities Commission ("CPUC") Order dated November 27, 1996 ordering the California Code Administrator to undertake the implementation of the 626 area code (Cohen Decl., ¶ 8, Exh. 3); (2) a PacBell press release dated June 12, 1997 stating that an eight month "get acquainted" dialing period will begin in Jun14 1997 when the 626 area code is introduced (*id.*, ¶ 9, Exh. 4); (3) an AT&T press release from February 17, 1998 stating that the 626 area code was created in June 1997 (*id.*, ¶ 10, Exh. 5); (4) a Bellcore North American Numbering Plan Planning Letter saying the permissive dialing period for the 626 area code will begin at 2:00AM on June 14, 1997 (*id.*, ¶ 11, Exh. 6); and (5) a CPUC Report on the 626 Area Code saying that it was created in 1997 (*id.*, ¶ 12, Exh. 7.)

Defendants too seek judicial notice of two facts: (1) that the introduction of the 626 area code was publicly announced as early as 1995 and (2) that in January 1997, all international and domestic carriers were requested to confirm that the new 626 Number Plan Area ("NPA") had been activated prior to June 14, 1997. Defendants rely on the exhibits proffered by Vertical Doors to support these facts, namely Exhibit 4 to the Cohen Declaration, an AT&T press release stating that the "new 626 area code is part of a series of new-style area codes introduced in North America beginning in 1995 that can be any three digits from 220 to 999." (Cohen Decl., Exh. 4, p. 82.) Defendants also rely on Exhibit 6 to the Cohen Declaration, the Bellcore Planning Letter dated January 2, 1997 stating that all "international and domestic carriers are asked to ensure that the new 626 NPA has been activated throughout their networks prior to June 14, 1997." (*Id.*, Exh. 6, p. 86.)

Under Federal Rule of Evidence 201(b) ("Rule 201"), "a judicially noticed fact must be one not subject to reasonable dispute in that it is either (1) generally known within the territorial jurisdiction of the trial court or (2) capable of accurate and ready determination by resort to sources whose accuracy cannot reasonably be questioned." A court may take judicial notice of the contents of public records. Lee v. City of Los Angeles, 250 F.3d 668, 688 (9th Cir. 2001). Because the accuracy and authenticity of the supporting documents are not challenged and indeed the documents are properly authenticated, the Court will take judicial notice of the facts listed above, subject to the following limitation: the Court does not interpret the statement that "new 626 area code is part of a series of new-style area codes introduced in North America beginning in 1995 that can be any three digits from 220 to 999" to mean that the 626 area code itself was announced in 1995, but rather the series of new area codes itself was introduced –

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accordingly, the Court does not take judicial notice of Defendants' first fact.

B. Evidence Sanctions

Under 35 U.S.C. § 102(b), if a claimed invention was sold more than a year before the filing date of the patent, the claims to that invention are invalid. As part of their defense to this suit, Defendants contend that they used and sold their product more than one year prior to Vertical Door's patent application. To support this argument, Defendants intend to rely on the four documents described above.

Vertical Doors, however, contends that the four documents were falsified and thus should not be presented as evidence. Vertical Doors bases this allegation on the fact that all four documents contain the 626 area code and yet are dated prior to the public availability of the 626 area code. Vertical Doors contends that because Bill Yip testified under oath that the documents were authentic,¹ because JT Bonn represented to the Court in the Rule 26 Joint Report that it intended to file a motion for summary judgement on the basis of this evidence, and because JT Bonn seeks to rely on the prior sales as explained in JT Bonn's Preliminary Invalidity Contentions, Defendants should be sanctioned.

In response, Defendants assert that the documents are authentic and that sanctions are not appropriate. With respect to the 1996 fax and the 1997 fax, JT Bonn contends that because the 626 area code was announced in 1995, JT Bonn "could be considered to have had notice of the new 626 area code." (Opp'n, pp. 8-9.) Additionally, Defendants contend that because international and domestic carriers were asked to ensure that the new 626 NPA be activated prior to June 14, 1997, the 1997 fax was legitimately transmitted and it is reasonable to infer that the carriers had already activated their networks as early as 1996 in anticipation of the implementation of the new area code. (Id.)

The Court finds these arguments insufficient explanation for the discrepancy. First, the alleged fact that the announcement was made in 1995 does not mean that the

¹The Court notes that in the deposition, when Bill Yipp was confronted with the inconsistencies, his first response was "I did not do it." (JT Dep., 188:3-9.)

UNITED STATES DISTRICT COURT
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CIVIL MINUTES - GENERAL

Case No. SACV 05-905 JVS (ANx) Date July 17, 2006

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new area code was in use or effective at that time. Moreover, although carriers were asked to confirm that the new NPA was activated, the test to confirm activation was to call a specific phone number (626-777-0626), which not effective until May 17, 1997. (Cohen Decl., Exh. 6, p. 86.) Permissive dialing of the 626 area code did not begin until June 14, 1997, and it was "not expected the test number can be reached from outside the 818 NPA until shortly before the beginning of permissive dialing." (*Id.*) Essentially, Defendants are asking this Court to believe that they listed phone numbers on their corporate documents that were not effective at the time the documents were originally created. The Court finds this hard to believe and an insufficient argument to overcome Vertical Door's allegation of falsification.

As described above, the 1993 document, JT000144 is a sales receipt to Ms. Sally Luu for the installation of a JT Lambo door, dated December 13, 1993. This document contains JT Bonn's 626 phone number and fax, as well as Ms. Luu's 626 number. Although in JT Bonn's 30(b)(6) deposition, JT Bonn authenticated the document testified as to the authenticity and accuracy of the document and its dates, no explanation was provided during the deposition as to the discrepancy in dates. Rather, Defendants present the deposition of Ms. Luu, in which she explained that she requested this receipt in 1997 after JT Bonn had moved locations and changed its name from CB. (Luu Dep., 58: 15-18, attached to Karczewski Decl., Exh. A.) According to Luu, she dated it in 1993 "for the guarantee, the warranty reason." (*Id.*, 59:5-10.) In her deposition, however, she could not recall when she had gotten the original receipt and could not recall when in 1997 she got the new copy - all she could remember was that it was hot.² (*Id.*, 59:11-20.) Vertical Doors, however, points out that Ms. Luu's testimony is biased because Defendant Tony Yip, who was present at her deposition, is the father of Ms. Luu's children.

For the purposes of this motion only, the Court finds that Ms. Luu has sufficiently authenticated document JT000144 as a 1997 document and it is not as a falsified 1993 document. In other words, to the extent that Ms. Luu is saying that this is a document she received in 1997, the document is authenticated. However, whether the relevance of this document to what happened in 1993 is questionable because it does not indicate that

²Defendants set forth the deposition transcript of Ms. Luu's father testifying similarly with respect to his own car.

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No. SACV 05-905 JVS (ANx) Date July 17, 2006

Title Vertical Doors, Inc. v. J T Bonn, et al.

the hinge was sold in 1993, simply because we now know that the document was created in 1997, despite its 1993 date. Moreover the weight of the information provided in the document, as well as Ms. Luu's testimony and alleged bias can and should be tested on cross examination.

Nonetheless, the question is whether this document presented to the Court was falsified by Defendants and at this point the Court cannot say that it was. For the purposes of this motion only, it is merely a 1997 document with a 1993 date.

Similarly, Defendants contend that the 1994 document, document number JT000145, was created under similar circumstances described by Ms. Luu. Defendants put forth the declaration of Marck Fernandez stating that he purchased the hinge in 1994 and returned in 1997 when he discovered he had lost his original sales receipt in order to ensure that JT Bonn would honor its lifetime warranty. (Fernandez Decl., ¶¶ 2-3.) The declaration further states that Mr. Fernandez backdated the receipt to the date he originally purchased the hinge. (*Id.*, ¶ 5.) As above, the Court finds this declaration sufficient to overcome the allegation that the document was falsified. Similarly, as above, for the purposes of this motion alone, the Court considers this declaration sufficient to authenticate that the document is a 1997 document that contains a 1994 date. The weight of the information contained in the document, along with Mr. Fernandez's own testimony, are both subject to test under cross examination.

Defendants offer no similar explanation for the other two documents. For the foregoing reasons, the Court grants the motion to sanction and exclude from the evidence document numbers JT000093 and JT000117-18. The remaining documents, however, are not proven to be falsified and therefore the motion is denied with respect to these documents.

Vertical Doors also request this Court to sanction Defendants by not allowing them to present any evidence of prior art. Though the Court considers Defendants' conduct reprehensible, the Court finds this sanction too extreme and, in its discretion, declines the request.

C. Monetary Sanctions

Vertical Doors also seeks monetary fees in the amount of \$91,269.95 as attorneys

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No. SACV 05-905 JVS (ANx)

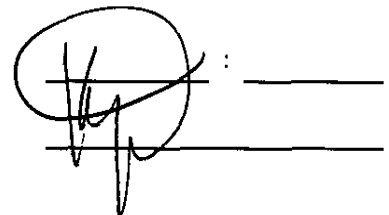
Date July 17, 2006

Title Vertical Doors, Inc. v. J T Bonn, et al.

fees and costs required to expose the fraudulent conduct. According to Vertical Doors, this includes \$4,944.55 in costs for a court-reporter, videographer, and translator, as well as other disbursements; \$11,690.00 in legal fees for preparing the instant motion; \$20,597.50 in legal fees for the taking of the deposition; \$40,162.50 for investigation of the prior art allegations of JT Bonn; and \$13,875.50 in other services. Vertical Doors also submitted a supplemental declaration seeking an additional \$6,641.25 for fees expended relating to the review of the opposition and the preparation and filing of the reply.

The Court agrees with Vertical Doors that monetary sanctions are warranted here. The Court finds that a sanction in the amount of \$51,183.48³ is reasonable and awards this amount under its inherent authority.

Initials of Preparer



³This amount equals the full request for filing the motion, reviewing the opposition, and filing the reply plus one-half of the request for costs relating to the deposition, legal fees for preparing and attending the deposition, and legal fees in investigating the prior art allegations.