

United States District Court
For the Northern District of California

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E-FILED on 11/23/2011

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA
SAN JOSE DIVISION

BEIJING TONG REN TANG (USA), CORP.,
a California corporation,

Plaintiff,

v.

TRT USA CORPORATION, a California
corporation, GUANGMING SUN aka
GEORGE SUN, an individual, MEI XU, an
individual, PENGTAO ZHANG aka JOHN
ZHANG, an individual,

Defendants.

TRT USA CORPORATION, a California
corporation, GUANGMING SUN, an
individual, MEI XU, an individual, PENGTAO
ZHANG, an individual,

Counter-Claimants,

v.

BEIJING TONG REN TANG (USA), CORP.,
a California corporation, CHUANLI ZHOU, an
individual,

Counter-Defendants.

No. C-09-00882 RMW

ORDER ON RENEWED MOTION FOR
JUDGMENT AS A MATTER OF LAW AND
FOR NEW TRIAL

[Re Docket Nos. 259 and 291]

1 Plaintiff Beijing Tong Ren Tang USA Corp. ("BTRTUSA") moves pursuant to Rule 50(b) of
2 the Federal Rules of Civil Procedure for judgment as a matter of law in its favor on its claims that
3 defendants TRT USA Corp. ("TRT"), Guangming Sun, Mei Xu, and Pengtao Zhang (collectively
4 "TRT people") engaged in unauthorized sales and the false designation of origin of Tong Ren Tang
5 products. Alternatively, plaintiff BTRTUSA seeks a new trial on its Lanham Act claims against
6 TRT and the TRT people.

7 Counter-defendants BTRTUSA and Chuanli Zhou move for judgment as a matter of law in
8 their favor on claims brought against them by counter-claimants TRT and Guangming Sun. They do
9 not, in the alternative, seek a new trial on the counter-claims brought against them. All requests by
10 BTRTUSA for a new trial are limited to its Lanham Act claims against TRT and the TRT people.

11 The parties submitted briefs, and a hearing was held on July 15, 2011. The court now denies
12 BTRTUSA's motion for judgment as a matter of law and the alternative motion for a new trial on the
13 Lanham Act claims and grants in part and denies in part BTRTUSA's motion for judgment as a
14 matter of law on TRT and Sun's counter-claims.

15 **I**

16 In 2005, BTRTUSA entered into a written agreement with Advantage United Corp., the
17 predecessor of defendant and counter-claimant TRT, to cooperate in selling traditional Chinese
18 medicine in the United States. On September 28, 2006, the parties entered into a new written
19 agreement, superseding the 2005 Agreement. Under the terms of the 2006 Agreement, TRT was to
20 be "the general exclusive agent to distribute the main Tong Ren Tang products that are brought into
21 the U.S. market at various TCM [traditional Chinese medicine] clinics, websites, and dedicated sales
22 counters for Tong Ren Tang products at drugstores and supermarkets within the U.S." 2006
23 Agreement § IV.

24 The parties' business relationship soured, resulting in two lawsuits. On December 10, 2008,
25 TRT filed a complaint in state court against BTRTUSA. On February 27, 2009, BTRTUSA filed the
26 instant action in federal court against TRT and three of its officers and directors, Sun, Xu and
27 Zhang, alleging, among other things, violations of the Lanham Act (unfair competition, false
28 designation of origin, false advertising). TRT and the TRT people filed a Second Amended

1 Counter-Claim against BTRTUSA and Zhou, alleging fraud, breach of fiduciary duty,
2 misappropriation of trade secrets, defamation, trade libel, and intentional infliction of emotional
3 distress. A jury trial was held on BTRTUSA's unfair competition claim and the counter-claims of
4 TRT and the TRT people. On September 2, 2010, the jury found against BTRTUSA on its unfair
5 competition claim. It also found in favor of TRT and against BTRTUSA and Zhou on TRT's fraud
6 claim and awarded \$1,322,500 in compensatory damages; in favor of TRT and against Zhou on
7 TRT's breach of fiduciary duty claim and awarded \$741,450 in compensatory damages; in favor of
8 TRT and against BTRTUSA and Zhou on TRT's misappropriation of trade secret claim and awarded
9 \$188,837 in compensatory damages (the \$188,837 against Zhou was included in the breach of
10 fiduciary duty award against Zhou); in favor of TRT and Sun against Zhou and BTRTUSA on TRT's
11 and Sun's defamation claims and awarded \$12,777 to each counter-claimant. In addition, the jury
12 assessed punitive damages in favor of TRT against Zhou in the amount of \$21,000 and against
13 BTRTUSA in the amount of \$750,000, and in favor of Sun against Zhou in the amount of \$9,000
14 and against BTRTUSA in the amount of \$23,000. Counter-claimants were unsuccessful on their
15 other claims.

16 II

17 BTRTUSA and Zhou seek judgment as a matter of law on the issues decided against
18 them on the basis that the jury lacked a legally sufficient evidentiary basis for its decision on each of
19 those issues. Each of the contentions of BTRTUSA and Zhou will be addressed but in a different
20 order than followed by BTRTUSA and Zhou in their moving papers.

21 A. Failure of Unfair Competition Claim

22 The jury found that BTRTUSA failed to prove one or more of the elements of its unfair
23 competition claim. Although the evidence was persuasive that after the 2006 Agreement had
24 expired by its terms (the evidence suggests it was repudiated earlier) TRT engaged in unauthorized
25 sales of Tong Ren Tang products, there are nevertheless bases on which the jury could have
26 reasonably concluded that BTRTUSA failed to prove its claim. For example, the jury may have
27 found that BTRTUSA did not prove that *it had been or was likely to be injured* as a result of any
28 false designation of origin or false advertisement.

1 On September 23, 2010, BTRUSA made a motion for an injunction precluding defendants
2 from, among other things, selling products with a traditional ingredient removed as Tong Ren Tang
3 trademarked products and requiring that defendants destroy such products in its inventory.
4 BTRTUSA argued that such an injunction was not inconsistent with the jury verdict, was necessary
5 to prevent irreparable harm to BTRTUSA, and was in the public interest. The motion was resolved
6 by an agreement that defendants TRT and the TRT people would not to sell or distribute Tong Ren
7 Tang products that had an ingredient removed. An order granting an injunction to that effect was
8 issued on October 29, 2010.

9 **B. Alleged Failure to Prove Fraud and Fraud Damages**

10 TRT claimed that Zhou made the following fraudulent representations: (a) TRT would have
11 an exclusive general distributorship for distributing all major Tong Ren Tang products in the United
12 States; (b) Zhou would ensure compliance with all relevant United States laws and regulations; and
13 (c) BTRTUSA would enforce Tong Ren Tang trademarks.

14 **1. Exclusive General Distributorship**

15 TRT successfully asserted before the jury that Zhou and BTRTUSA fraudulently represented
16 that TRT was to be the exclusive general distributorship for all major Tong Ren Tang products in the
17 United States. BTRTUSA asserts that the jury's finding of fraud is inconsistent with the summary
18 adjudication order entered by the court on June 2, 2010. However, that order left open the issue of
19 whether BTRTUSA entered into sales contracts with others besides TRT and continued to sell Tong
20 Ren Tang products for which TRT had been promised an exclusive distributorship. There was
21 sufficient evidence to allow a reasonable juror to conclude that Zhou made the promise of
22 exclusivity with no intent to abide by it and that TRT was hurt thereby. *See, e.g.*, Tr. 584:11-588:18,
23 589:25-590:19,595:7-25 and 863:4-866:7.

24 **2. Zhou's Promise to Ensure Regulatory Compliance**

25 TRT introduced sufficient evidence to support its fraud claim against Zhou based on his
26 alleged false promise to ensure regulatory compliance. The evidence supported a finding that Zhou
27 agreed to take responsibility for FDA compliance and customs clearance in his capacity as a director
28 or fiduciary of TRT USA. This evidence was not barred by the parol evidence rule because it did

1 not contradict the provision in the 2006 Agreement that TRT had responsibility for "customs
2 clearance for products at the US customs and FDA and other governmental departments." Ex. 2.
3 Zhou promised as a fiduciary of TRT USA, not as a representative of BTRTUSA, to take
4 responsibility for regulatory compliance and TRT justifiably relied on that promise. *See* Dkt. No.
5 147 Ex. A at 150.

6 **3. Enforcement of Tong Ren Tang Trademarks**

7 TRT's contention that BTRTUSA would enforce Tong Ren Tang trademarks is not supported
8 by the evidence offered. Evidence that was presented showed that TRT wanted to ensure that
9 BTRTUSA had authority from its parent in Beijing to enforce the trademarks (*see e.g.* Tr. 1581:13-
10 1584:14) but there is no evidence that Zhou or BTRTUSA promised to go after or sue any particular
11 suspected counterfeiters. Neither the 2006 Agreement (Ex. 2) nor other written documents
12 reflecting divisions of labor showed that Zhou promised to enforce the Tong Ren Tang trademarks
13 (*see e.g.* Ex. 169).

14 **4. Loss of Profits Damages Are Speculative**

15 The jury found that TRT was entitled to recover \$1,322,500 in compensatory damages on its
16 fraud claim. This damage award was apparently based on projected profits according to TRT's
17 business plan. BTRTUSA argues that because the business plan was for a new venture in an area
18 where TRT had no track record, lost profits damages are too speculative and cannot be awarded.

19 It has been frequently stated that if a business is new, it is improper to award damage
20 for loss of profits because absence of income and expense experience renders
21 anticipated profits too speculative to meet the legal standard of reasonable certainty
22 necessary to support an award of such damage. However, the rule is not a hard and
23 fast one and loss of prospective profits may nevertheless be recovered if the evidence
24 shows with reasonable certainty both their occurrence and the extent thereof.

25 *Gerwin v. Southeastern Cal. Ass'n. of Seventh Day Adventists*, 14 Cal. App. 3d 209, 221 (1971).

26 Thus, while damages generally are not awarded for anticipated profits of a new business, this
27 presumption may be overcome when there is concrete evidence allowing one to establish the amount
28 of damages with reasonable certainty.

In this case, TRT has failed to provide sufficient evidence to establish lost profits with
reasonable certainty. In fact, evidentiary support for a lost profits claim was totally lacking. The
projection of lost profits was made on the basis of a speculative, grandiose business plan which made

1 assumptions that were totally unrealistic and unreasonably optimistic. The assumptions, among
2 others, were that Tong Ren Tang products could be sold lawfully in the United States with labels and
3 ingredients as in China, that the business could be run without any experienced employees and at the
4 same time as another business (driving school), that sales would increase at an astronomical rate, that
5 the business could be run without committed financing and without a detailed operational plan, that
6 the business would attract major investors, that sales in the United States would be made as
7 successfully as sales in China and that the business would not be impacted by competition from
8 legitimate and illegitimate competitors. While in some circumstances, projected profits in a business
9 plan may provide enough certainty regarding damages to overcome the absence of a proven track
10 record, in this case, the profits projected by TRT's business plan are too speculative to meet the legal
11 standard of reasonable certainty necessary to support an award of damages for lost profits.

12 Victor Republicano, counter-claimants' damages expert,¹ did testify to an alternative way of
13 computing fraud damages which he termed the "unjust enrichment" or "monies that TRT paid but
14 would not have paid but for the wrongdoing by the other party." Tr. 1813:4-6. These "unjust
15 enrichment" damages compensated for money paid by TRT for product that was not delivered,
16 payments for product received but not able to be used, payments for product held by governmental
17 authorities at the border, a consulting fee paid to Zhou, a deposit on a product order that was
18 cancelled and a label design fee paid to Zhou. The "unjust enrichment" damages totaled \$141,168.
19 The evidence was sufficient to support the conclusion that these damages were caused by Zhou's
20 fraudulent representations and, therefore, since the evidence is sufficient to support that amount, the
21 damages for fraud are \$141,168.

22 **C. Damages for TRT's Breach of Fiduciary Duty Claim**

23 The jury found that TRT was entitled to recover \$741,450 in compensatory damages from
24 Zhou on its breach of fiduciary duty claim.² The jury also specified that the damages for fraud and
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26 ¹ The court excluded much of Mr. Republicano's proffered testimony because it lacked foundation
27 and was not reliable.

28 ² The court's corrected judgment (Dkt. No. 296) listed BTRTUSA as having been found liable on
the breach of fiduciary duty claim. That is incorrect and the judgment filed in accordance with this
order will reflect only Zhou as having been found liable on the breach of a fiduciary duty claim.

1 the damages for breach of fiduciary duty were for entirely separate losses. Dkt. No. 268 at 10. To
2 the extent that the jury awarded damages to TRT based on lost profits resulting from the failure to
3 ensure regulatory compliance and to provide exclusivity, these lost profits damages are speculative
4 for the reasons discussed above. As for damages based on Zhou's diversion of the allegedly
5 confidential plan to distribute Gummy Bear vitamins in China, TRT relies solely upon the testimony
6 of its expert, Mr. Republicano, to support its damage claim.

7 Mr. Republicano's testimony regarding lost profits suffered by TRT with respect to the
8 distribution of Gummy Bear vitamins in China was based entirely on a business plan by IHI, a New
9 York corporation, to sell such vitamins in China. Dkt. No. 256 at 1815:4-1816:9. Because TRT
10 owned 50% of the shares of IHI, Mr. Republicano assumed that TRT would have received 50% of
11 the profits of IHI. *Id.* at 1818:8-11. Because IHI's business plan involved the distribution of 50
12 products, only one of which was Gummy Bear vitamins, Mr. Republicano assumed that profits from
13 the sale of Gummy Bear vitamins would constitute 1/50th of overall profits. *Id.* at 1818:4-7. IHI's
14 business plan projected total profits of \$1,306,000 million in year one, \$11,685,000 million in year
15 two, and \$22,429,000 million in year three. *Id.* at 1821:16-24. Based on these projected profits, Mr.
16 Republicano calculated TRT's lost profits from Zhou's diversion of the plan to sell Gummy Bear
17 vitamins in China to be \$359,940. *Id.* at 1824:15-18.

18 However, IHI, like TRT, was an unestablished business and lacked a track record. In fact, it
19 never executed its plan to sell Gummy Bear vitamins or any other products in China. *Id.* at 1815:13-
20 16. Mr. Republicano did not explain how the projected profits in the IHI business plan were
21 calculated or why those figures were reliable estimates of anticipated profits. He was not a credible
22 witness. In the absence of any evidence suggesting reliable underlying factual assumptions and a
23 reliable methodology for projecting future profits, the profits projected by IHI's business plan are too
24 speculative to meet the legal standard of reasonable certainty necessary to support an award of
25 damages. It would also appear that if a damage claim were supported, it would belong to IHI, not
26 TRT.

27 **D. TRT's Misappropriation of Trade Secret Claim**
28

1 The jury found that TRT was entitled to recover \$188,837 in compensatory damages on its
2 misappropriation of trade secret claim. In the supplemental verdict form, the jury clarified that the
3 damages it awarded for breach of fiduciary duty included the damages for unjust enrichment it
4 awarded for the trade secret misappropriation. Dkt. No. 268 at 10. TRT sought only unjust
5 enrichment damages on its trade secret misappropriation claim. Nevertheless, TRT argues that even
6 though the damages due to unjust enrichment are already accounted for in the damages awarded for
7 breach of fiduciary duty, it should still receive the additional \$188,837, as it could be an award
8 based on lost profits resulting from the trade secret misappropriation. For the reasons explained
9 above, TRT has failed to offer sufficient evidence to support an award of damages based on lost
10 profits resulting from Zhou's misappropriation of the Gummy Bear Plan.

11 The calculation of damages for the unjust enrichment for the use by BTRTUSA and Zhou of
12 the plan to sell Gummy Bear vitamins in China is not directly challenged by BTRTUSA and Zhou
13 and is supported by some evidence. Therefore, TRT is entitled to recover \$188,837 under its breach
14 of fiduciary duty claim or its misappropriation claim but not under both.

15 **E. TRT's Defamation Claim & Sun's Defamation Claim**

16 The jury found that TRT was entitled to recover \$12,777 in compensatory damages on its
17 defamation claim and that Sun was entitled to recover \$12,777 in compensatory damages on his
18 defamation claim. In the supplemental verdict form, the jury clarified that the damages it awarded
19 TRT for its defamation claim were entirely separate from the damages awarded to Sun for his
20 defamation claim. Dkt. No. 268 at 11. BTRTUSA contends that TRT and Sun failed to offer
21 sufficient evidence to support the damages they were awarded on their defamation claims. However,
22 BTRTUSA overlooks the fact that damages for defamation may be assumed. The court gave the
23 following jury instruction based on instruction 1702 of the Judicial Council of California, Civil Jury
24 Instructions (CACI 2003) to which BTRUSA and Zhou made no objection:

25 Even if the parties have not proved any damages for harm to reputation or shame,
26 mortification or hurt feelings, the law assumes that they have suffered this harm.
27 *Without presenting evidence of damage*, they are entitled to receive compensation for
28 this assumed harm in whatever sum you believe is reasonable.

Dkt. No. 267 at 43 (emphasis added); *see also* Dkt. No. 191 at 19; CACI 1702. Similar jury
instructions regarding presumed damages on defamation claims have been upheld by the California

1 Court of Appeal. *See Sommer v. Gabor*, 40 Cal. App. 4th 1455, 1472-73 (1995). Accordingly,
2 BTRTUSA has no basis for quarreling with the amounts awarded to TRT and Sun because the
3 evidence on damages was insufficient. The court does not find the amounts unreasonable.

4 **F. Punitive Damages**

5 BTRTUSA and Zhou contend that the jury's punitive damage awards are grossly excessive
6 and thus unconstitutional. As stated above, the jury assessed punitive damages in the following
7 amounts: (1) \$21,000 in favor of TRT and against Zhou; (2) \$750,000 in favor of TRT and against
8 BTRTUSA; (3) \$9,000 in favor of Sun and against Zhou; and (4) \$23,000 in favor of Sun and
9 against BTRTUSA.

10 The court can reduce a constitutionally excessive punitive damages award to a
11 constitutionally permissible amount without allowing the option of a new trial. *See Ross v. Kansas*
12 *City Power & Light Co.*, 293 F.3d 1041,1049-50 (8th Cir. 2002). The Supreme Court has instructed
13 courts reviewing punitive damages to consider the following three guideposts: (1) the degree of
14 reprehensibility of the misconduct, (2) the disparity between the actual or potential harm suffered
15 and the punitive damages award, and (3) the difference between the punitive damages awarded by
16 the jury and the civil penalties authorized or imposed in comparable cases. *State Farm Mut. Auto.*
17 *Ins. Co. v. Campbell*, 538 U.S. 408, 418 (2003). Of these three factors, the most important to
18 consider is the degree of reprehensibility of the misconduct. *Id.* at 419. In determining the
19 reprehensibility of the misconduct, courts are to consider whether: "the harm caused was physical as
20 opposed to economic; the tortious conduct evinced an indifference to or a reckless disregard of the
21 health or safety of others; the target of the conduct had financial vulnerability; the conduct involved
22 repeated actions or was an isolated incident; and the harm was the result of intentional malice,
23 trickery, or deceit, or mere accident." *Id.*

24 BTRTUSA and Zhou only address one of the three guideposts set forth by the Supreme
25 Court – the ratio between compensatory and punitive damages. The Supreme Court has observed
26 "in practice, few awards exceeding a single-digit ratio between punitive and compensatory damages,
27 to a significant degree, will satisfy due process." *Id.* at 425. However, even if the only damage
28 claim by TRT on its fraud claim was for lost profits which it did not prove, it would have been

1 entitled to nominal damages. Nominal damages alone can support an award of punitive damages.
2 *See Werschkull v. United Calif. Bank*, 85 Cal. App. 3d 981 (1978) (affirming award of \$1.00 for
3 actual damages and \$550,000 in punitive damages against Bank which had diverted pension funds
4 but there was no way of knowing to what extent beneficiaries were injured).

5 The punitive damages awards of \$21,000 in favor of TRT and \$9,000 in favor of Sun against
6 Zhou are within constitutional limits. His conduct, as found by the jury, was sufficiently
7 reprehensible to justify the award. It involved fraud, breaching a fiduciary duty and defaming a
8 company and its principal officer. The award also falls within the guideline ratio between punitive
9 and compensatory damages mentioned in *State Farm*.

10 The award against BTRTUSA does raise constitutional issues. BTRTUSA's liability is based
11 solely on Zhou's actions taken by him on behalf of BTRTUSA. Although Zhou's title was that of
12 vice-president of BTRTUSA, he appears to have been the only officer or agent responsible for its
13 actions. No evidence of the financial condition or net worth of BTRTUSA was presented.
14 BTRTUSA was a recently formed subsidiary of Beijing Tong Ren Tang, a worldwide distributor of
15 Chinese herbal medicines located in China, but no evidence was presented that the parent controlled
16 Zhou's actions or profited from his actions. It appears that what the jury did was to treat BTRTUSA
17 as one and the same with its parent and assessed punitive damages against BTRTUSA as if it had the
18 wealth of the parent company in China. The court reduces the punitive damages award of \$750,000
19 in favor of TRT against BTRTUSA to \$21,000 and the punitive damages award of \$23,000 in favor
20 of Sun to \$9,000. Awarding punitive damages against BTRTUSA for more than awarded against its
21 officer responsible for the wrongful conduct without showing any net worth or financial condition of
22 the company does not seem justified. However, since they are not one and the same entity, the
23 awards are not joint.

24 III

25 An amended judgment will be entered in accordance with this order.

26
27 DATED: 11/23/2011

28 
RONALD M. WHYTE
United States District Judge