

United States District Court  
For the Northern District of California

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E-FILED on 12/18/09

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.

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TRT USA CORPORATION, a California  
corporation, GUANGMING SUN, an  
individual,  
  
Counter-Claimants,  
  
v.  
  
CHINA BEIJING TONG REN TANG GROUP  
CO. LTD., a Chinese corporation, BEIJING  
TONG REN TANG (USA), CORP., a  
California corporation, CHUANLI ZHOU, an  
individual,  
  
Counter-Defendants.

No. C-09-00882 RMW  
  
ORDER DENYING MOTION TO STAY  
PROCEEDINGS  
  
[Re Docket No. 70]

1 Defendants TRT USA Corporation, George Sun, Mei Xu, and John Zhang (collectively  
2 "TRT USA") move to stay this action in light of a pending state court action and a pending  
3 proceeding before the United States Trademark Trial and Appeal Board. For the reasons set forth  
4 below, the court denies the motion.

5 **I. BACKGROUND**

6 On December 10, 2008, TRT USA filed a complaint in state court against Beijing Tong Ren  
7 Tang (USA) Corporation ("Beijing TRT"). Ex. B to Decl. of J. James Li ("Li Decl."). TRT USA's  
8 pending claims against Beijing TRT in the state court action are: (1) breach of contract, (2) fraud, (3)  
9 breach of fiduciary duty, (4) misappropriation of trade secrets, (5) defamation and trade libel, (6)  
10 unfair competition, and (7) civil conspiracy. Ex. C to Li Decl. On July 10, 2009, Beijing TRT filed  
11 the following counterclaims against TRT USA in the state court action: (1) breach of contract, (2)  
12 conversion, (3) fraud, (4) intentional infliction of emotional distress, (5) false light invasion of  
13 privacy, (6) abuse of process, and (7) civil conspiracy. Ex. D to Li Decl.

14 On February 27, 2009, Beijing TRT filed the instant action in federal court against TRT  
15 USA, alleging: (1) unfair competition, false designation of origin, and false advertising under the  
16 Lanham Act; (2) unfair business practices under Cal. Bus. & Prof. Code. § 17200, *et. seq.*; (3)  
17 deceptive, false, and misleading advertising under Cal. Bus. & Prof. Code § 17500, *et. seq.*; (4)  
18 common law trademark infringement; and (5) common law unfair competition. Compl. pp. 13-18.  
19 On July 10, 2009, TRT USA filed the following counterclaims against Beijing TRT and Chuanli  
20 Zhou ("Zhou")<sup>1</sup>: (1) cancellation of trademarks, (2) declaratory judgment for abandonment of  
21 trademarks, (3) unfair competition, false designation of origin, and false advertising under the  
22 Lanham Act, (4) assault, (5) intentional infliction of emotional distress, and (6) negligent infliction  
23 of emotional distress. Counter-Compl. pp. 21-23.

24 On November 3, 2009, TRT USA filed a petition with the United States Trademark Trial and  
25 Appeal Board ("Trademark Board") to cancel registration of Beijing TRT's "TONG REN TANG"  
26 and "BEIJING TONG REN TANG" trademarks. Ex. E to Li Decl.

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28 <sup>1</sup> Zhou is Beijing TRT's Chief Executive Officer, a major shareholder of TRT, and a member of  
TRT's Board of Directors. Decl. of May Xu ¶¶ 3–4.

1 TRT USA now seeks a stay of this action in light of the pending state court action ("State  
2 Court Action") and pending proceeding before the United States Trademark Trial and Appeal Board  
3 ("Trademark Board Action").

## 4 II. ANALYSIS

### 5 A. Legal Standard

6 "A district court has discretionary power to stay proceedings in its own court." *Lockyer v.*  
7 *Mirant Corp.*, 398 F.3d 1098, 1109 (9th Cir. 2005) (citing *Landis v. North American Co.*, 299 U.S.  
8 248, 254 (1936)). The Ninth Circuit set forth a balancing test for determining when it is appropriate  
9 to stay proceedings. The court must weigh the following competing interests:

10 the possible damage which may result from the granting of a stay, the hardship or inequity  
11 which a party may suffer in being required to go forward, and the orderly course of justice  
12 measured in terms of the simplifying or complicating of issues, proof, and questions of law  
13 which could be expected to result from a stay.

14 *Id.* at 1110.

### 15 B. Possible Damage if Stay is Granted

16 Beijing TRT points to two types of damage that it argues would result if a stay is granted: (1)  
17 irreparable damage to its reputation from TRT USA's continued sales of unlicensed and counterfeit  
18 goods under its TONG REN TANG trademarks and (2) damage to counter-defendant Zhou's  
19 reputation from not being able to clear his name with respect to the counterclaims TRT USA  
20 asserted against him. On December 18, 2009, the court granted in part Beijing TRT's motion for a  
21 preliminary injunction, enjoining TRT USA from selling unlicensed and counterfeit goods under  
22 Beijing TRT's trademarks. In light of this preliminary injunction, the remaining potential harm  
23 includes harm resulting from TRT USA's alleged conduct that was not enjoined and harm from  
24 Zhou's inability's to clear his name with respect to TRT USA's counterclaims against him. The court  
25 thus finds irreparable injury could result from granting a stay.

### 26 C. Hardship or Inequity if Stay is Denied

27 The Supreme Court has held that the party seeking a stay must "make out a clear case of  
28 hardship or inequity in being required to go forward, if there is even a fair possibility that the stay  
for which he prays will work damage to some one else." *Landis*, 299 U.S. at 255. The only  
hardship or inequity that TRT USA alleges would result from denying the stay is that TRT USA

1 would have to continue to litigate this proceeding, which it would find financially burdensome.  
2 However, "being required to defend a suit, without more, does not constitute a 'clear case of  
3 hardship or inequity.'" *Lockyer*, 398 F.3d at 1112. Therefore, the court finds that TRT USA has  
4 failed to establish a "clear case of hardship or inequity." *Landis*, 299 U.S. at 255. TRT USA  
5 focused its oral argument on the contention that judicial economy justified a stay of the instant  
6 federal action. See below.

7 **D. Simplification of Issues Expected to Result**

8 **1. State Court Action**

9 The instant action before the court centers on trademark issues. Beijing TRT alleges that  
10 TRT USA engaged in infringing, unauthorized use of its trademarks in connection with sales of  
11 unauthorized products. Compl. pp. 7-12. TRT USA has counterclaimed, seeking cancellation of  
12 trademarks and declaratory judgment for abandonment of trademarks. Counter-Compl. The State  
13 Court Action does not involve trademark issues; it involves breach of contract, fraud, and several  
14 other claims. Ex. C to Li Decl. Nonetheless, TRT USA contends that staying the instant action  
15 pending resolution of the State Court Action would be conducive to judicial economy due to overlap  
16 in the facts it alleges in both cases. In the State Court Action, the factual basis for TRT USA's  
17 breach of contract claim is that Beijing TRT allegedly agreed to make TRT USA its exclusive  
18 general distributor for its products in the United States. *Id.* According to TRT USA, it was licensed  
19 to use Beijing TRT's trademarks as part of its contractual agreements with Beijing TRT. *Id.* This  
20 alleged fact is relevant to the instant case because one of TRT USA's affirmative defenses against  
21 trademark infringement is that Beijing TRT authorized it to use Beijing TRT's TONG REN TANG  
22 trademarks. Ans. p. 13. Although the court recognizes the relevance of this alleged license  
23 agreement, even if the facts were found to be as TRT USA alleges, it would not summarily resolve  
24 all of the trademark claims at hand. In particular, it would leave unresolved Beijing TRT's claim  
25 that TRT USA has continued to engage in unlicensed, counterfeit sales, even after the end of their  
26 contractual relationship.

27 The primary benefit of a stay, in terms of judicial economy, would be avoiding duplicate  
28 discovery for overlapping relevant facts. If the parties were to coordinate discovery in this action

1 and the State Court Action, that would provide the benefit of avoiding duplicate discovery efforts  
2 without delaying the resolution of the pending trademark claims. Therefore, rather than staying this  
3 action, the court suggests that the parties coordinate discovery in this action and the State Court  
4 Action and agree that the discovery can be used in either case. If Beijing TRT refuses to agree that  
5 discovery conducted in either case can be used in both cases, the court will reconsider this order  
6 upon TRT USA's request.

7 **2. Trademark Board Action**

8 Although TRT USA relies primarily upon the State Court Action to justify its request for a  
9 stay, it also points to the Trademark Board Action as supporting its contention that judicial economy  
10 would be served by granting a stay. TRT USA has petitioned the Trademark Board to cancel  
11 Beijing TRT's TONG REN TANG trademarks. Ex. E to Li Decl. It is undisputed that there is  
12 significant overlap in the issues to be addressed in the instant action and those arising in the  
13 Trademark Board Action. Nonetheless, a determination in favor of TRT USA in the Trademark  
14 Board Action would not necessarily resolve the issues in this case because the Trademark Board:

15 is not an ordinary administrative agency whose findings control unless set aside after court  
16 review under a highly deferential standard. Under the Lanham Act, where a contested Board  
17 proceeding has already addressed the validity of the mark, the Board's findings can be  
challenged in a civil action in district court through new evidence, and, at least to a large  
extent, the issues can be litigated afresh.

18 *Rhoades v. Avon Products, Inc.*, 504 F.3d 1151, 1163 (9th Cir. 2007) (quoting *PHC, Inc. v. Pioneer*  
19 *Healthcare, Inc.*, 75 F.3d 75, 80 (1st Cir. 1996)). In addition, the court notes that TRT USA just  
20 recently filed its cancellation request although plaintiff's trademark action was filed on February 27,  
21 2009. Moreover, because the Trademark Board cannot grant an injunction or damages for  
22 infringement, where infringement has been alleged, "federal courts are particularly well-suited to  
23 handle the claims so that parties may quickly obtain a determination of their rights without accruing  
24 potential damages." *Rhoades*, 504 F.3d at 1164-65.


25 In light of the ease of relitigating the Trademark Board's administrative findings and the  
26 inability of the Trademark Board to grant an injunction or damages for infringement, the Ninth  
27 Circuit held in *Rhoades* that the district court abused its discretion in declining to hear a trademark  
28 claim, where there was a potential infringement lawsuit, based on the existence of a related

1 Trademark Board proceeding. *Id.* at 1164-65. At the same time, the Ninth Circuit recognized that  
2 where the only issue faced by the district court is whether a mark is entitled to registration, it may  
3 make sense to stay the action pending resolution of the registration claims by the Trademark Board.  
4 *Id.* at 1165. In this case, Beijing TRT has alleged infringement of its trademarks. Therefore, the  
5 court finds that, as in *Rhoades*, it would be more efficient to settle the registration issues along with  
6 the infringement issues in the instant case rather than staying the case pending resolution of the  
7 Trademark Board Action.

8 **III. ORDER**

9 For the foregoing reasons, the court denies the motion to stay proceedings.

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12 DATED: 12/18/09

  
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RONALD M. WHYTE  
United States District Judge

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11 registered for e-filing under the court's CM/ECF program.

12 **Dated:** 12/18/09

CCL

**Chambers of Judge Whyte**

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