

Republic of the Philippines
SUPREME COURT
Manila

SECOND DIVISION

G.R. Nos. L-27425 & L-30505 April 28, 1980

CONVERSE RUBBER CORPORATION and EDWARDSON MANUFACTURING CORPORATION, plaintiffs-appellants,

vs.

JACINTO RUBBER & PLASTICS CO., INC., and ACE RUBBER & PLASTICS CORPORATION, defendants-appellants.

Sycip, Salazar, Luna & Associates plaintiff-appellants.
Juan R. David for defendants-appellants.

BARREDO, J.:

Direct appeal in G.R. No. L-27425 by both plaintiffs and defendants from the decision of the Court of First Instance of Rizal in its Civil Case No. 9380, a case alleged unfair competition, the dispositive part of which reads:

Upon the foregoing, judgment is hereby rendered:

1. Permanently restraining the defendants, their agents, employees and other persons acting in their behalf from manufacturing and selling in the Philippines rubber shoes having the same or confusingly similar appearance as plaintiff Converse Rubber's Converse Chuck Taylor All Star' rubber shoes, particularly from manufacturing and selling in the Philippines rubber Shoes with (a) ankle patch with a five-pointed blue star against a white background, (b) red and blue bands, (c) white toe patch with raised diamond shaped areas, and (d) brown sole of the same or similar design as the sole of "Converse Chuck Taylor All Star" rubber-soled canvas footwear;
2. Ordering defendant Jacinto Rubber & Plastics Company, Inc. to change the design and appearance of "Custombuilt" shoes in accordance with the sketch submitted by defendant Jacinto Rubber to plaintiff Converse Rubber on October 3, 1964 and to desist from using a star both as a symbol and as a word;
3. Ordering defendant Jacinto Rubber & Plastics Company, Inc. to pay plaintiffs the sum of P160,000.00 as compensatory damages for the years 1962 to 1965 plus 5% of the gross sales of "Custombuilt" shoes from 1966 until defendant Jacinto Rubber & Plastics Company, Inc. stop selling "Custombuilt" shoes of the present design and appearance;
4. Ordering defendants jointly and severally to pay plaintiffs P10, 000.00 as attorney's fees.

SO ORDERED. (Pages 228-229, Record on Appeal.)

plaintiffs praying for a bigger amount of damages and defendants asking that the decision be declared null and void for lack of jurisdiction, or, alternatively, that the same be reversed completely by dismissing the complaint; and another direct appeal, in G. R. No. L-30505 by above defendant Jacinto Rubber & Plastics Co., Inc. and, a new party, Philippine Marketing and

Management Corporation from the same trial court's order in the same main civil case finding them in contempt of court "in disregarding the permanent injunction" contained in the appealed decision.

RE G. R. NO L-27425

Being comprehensive and well prepared, We consider it sufficient to quote the following portions of the impugned decision as basis for the resolution of the conflicting appeals aforementioned:

This is an action for unfair competition. Plaintiff Converse Rubber Corporation, (is) an American Corporation, manufacturer (of) canvas rubber shoes under the trade name "Converse Chuck Taylor All Star"; in the Philippines, it has an exclusive licensee, plaintiff Edwardson Manufacturing Corporation, for the manufacture and sale in the Philippines of its product. Plaintiff Converse is the owner of trademarks and patent, registered with United States Patent Office, covering the words. "All Star", the representation and design of a five-pointed star, and the design of the sole. The trademark "Chuck Taylor" was registered by plaintiff Converse with the Philippines Patent Office on March 3, 1966. Since 1946, "Chuck Taylor" is being sold in the Philippines. It has been used exclusively by Philippine basketball teams competing in international competitions. It is also popular among players in various basketball leagues, like the MCAA and the NCAA, because of its high quality and attractive style. "Chuck Taylor" currently retails at P46.00 per pair.

Defendant Jacinto Rubber & Plastics Company, Inc., a local corporation, likewise, manufactures and sells canvas rubber shoes. It sells its product under the trade names "Custombuilt Viscount", "Custombuilt Challenger", and "Custombuilt Jayson's". Its trademark "Custombuilt Jayson's" was registered by the Philippines Patent Office on November 29, 1957. The gross sales from 1962 to 1965 of "Custombuilt" shoes total P16,474,103.76. "Custombuilt" is retailed at P11.00.

In 1963, plaintiff Converse and defendant Jacinto entered into protracted negotiations for a licensing agreement whereby defendant Jacinto would be the exclusive license of plaintiff Converse in the Philippines for the manufacture and sale of "Chuck Taylor" shoes but with the right to continue manufacturing and selling its own products. One of the points taken up by parties was the design and general appearance of "Custombuilt" shoes. Plaintiff Converse insisted on the condition that defendant Jacinto change the design of "Custombuilt" shoes so as to give "Custombuilt" a general appearance different from "Chuck Taylor." After an extensive discussion, defendant Jacinto gave into to the demand of plaintiff Converse; it submitted to plaintiff Converse for the latter's approval a sketch of a new design for "Custombuilt". This design was accepted by plaintiff Converse. Defendant Jacinto Rubber then proposed that the licensing agreement be made in favor of its affiliates, defendant Ace Rubber. On January 22, 1965, defendant Ace Rubber signed the licensing agreement while defendant Jacinto Rubber and Arturo Jacinto signed the guarantee agreement to secure the performance by defendant Ace Rubber of its obligations under the licensing agreement. Both documents, it should be noted, contained the following covenants:

9. (a) Ace acknowledges that Converse is the exclusive owner of the said Converse - names and design, as used in connection with the manufacture, advertising and sale of footwear: that Converse has the exclusive right to use said Converse names in such connection throughout the world. subject to the terms of this Agreement; and that neither Ace nor any person acting by,

through or under Ace will, at anytime, question or dispute said ownership or the exclusive rights of Converse with respect thereto

(b) Nothing herein shall be deemed to constitute a warranty by Converse as to the non-existence of infringements of Converse-names in the Republic of the Philippines. The term "infringement" as used in this Agreement shall include practices which give rise to a cause of action for damages or to injunctive relief under Sections 23 and 29 of R. A. No. 166 of the Republic of the Philippines or any other applicable law of said Republic. During the term thereof, Ace at its expense shall diligently investigate all infringements of the use of said Converse-names, whether or not such infringements violate laws pertaining to the registration of trademarks or trade names, and shall notify Converse promptly as to any infringements of said Converse names within said territory, and shall at its expense use its best efforts to prevent such infringements by an reasonable means, including the prosecution of litigation where necessary or advisable. Any award for damages which Ace may recover in such litigation shall accrue to the benefit of, and shall be owned and retained by Ace.

14. Ace shall not, during the term hereof, manufacture or sell footwear which would, by reason of its appearance and/or design, be likely, or tend, to be confused by the public with any of the Converse-named products to be manufactured and sold hereunder, or shall in any manner, infringe Converse designs. If at any time and from time to time the manufacture of footwear under Converse-names for sale hereunder does not fully utilize Ace's production capacity, Ace shall on Converse's order, within the limits of such surplus capacity, manufacture footwear of kinds and in amounts specified by Converse, at a price no higher than the lowest price at which similar footwear has been sold to customer of Ace during the period of one (1) year immediately preceding the date of such order, and upon no less favorable discounts and terms of sale than similar footwear is customarily offered by Ace to its most favored customer, payable in United States funds, if the earned royalty hereunder is then so payable, otherwise in Republic of the Philippines funds.

20. It being the mutual intention of the parties that Converse's exclusive property interests in the Converse-names shall at all times be protected to the full extent of the law, Ace agrees that it will execute all amendments to this Agreement which may be proposed from time to time by Converse for the purpose of fully protecting said interests.

However, the licensing agreement did not materialize, because Hermogenes Jacinto refused to sign the guarantee.

Plaintiff Converse and plaintiff Edwardson then executed licensing agreement, making plaintiff Edwardson the exclusive Philippine licensee for the manufacture and sale of "Chuck Taylor." On June 18, 1966, plaintiffs sent a written demand to defendants to stop manufacturing and selling "Custombuilt" shoes of identical appearance as "Chuck Taylor". Defendants did not reply to plaintiffs' letter. Hence, this suit.

Plaintiffs contend that "Custombuilt" shoes are identical in design and general appearance to "Chuck Taylor" and, claiming prior identification of "Chuck Taylor" in the mind of the buying public in the Philippines, they contend that defendants are guilty of unfair competition by selling "Custombuilt" of the design and with the general appearance of "Chuck Taylor". The design and appearance of both

products, as shown by the samples and photographs of both products, are not disputed. Defendants insist that (a) there is no similarity in design and general appearance between "Custombuilt" and "Chuck Taylor", pointing out that "Custombuilt" is readily identifiable by the tradename "Custombuilt" appearing on the ankle patch, the heel patch, and on the sole. It is also vigorously contended by defendants that the registration of defendant Jacinto Rubber's trademark "Custombuilt" being prior to the registration in the Philippines of plaintiff Converse Rubber's trademark "Chuck Taylor", plaintiffs have no cause of action. It appears that defendant started to manufacture and sell "Custombuilt" of its present design and with its present appearance in 1962. On the other hand, as earlier mentioned, "Chuck Taylor" started to be sold in the Philippines in 1946 and has been enjoying a reputation for quality among basketball players in the Philippines.

The Court sees no difficulty in finding that the competing products are identical in appearance except for the trade names. The respective designs, the shapes and the color of the ankle patch, the bands, the toe patch and the sole of the two products are exactly the same. At a distance of a few meters, it is impossible to distinguish Custombuilt' from "Chuck Taylor". The casual buyer is thus liable to mistake one for the other. Only by a close-examination and by paying attention to the trade names will the ordinary buyer be able to tell that the product is either "Custombuilt" or "Chuck Taylor", as the case may be. Even so, he will most likely think that the competing products, because they are strikingly identical in design and appearance are manufactured by one and the same manufacturer. Clearly, this case satisfied the test of unfair competition. Priority in registration in the Philippines of a trademark is not material in an action for unfair competition as distinguished from an action for infringement of trademark. The basis of an action for unfair competition is confusing and misleading similarity in general appearance, not similarity of trademarks.

The Court is not impressed by defendants' good faith in claiming that they have the right to continue manufacturing "Custombuilt" of identical design and appearance as "Chuck Taylor". While it is true that the licensing agreement between plaintiff Converse and defendant did not materialize, the execution of the documents by the defendants constitute an admission on the part of plaintiff Converse Rubber's property right in design and appearance of "Chuck Taylor". The covenants, quoted above, show that defendants acknowledged that plaintiff Converse Rubber "is the exclusive owner of the said Converse-names and design." Defendants further covenanted not to "manufacture or sell footwear which would by reason of its appearance and/or design, be likely, or tend, to be confused by the public with any of the Converse-named products ... or shall, in any manner, infringe Converse designs". That defendants are fully aware that "Custombuilt" is identical in design and appearance to "Chuck Taylor" has conclusively been admitted by them in their correspondence with plaintiff Converse leading to the submission by defendants to plaintiff Converse of a sketch of a new design that should give "Custombuilt" an appearance different from that of "Chuck Taylor".

Aside from the written admission of defendants, the facts clearly indicate that defendants copied the design of "Chuck Taylor" with intent to gain "Chuck Taylor", as has been noted earlier, was ahead of Custombuilt' in the Philippines market and has been enjoying a high reputation for quality and style. Even defendants' own exhibits leave no room for doubt that defendants copied the design and appearance of "Chuck Taylor" for the purpose of cashing in on the reputation of "Chuck Taylor". The samples of defendants' product show, indeed, as announced by defendants' counsel the "metamorphosis" of defendants' product. In the beginning, the design of defendants' product was entirely different

from its present design and the design of "Chuck Taylor". It was only in 1962, or 16 years after "Chuck Taylor" has been in the market, that defendants adopted the present design of "Custombuilt". It is also noteworthy that "Custombuilt" sells at P35 less than "Chuck Taylor"; thus the casual buyer is led to believe that he is buying the same product at a lower price. Not surprisingly, the volume of sales of "Custombuilt" increased from 35% to 75% of defendants' total sales after they incorporated in their product the design and appearance of "Chuck Taylor".

It is thus clear that defendants are guilty of unfair competition by giving "Custombuilt" the same general appearance as "Chuck Taylor". It is equally clear that defendants in so doing are guilty of bad faith. There remains for the Court to consider the damages that defendants should be liable for to plaintiffs. Plaintiffs claim compensatory damages equivalent to 30% of the gross sales of "Custombuilt" and attorney's fees in the amount of P25,000.00. By defendants' own evidence, the gross sales of "Custombuilt" from 1962, the year defendants adopted the present design of their product, to 1965 total P16,474,103.76. If the Court should grant plaintiffs' prayer for compensatory damages equivalent to 30% of defendants' gross sales, the compensatory damages would amount to P4,942,231.13. Considering the amount of gross sales of "Custombuilt", an award to plaintiffs for 30% of defendants' annual gross sales would seriously ripple, if not bankrupt, defendant companies. The Court is aware that defendants' investment is substantial and that defendants support a substantial number of employees and laborers. This being so, the Court is of the opinion that plaintiffs are entitled to only one (1) per cent of annual gross sales of "Custombuilt" shoes of current design. As for attorney's fees, the Court is of the opinion that, P10,000.00 is reasonable. (Pages 217-228, Record on Appeal.)

Defendants-appellants have assigned the following alleged errors:

I

THE COURT A QUO ERRED IN ASSUMING JURISDICTION OVER THE COMPLAINT OF PLAINTIFFS-APPELLEES.

II

THE COURT A QUO ERRED IN ARRIVING AT THE CONCLUSION THAT THE DEFENDANTS ARE GUILTY OF UNFAIR COMPETITION WHEN DEFENDANT JACINTO RUBBER & PLASTICS CO., INC., MANUFACTURED AND SOLD RUBBER-SOLED CANVASS SHOES UNDER ITS REGISTERED TRADE MARK "CUSTOMBUILT".

III

THE COURT A QUO ERRED IN ADJUDICATING IN FAVOR OF THE PLAINTIFF THE SUM OF P160,000.00 AS COMPENSATORY DAMAGES AND P10,000.00 AS ATTORNEY'S FEES. (Pp. A & B, Brief for Defendants-Appellants.)

We have carefully gone over the records and reviewed the evidence to satisfy Ourselves of the similarity of the shoes manufactured and sold by plaintiffs with those sold by defendants, and We find the conclusions of the trial court to be correct in all respects. In fact, in their brief, defendants do not contest at all the findings of the trial court insofar as material Identity between the two kinds of shoes in question is concerned. We have ourselves examined the exhibits in detail, particularly, the comparative pictures and other representations of the shoes in question, and We do not hesitate in holding that the plaintiffs complaint of unfair competition is amply justified.

From said examination, we find the shoes manufactured by defendants to contain, as found by the trial court, practically all the features of those of the plaintiff Converse Rubber Corporation and manufactured, sold or marketed by plaintiff Edwardson Manufacturing Corporation, except for their respective brands, of course. We fully agree with the trial court that "the respective designs, shapes, the colors of the ankle patches, the bands, the toe patch and the soles of the two products are exactly the same ... (such that) at a distance of a few meters, it is impossible to distinguish "Custombuilt" from "Chuck Taylor". These elements are more than sufficient to serve as basis for a charge of unfair competition. Even if not all the details just mentioned were identical, with the general appearances alone of the two products, any ordinary, or even perhaps even a not too perceptive and discriminating customer could be deceived, and, therefore, Custombuilt could easily be passed off for Chuck Taylor. Jurisprudence supports the view that under such circumstances, the imitator must be held liable. In *R. F. & J. Alexander & Co. Ltd. et al. vs. Ang et al.*, 97 Phil. 157, at p. 160, this Court held:

By "purchasers" and "public" likely to be deceived by the appearance of the goods, the statute means the "ordinary purchaser". And although this Court apparently shifted its position a bit in *Dy Buncio vs. Tan Tiao Bok*, 42 Phil. 190, by referring to simulations likely to mislead "the ordinarily intelligent buyer", it turned to the general accepted doctrine in *E. Spinner & Co. vs. Neuss Hesslein*, 54 Phil. 224, where it spoke of "the casual purchasers" "who knows the goods only by name."

It stands to reason that when the law speaks of purchasers' it generally refers to ordinary or average purchasers.

... in cases of unfair competition, while the requisite degree of resemblance or similarity between the names, brands, or other indicia is not capable of exact definition, it may be stated generally that the similarity must be such, but need only be such, as is likely to mislead purchasers of ordinary caution and prudence; or in other words, the ordinary buyer, into the belief that the goods or wares are those, or that the name or business is that, of another producer or tradesman. It is not necessary in either case that the resemblance be sufficient to deceive experts, dealers, or other persons especially familiar with the trademark or goods involved. Nor is it material that a critical inspection and comparison would disclose differences, or that persons seeing the trademarks or articles side by side would not be deceived (52 Am. Jur. pp. 600-601). (Brief for Plaintiffs as Appellees, pp. 28-29, p. 71, Record.)

Indeed, the very text of the law on unfair competition in this country is clear enough. It is found in Chapter VI of Republic Act 166 reading thus:

SEC. 29. *Unfair competition, rights and remedies.* - A person who has identified in the mind of the public the goods he manufactures or deals in, his business or services from those of others, whether or not a mark or trade name is employed, has a property right in the goodwill of the said goods, business or services so identified, which will be protected in the same manner as other property rights. Such a person shall have the remedies provided in section twenty-three, Chapter V hereof.

Any person who shall employ deception or any other means contrary to good faith by which he shall pass off the goods manufactured by him or in which he deals, or his business, or services of those of the one having established such goodwill, or who shall commit any acts calculated to produce said result, shall be guilty of unfair competition, and shall be subject to an action therefor.

In particular, and without in any way limiting the scope of unfair competition, the following shall be deemed guilty of unfair competition:

(a) Any person, who in selling his goods shall give them the general appearance of goods of another manufacturer or dealer, either as to the goods themselves or in the wrapping of the packages in which they are contained, or the devices or words thereon, or in any other feature of their appearance, which would be likely to influence purchasers to believe that the goods offered are those of a manufacturer or dealer other than the actual manufacturer or dealer, or who otherwise clothes the goods with such appearance as shall deceive the public and defraud another of his legitimate trade, or any subsequent vendor of such goods or any agent of any vendor engaged in selling such goods with a like purpose;

(b) Any person who by any artifice, or device, or who employs any other means calculated to induce the false belief that such person is offering the services of another who has Identified such services in the mind of the public; or

(c) Any person who shall make any false statement in the course of trade or who shall commit any other act contrary to good faith of a nature calculated to discredit the goods, business or services of another.

It is the theory of defendants-appellants, however, that plaintiffs-appellees have failed to establish a case of unfair competition because "inasmuch as the former (Converse Chuck Taylor) was not sold in the local markets from 1949 to 1967, no competition, fair or unfair, could have been offered to it by the latter product (Custombuilt Challenger) during the said period." While the argument, it may be conceded, makes sense as a proposition in practical logic, as indeed, it served as a legal defense in jurisprudence in the past, the modern view, as contended by plaintiffs "represents a tendency to mold, and even to expand; legal remedies in this field to conform to ethical practices." (Brief of Plaintiffs as Appellees, pp. 16-17.) As a matter of fact, in *Ang vs. Toribio*, 74 Phil. 129, this Court aptly pointed out:

... As trade has developed and commercial changes have come about, the law of unfair competition has expanded to keep pace with the times and the elements of strict competition in itself has ceased to be the determining factor. The owner of a trademark or trade-name has property right in which he is entitled to protection, since there is damage to him from confusion of reputation or goodwill in the mind of the public as well as from confusion of goods. The modern trend is to give emphasis to the unfairness of the acts and to classify and treat the issue as fraud.

Additionally, we quote with approval counsel's contention thus:

In no uncertain terms, the statute on unfair competition extends protection to the goodwill of a manufacturer or dealer. It attaches no fetish to the word "competition". In plain language it declares that a "person who has Identified in the public the goods he manufactures or deals in, his business or services from those of others, whether or not a right in the goodwill of the said goods, business or services so Identified, which will be protected in the same manner as other property rights." It denominates as "unfair competition" "any acts" calculated to result in the passing off of other goods "for those of the one having established such goodwill." Singularly absent is a requirement that the goodwill sought to be protected in an action for unfair competition must have been established in an actual competitive situation. Nor does the law require that the deception or other means contrary to good faith or any acts calculated to pass off other goods for

those of one who has established a goodwill must have been committed in an actual competitive situation.

To read such conditions, as defendants-appellants seek to do, in the plain prescription of the law is to re-construct it. Indeed, good-will established in other than a competitive milieu is no less a property right that deserves protection from unjust appropriation or injury. This, to us, is precisely the clear sense of the law when it declares without equivocation that a "person who has Identified in the mind of the public the goods he manufactures or deals in, his business or services from those of others, has a property right in the goodwill of the said goods, business or services so Identified, which will be protected in the same manner as other property rights."

Plaintiffs-appellees have a established goodwill. This goodwill, the trial court found, defendants-appellants have pirated in clear bad faith to their unjust enrichment. It is strange that defendants-appellants now say that they should be spared from the penalty of the law, because they were not really in competition with plaintiffs-appellees. (Pp. 21-22, *Id.*)

In a desperate attempt to escape liability, in their first assigned error, defendants-appellants assail the jurisdiction of the trial court, contending that inasmuch as Converse Rubber Corporation is a non-resident corporation, it has no legal right to sue in the courts of the Philippines, citing *Marshall-Wells Co. vs. Elser & C^o*, 46 Phil. 70 and *Commissioner of Internal Revenue vs. United States Lines Co.*, G. R. No. L-16850, May 30, 1962 (5 SCRA 175) and, furthermore, that plaintiff Edwardson Manufacturing Corporation, although "a domestic corporation, is nothing but a licensee of Converse Rubber Corporation in the local manufacturing, advertisement, sale and distribution of the rubber-soled footwear", hence, it is equally without such personality. (p. 18, Brief of Defendants-Appellants).

We are not impressed. The easy and, we hold to be correct, refutation of defendants' position is stated adequately and understandably in plaintiffs' brief as appellees as follows:

The disability under Section 69 of the Corporation Law of an unlicensed foreign corporation refers to transacting business in the Philippines and maintaining a "suit for the recovery of any debt, claim, or demand whatever" arising from its transacting business in the Philippines. In *Marshall-Wells*, this Court precisely rejected a reading of Section 69 of the Corporation Law as "would give it a literal meaning", i.e., "No foreign corporation shall be permitted by itself or assignee any suit for the recovery of any deed, claim, or demand unless it shall have the license prescribed by Section 68 of the Law." "The effect of the statute," declared this Court, "preventing foreign corporations from doing business and from bringing actions in the local courts, except on compliance with elaborate requirements, must not be unduly extended or improperly applied (at page 75). In *Commissioner of Internal Revenue v. United States Lines Company*, this Court did not hold that an unlicensed foreign corporation may not sue in the Philippines. The Court simply held that a foreign shipping company, represented by a local agent, is doing business in the Philippines so as to subject it to the "operation of our revenue and tax."

Western Equipment and Supply Co. v. Reyes, 51 Phil. 115, made clear that the disability of a foreign corporation from suing in the Philippines is limited to suits "to enforce any legal or contract rights arising from, or growing out, of any business which it has transacted in the Philippine Islands." ... On the other hand, where the purpose of a suit is "to protect its reputation, its corporate name, its goodwill, whenever that reputation, corporate name or goodwill have, through the natural development of its trade, established themselves," an unlicensed foreign corporation may sue in the Philippines (at page 128). So interpreted by the

Supreme Court, it is clear that Section 69 of the Corporation Law does not disqualify plaintiff-appellee Converse Rubber, which does not have a branch office in any part of the Philippines and is not "doing business" in the Philippines (Record on Appeal, pp. 190-191), from filing and prosecuting this action for unfair competition.

The futility of the error assigned by defendants-appellants becomes more evident in light of the explicit provision of Section 21 (a) of Republic Act No. 166, as amended, that a foreign corporation, whether or not licensed to transact business in the Philippines may bring an action for unfair competition provided the country of which it "is a citizen, or in which it is domiciled, by treaty, convention or law, grants a similar privilege to juristic persons in the Philippines." The Convention of Paris for the Protection of Industrial Property, to which the Philippines adheres, provides, on a reciprocal basis that citizens of a union member may file an action for unfair competition and infringement of trademarks, patents, etc. (610. G. 8010) in and of the union members. The United States of America, of which Converse Rubber is a citizen, is also a signatory to this Convention. Section 1126 (b) and (h) of Public Law 489 of the United States of America allows corporations organized under the laws of the Philippines to file an action for unfair competition in the United States of America, whether or not it is licensed to do business in the United States. (Annex "H" of Partial Stipulation of Facts, Record on Appeal, p. 192).

As regards the other plaintiff-appellee, Edwardson Manufacturing Corporation, it is indisputable that it has a direct interest in the success of this action: as exclusive licensee of Converse Rubber in the manufacture and sale of "Chuck Taylor" shoes in the Philippines, naturally it would be directly affected by the continued manufacture and sale by defendants-appellants of shoes that are confusingly identical in appearance and design with "Chuck Taylor." (Brief of Plaintiffs as Appellees, pp. 11-14.)

As can be seen, what is actually the only controversial matter in this case is that which refers to the assessment of damages by the trial court, which both plaintiffs and defendants consider erroneous, defendants maintaining, of course, that it is excessive, even baseless, while, on the other hand, plaintiffs posit that it is far short from what the law and the relevant circumstances require.

Under Section 29 of the Republic Act 166, aforequoted, it will be observed that the first paragraph thereof refers to the property rights in goodwill of a "person who has identified in the mind of the public goods he manufactures or deals in, his business or offices from those of others, whether or not a mark or trade name is employed", while the second paragraph speaks of "any person who shall employ deception or any other means contrary to good faith by which he shall pass off the goods manufactured by him ... for those of the one having established such goodwill." This second paragraph, which may be read together with the first paragraph, makes the deceiver or imitator "guilty of unfair competition and shall be subjected to an action therefore", meaning what the first paragraph refers to as the "remedies provided in Section twenty-three, Chapter V" of the Act. It is implicit in the decision of the trial court and the briefs of the parties that everyone here concerned has acted on the basis of the assumptions just stated.

Now, Section 23 reads:

Actions, and damages and injunction for infringement. - Any person entitled to the exclusive use of a registered mark or trade name may recover damages in a civil action from any person who infringes his rights, and the measure of the damages suffered shall be either the reasonable profit which the complaining party would have made, had the defendant not infringed his said rights, or the profit which the defendant actually made out of the infringement, or in the event such measure of

damages cannot be readily ascertained with reasonable certainty, then the court may award as damages a reasonable percentage based upon the amount of gross sales of the defendant of the value of the services in connection with which the mark or trade name was used in the infringement of the rights of the complaining party. In cases where actual intent to mislead the public or to defraud the complaining party shall be shown, in the discretion of the court, the damages may be doubled.

The complaining party, upon proper showing, may also be granted injunction.

In the light of the foregoing provision, we find difficulty in seeing the basis of the trial court for reducing the 30%, claimed by plaintiffs, of the gross earnings of defendants from the sale of Custombuilt from 1962 to merely 1% as the measure of compensatory damages to which plaintiffs are entitled for that period. Perhaps, as His Honor pessimistically argued, defendants would suffer crippling of their business. But it is quite clear from the circumstances surrounding their act of deliberately passing off the rubber shoes produced by them for those over which plaintiffs had priorly established goodwill, that defendants had tremendously increased their volume of business and profits in the imitated shoes and have precisely incurred, strictly speaking, the liability of the damages to be paid by them be doubled, per the last sentence of Section 23.

We are of the considered opinion that the trial court was overly liberal to the defendants-appellants. The P160,000.00 awarded by His Honor as compensatory damages for the years 1962 to 1965 are utterly inadequate. Even the 5% of the gross sales of "Custombuilt" shoes from 1966 until its injunction is fully obeyed are short of what the law contemplates in cases of this nature. We hold that considering that the gross sales of defendants-appellants increased to P16,474,103.76, (as admitted in defendants-appellants' own brief, p. 2), only 75% of which, plaintiffs-appellants generously assert corresponded to Custombuilt sales, it would be but fair and just to award plaintiffs-appellants 15% of such 75% as compensatory damages from 1962 up to the finality of this decision. In other words, 75% of P16,474,103.76 would be P12,355,577.82 and 15% of this last amount would be P1,853,336.67, which should be awarded to plaintiffs-appellants for the whole period already stated, without any interest, without prejudice to plaintiffs-appellants seeking by motion in the trial court in this same case any further damage should defendants-appellants continue to disobey the injunction herein affirmed after the finality of this decision.

We feel that this award is reasonable. It is not farfetched to assume that the net profit of the imitator which, after all is what the law contemplates as basis for damages if it were only actually ascertainable, in the manufacture of rubber shoes should not be less than 20 to 25% of the gross sales. Regrettably, neither of the parties presented positive evidence in this respect, and the Court is left to use as basis its own projection in the light of usual business practices. We could, to be sure, return this case to the lower court for further evidence on this point, but, inasmuch as this litigation started way back about fourteen years ago and it would take more years before any final disposition is made hereof should take the course, We are convinced that the above straight computation, without any penalty of interest, is in accordance with the spirit of the law governing this case.

In re G. R. No. L-30505

The subject matter of this appeal is the order of the trial court, incident to its main decision We have just reviewed above, dismissing "for lack of jurisdiction the contempt charge filed by plaintiffs against defendant Jacinto Rubber & Plastics Co. Inc., Ace Rubber & Plastics Corporation; Philippine & Management Corporation and their respective corporate officers.

Importantly, it is necessary to immediately clear up the minds of appellees in regard to some aspects of the argument on double jeopardy discussed by their distinguished counsel in his preliminary argument in his brief (pp. 9-13). It is contended therein that inasmuch as the denial

orders of August 23, 1967, December 29, 1967 and January 24, 1968 have the character of acquittals, contempt proceedings being criminal in nature, this appeal subjects appellees to double jeopardy. Such contention misses, however, the important consideration that the said denial orders, were, as explained by His Honor himself in his last two orders, based on the assumption that he had lost jurisdiction over the incident by virtue of the earlier perfection of the appeals of both parties from the decision on the merits.

It is thus the effect of this assumption, revealed later by the trial judge, on the first order of August 23, 1967 that needs clarificatory disquisition, considering that the said first order was exclusively based on "the interests of justice" and "lack of merit" and made no reference at all to jurisdiction. If indeed the trial court had lost jurisdiction, it would be clear that said order could have no legal standing, and the argument of double jeopardy would have no basis.

But after mature deliberation, and in the light of *Cia General de Tabacos de Filipinas vs. Alhambra Cigar & Cigarette Manufacturing Co.*, 33 Phil. 503, cited by appellant's counsel in his brief, We are convinced that the trial court in the case at bar had jurisdiction to entertain and decide the motion for contempt in question. Indeed, the enforcement of either final or preliminary-made-final injunctions in decisions of trial courts are immediately executory. The reason for this rule lies in the nature itself of the remedy. If a preliminary injunction, especially one issued after a hearing is enforceable immediately to protect the rights of the one asking for it, independently of the pendency of the main action, there is no reason why when that preliminary injunction is made final after further and fuller hearing the merits of the plaintiff's cause of action, its enforceability should lesser, force. The same must be true with stronger basis in the case of a permanent injunction issued as part of the judgment. The aim is to stop the act complained of immediately because the court has found it necessary to serve the interests of justice involved in the litigation already resolve by it after hearing and reception of the evidence of both parties.

As a matter of fact, it is quite obvious that an action for unfair competition with prayer for an injunction partakes of the nature of an action for injunction within the contemplation of Section 4 of Rule 39, and this cited provision states explicitly that "unless otherwise ordered by the court, a judgment in an action for injunction - shall not be stayed after its rendition and before an appeal is taken or during the pendency of an appeal." In the above-mentioned case of *Cia. General de Tabacos*, the Court held:

The applicant contends here: First, that the injunction is indefinite and uncertain to such an extent that a person of ordinary intelligence would be unable to comply with it and still protect his acknowledged rights; second, that the injunction is void for the reason that the judgment of the court on which it 's based is not responsive to the pleadings or to the evidence in the case and has nothing in the record to support it; third, that the court erred in assuming jurisdiction and fining defendant after an appeal had been taken from the judgment of the court and the perpetual injunction issued thereon. There are other objections that need no particular discussion.

Discussing these questions generally it may be admitted, as we stated in our decision in the main case (G. R No. 10251, ante p. 485) that, while the complaint set forth an action on a trade-name and for unfair competition, accepting the plaintiff's interpretation of it, the trial court based its judgment on the violation of a trade-mark, although the complaint contained no allegation with respect to a trade-mark and no issue was joined on that subject by the pleadings and no evidence was introduced on the trial with respect thereto. There was however, some evidence in the case with respect to the plaintiff's ownership of the trade-name "Isabela," for the violation of which the plaintiff was suing, and there was some evidence which might support an action of unfair competition, if such an action could be sustained under the statute. Therefore, although the judgment of the trial court was based on the violation of a trade-mark, there was some evidence to sustain the judgment if it had been founded on a violation of the

trade-name or on unfair competition. The judgment, as we have already found in the main case, was erroneous and was reversed for that reason; but having some evidence to sustain it, it was not void and the injunction issued in that action was one which the court had power to issue. Although the judgment was clearly erroneous and without basis in law, it was, nevertheless a judgment of a court of competent jurisdiction which had authority to render that particular judgment and to issue a permanent injunction thereon.

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... The question is not was the judgment correct on the law and the facts, but was it a valid judgment? If so, and if the injunction issued thereon was definite and certain and was within the subject matter of the judgment, the defendant was bound to obey it, however erroneous it may have been. (Pp. 505-506, 506, 33 Phil.)

It is interesting to note that while the trial court was of the opinion that it had lost jurisdiction over the motion for contempt, upon insistence of the plaintiffs, in its order of January 24, 1968, it made the following findings of fact:

It is not controverted on December 14, 1966, the Philippine Marketing and Management sold to Virginia Ventures 12 pairs of "Custombuilt" rubber shoes bearing an identical design and general appearance as that prohibited in the injunction. It is likewise not controverted that subsequent to December 14, 1966 the sale of the said rubber shoes was advertised by Philippine Marketing and Management Corporation in several metropolitan newspapers even during the pendency of the contempt proceedings.

The only issue of fact is whether or not in selling and advertising the sale of the prescribed shoes the Philippine Marketing and Management Corporation conspired with the defendants, particularly defendant Jacinto Rubber, or acted as its agent, employee or in any other capacity with knowledge of the issuance of the said permanent injunction. On this point, the evidence of the plaintiffs shows that Hermogenes Jacinto, Arturo Jacinto, Fernando Jacinto and Milagros J. Jose constitute the majority of the board of directors of the Philippine Marketing and Management Corporation; that Hermogenes Jacinto is the president, Arturo Jacinto is the vice-president, and Fernando Jacinto and Milagros J. Jose are directors, of defendant Jacinto Rubber; that Milagros J. Jose is the treasurer of the Philippine Marketing and Management Corporation; and that Ramon V. Tupas, corporate secretary of the Philippine Marketing and Management Corporation, actively assisted by Atty. Juan T. David, counsel of record of the defendants, in defending the defendants in this case. It also appears from the different advertisements published in the metropolitan papers that Philippine Marketing and Management Corporation is the exclusive distributor of the questioned "Custombuilt" rubber shoes. Moreover, during the trial of this case on the merits the defendants admitted that the Philippine Marketing and Management Corporation is a sister corporation of defendant Jacinto Rubber, both corporations having identical stockholders, and Hermogenes Jacinto and Fernando Jacinto are stockholders and incorporators of the Philippine Marketing and Management Corporation.

On the other hand, the defendants, particularly defendant Jacinto Rubber, presented no evidence to disprove its intra-corporate relationship with the Philippine Marketing and Management Corporation. Instead it presented, over the objection of the plaintiffs, the affidavit of its executive vice-president, Geronimo Jacinto, who affirmed that defendant Jacinto Rubber had no knowledge of, or participation in, the acts complained of in the motion to declare them in contempt

of Court and that it has not in any way violated any order of this Court. On its part, the Philippine Marketing and Management Corporation presented as a witness its general manager, Aniceto Tan, who testified that the Philippine Marketing and Management Corporation is not an agent or sister corporation of defendant Jacinto Rubber; that he came to know of the pendency of this case and the issuance of the permanent injunction only on December 19, 1966 when served with a copy of plaintiffs' motion; and that the Philippine Marketing and Management Corporation buys the "Custombuilt Rubber" shoes from defendant Jacinto Rubber which it resells to the general public. It is noteworthy, however, that this particular witness made several admissions in the course of his testimony which shed light on the question at issue. Thus, he admitted that prior to the formal organization of the Philippine Marketing and Management Corporation in January 1966 he was the sales manager of defendant Jacinto Rubber; that after the organization of the said corporation, he was informed that defendant Jacinto Rubber would discontinue its sales operations and instead give the exclusive distribution of the shoes to the Philippine Marketing and Management Corporation; and that he was then offered the position of sales manager of Philippine Marketing and Management because of his extensive experience in the distribution of "Custombuilt" rubber shoes. Also, he testified that the subscribed capital stock of the Philippine Marketing and Management Corporation is only P100,000.00 out of which P25,000.00 has been paid whereas its average monthly purchases of "Custombuilt" rubber shoes is between P300,000.00 to P400,000.00 or between P4,000,000.00 to P5,000,000.00 annually. Such huge purchases Philippine Marketing and Management Corporation is able to make, in spite of its meager capital, because defendant Jacinto Rubber allows it to buy on credit.

Considering the substantial Identity of the responsible corporate officers of the defendant Jacinto Rubber and the Philippine Marketing and Management Corporation, the huge volume of alleged purchases of "Custombuilt" shoes by the Philippine Marketing and Management Corporation compared to its paid in capital, and the cessation of the sales operations of defendant Jacinto Rubber after the organization of the former, the Court is convinced beyond reasonable doubt that the Philippine Marketing and Management Corporation is the selling arm or branch of defendant Jacinto Rubber and that both corporations are controlled by substantially the same persons, the Jacinto family. The contention of the Philippine Marketing and Management Corporation that it sold the 12 pairs of "Custombuilt" shoes on December 14, 1966 without knowledge of the issuance of the injunction is belied by its conduct of continuing the sale and the advertisement of said shoes even during the pendency of the contempt proceedings. This conduct clearly reveals the willfulness and contumacy with which it had disregarded the injunction. Besides, it is inherently improbable that defendant Jacinto Rubber and Atty. Ramon B. Tupas did not inform the Philippine Marketing and Management Corporation of the issuance of the injunction, a fact which undoubtedly has a material adverse effect on its business.

Upon the foregoing, the Court is convinced that defendants and Philippine Marketing and Management Corporation are guilty of contempt of court in disregarding the permanent injunction issued by this Court in its decision on the merits of the main case. However, for the reasons stated in the Order of December 29, 1967, the Court maintains that it has lost jurisdiction over the case. (Pp. 115-120, Record on Appeal.)

Stated differently, since the trial court had jurisdiction to take cognizance of the motion, its findings of facts should as a rule bind the parties, and, in this connection, appellees do not seriously challenge said findings. And since we are holding that the trial court had jurisdiction, the

above findings may be determinative of the factual issues among the parties herein. We are thus faced with the following situations:

The first order of dismissal of August 23, 1967, albeit issued with jurisdiction, was incomplete because it contained no statements of facts and law on which it was based in violation of the pertinent constitutional precept. It could not stand as it was.

The second of December 29, 1967 was still incomplete, with the added flaw that his Honor declared himself therein as having lost jurisdiction.

On other hand, while the third order of January 24, 1968 filled the omissions of the first two orders, it, however, reiterated the erroneous ruling of the second order regarding lost of jurisdiction of the court over the incident.

Combining the three orders, it can be seen that the result is that the trial court found from the evidence that its injunction had been violated, but it erroneously considered itself devoid of authority to impose the appropriate penalty, for want of jurisdiction. Upon these premises, we hold that the factual findings of the trial court in its third order may well stand as basis for the imposition of the proper penalty.

To be sure, appellees are almost in the right track in contending that the first denial order of the trial court found them not guilty. What they have overlooked however is that such a finding cannot be equated with an acquittal in a criminal case that bars a subsequent jeopardy. True it is that generally, contempt proceedings are characterized as criminal in nature, but the more accurate juridical concept is that contempt proceedings may actually be either civil or criminal, even if the distinction between one and the other may be so thin as to be almost imperceptible. But it does exist in law. It is criminal when the purpose is to vindicate the authority of the court and protect its outraged dignity. It is civil when there is failure to do something ordered by a court to be done for the benefit of a party. (3 Moran, Rules of Court, pp. 343-344, 1970 ed; see also Perkins vs. Director of Prisons, 58 Phil. 272; Harden vs. Director of Prisons, 81 Phil. 741.) And with this distinction in mind, the fact that the injunction in the instant case is manifestly for the benefit of plaintiffs makes of the contempt herein involved civil, not criminal. Accordingly, the conclusion is inevitable that appellees have been virtually found by the trial court guilty of civil contempt, not criminal contempt, hence the rule on double jeopardy may not be invoked.

WHEREFORE, judgment is hereby rendered - in G. R. No. L-27425 - affirming the decision of the trial court with the modification of the amount of the damages awarded to plaintiffs in the manner hereinabove indicated; and in G.R. No. L-30505 - the three orders of dismissal of the trial court of the contempt charges against appellees are all hereby reversed, and on the basis of the factual findings made by said court in its last order of January 24, 1968, appellees are hereby declared in contempt of court and the records of the contempt proceedings (G. R. No. L-30505) are ordered returned to the trial court for further proceedings in line with the above opinion, namely for the imposition of the proper penalty, its decision being incomplete in that respect. Costs against appellees in G. R. No. L-27425, no costs in G. R. No. L-30505. These decisions may be executed separately.

Concepcion Jr., Guerrero and De Castro, JJ., concur.

Antonio, J., is on leave.

Aquino, J., concur in the result.