Republic of the Philippines
SUPREME COURT
Manila

FIRST DIVISION

[G.R. No. 118192. October 23, 1997]

PRO LINE SPORTS CENTER, INC., and QUESTOR CORPORATION, *petitioners,*

vs.

COURT OF APPEALS, UNIVERSAL ATHLETICS INDUSTRIAL PRODUCTS, INC., and MONICO SEHWANI, *respondents.*

BELLOSILLO, *J.*:

This case calls for a revisit of the *demesne* of malicious prosecution and its implications.

This petition stemmed from a criminal case for unfair competition filed by Pro Line Sports Center, Inc. (PRO LINE) and Questor Corporation (QUESTOR) against Monico Sehwani, president of Universal Athletics and Industrial Products, Inc. (UNIVERSAL). In that case Sehwani was exonerated. As a retaliatory move, Sehwani and UNIVERSAL filed a civil case for damages against PRO LINE and QUESTOR for what they perceived as the wrongful and malicious filing of the criminal action for unfair competition against them.

But first, the *dramatis personae.* By virtue of its merger with A.G. Spalding Bros., Inc., on 31 December 1971,[1] petitioner QUESTOR, a US-based corporation, became the owner of the trademark "Spalding" appearing in sporting goods, implements and apparatuses. Co-petitioner PRO LINE, a domestic corporation, is the exclusive distributor of "Spalding" sports products in the Philippines.[2] Respondent UNIVERSAL, on the other hand, is a domestic corporation engaged in the sale and manufacture of sporting goods while co-respondent Monico Sehwani is impleaded in his capacity as president of the corporation.

On 11 February 1981, or sixteen years ago, Edwin Dy Buncio, General Manager of PRO LINE, sent a letter-complaint to the National Bureau of Investigation (NBI) regarding the alleged manufacture of fake "Spalding" balls by UNIVERSAL. On 23 February 1981 the NBI applied for a search warrant with the then Court of First Instance, Br. 23, Pasig, Rizal, then presided over by Judge Rizalina Bonifacio Vera. On that same day Judge Vera issued Search Warrant No. 2-81 authorizing the search of the premises of UNIVERSAL in Pasig. In the course of the search, some 1,200 basketballs and volleyballs marked "Spalding" were seized and confiscated by the NBI. Three (3) days later, on motion of the NBI, Judge Vera issued another order, this time to seal and padlock the molds, rubber mixer, boiler and other instruments at UNIVERSAL's factory. All these were used to manufacture the fake "Spalding" products, but were simply too heavy to be removed from the premises and brought under the actual physical custody of the court. However, on 28 April 1981, on motion of UNIVERSAL, Judge Vera ordered the lifting of the seal and padlock on the machineries, prompting the People of the Philippines, the NBI, together with PRO LINE and QUESTOR, to file with the Court of Appeals a joint petition for *certiorari* and prohibition with preliminary injunction (CA G.R. No. 12413) seeking the annulment of the order of 28 April 1981. On 18 May 1981, the appellate court issued a temporary restraining order enjoining Judge Vera from implementing her latest order.

Meanwhile, on 26 February 1981, PRO LINE and QUESTOR filed a criminal complaint for unfair competition against respondent Monico Sehwani together with Robert, Kisnu, Arjan and Sawtri, all surnamed Sehwani, and Arcadio del los Reyes before the Provincial Fiscal of Rizal (I. S. No. 81-2040). The complaint was dropped on 24 June 1981 for the reason that it was doubtful whether QUESTOR had indeed acquired the registration rights over the mark "Spalding" from A.

G. Spalding Bros., Inc., and complainants failed to adduce an actual receipt for the sale of "Spalding" balls by UNIVERSAL.[3]

On 9 July 1981 a petition for review seeking reversal of the dismissal of the complaint was filed with the Ministry of Justice. While this was pending, the Court of Appeals rendered judgment on 4 August 1981 in CA G.R. No. 12413 affirming the order of Judge Vera which lifted the seal and padlock on the machineries of UNIVERSAL. The People, NBI, PRO LINE and QUESTOR challenged the decision of the appellate court before this Court in G.R. No. 57814. On 31 August 1981 we issued a temporary restraining order against the Court of Appeals vis-a-vis the aforesaid decision.

In connection with the criminal complaint for unfair competition, the Minister of Justice issued on 10 September 1981 a Resolution overturning the earlier dismissal of the complaint and ordered the Provincial Fiscal of Rizal to file an Information for unfair competition against Monico Sehwani. The Information was accordingly filed on 29 December 1981 with then Court of First Instance of Rizal, docketed as Crim. Case No. 45284, and raffled to Br. 21 presided over by Judge Gregorio Pineda.

Sehwani pleaded not guilty to the charge. But, while he admitted to having manufactured "Spalding" basketballs and volleyballs, he nevertheless stressed that this was only for the purpose of complying with the requirement of trademark registration with the Philippine Patent Office. He cited Chapter 1, Rule 43, of the Rules of Practice on Trademark Cases, which requires that the mark applied for be used on applicant's goods for at least sixty (60) days prior to the filing of the trademark application and that the applicant must show substantial investment in the use of the mark. He also disclosed that UNIVERSAL applied for registration with the Patent Office on 20 February 1981.

After the prosecution rested its case, Sehwani filed a demurrer to evidence arguing that the act of selling the manufactured goods was an essential and constitutive element of the crime of unfair competition under Art. 189 of the Revised Penal Code, and the prosecution was not able to prove that he sold the products. In its Order of 12 January 1981 the trial court granted the demurrer and dismissed the charge against Sehwani.

PRO LINE and QUESTOR impugned before us in G.R. No. 63055 the dismissal of the criminal case. In our Resolution of 2 March 1983 we consolidated G.R. No. 63055 with G.R. No. 57814 earlier filed. On 20 April 1983 we dismissed the petition in G.R. No. 63055 finding that the dismissal by the trial court of Crim. Case No. 45284 was based on the merits of the case which amounted to an acquittal of Sehwani. Considering that the issue raised in G.R. No. 58714 had already been rendered moot and academic by the dismissal of Crim. Case No. 45284 and the fact that the petition in G.R. No. 63055 seeking a review of such dismissal had also been denied, the Court likewise dismissed the petition in G.R. No. 58714. The dismissal became final and executory with the entry of judgment made on 10 August 1983.

Thereafter, UNIVERSAL and Sehwani filed a civil case for damages with the Regional Trial Court of Pasig[4] charging that PRO LINE and QUESTOR maliciously and without legal basis committed the following acts to their damage and prejudice: (a) procuring the issuance by the Pasig trial court of Search Warrant No. 2-81 authorizing the NBI to raid the premises of UNIVERSAL; (b) procuring an order from the same court authorizing the sealing and padlocking of UNIVERSAL's machineries and equipment resulting in the paralyzation and virtual closure of its operations; (c) securing a temporary restraining order from the Court of Appeals to prevent the implementation of the trial court's order of 28 April 1981 which authorized the lifting of the seal and padlock on the subject machineries and equipment to allow UNIVERSAL to resume operations; (d) securing a temporary restraining order from the High Tribunal against the Court of Appeals and charging the latter with grave abuse of discretion for holding that the order of 28 April 1981 was judiciously issued, thus prolonging the continued closure of UNIVERSAL's business; (e) initiating the criminal prosecution of Monico Sehwani for unfair competition under Art. 189 of the Penal Code; and, (g) appealing the order of acquittal in Crim. Case No. 45284

directly to the Supreme Court with no other purpose than to delay the proceedings of the case and prolong the wrongful invasion of UNIVERSAL's rights and interests.

Defendants PRO LINE and QUESTOR denied all the allegations in the complaint and filed a counterclaim for damages based mainly on the unauthorized and illegal manufacture by UNIVERSAL of athletic balls bearing the trademark "Spalding."

The trial court granted the claim of UNIVERSAL declaring that the series of acts complained of were "instituted with improper, malicious, capricious motives and without sufficient justification." It ordered PRO LINE and QUESTOR jointly and severally to pay UNIVERSAL and Sehwani ₱676,000.00 as actual and compensatory damages, ₱250,000.00 as moral damages, ₱250,000.00 as exemplary damages.[5] and ₱50,000.00 as attorney's fees. The trial court at the same time dismissed the counterclaim of PRO LINE and QUESTOR.

The Court of Appeals affirmed the decision of the lower court but reduced the amount of moral damages to ₱150,000.00 and exemplary damages to ₱100,000.00.

Two (2) issues are raised before us: (a) whether private respondents Sehwani and UNIVERSAL are entitled to recover damages for the alleged wrongful recourse to court proceedings by petitioners PRO LINE and QUESTOR; and, (b) whether petitioners' counterclaim should be sustained.

PRO LINE and QUESTOR cannot be adjudged liable for damages for the alleged unfounded suit. The complainants were unable to prove two (2) essential elements of the crime of malicious prosecution, namely, absence of probable cause and legal malice on the part of petitioners.

UNIVERSAL failed to show that the filing of Crim. Case No. 45284 was bereft of probable cause. Probable cause is the existence of such facts and circumstances as would excite the belief in a reasonable mind, acting on the facts within the knowledge of the prosecutor, that the person charged was guilty of the crime for which he was prosecuted.[6] In the case before us, then Minister of Justice Ricardo C. Puno found probable cause when he reversed the Provincial Fiscal who initially dismissed the complaint and directed him instead to file the corresponding Information for unfair competition against private respondents herein.[7] The relevant portions of the directive are quoted hereunder:

> The intent on the part of Universal Sports to deceive the public and to defraud a competitor by the use of the trademark "Spalding" on basketballs and volleyballs seems apparent. As President of Universal and as Vice President of the Association of Sporting Goods Manufacturers, Monico Sehwani should have known of the prior registration of the trademark "Spalding" on basketballs and volleyballs when he filed the application for registration of the same trademark on February 20, 1981, in behalf of Universal, with the Philippine Patent Office. He was even notified by the Patent Office through counsel on March 9, 1981, that "Spalding" was duly registered with said office in connection with sporting goods, implements and apparatus by A.G. Spalding & Bros., Inc. of the U.S.A.
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> That Universal has been selling these allegedly misbranded "Spalding" balls has been controverted by the firms allegedly selling the goods. However, there is sufficient proof that Universal manufactured balls with the trademark "Spalding" as admitted by Monico himself and as shown by the goods confiscated by virtue of the search warrant.
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> Jurisprudence abounds to the effect that either a seller or a manufacturer of imitation goods may be liable for violation of Section 29 of Rep. Act No. 166 (*Alexander v. Sy Bok*, 97 Phil. 57). This is substantially the same rule obtaining in statutes and judicial construction since 1903 when Act No. 666 was approved (*Finlay Fleming vs. Ong Tan Chuan,* 26 Phil. 579) x x x x[8]

The existence of probable cause for unfair competition by UNIVERSAL is derivable from the facts and circumstances of the case. The affidavit of Graciano Lacanaria, a former employee of UNIVERSAL, attesting to the illegal sale and manufacture of "Spalding" balls and seized "Spalding" products and instruments from UNIVERSAL's factory was sufficient *prima facie* evidence to warrant the prosecution of private respondents. That a corporation other than the certified owner of the trademark is engaged in the unauthorized manufacture of products bearing the same trademark engenders a reasonable belief that a criminal offense for unfair competition is being committed.

Petitioners PRO LINE and QUESTOR could not have been moved by legal malice in instituting the criminal complaint for unfair competition which led to the filing of the Information against Sehwani. Malice is an inexcusable intent to injure, oppress, vex, annoy or humiliate. We cannot conclude that petitioners were impelled solely by a desire to inflict needless and unjustified vexation and injury on UNIVERSAL's business interests. A resort to judicial processes is not *per se* evidence of ill will upon which a claim for damages may be based. A contrary rule would discourage peaceful recourse to the courts of justice and induce resort to methods less than legal, and perhaps even violent.[9]

We are more disposed, under the circumstances, to hold that PRO LINE as the authorized agent of QUESTOR exercised sound judgment in taking the necessary legal steps to safeguard the interest of its principal with respect to the trademark in question. If the process resulted in the closure and padlocking of UNIVERSAL's factory and the cessation of its business operations, these were unavoidable consequences of petitioners' valid and lawful exercise of their right. One who makes use of his own legal right does no injury. *Qui jure suo utitur nullum damnum facit.* If damage results from a person's exercising his legal rights, it is *damnum absque injuria.*[10]

Admittedly, UNIVERSAL incurred expenses and other costs in defending itself from the accusation. But, as Chief Justice Fernando would put it, "the expenses and annoyance of litigation form part of the social burden of living in a society which seeks to attain social control through law."[11] Thus we see no cogent reason for the award of damages, exorbitant as it may seem, in favor of UNIVERSAL. To do so would be to arbitrarily impose a penalty on petitioners' right to litigate.

The criminal complaint for unfair competition, including all other legal remedies incidental thereto, was initiated by petitioners in their honest belief that the charge was meritorious. For indeed it was. The law brands business practices which are unfair, unjust or deceitful not only as contrary to public policy but also as inimical to private interests. In the instant case, we find quite aberrant Sehwani's reason for the manufacture of 1,200 "Spalding" balls, i.e., the pending application for trademark registration of UNIVERSAL with the Patent Office, when viewed in the light of his admission that the application for registration with the Patent Office was filed on 20 February 1981, a good nine (9) days after the goods were confiscated by the NBI. This apparently was an afterthought but nonetheless too late a remedy. Be that as it may, what is essential for registrability is proof of actual use in commerce for at least sixty (60) days and not the capability to manufacture and distribute samples of the product to clients.

Arguably, respondents' act may constitute unfair competition even if the element of selling has not been proved. To hold that the act of selling is an indispensable element of the crime of unfair competition is illogical because if the law punishes the seller of imitation goods, then with more reason should the law penalize the manufacturer. In U. S. v. Manuel,[12]the Court ruled that the test of unfair competition is whether certain goods have been intentionally clothed with an appearance which is likely to deceive the ordinary purchasers exercising ordinary care. In this case, it was observed by the Minister of Justice that the manufacture of the "Spalding" balls was obviously done to deceive would-be buyers. The projected sale would have pushed through were it not for the timely seizure of the goods made by the NBI. That there was intent to sell or distribute the product to the public cannot also be disputed given the number of goods manufactured and the nature of the machinery and other equipment installed in the factory.

We nonetheless affirm the dismissal of petitioners' counterclaim for damages. A counterclaim partakes of the nature of a complaint and/or a cause of action against the plaintiffs.[13] It is in itself a distinct and independent cause of action, so that when properly stated as such, the defendant becomes, in respect to the matter stated by him, an actor, and there are two simultaneous actions pending between the same parties, where each is at the same time both a plaintiff and defendant.[14] A counterclaim stands on the same footing and is to be tested by the same rules, as if it were an independent action.[15]

Petitioners' counterclaim for damages based on the illegal and unauthorized manufacture of "Spalding" balls certainly constitutes an independent cause of action which can be the subject of a separate complaint for damages against UNIVERSAL. However, this separate civil action cannot anymore be pursued as it is already barred by *res judicata*, the judgment in the criminal case (against Sehwani) involving both the criminal and civil aspects of the case for unfair competition.[16] To recall, petitioners PRO LINE and QUESTOR, upon whose initiative the criminal action for unfair competition against respondent UNIVERSAL was filed, did not institute a separate civil action for damages nor reserve their right to do so. Thus the civil aspect for damages was deemed instituted in the criminal case. No better manifestation of the intent of petitioners to recover damages in the criminal case can be expressed than their active participation in the prosecution of the civil aspect of the criminal case through the intervention of their private prosecutor. Obviously, such intervention could only be for the purpose of recovering damages or indemnity because the offended party is not entitled to represent the People of the Philippines in the prosecution of a public offense.[17] Section 16, Rule 110, of the Rules of Court requires that the intervention of the offended party in the criminal action can be made only if he has not waived the civil action nor expressly reserved his right to institute it separately.[18] In an acquittal on the ground that an essential element of the crime was not proved, it is fundamental that the accused cannot be held criminally nor civilly liable for the offense. Although Art. 28 of the New Civil Code[19] authorizes the filing of a civil action separate and distinct from the criminal proceedings, the right of petitioners to institute the same is not unfettered. Civil liability arising from the crime is deemed instituted and determined in the criminal proceedings where the offended party did not waive nor reserve his right to institute it separately.[20] This is why we now hold that the final judgment rendered therein constitutes a bar to the present counterclaim for damages based upon the same cause.[21]

WHEREFORE, the petition is partly GRANTED. The decision of respondent Court of Appeals is MODIFIED by deleting the award in favor of private respondents UNIVERSAL and Monico Sehwani of actual, moral and exemplary damages as well as attorney's fees.

The dismissal of petitioners' counterclaim is AFFIRMED. No pronouncement as to costs.

SO ORDERED.

Davide, Jr., (Chairman), Vitug, and *Kapunan, JJ.,* concur.

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[1] The record shows that A.G. Spalding & Bros., Inc. of Chicopee, Massachusetts, a corporation of Delaware, U.S.A. was the owner of trademark "Spalding" by virtue of an original Certificate of Registration issued by the Philippine Patent Office on 18 July 1923. The trademark was renewed thrice on 3 January 1949, 24 May 1955 and 12 March 1976. A.G. Spalding later merged with QUESTOR CORPORATION of Toledo, Ohio, U.S.A. On 21 August 1981 QUESTOR applied for the issuance of a new certificate of registration in its name covering the unexpired period of registration of the trademark "Spalding." The application was granted on 30 September 1982. (Exhs. "W," "W-2," "W-3," "W-4;" Records, pp. 272-277).

[2] Exh. "6," Records, p. 426.

[3] *Id.,* pp. 38-48.

[4] Docketed as Civil Case No. 49893, the case was originally raffled to Br. 163 presided over by Judge Eduardo Abaya. It was later withdrawn therefrom pursuant to Memo. Cir. No. 1-89 of the Supreme Court and assigned to Assisting Judge Ildefonso E. Gascon by virtue of Adm. Order No 26-90 also of the Supreme Court on "inherited" cases.

[5] This is the amount mentioned in the dispositive portion for exemplary damages although what appears in the body of the decision is ₱200,000.00 (Decision, p. 13, *Rollo,* p. 60).

[6] Buchanan *v.* Vda. de Esteban, 32 Phil. 365 (1995).

[7] Annex "B," Records, p. 317.

[8] *Id.*, p. 318.

[9] People's Financing Corporation *v.* Court of Appeals, G.R. No. 80791, 4 December 1990, 192 SCRA 34.
[10] Auyong Hian *v.* Court of Appeals*,* No. L-28782, 12 September 1974, 59 SCRA 110; Ilocos Norte Electric Company *v.* Court of Appeals, G.R. No. 53401, 6 November 1989, 179 SCRA 19.
[11] Dioquino *v.* Laureano*,* No. L-25906, 28 May 1970, 33 SCRA 72; citing Petroleum Exploration *v.* Public Service Commission*,* 304 U.S. 209 (1938).
[12] 7 Phil. 221 (1906).
[13] Meliton *v.* Court of Appeals, G.R. No. 101883, 11 December 1992, 216 SCRA 496.
[14] Chan *v.* Court of Appeals, G.R. No. 109020, 3 March 1994, 230 SCRA 696.
[15] *Ibid.*
[16] Ruiz *v.* Ucol*,* No. L-45404, 7 August 1987, 153 SCRA 16.
[17] People *v.* Orais, 65 Phil. 744 (1938).
[18] See Note 11.
[19] Art. 28. Unfair competition in agricultural, commercial or industrial enterprises or in labor through the use of force, intimidation, deceit, machination or any other unjust, oppressive or highhanded method shall give rise to a right of action by the person who thereby suffers damage.
[20] Sec. 1, Rule 111, Rules of Court.
[21] Tan *v.* Standard Vacuum Oil Co.*,* 91 Phil. 672 (1952).