

Republic of the Philippines
SUPREME COURT
Manila

FIRST DIVISION

MANUEL P. SAMSON,
Petitioner,

G.R. No. 139983

- versus -

Present:

PUNO, C.J., Chairperson,
CARPIO,
CORONA,
AZCUNA, and
LEONARDO-DE CASTRO, JJ.

COURT OF APPEALS and
WILFRO LUMINLUN,
Respondents.

Promulgated: March 26, 2008

CARPIO, J.:

The Case

This is a petition for review of the Decision^[1] dated 6 September 1999 of the Court of Appeals in CA-G.R. CV No. 31904 reversing the Decision^[2] dated 15 May 1990 and the Order dated 7 December 1990 of the Regional Trial Court, Branch 160, Pasig City in Civil Case No. 58052.

The Antecedent Facts

On 26 February 1982, petitioner Manuel P. Samson (Samson) applied for the registration of the "OTTO" trademark with the Philippine Patent Office on belts, bags, t-shirts, blouses, briefs, pants, jackets, jeans, and bra. On 21 January 1983, respondent Wilfro Luminlun (Luminlun) likewise filed for the registration of the "OTTO" trademark on jeans, sportswear, skirts, and socks.

On 29 December 1983, Samson executed the following document^[3] granting Luminlun the authority to use the "OTTO" trademark for jeans only:

AUTHORITY TO USE TRADEMARK

KNOW ALL MEN BY THESE PRESENTS:

I, MANUEL P. SAMSON, Filipino, of legal age and a resident of Doña Betang Subdivision, Santolan, Metro Manila, am the registered owner of the trademark OTTO for bags, shoes, sandals and slippers under Registration Certificate No. 29840 issued on September 29, 1981, and the applicant in Application hearing Serial No. 47626 for the same trademark OTTO filed on February 26, 1982 for belts, bags, t-shirts, blouses, briefs, pants, jackets, jeans and bras, which application was duly approved for publication in the Official Gazette last November 18, 1982;

That for valuable consideration, I hereby grant unto WILFRO P. LUMINLUN, Filipino, of legal age and with business address at No. 959 Soler Street, Binondo, Manila, a non-transferable, non-assignable, non-exclusive right

and license to use said trademark OTTO for jeans only. This authority shall remain valid and existing for as long as I remain the owner of the trademark OTTO unless said WILFRO P. LUMINLUN should do or cause to be done any act which in any way prejudice or discredit the trademark OTTO not only in connection with its use for jeans but as well as for other products enumerated in my registration certificates/application documents.

IN WITNESS WHEREOF, I have hereunto affixed my signature this 29th day of December, 1983.

SGD. MANUEL P. SAMSON

On 19 March 1984, the Philippine Patent Office issued to Samson a Certificate of Registration for the mark "OTTO" in the principal register for use on belts, bags, t-shirts, blouses, briefs, pants, jackets, jeans, and bra.

In a letter ^[4] dated 29 March 1989, Samson, through counsel, informed Luminlun that he was revoking the latter's authority to use the trademark "OTTO." Samson advised Luminlun to "cease and desist from further manufacturing and distributing OTTO jeans" otherwise he would confiscate jeans using the unauthorized "OTTO" trademark. Samson likewise demanded the payment of royalties, thus:

Dear Mr. Luminlun:

On behalf of my client, Mr. Manuel P. Samson, this is to demand that you CEASE and DESIST from further manufacturing and distributing OTTO jeans effective as of receipt of this notice considering that my aforesaid client had already revoked the authority granted to you for the use of the trademark 'OTTO' in jeans. A copy of the Revocation of Authority To Use Trademark filed in the Patent Office on March 21, 1989 is attached.

Further, you have to account for the sale of OTTO jeans beginning January 1984 up to March 1989 as we will get a percentage thereof for the royalty due to my client of not less than ₱5, 000,000.00 for your use of said trademark for more than five (5) years.

Kindly give us the name and address of your sales outlet in order that they may be properly appraised (sic) of this development.

Should you fail to heed this advice, we will be constrained to file an action for damages and we will pray for issuance of injunction against you and for the confiscation and removal of jeans with the use of an unauthorized trademark 'OTTO'.

I trust for your compliance within five (5) days from receipt hereof to obviate being embroiled in a costly and cumbersome litigation.

Very truly yours,

SGD. NELSON Y. NG

Samson also filed with the Philippine Patent Office a Revocation of Authority to Use Trademark.^[5]

As a result, Luminlun filed a complaint before the Regional Trial Court, Pasig City questioning the validity of Samson's revocation of his authority to use the "OTTO" trademark. Luminlun likewise prayed that he be compensated for the loss of sales he suffered since the

sales outlets refused to accept his deliveries for fear that the goods would be confiscated and removed from their stores.

On 10 April 1989, the trial court issued an Order restraining Samson from “proceeding and carrying out the confiscation and the removal of jeans with trademark ‘OTTO’ pending hearing on the petition for preliminary injunction.” On 19 April 1989, Samson filed an “Opposition to Motion for Issuance of preliminary injunction and/or Motion to Lift Restraining Order.”

After presentation of evidence and submission of memoranda by both parties, on 28 April 1989, the trial court issued an Order granting Luminlun’s prayer for preliminary injunction.

On 9 May 1989, Samson filed his Answer. Samson raised, among others, the defenses that: (1) Luminlun failed to pay royalties for the use of the trademark; and (2) Luminlun violated the terms and conditions of the Authority to Use Trademark when he used the “OTTO” trademark for other products.

The Ruling of the Trial Court

In its Decision dated 15 May 1990, the trial court dismissed Luminlun’s complaint. The dispositive portion of the decision reads:

WHEREFORE, foregoing considered, the complaint is ordered DISMISSED. With costs against plaintiff.

The writ of preliminary injunction earlier issued by the Court is set aside and recalled.

On the counterclaim, plaintiff is ordered to pay defendant attorney’s fees of ₱25, 000.00.

SO ORDERED.^[6]

The trial court ruled that Samson was justified in revoking the authority of Luminlun to use the trademark. The trial court found that Luminlun’s acts of manufacturing and selling products bearing the trademark “OTTO LTD.” like skirts, shorts, pants, jeans, as well as products with the trademark “OTTO” like belts, buttons, and bags, clearly violated the authority granted by Samson to use the “OTTO” trademark for jeans only. The trial court, however, ruled that Samson failed to prove that he was entitled to royalties.

Upon motion for reconsideration of both parties, the trial court in an Order dated 7 December 1990^[7] affirmed its decision with the modification of an award of moral damages of ₱20, 000 in favor of Samson.

The Ruling of the Court of Appeals

On appeal, the Court of Appeals reversed the ruling of the trial court. The appellate court found that Samson revoked the authority on the sole ground that Luminlun failed to pay royalties. According to the appellate court, Samson could not validly revoke the authority based on this ground since he failed to prove that royalties were due him. The appellate court further ruled that Luminlun suffered losses as a result of the revocation and thus awarded damages. The dispositive portion of the Court of Appeals’ decision reads:

WHEREFORE, judgment is hereby rendered setting aside the decision appealed from and a new one issue making the injunction permanent and ordering appellee to pay appellant the following sums of money:

- a) Actual and compensatory damages in the amount of ₱2, 257,872.20.

b) Attorney's fees in the amount of ₱50, 000.00.

Costs against appellee.

SO ORDERED.¹⁸¹

The Issues

Thus, in this petition, Samson raises the following assignment of errors:¹⁹¹

- (a) The Court of Appeals erred in concluding that the revocation of the Authority to Use Trademark made by Samson was unjustified;
- (b) The Court of Appeals erred in awarding actual or compensatory damages of ₱2, 257,872.20 in spite of the total absence of evidence to show that Luminlun sustained such damages as a consequence of the revocation of the Authority to Use Trademark;
- (c) The Court of Appeals erred in awarding attorney's fees of ₱50,000 in spite of the absence of any legal ground for such award; and
- d) The Court of Appeals erred in not sustaining the trial court's award of moral damages and attorney's fees in favor of Samson.

The Court's Ruling

The resolution of this case hinges on whether Samson was justified in revoking Luminlun's authority to use the "OTTO" trademark.

We rule in the affirmative.

In finding for respondent Luminlun, the appellate court rationalized:

x x x In appellee's Opposition to Motion for Issuance of Preliminary Injunction and/or Motion to Lift Restraining Order dated April 18, 1989 (p. 37, Records), it is clearly stated that he revoked the Authority to Use Trademark on the sole ground that appellant failed to pay royalty tax, thus:

"x x x. When plaintiff unjustly and illegally failed, refused and neglected and still fails, refuse, and neglects to pay royalty tax, defendant revoked the grant of authority and the same was filed with the Patent Office on March 21, 1989, a copy of which was served on plaintiff and received by him contained in a letter dated March 29, 1989. (at page 3 of Opposition)

x x x x x x x x x

"It is defendant who is entitled to the issuance of injunction to restrain plaintiff from further manufacturing and distributing OTTO jeans after plaintiff's authority had been revoked for failure to comply with his obligation to pay royalty tax due to defendant."

As correctly pointed out by appellant, the issue that appellee had been allegedly affected and his products allegedly discredited by appellant's use of the trademark OTTO and OTTO Ltd. was but a belated attempt on the part of

the appellee to justify his illegal act of revoking the Authority to Use Trademark issued to the appellant. It was only after realizing the weakness of his sole ground for revoking the authority that he raised said issue.

It is evident that when appellee executed the Revocation of Authority to Use Trademark on March 28, 1989 he was not concerned with appellant's use of the trademark OTTO Ltd. on appellant's product and the trademark OTTO on belts and buttons because there was no prejudice on his part. Otherwise, he could have mentioned the same in the Revocation and in the demand letter dated March 29, 1989 of his counsel, Atty Nelson Y. Ng.^[10] (Emphasis supplied)

We disagree with the appellate court's ruling.

The authority granted to Luminlun to use the "OTTO" trademark was limited for use on jeans only. Under the agreement, Samson could revoke the authority if Luminlun "should do or cause to be done any act which would in any way prejudice or discredit the trademark OTTO not only in connection with its use for jeans but as well as for other products" enumerated in Samson's registration certificates.

As correctly found by the trial court, Luminlun manufactured "OTTO" belts, buttons, and bags as well as "OTTO LTD." clothing in violation of the terms and conditions of the authority which affected Samson and discredited his products, thus:

On the second issue, the Court finds that defendant has been affected and his products discredited by plaintiff's use of trademark "OTTO" and OTTO LTD." on other products, aside from jeans. Plaintiff admitted manufacturing and selling products bearing the trademark "OTTO LTD." like skirts, shorts, pants, jeans; also plaintiff manufactures and sells products with the trademark "OTTO", like belts, buttons and bags. (Exh. "3"; also pp. 67, 68, 69, 91, rec.) The authority given to plaintiff was a non-transferable, non-assignable, non-exclusive right and license to use said trademark "OTTO" for jeans only x x x". (Underlining supplied) Clearly, plaintiff failed to comply with the terms and conditions enumerated in the agreement. Plaintiff had the option to use the trademark "OTTO" but he had done acts constituting bad faith, necessarily discrediting the interest of defendant on his products which were duly registered with the Philippine Patent Office, such as: Exh. "6," photograph of overall with trademark "OTTO"; Exh. "7", issue of Panorama Magazine; Exh. "7-A", trousers with "OTTO LTD.", Exh. "8", t-shirt with brand "OTTO [LTD.]"; Exh. "14", pants bearing "OTTO [LTD.]", Exh. "14-A" & Exh. "14-B"; belt and pant with "OTTO LTD." & "OTTO"; Exh. "15" Cash invoice, pants "OTTO"; Exh. "17"- ." jeans classic with trademark "OTTO".

Defendant therefore was justified when he served notice of revocation of the authority of plaintiff to use the trademark.^[11] (Emphasis supplied)

Under the circumstances and in accordance with the terms and conditions of the Authority to Use Trademark, we find that Samson was justified in revoking Luminlun's authority to use the "OTTO" trademark.

However, the appellate court chose to ignore Luminlun's glaring violation of the terms and conditions of the Authority. The appellate court instead resorted to hair-splitting and ruled that Samson could not justify the revocation since he did not raise this ground in his "Opposition to Motion for Issuance of Preliminary Injunction and/or Motion to Lift Restraining Order."

We find such reasoning flawed.

The records reveal that Samson, in his Answer, raised, among others, the affirmative defense that he had the right to revoke the Authority to Use Trademark because Luminlun manufactured other "OTTO" products aside from jeans:

Defendant had every right and prerogative to revoke the authority granted to plaintiff on the use of the trademark for "OTTO" for jeans only when plaintiff failed to pay a single centavo of royalty and had likewise violated the grant of authority by illegally manufacturing and distributing aside from jeans, other products like jackets, skirts, shirts, blouses and shorts which are not covered by the grant of authority granted to him.^[12] (Emphasis supplied)

We find that Samson seasonably raised this defense and we do not see any basis for the appellate court's ruling that Samson could not invoke this ground.

The appellate court further makes issue of the fact that Samson did not mention in both the Revocation of Authority to Use Trademark and his demand letter dated 29 March 1989 that Luminlun's manufacture of other "OTTO" products such as belts and buttons was prejudicial to him and was the cause for the revocation.

We note that the Revocation of Authority simply mentioned that "it was Luminlun's failure to comply with his undertaking when the authority was executed as the reason for the revocation." The fact that Samson did not indicate the specific reason for the revocation is of no moment and should not be taken against him. Thus, we find no basis for the appellate court's conclusion that when Samson executed the Revocation of Authority he was not concerned with Luminlun's use of the "OTTO" trademark on other products because there was no prejudice on his part. Samson was affected and his products discredited by Luminlun's unauthorized manufacture of other "OTTO" products. Thus, in its Order resolving the Motions for Reconsideration filed by the parties, the trial court stated:

x x x it is not denied defendant was given the authority by the Patent Office and has been the registered owner of the trademark "OTTO" under principal register no. 33064 and 29840 and supplemental register 7390 and 4166. The license was issued to the defendant for the protection of his rights as a registered owner of the trademark in order to identify the lawful user. It was intended to protect the public to be deceived of the use of the products.

On the issue of the violation of the conditions involving the claim of royalty, the Court said that defendant has been affected and his products discredited by the plaintiff's use of trademark "OTTO" and "OTTO LTD," on other products. Plaintiff had admitted manufacturing and selling products with the same trademark on skirts, shorts, pants and jeans. Bad faith was evident from the acts of plaintiff. The authority of plaintiff to use the trademark "OTTO" for jeans was revoked for violation of the terms of the agreement.^[13] (Emphasis supplied)

Considering that Samson was justified in revoking the authority of Luminlun to use the "OTTO" trademark, it necessarily follows that the damages awarded by the appellate court in favor of Luminlun have no basis.

WHEREFORE, we GRANT the Petition. We SET ASIDE the assailed Decision and Resolution of the Court of Appeals and REINSTATE the 15 May 1990 Decision and the 7 December 1990 Order of the Regional Trial Court, Branch 160, Pasig City.

SO ORDERED.

ANTONIO T. CARPIO
Associate Justice

WE CONCUR:

REYNATO S. PUNO
Chief Justice
Chairperson

RENATO C. CORONA
Associate Justice

ADOLFO S. AZCUNA
Associate Justice

TERESITA J. LEONARDO-DE CASTRO
Associate Justice

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution, I certify that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

REYNATO S. PUNO
Chief Justice

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- ^[1] Penned by Associate Justice Demetrio G. Demetria, concurred in by Associate Justices Ramon A. Barcelona and Mercedes Gozo-Dadole.
- ^[2] Penned by Justice Mariano M. Umali.
- ^[3] Records, p. 60.
- ^[4] Id. at 62.
- ^[5] Id. at 63.
- ^[6] *Rollo*, p. 62.
- ^[7] Amending its Order dated 15 October 1990.
- ^[8] *Rollo*, p. 47.
- ^[9] Id. at 19.
- ^[10] Id. at 44-45.
- ^[11] Id. at 61-62.
- ^[12] Records, pp. 93-94.
- ^[13] *Rollo*, pp. 63-64.