

## SECOND DIVISION

[ G.R. No. 204702, January 14, 2015 ]

**RICARDO C. HONRADO, PETITIONER, VS. GMA NETWORK FILMS, INC., RESPONDENT.**

### DECISION

**CARPIO, J.:**

#### The Case

We review<sup>[1]</sup> the Decision<sup>[2]</sup> of the Court of Appeals (CA) ordering petitioner Ricardo C. Honrado (petitioner) to pay a sum of money to respondent GMA Network Films, Inc. for breach of contract and breach of trust.

#### The Facts

On 11 December 1998, respondent GMA Network Films, Inc. (GMA Films) entered into a "TV Rights Agreement" (Agreement) with petitioner under which petitioner, as licensor of 36 films, granted to GMA Films, for a fee of P60.75 million, the exclusive right to telecast the 36 films for a period of three years. Under Paragraph 3 of the Agreement, the parties agreed that "all betacam copies of the [films] should pass through broadcast quality test conducted by GMA-7," the TV station operated by GMA Network, Inc. (GMA Network), an affiliate of GMA Films. The parties also agreed to submit the films for review by the Movie and Television Review and Classification Board (MTRCB) and stipulated on the remedies in the event that MTRCB bans the telecasting of any of the films (Paragraph 4):

The PROGRAMME TITLES listed above shall be subject to approval by the Movie and Television Review and Classification Board (MTRCB) and, *in the event of disapproval, LICENSOR [Petitioner] will either replace the censored PROGRAMME TITLES with another title which is mutually acceptable to both parties or, failure to do such, a proportionate reduction from the total price shall either be deducted or refunded whichever is the case by the LICENSOR OR LICENSEE [GMA Films].*<sup>[3]</sup> (Emphasis supplied)

Two of the films covered by the Agreement were *Evangeline Katorse* and *Bubot* for which GMA Films paid P1.5 million each.

In 2003, GMA Films sued petitioner in the Regional Trial Court of Quezon City (trial court) to collect P1.6 million representing the fee it paid for *Evangeline Katorse* (P1.5 million) and a portion of the fee it paid for *Bubot* (P350,000<sup>[4]</sup>). GMA Films alleged that it rejected *Evangeline Katorse* because "its running time was too short for telecast"<sup>[5]</sup> and petitioner only remitted P900,000 to the owner of *Bubot* (Juanita Alano [Alano]), keeping for himself the balance of P350,000. GMA Films prayed for

the return of such amount on the theory that an implied trust arose between the parties as petitioner fraudulently kept it for himself.<sup>[6]</sup>

Petitioner denied liability, counter-alleging that after GMA Films rejected *Evangeline Katorse*, he replaced it with another film, *Winasak na Pangarap*, which GMA Films accepted. As proof of such acceptance, petitioner invoked a certification of GMA Network, dated 30 March 1999, attesting that such film "is of good broadcast quality"<sup>[7]</sup> (Film Certification). Regarding the fee GMA Films paid for *Bubot*, petitioner alleged that he had settled his obligation to Alano. Alternatively, petitioner alleged that GMA Films, being a stranger to the contracts he entered into with the owners of the films in question, has no personality to question his compliance with the terms of such contracts. Petitioner counterclaimed for attorney's fees.

### **The Ruling of the Trial Court**

The trial court dismissed GMA Films' complaint and, finding merit in petitioner's counterclaim, ordered GMA Films to pay attorney's fees (P100,000). The trial court gave credence to petitioner's defense that he replaced *Evangeline Katorse* with *Winasak na Pangarap*. On the disposal of the fee GMA Films paid for *Bubot*, the trial court rejected GMA Films' theory of implied trust, finding insufficient GMA Films' proof that petitioner pocketed any portion of the fee in question.

GMA Films appealed to the CA.

### **The Ruling of the Court of Appeals**

The CA granted GMA Films' appeal, set aside the trial court's ruling, and ordered respondent to pay GMA Films P2 million<sup>[8]</sup> as principal obligation with 12% annual interest, exemplary damages (P100,000), attorney's fees (P200,000), litigation expenses (P100,000) and the costs. Brushing aside the trial court's appreciation of the evidence, the CA found that (1) GMA Films was authorized under Paragraph 4 of the Agreement to reject *Evangeline Katorse*, and (2) GMA Films never accepted *Winasak na Pangarap* as replacement because it was a "bold" film.<sup>[9]</sup>

On petitioner's liability for the fee GMA Films paid for *Bubot*, the CA sustained GMA Films' contention that petitioner was under obligation to turn over to the film owners the full amount GMA Films paid for the films as "nowhere in the TV Rights Agreement does it provide that the licensor is entitled to any commission x x x [hence] x x x [petitioner] Honrado cannot claim any portion of the purchase price paid for by x x x GMA Films."<sup>[10]</sup> The CA concluded that petitioner's retention of a portion of the fee for *Bubot* gave rise to an implied trust between him and GMA Films, obligating petitioner, as trustee, to return to GMA Films, as beneficiary, the amount claimed by the latter.

Hence, this petition. Petitioner prays for the reinstatement of the trial court's ruling while GMA Films attacks the petition for lack of merit.

### **The Issue**

The question is whether the CA erred in finding petitioner liable for breach of the

Agreement and breach of trust.

### **The Ruling of the Court**

We grant the petition. We find GMA Films' complaint without merit and accordingly reinstate the trial court's ruling dismissing it with the modification that the award of attorney's fees is deleted.

#### ***Petitioner Committed No Breach of Contract or Trust***

#### ***MTRCB Disapproval the Stipulated Basis for Film Replacement***

The parties do not quarrel on the meaning of Paragraph 4 of the Agreement which states:

The PROGRAMME TITLES listed [in the Agreement] x x x shall be subject to approval by the Movie and Television Review and Classification Board (MTRCB) and, *in the event of disapproval, LICENSOR [Petitioner] will either replace the censored PROGRAMME TITLES with another title which is mutually acceptable to both parties or, failure to do such, a proportionate reduction from the total price shall either be deducted or refunded whichever is the case by the LICENSOR OR LICENSEE [GMA Films].*<sup>[11]</sup> (Emphasis supplied)

Under this stipulation, what triggers the rejection and replacement of any film listed in the Agreement is the "disapproval" of its telecasting by MTRCB.

Nor is there any dispute that GMA Films rejected *Evangeline Katorse* not because it was disapproved by MTRCB but because the film's total running time was too short for telecast (undertime). Instead of rejecting GMA Films' demand for falling outside of the terms of Paragraph 4, petitioner voluntarily acceded to it and replaced such film with *Winasak na Pangarap*. What is disputed is whether GMA Films accepted the replacement film offered by petitioner.

Petitioner maintains that the Film Certification issued by GMA Network attesting to the "good broadcast quality" of *Winasak na Pangarap* amounted to GMA Films' acceptance of such film. On the other hand, GMA Films insists that such clearance pertained only to the technical quality of the film but not to its content which it rejected because it found the film as "*bomba*" (bold).<sup>[12]</sup> The CA, working under the assumption that the ground GMA Films invoked to reject *Winasak na Pangarap* was sanctioned under the Agreement, found merit in the latter's claim. We hold that regardless of the import of the Film Certification, GMA Films' rejection of *Winasak na Pangarap* finds no basis in the Agreement.

In terms devoid of any ambiguity, Paragraph 4 of the Agreement requires the intervention of MTRCB, the state censor, before GMA Films can reject a film and require its replacement. Specifically, Paragraph 4 requires that MTRCB, after reviewing a film listed in the Agreement, disapprove or X-rate it for telecasting. GMA Films does not allege, and we find no proof on record indicating, that MTRCB reviewed *Winasak na Pangarap* and X-rated it. Indeed, GMA Films' own witness, Jose Marie Abacan (Abacan), then Vice-President for Program Management of GMA Network, testified during trial that *it was GMA Network* which rejected *Winasak na*