

SECOND DIVISION

[G.R. No. 169974, April 20, 2010]

**SUPERIOR COMMERCIAL ENTERPRISES, INC., PETITIONER, VS.
KUNNAN ENTERPRISES LTD. AND SPORTS CONCEPT &
DISTRIBUTOR, INC., RESPONDENTS.**

D E C I S I O N

BRION, J.:

We review in this petition for review on *certiorari*^[1] the (1) decision^[2] of the Court of Appeals (CA) in CA-G.R. CV No. 60777 that reversed the ruling of the Regional Trial Court of Quezon City, Branch 85 (RTC),^[3] and dismissed the petitioner Superior Commercial Enterprises, Inc.'s (*SUPERIOR*) complaint for trademark infringement and unfair competition (with prayer for preliminary injunction) against the respondents Kunnan Enterprises Ltd. (*KUNNAN*) and Sports Concept and Distributor, Inc. (*SPORTS CONCEPT*); and (2) the CA resolution^[4] that denied *SUPERIOR*'s subsequent motion for reconsideration. The RTC decision that the CA reversed found the respondents liable for trademark infringement and unfair competition, and ordered them to pay *SUPERIOR* P2,000,000.00 in damages, P500,000.00 as attorney's fees, and costs of the suit.

THE FACTUAL ANTECEDENTS

On February 23, 1993, *SUPERIOR*^[5] filed a complaint for trademark infringement and unfair competition with preliminary injunction against *KUNNAN*^[6] and *SPORTS CONCEPT*^[7] with the RTC, docketed as Civil Case No. Q-93014888.

In support of its complaint, *SUPERIOR* *first* claimed to be the owner of the trademarks, trading styles, company names and business names^[8] "*KENNEX*",^[9] "*KENNEX & DEVICE*",^[10] "*PRO KENNEX*"^[11] and "*PRO-KENNEX*" (*disputed trademarks*).^[12] *Second*, it also asserted its prior use of these trademarks, presenting as evidence of ownership the Principal and Supplemental Registrations of these trademarks in its name. *Third*, *SUPERIOR* also alleged that it extensively sold and advertised sporting goods and products covered by its trademark registrations. *Finally*, *SUPERIOR* presented as evidence of its ownership of the disputed trademarks the preambular clause of the Distributorship Agreement dated October 1, 1982 (*Distributorship Agreement*) it executed with *KUNNAN*, which states:

Whereas, **KUNNAN intends to acquire the ownership of KENNEX trademark registered by the [sic] Superior in the Philippines.**

Whereas, the [sic] Superior is desirous of having been appointed [sic] as the sole distributor by KUNNAN in the territory of the Philippines."

[Emphasis supplied.]^[13]

In its defense, KUNNAN disputed SUPERIOR's claim of ownership and maintained that **SUPERIOR** - as mere distributor from October 6, 1982 until December 31, 1991 - **fraudulently registered the trademarks in its name**. KUNNAN alleged that it was incorporated in 1972, under the name KENNEX Sports Corporation for the purpose of manufacturing and selling sportswear and sports equipment; it commercially marketed its products in different countries, including the Philippines since 1972.^[14] It created and first used "PRO KENNEX," derived from its original corporate name, as a distinctive trademark for its products in 1976. KUNNAN also alleged that it registered the "PRO KENNEX" trademark not only in the Philippines but also in 31 other countries, and widely promoted the "KENNEX" and "PRO KENNEX" trademarks through worldwide advertisements in print media and sponsorships of known tennis players.

On October 1, 1982, after the expiration of its initial distributorship agreement with another company,^[15] KUNNAN appointed SUPERIOR as its exclusive distributor in the Philippines under a Distributorship Agreement whose pertinent provisions state:
^[16]

Whereas, KUNNAN intends to acquire ownership of KENNEX trademark registered by the Superior in the Philippines. **Whereas, the Superior is desirous of having been appointed [*sic*] as the sole distributor by KUNNAN in the territory of the Philippines.**

Now, therefore, the parties hereto agree as follows:

1. **KUNNAN in accordance with this Agreement, will appoint the sole distributorship right to Superior in the Philippines**, and this Agreement could be renewed with the consent of both parties upon the time of expiration.
2. **The Superior, in accordance with this Agreement, shall assign the ownership of KENNEX trademark, under the registration of Patent Certificate No. 4730 dated 23 May 1980 to KUNNAN on the effects [*sic*] of its ten (10) years contract of distributorship**, and it is required that the ownership of the said trademark shall be genuine, complete as a whole and without any defects.
3. KUNNAN will guarantee to the Superior that no other third parties will be permitted to supply the KENNEX PRODUCTS in the Philippines except only to the Superior. If KUNNAN violates this stipulation, the transfer of the KENNEX trademark shall be null and void.
4. If there is a necessity, the Superior will be appointed, for the protection of interest of both parties, as the agent in the Philippines with full power to exercise and granted the power of attorney, to pursue any case of Pirating, Infringement and Counterfeiting the [*sic*] KENNEX trade mark in the Philippine territory.

5. The Superior will be granted from [sic] KUNNAN's approval before making and selling any KENNEX products made in the Philippines and the other countries, and if this is the situation, KUNNAN is entitled to have a royalty of 5%-8% of FOB as the right.
6. Without KUNNAN's permission, the Superior cannot procure other goods supply under KENNEX brand of which are not available to supply [sic] by KUNNAN. However, in connection with the sporting goods, it is permitted that the Superior can procure them under KENNEX brand of which are not available to be supplied by KUNNAN. [Emphasis supplied.]

Even though this Agreement clearly stated that SUPERIOR was obligated to assign the ownership of the KENNEX trademark to KUNNAN, the latter claimed that the Certificate of Registration for the KENNEX trademark remained with SUPERIOR because Mariano Tan Bon Diong (*Mr. Tan Bon Diong*), SUPERIOR's President and General Manager, misled KUNNAN's officers into believing that KUNNAN was not qualified to hold the same due to the "many requirements set by the Philippine Patent Office" that KUNNAN could not meet.^[17] KUNNAN further asserted that SUPERIOR deceived it into assigning its applications for registration of the "PRO KENNEX" trademark in favor of SUPERIOR, through an Assignment Agreement dated June 14, 1983 whose pertinent provisions state:^[18]

1. In consideration of the distributorship relationship between KUNNAN and Superior, KUNNAN, who is the seller in the distributorship relationship, **agrees to assign the following trademark applications owned by itself in the Philippines to Superior who is the buyer in the distributorship relationship.**

<u>Trademark</u>	<u>Application Number</u>	<u>Class</u>
PROKENNEX	49999	28
PROKENNEX	49998	25
PROKENNEX	49997	18

2. **Superior shall acknowledge that KUNNAN is still the real and truthful owner of the abovementioned trademarks, and shall agree that it will not use the right of the abovementioned trademarks to do anything which is unfavourable or harmful to KUNNAN.**

3. **Superior agrees that it will return back the abovementioned trademarks to KUNNAN without hesitation at the request of KUNNAN at any time.** KUNNAN agrees that the cost for the concerned assignment of the abovementioned trademarks shall be compensated by KUNNAN.

4. Superior agrees that the abovementioned trademarks when requested by KUNNAN shall be clean and without any incumbency.

5. Superior agrees that after the assignment of the abovementioned trademarks, it shall have no right to reassign or license the said trademarks to any other parties except KUNNAN. [Emphasis supplied]

Prior to and during the pendency of the infringement and unfair competition case before the RTC, KUNNAN filed with the now defunct Bureau of Patents, Trademarks and Technology Transfer^[19] separate Petitions for the Cancellation of Registration Trademark Nos. 41032, SR 6663, 40326, 39254, 4730 and 49998, docketed as Inter Partes Cases Nos. 3709, 3710, 3811, 3812, 3813 and 3814, as well as Opposition to Application Serial Nos. 84565 and 84566, docketed as Inter Partes Cases Nos. 4101 and 4102 (*Consolidated Petitions for Cancellation*) involving the KENNEX and PRO KENNEX trademarks.^[20] In essence, KUNNAN filed the Petition for Cancellation and Opposition on the ground that SUPERIOR fraudulently registered and appropriated the disputed trademarks; as mere distributor and not as lawful owner, it obtained the registrations and assignments of the disputed trademarks in violation of the terms of the Distributorship Agreement and Sections 2-A and 17 of Republic Act No. 166, as amended.^[21]

On December 3, 1991, upon the termination of its distributorship agreement with SUPERIOR, KUNNAN appointed SPORTS CONCEPT as its new distributor. Subsequently, KUNNAN also caused the publication of a Notice and Warning in the Manila Bulletin's January 29, 1993 issue, stating that (1) it is the owner of the disputed trademarks; (2) it terminated its Distributorship Agreement with SUPERIOR; and (3) it appointed SPORTS CONCEPT as its exclusive distributor. This notice prompted SUPERIOR to file its Complaint for Infringement of Trademark and Unfair Competition with Preliminary Injunction against KUNNAN.^[22]

The RTC Ruling

On March 31, 1998, the RTC issued its decision^[23] holding KUNNAN liable for trademark infringement and unfair competition. The RTC also issued a writ of preliminary injunction enjoining KUNNAN and SPORTS CONCEPT from using the disputed trademarks.

The RTC found that SUPERIOR sufficiently proved that it was the first user and owner of the disputed trademarks in the Philippines, based on the findings of the Director of Patents in Inter Partes Case No. 1709 and 1734 that SUPERIOR was "rightfully entitled to register the mark `KENNEX' as user and owner thereof." It also considered the "Whereas clause" of the Distributorship Agreement, which categorically stated that "KUNNAN intends to acquire ownership of [the] KENNEX trademark registered by SUPERIOR in the Philippines." According to the RTC, this clause amounts to KUNNAN's express recognition of SUPERIOR's ownership of the KENNEX trademarks.^[24]

KUNNAN and SPORTS CONCEPT appealed the RTC's decision to the CA where the appeal was docketed as CA-G.R. CV No. 60777. KUNNAN maintained that SUPERIOR was merely its distributor and could not be the owner of the disputed trademarks. SUPERIOR, for its part, claimed ownership based on its prior use and numerous valid registrations.

Intervening Developments:
The IPO and CA Rulings

In the course of its appeal to the CA, KUNNAN filed on December 19, 2003 a Manifestation and Motion praying **that the decision of the Bureau of Legal Affairs (BLA) of the Intellectual Property Office (IPO), dated October 30, 2003, in the Consolidated Petitions for Cancellation be made of record and be considered by the CA in resolving the case.**^[25] The BLA ruled in this decision -

In the case at bar, Petitioner-Opposer (Kunnan) has overwhelmingly and convincingly established its rights to the mark "PRO KENNEX". It was proven that actual use by Respondent-Registrant is not in the concept of an owner but as a mere distributor (Exhibits "I", "S" to "S-1", "P" and "P-1" and "Q" and "Q-2") and as enunciated in the case of Crisanta Y. Gabriel vs. Dr. Jose R. Perez, 50 SCRA 406, "a mere distributor of a product bearing a trademark, even if permitted to use said trademark has no right to and cannot register the said trademark."

WHEREFORE, there being sufficient evidence to prove that the Petitioner-Opposer (KUNNAN) is the prior user and owner of the trademark "**PRO-KENNEX**", the consolidated Petitions for Cancellation and the Notices of Opposition are hereby **GRANTED**. Consequently, the trademark "**PRO-KENNEX**" bearing Registration Nos. 41032, 40326, 39254, 4730, 49998 for the mark PRO-KENNEX issued in favor of Superior Commercial Enterprises, Inc., herein Respondent-Registrant under the Principal Register and SR No. 6663 are hereby **CANCELLED**. Accordingly, trademark application Nos. 84565 and 84566, likewise for the registration of the mark PRO-KENNEX are hereby **REJECTED**.

Let the file wrappers of PRO-KENNEX subject matter of these cases be forwarded to the Administrative Finance and Human Resources Development Services Bureau (AFHRDSB) for appropriate action in accordance with this Decision and a copy thereof be furnished the Bureau of Trademarks (BOT) for information and update of its record.^[26]

On February 4, 2005, KUNNAN again filed another Manifestation requesting that the **IPO Director General's decision on appeal dated December 8, 2004, denying SUPERIOR's appeal**, be given weight in the disposition of the case.^[27] The dispositive portion of the decision reads:^[28]

WHEREFORE, premises considered, there is no cogent reason to disturb Decision No. 2003-35 dated 30 October 2003 rendered by the Director of the Bureau of Legal Affairs. Accordingly, the instant appeal is DENIED and the appealed decision is hereby AFFIRMED.

We take judicial notice that SUPERIOR questioned the IPO Director General's ruling