

## THIRD DIVISION

[ G.R. No. 179127, December 24, 2008 ]

**IN-N-OUT BURGER, INC, PETITIONER, VS. SEHWANI,  
INCORPORATED AND/OR BENITA'S FRITES, INC.,  
RESPONDENTS.**

### D E C I S I O N

**CHICO-NAZARIO, J.:**

This is a Petition for Review on *Certiorari* under Rule 45 of the Rules of Court, seeking to reverse the Decision<sup>[1]</sup> dated 18 July 2006 rendered by the Court of Appeals in CA-G.R. SP No. 92785, which reversed the Decision<sup>[2]</sup> dated 23 December 2005 of the Director General of the Intellectual Property Office (IPO) in Appeal No. 10-05-01. The Court of Appeals, in its assailed Decision, decreed that the IPO Director of Legal Affairs and the IPO Director General do not have jurisdiction over cases involving unfair competition.

Petitioner IN-N-OUT BURGER, INC., a business entity incorporated under the laws of California, United States (US) of America, which is a signatory to the Convention of Paris on Protection of Industrial Property and the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS). Petitioner is engaged mainly in the restaurant business, but it has never engaged in business in the Philippines.<sup>[3]</sup>

Respondents Sehwani, Incorporated and Benita Frites, Inc. are corporations organized in the Philippines.<sup>[4]</sup>

On 2 June 1997, petitioner filed trademark and service mark applications with the Bureau of Trademarks (BOT) of the IPO for "IN-N-OUT" and "IN-N-OUT Burger & Arrow Design." Petitioner later found out, through the Official Action Papers issued by the **IPO** on 31 May 2000, that respondent Sehwani, Incorporated had already obtained Trademark Registration for the mark "IN N OUT (the inside of the letter "O" formed like a star)."<sup>[5]</sup> By virtue of a licensing agreement, Benita Frites, Inc. was able to use the registered mark of respondent Sehwani, Incorporated.

Petitioner eventually filed on 4 June 2001 before the Bureau of Legal Affairs (BLA) of the IPO an administrative complaint against respondents for unfair competition and cancellation of trademark registration. Petitioner averred in its complaint that it is the owner of the trade name IN-N-OUT and the following trademarks: (1) "IN-N-OUT"; (2) "IN-N-OUT Burger & Arrow Design"; and (3) "IN-N-OUT Burger Logo." These trademarks are registered with the Trademark Office of the US and in various parts of the world, are internationally well-known, and have become distinctive of its business and goods through its long and exclusive commercial use.<sup>[6]</sup> Petitioner pointed out that its internationally well-known trademarks and the mark of the respondents are all registered for the restaurant business and are clearly identical

and confusingly similar. Petitioner claimed that respondents are making it appear that their goods and services are those of the petitioner, thus, misleading ordinary and unsuspecting consumers that they are purchasing petitioner's products.<sup>[7]</sup>

Following the filing of its complaint, petitioner sent on 18 October 2000 a demand letter directing respondent Sehwani, Incorporated to cease and desist from claiming ownership of the mark "IN-N-OUT" and to voluntarily cancel its trademark registration. In a letter-reply dated 23 October 2000, respondents refused to accede to petitioner's demand, but expressed willingness to surrender the registration of respondent Sehwani, Incorporated of the "IN N OUT" trademark for a fair and reasonable consideration.<sup>[8]</sup>

Petitioner was able to register the mark "Double Double" on 4 July 2002, based on their application filed on 2 June 1997.<sup>[9]</sup> It alleged that respondents also used this mark, as well as the menu color scheme. Petitioners also averred that respondent Benita's receipts bore the phrase, "representing IN-N-OUT Burger."<sup>[10]</sup> It should be noted that although respondent Sehwani, Incorporated registered a mark which appeared as "IN N OUT (the inside of the letter "O" formed like a star)," respondents used the mark "IN-N-OUT."<sup>[11]</sup>

To counter petitioner's complaint, respondents filed before the BLA-IPO an Answer with Counterclaim. Respondents asserted therein that they had been using the mark "IN N OUT" in the Philippines since 15 October 1982. On 15 November 1991, respondent Sehwani, Incorporated filed with the then Bureau of Patents, Trademarks and Technology Transfer (BPTTT) an application for the registration of the mark "IN N OUT (the inside of the letter "O" formed like a star)." Upon approval of its application, a certificate of registration of the said mark was issued in the name of respondent Sehwani, Incorporated on 17 December 1993. On 30 August 2000, respondents Sehwani, Incorporated and Benita Frites, Inc. entered into a Licensing Agreement, wherein the former entitled the latter to use its registered mark, "IN N OUT." Respondents asserted that respondent Sehwani, Incorporated, being the registered owner of the mark "IN N OUT," should be accorded the presumption of a valid registration of its mark with the exclusive right to use the same. Respondents argued that none of the grounds provided under the Intellectual Property Code for the cancellation of a certificate of registration are present in this case. Additionally, respondents maintained that petitioner had no legal capacity to sue as it had never operated in the Philippines.<sup>[12]</sup>

Subsequently, the IPO Director of Legal Affairs, Estrellita Beltran-Abelardo, rendered a Decision dated 22 December 2003,<sup>[13]</sup> in favor of petitioner. According to said Decision, petitioner had the legal capacity to sue in the Philippines, since its country of origin or domicile was a member of and a signatory to the Convention of Paris on Protection of Industrial Property. And although petitioner had never done business in the Philippines, it was widely known in this country through the use herein of products bearing its corporate and trade name. Petitioner's marks are internationally well-known, given the world-wide registration of the mark "IN-N-OUT," and its numerous advertisements in various publications and in the Internet. Moreover, the IPO had already declared in a previous *inter partes* case that "In-N-Out Burger and Arrow Design" was an internationally well-known mark. Given these circumstances, the IPO Director for Legal Affairs pronounced in her Decision that

petitioner had the right to use its tradename and mark "IN-N-OUT" in the Philippines to the exclusion of others, including the respondents. However, respondents used the mark "IN N OUT" in good faith and were not guilty of unfair competition, since respondent Sehwani, Incorporated did not evince any intent to ride upon petitioner's goodwill by copying the mark "IN-N-OUT Burger" exactly. The inside of the letter "O" in the mark used by respondents formed a star. In addition, the simple act of respondent Sehwani, Incorporated of inquiring into the existence of a pending application for registration of the "IN-N-OUT" mark was not deemed fraudulent. The dispositive part of the Decision of the IPO Director for Legal Affairs reads:

With the foregoing disquisition, Certificate of Registration No. 56666 dated 17 December 1993 for the mark "IN-N-OUT" (the inside of the letter "O" formed like a star) issued in favor of Sehwani, Incorporated is hereby CANCELLED. Consequently, respondents Sehwani, Inc. and Benita's Frites are hereby ordered to permanently cease and desist from using the mark "IN-N-OUT" and "IN-N-OUT BURGER LOGO" on its goods and in its business. With regards the mark "Double-Double," considering that as earlier discussed, the mark has been approved by this Office for publication and that as shown by evidence, Complainant is the owner of the said mark, Respondents are so hereby ordered to permanently cease and desist from using the mark Double-Double. NO COSTS. <sup>[14]</sup>

Both parties filed their respective Motions for Reconsideration of the aforementioned Decision. Respondents' Motion for Reconsideration<sup>[15]</sup> and petitioner's Motion for Partial Reconsideration<sup>[16]</sup> were denied by the IPO Director for Legal Affairs in Resolution No. 2004-18<sup>[17]</sup> dated 28 October 2004 and Resolution No. 2005-05 dated 25 April 2005,<sup>[18]</sup> respectively.

Subsequent events would give rise to two cases before this Court, G.R. No. 171053 and G.R. No. 179127, the case at bar.

### **G.R. No. 171053**

On 29 October 2004, respondents received a copy of Resolution No. 2004-18 dated 28 October 2004 denying their Motion for Reconsideration. Thus, on 18 November 2004, respondents filed an Appeal Memorandum with IPO Director General Emma Francisco (Director General Francisco). However, in an Order dated 7 December 2004, the appeal was dismissed by the IPO Director General for being filed beyond the **15**-day reglementary period to appeal.

Respondents appealed to the Court of Appeals via a Petition for Review under Rule 43 of the Rules of Court, filed on 20 December 2004 and docketed as **CA-G.R. SP No. 88004**, challenging the dismissal of their appeal by the IPO Director General, which effectively affirmed the Decision dated 22 December 2003 of the IPO Director for Legal Affairs ordering the cancellation of the registration of the disputed trademark in the name of respondent Sehwani, Incorporated and enjoining respondents from using the same. In particular, respondents based their Petition on the following grounds:

THE IPO DIRECTOR GENERAL COMMITTED GRAVE ERROR IN  
DISMISSING APPEAL NO. 14-2004-00004 ON A MERE TECHNICALITY

THE BUREAU OF LEGAL AFFAIR'S (SIC) DECISION AND RESOLUTION (1) CANCELLING RESPONDENT'S CERTIFICATE OF REGISTRATION FOR THE MARK "IN-N-OUT," AND (2) ORDERING PETITIONERS TO PERMANENTLY CEASE AND DESIST FROM USING THE SUBJECT MARK ON ITS GOODS AND BUSINESS ARE CONTRARY TO LAW AND/OR IS NOT SUPPORTED BY EVIDENCE.

Respondents thus prayed:

WHEREFORE, petitioners respectfully pray that this Honorable Court give due course to this petition, and thereafter order the Office of the Director General of the Intellectual Property Office to reinstate and give due course to [respondent]'s Appeal No. 14-2004-00004.

Other reliefs, just and equitable under the premises, are likewise prayed for.

On 21 October 2005, the Court of Appeals rendered a Decision denying respondents' Petition in CA-G.R SP No. 88004 and affirming the Order dated 7 December 2004 of the IPO Director General. The appellate court confirmed that respondents' appeal before the IPO Director General was filed out of time and that it was only proper to cancel the registration of the disputed trademark in the name of respondent Sehwan, Incorporated and to permanently enjoin respondents from using the same. Effectively, the 22 December 2003 Decision of IPO Director of Legal Affairs was likewise affirmed. On 10 November 2005, respondents moved for the reconsideration of the said Decision. On 16 January 2006, the Court of Appeals denied their motion for reconsideration.

Dismayed with the outcome of their petition before the Court of Appeals, respondents raised the matter to the Supreme Court in a Petition for Review under Rule 45 of the Rules of Court, filed on 30 January 2006, bearing the title *Sehwan, Incorporated v. In-N-Out Burger* and docketed as **G.R. No. 171053**.<sup>[19]</sup>

This Court promulgated a Decision in G.R. No. 171053 on 15 October 2007,<sup>[20]</sup> finding that herein respondents failed to file their Appeal Memorandum before the IPO Director General within the period prescribed by law and, consequently, they lost their right to appeal. The Court further affirmed the Decision dated 22 December 2003 of the IPO Director of Legal Affairs holding that herein petitioner had the legal capacity to sue for the protection of its trademarks, even though it was not doing business in the Philippines, and ordering the cancellation of the registration obtained by herein respondent Sehwan, Incorporated of the internationally well-known marks of petitioner, and directing respondents to stop using the said marks. Respondents filed a Motion for Reconsideration of the Decision of this Court in G.R. No. 171053, but it was denied with finality in a Resolution dated 21 January 2008.

**G.R. No. 179127**

Upon the denial of its Partial Motion for Reconsideration of the Decision dated 22 December 2003 of the IPO Director for Legal Affairs, petitioner was able to file a timely appeal before the IPO Director General on 27 May 2005.

During the pendency of petitioner's appeal before the IPO Director General, the Court of Appeals already rendered on 21 October 2005 its Decision dismissing respondents' Petition in CA-G.R. SP No. 88004.

In a Decision dated 23 December 2005, IPO Director General Adrian Cristobal, Jr. found petitioner's appeal meritorious and modified the Decision dated 22 December 2003 of the IPO Director of Legal Affairs. The IPO Director General declared that respondents were guilty of unfair competition. Despite respondents' claims that they had been using the mark since 1982, they only started constructing their restaurant sometime in 2000, after petitioner had already demanded that they desist from claiming ownership of the mark "IN-N-OUT." Moreover, the sole distinction of the mark registered in the name of respondent Sehwan, Incorporated, from those of the petitioner was the star inside the letter "O," a minor difference which still deceived purchasers. Respondents were not even actually using the star in their mark because it was allegedly difficult to print. The IPO Director General expressed his disbelief over the respondents' reasoning for the non-use of the star symbol. The IPO Director General also considered respondents' use of petitioner's registered mark "Double-Double" as a sign of bad faith and an intent to mislead the public. Thus, the IPO Director General ruled that petitioner was entitled to an award for the actual damages it suffered by reason of respondents' acts of unfair competition, exemplary damages, and attorney's fees.<sup>[21]</sup> The *fallo* of the Decision reads:

**WHEREFORE**, premises considered, the [herein respondents] are held guilty of unfair competition. Accordingly, Decision No. 2003-02 dated 22 December 2003 is hereby MODIFIED as follows:

[Herein Respondents] are hereby ordered to jointly and severally pay [herein petitioner]:

1. Damages in the amount of **TWO HUNDRED TWELVE THOUSAND FIVE HUNDRED SEVENTY FOUR AND 28/100(P212,574.28);**
2. Exemplary damages in the amount of **FIVE HUNDRED THOUSAND PESOS (P500,000.00);**
3. Attorney's fees and expenses of litigation in the amount of **FIVE HUNDRED THOUSAND PESOS (P500,000.00).**

All products of [herein respondents] including the labels, signs, prints, packages, wrappers, receptacles and materials used by them in committing unfair competition should be without compensation of any sort be seized and disposed of outside the channels of commerce.

Let a copy of this Decision be furnished the Director of Bureau of Legal Affairs for appropriate action, and the records be returned to her for proper disposition. Further, let a copy of this Decision be furnished the Documentation, Information and Technology Transfer Bureau for their information and records purposes.<sup>[22]</sup>

Aggrieved, respondents were thus constrained to file on 11 January 2006 before the Court of Appeals another Petition for Review under Rule 43 of the Rules of Court,