



Republic of the Philippines
Supreme Court
Baguio City

SECOND DIVISION

M.Y. INTERCONTINENTAL G.R. No. 249715
TRADING CORPORATION,
TEDWIN T. UY, AND ALLIANZ
MARKETING AND PUBLISHING
CORPORATION,

Petitioners,

-versus-

Present:

LEONEN, J., *Chairperson*,
LAZARO-JAVIER,
LOPEZ, M.,
LOPEZ, J., and
KHO, JR., *JJ.*

ST. MARY'S PUBLISHING
CORPORATION AND JERRY
VICENTE S. CATABIJAN,
Respondents.

Promulgated:

APR 12 2023

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DECISION

LEONEN, J.:

A forged Deed of Assignment does not confer rights to the assignee for lack of consent of the copyright owner. Notwithstanding its registration before the National Library, the Deed does not operate as a valid transfer of the exclusive economic rights which belong to the copyright owner. Unauthorized importing, marketing, and selling of books constitute copyright infringement.

This Court resolves the Petition for Review on *Certiorari*¹ filed by M.Y. Intercontinental Trading Corporation (M.Y. Intercontinental), Tedwin T. Uy (Uy), and Allianz Marketing and Publishing Corporation (Allianz) against St. Mary's Publishing Corporation (St. Mary's Publishing) and Jerry

¹ *Rollo*, pp. 20-63.

Vicente S. Catabijan (Catabijan), assailing the Court of Appeals Decision² and Resolution³ affirming the Regional Trial Court's finding⁴ of copyright infringement and award of damages.

St. Mary's Publishing is the copyright owner of *Pagpapaunlad ng Kasanayan sa Pagbasa (Binagong Edisyon)* 1 to 6 and Developing Reading Power Enhanced-Combined Edition 1 to 6 (subject textbooks). Catabijan, Publisher and President of St. Mary's Publishing, entered a business venture with M.Y. Intercontinental and Uy sometime in 2005 to fund the printing of the former's books in China.⁵ M.Y. Intercontinental is the agent and sole distributor of Fujian New Technology Color Making and Printing Company, Ltd. (Fujian), where the books will be printed. St. Mary's Publishing issued several authorities to Fujian to print its textbooks.⁶

The parties entered into a financing agreement under contract with Reference No. SMPCMY 76M 009 for the principal loan amount of PHP 76,748,494.68 representing printing costs of predetermined quantity of books, without prejudice to additional orders. The principal loan amount is the reference amount of interest payments of 2% per month payable since availing of the loan in December 2008. Interests are computed on a diminishing basis upon payment of the principal amount which shall start in June 2009. The principal loan is payable to M.Y. Intercontinental's designated bank from December 2008 to June 2010 through post-dated checks.⁷

To avail of the loan, St. Mary's Publishing allegedly issued purchase orders in favor of M.Y. Intercontinental for printing its textbooks. In accepting the purchase orders, M.Y. Intercontinental confirmed the availability of funds through the delivery of books required by St. Mary's Publishing.⁸ The client warrants full and strict compliance with the schedule of principal loan and interest payments as stipulated in Annex 2-A of the contract. Any delay in payment "shall incur a penalty of two & one-half (2.5%) percent, based on the unpaid portion of the principal loan amount, for every month of delay[.]"⁹

In 2009, St. Mary's Publishing issued several authorities to print its

² *Id.* at 65–75. The April 11, 2019 Decision in CA-G.R. SP No. 154035 was penned by Associate Justice Ricardo R. Rosario (now a Member of this Court) and concurred in by Associate Justices Nina G. Antonio-Valenzuela and Perpetua T. Atal-Paño of the Eleventh Division of the Court of Appeals.

³ *Id.* at 77–79. The September 27, 2019 Resolution was penned by Associate Justice Ricardo R. Rosario (now a Member of this Court) and concurred in by Associate Justices Nina G. Antonio-Valenzuela and Perpetua T. Atal-Paño of the former Eleventh Division of the Court of Appeals.

⁴ *Id.* at 80–114. The December 8, 2017 Decision in Civil Case No. 13-129631 was penned by Presiding Judge Maria Victoria A. Soriano-Villadolid of the Regional Trial Court of Manila, Branch 24.

⁵ *Id.* at 475.

⁶ *Id.* at 39.

⁷ *Id.* at 207–208.

⁸ *Id.* at 208.

⁹ *Id.* at 209.

textbooks in favor of Fujian.¹⁰ It also issued a December 7, 2009 purchase order amounting to PHP 11,347,781.08 for Developing Reading Power (ECE) and *Pagpapaunlad ng Kasanayan sa Pagbasa* for Grades 1 to 6.¹¹

St. Mary's Publishing started defaulting in its obligations, resulting in the non-delivery of books subject of the purchase order. To address St. Mary's Publishing's failure to pay its obligations, several contracts were executed.

Catabijan executed a Declaration of Pledge of real properties of St. Mary's Publishing with an undertaking by way of a February 26, 2010 promissory note.¹² St. Mary's Publishing pledged its collectibles from its sale of books from multiple accounts to be applied to its 2008 and 2009 unpaid obligations to petitioners M.Y. Intercontinental and Uy. Real properties in Sta. Cruz, Manila and Lemery, Batangas, St. Mary's Publishing's collection from claims for flood damages, and its current inventory of stocks of textbooks, were pledged to the petitioners as partial payment should it incur default. To ensure St. Mary's Publishing's ability to pay the promissory note, the publishing house opened its books to petitioners showing its accounts receivables, banks statements, inventory, with weekly reporting requirements to its business.¹³

However, more postdated checks of St. Mary's Publishing bounced. To prevent the breakdown of the parties' relationship, they entered into a Memorandum of Agreement on March 12, 2010. They agreed to open a joint bank account where all St. Mary's Publishing's collectibles for 2009 and 2010 will be deposited. Seventy percent of the proceeds would be applied to St. Mary's Publishing's obligations to petitioners. However, if the balance is not sufficient to answer for the demandable amount to petitioners, the deficiency can be applied from the 30% share of St. Mary's Publishing.¹⁴

Sometime April 2010, Catabijan allegedly gave a signed Deed of Assignment of all its copyright to Uy as a prelude to the execution of a *dacion en pago* which failed to materialize. Uy claimed that he reluctantly received the Deed of Assignment given to him because he was not engaged in the publishing business. Eventually, M.Y. Intercontinental registered the Deed of Assignment under its name. Copyright Registration Nos. A2012-24 to A2012-35 over the subject textbooks were issued in favor of M.Y. Intercontinental on January 18, 2012.¹⁵

¹⁰ *Id.* at 39.

¹¹ *Id.* at 220-221.

¹² *Id.* at 223-228.

¹³ *Id.* at 225-226.

¹⁴ *Id.* at 277-278.

¹⁵ *Id.* at 307-318.

The textbooks subject of the December 7, 2009 purchase order were no longer delivered due to St. Mary's Publishing's failure to pay. On the other hand, there was also no demand from St. Mary's Publishing to deliver the books because it treated the contract as rescinded during a meeting on April 21, 2010.¹⁶

On October 22, 2010, M.Y. Intercontinental's attorney-in-fact, Atty. Marie Ann Carmen F. Ferrer filed a petition for declaratory relief before the Regional Trial Court of Mandaluyong.¹⁷ In the declaratory relief case, the Regional Trial Court held that M.Y. Intercontinental is an unpaid seller. The Regional Trial Court further recognized M.Y. Intercontinental's lien over the subject books covered in the December 7, 2009 purchase order. As an unpaid seller, M.Y. Intercontinental has the right to resell these textbooks and rescind the contract to print considering that St. Mary's Publishing had been in default for an unreasonable length of time.¹⁸ The dispositive portion of the case reads:

WHEREFORE, foregoing premises considered, this court declares that:

1). with respect to the subject Contract to Print, petitioner is deemed to be an unpaid seller within the definition of Article 1525 of the New Civil Code;

2). anent to the 210,000 copies of Developing Reading Power (DRP) series and 91,000 copies of *Pagpapaunlad ng Kasamayan sa Pagbabasa* (PKP) series, petitioner, by virtue of Article 1526:

a. has a lien on the textbooks or right to retain them for the cost of printing and other costs while it is in possession of said textbooks;

b. has a right to resale of these textbooks;

c. has a right to rescind the contract to print.

3). by virtue of Article 1533, and considering that respondent has been in default for an unreasonable time, petitioner, as an unpaid seller having the right of lien and to resell the goods, petitioner shall not thereafter be liable to respondent, upon the contract of sale for any profit made for such resale, but may recover from the respondent damages for any loss occasioned by the breach of the contract of sale;

4). by virtue of the first sale doctrine, respondent, upon default of payment has parted with all right to control the sale of it, including and more especially copyright over the subject textbooks. Petitioner, upon obtaining the copies by operation of law, may now sell them again without authority from respondent. And considering that the textbooks have been

¹⁶ *Id.* at 68.

¹⁷ *Id.* at 115–145. The case is entitled *Marie Ann Carmen F. Ferrer, in her capacity as attorney-in-fact of M.Y. Intercontinental Trading Corporation and/or Tedwin T. Uy v. St. Mary's Publishing and/or Jerry Vicente S. Catabijan*, docketed as Civil Case No. MC-10-5078. Marie Ann Carmen F. Ferrer is also referred to as "Maria Ann Carmen F. Ferrer" in some parts of the *rollo*.

¹⁸ *Id.* at 141, 143.

stored in China, and that these textbooks were written for Philippine consumption, the right to resale of these textbooks shall carry with it the necessary right to import the same; and

5). finding the documents to be in order, the court declares the following document as legally binding:

- a. Cover Note from the China Council for the Promotion of International Trade/China Chamber of International Commerce (Annex "H" of the Petition);
- b. the Authority to Enter into Contracts to Market and Sell the textbooks subject of this case issued by Fujian to MITC (Annex "I" of the Petition);
- c. the authentication issued by the China Council for the Promotion of International Trade/China Chamber of International Commerce certifying that the seal of Fujian on the Authority to Enter into Contracts to Market and Sell the textbooks is genuine (Annex "J" of the Petition);
- d. the authentication issued by the Consulate General of the Philippines in Xiamen, China certifying that the signature and seal of Wang Yahong appearing on the authentication issued by the China Council for the Promotion of International Trade / China Chamber of International Commerce are genuine (Annex "K" of the Petition).

No pronouncement as to costs.

SO ORDERED.¹⁹

The Regional Trial Court of Mandaluyong held that the nature of the transaction is a contract of sale of future goods where M.Y. Intercontinental is the seller of the books and St. Mary's Publishing is the buyer.²⁰ It applied the doctrine of first sale in *Bobbs-Merill Co. v. Stratus*,²¹ an American jurisprudence, which allows "the purchaser or subsequent owner of a copyrighted work to sell or give away a particular lawfully made copy of the copyrighted work without permission once it has been obtained."²² Applying this doctrine, the Regional Trial Court held that copyright of the subject textbooks passed from St. Mary's Publishing to M.Y. Intercontinental when the former contracted with the latter for printing. Since the printed textbooks are not infringing copies, St. Mary's Publishing has no right to control the change of ownership of these textbooks because it has yet to pay the printing services. As an unpaid seller, it held that M.Y. Intercontinental is authorized to sell the books subject of the purchase order without copyright infringement.²³

¹⁹ *Id.* at 141-143.

²⁰ *Id.* at 133.

²¹ 210 U.S. 339 (1908).

²² *Rollo*, p. 140.

²³ *Id.* at 143.

In 2012, St. Mary's Publishing learned that M.Y. Intercontinental sold the subject textbooks to the City of Cabuyao for PHP 14,110,800.00 through a purported Certificate of Copyright Registration under St. Mary's Publishing's name.²⁴ It also learned that Fujian authorized M.Y. Intercontinental to market and sell the subject textbooks in the Philippines, and that Allianz imported and sold the subject textbooks.²⁵

On March 13, 2013, St. Mary's Publishing filed a complaint for copyright infringement against M.Y. Intercontinental, Uy, Fujian, and Allianz before the Regional Trial Court of Manila, Branch 24.²⁶ St. Mary's Publishing prayed that defendants desist from infringement, and pay actual damages amounting to PHP 90,300,000.00 for the gross sales of the subject textbooks under the December 7, 2009 purchase order, moral and exemplary damages amounting to PHP 25 million each, and attorney's fees and expenses of litigation amounting to PHP 15 million.²⁷

M.Y. Intercontinental filed its Amended Answer, raising its compulsory counterclaims against St. Mary's Publishing for PHP 76,748,494.68 as the amount of Contract Reference No. SMPCMY 76M 009 and PHP 11,347,781.08 for the December 7, 2009 purchase order. They also asked for moral and exemplary damages amounting to PHP 50 million each and attorney's fees and costs of suit amounting to PHP 10 million.²⁸

During trial, St. Mary's Publishing presented three witnesses.

Catabijan testified that his father owned several copyrights of the subject textbooks, all of which were eventually assigned to St. Mary's Publishing. He testified that Anita Bagabaldo (Bagabaldo), author of the subject textbooks, executed a Deed of Assignment of the copyright in favor of St. Mary's Publishing, which the latter registered in the National Library. St. Mary's Publishing was able to secure accreditation from the Department of Education authorizing it to sell the textbooks to government offices without bidding.²⁹

Catabijan denied executing the Deed of Assignment in favor of M.Y. Intercontinental, claiming that his signature was forged.³⁰ He filed a criminal case for falsification of public documents before the Office of the City Prosecutor of Manila. He presented separate reports from the Quezon

²⁴ *Id.* at 68-69.

²⁵ *Id.* at 81.

²⁶ *Id.* at 33.

²⁷ *Id.* at 81.

²⁸ *Id.* at 477-478.

²⁹ *Id.* at 88. Defendants filed compulsory counterclaims of moral and exemplary damages amounting to PHP 50 million each and attorney's fees and costs of suit amounting to PHP 10 million.

³⁰ *Id.* at 69.

City Police District and National Bureau of Investigation, with both finding that the signature in the Deed of Assignment is not the same as Catabijan's authentic signature.³¹ He also sent a letter to the National Library for the cancellation of M.Y. Intercontinental's copyright, but it was denied.³²

St. Mary's Publishing presented Bagabaldo, who testified that she was an in-house author and managing editor of St. Mary's Publishing. She wrote the subject textbooks and executed an Absolute Deed of Assignment of their copyright in favor of her employer. She also testified that the company expanded the medium of the content of the subject textbooks to e-books, audio books, pamphlets, comics, novels, and articles.³³

St. Mary's Publishing also presented Joseph Sebua, its Corporate Secretary and Administrative Officer. He secured documents confirming M.Y. Intercontinental's sale of the company's textbooks to the Department of Education, Zamboanga City, Municipality of Matnog in Sorsogon, and Municipality of Cabuyao, Laguna.³⁴

The lone testimony of Uy was presented before the trial court. Uy testified that M.Y. Intercontinental's business venture with St. Mary's Publishing started in 2005, when he and M.Y. Intercontinental provided funds and printing services for St. Mary's Publishing.³⁵ The two parties' relationship turned sour in 2010 because of St. Mary's failure to pay the costs of the printing in 2009 and issuance of several bouncing checks.³⁶ The parties executed documents to settle St. Mary's Publishing's claim, including a Declaration of Pledge and Undertaking, and a Memorandum of Agreement in 2010.³⁷ Catabijan also delivered a signed copy of the Deed of Assignment of Copyright because he felt ashamed that he was unable to pay his obligations. Uy alleged that he was hesitant to accept the Deed of Assignment at first, but it was Catabijan who insisted. The Deed of Assignment was notarized on March 29, 2010. Uy applied a copyright registration on January 18, 2012 under the name of M.Y. Intercontinental.³⁸

The Regional Trial Court granted the complaint and ordered Uy, M.Y. Intercontinental, Fujian, and Allianz to solidarily pay St. Mary's Publishing 20% of the total sales amounting to PHP 18,060,000.00 as actual damages, PHP 1,000,000.00 as moral damages, PHP 2,000,000.00 as exemplary damages, and PHP 500,000.00 for legal costs and other expenses. The dispositive portion reads:

³¹ *Id.*

³² *Id.* at 69.

³³ *Id.* at 94-95.

³⁴ *Id.* at 95-96.

³⁵ *Id.* at 96.

³⁶ *Id.* at 96-97.

³⁷ *Id.* at 97-98.

³⁸ *Id.* at 70.

WHEREFORE, premises considered, defendants M.Y. Intercontinental Trading Corporation, Teddy T. Uy, Fujian New Technology Color Making and Printing Company, Ltd. and Allianz Marketing and Publishing Corporation are hereby ordered to:

- a. Desist from printing, copying, importing, revising, distributing, reproducing, promoting, and selling the following textbooks:
 1. Developing Reading Power, Grade II, Books A, B, C, and D covered by Certificates of Copyright Registration Nos. PD A 18951 to PD A 18954;
 2. Developing Reading Power, Grade III, Books A, B, C, D, and E covered by Certificates of Copyright Registration Nos. PD A 15367 to PD A 15371;
 3. Developing Reading Power, Grade IV, Books A, B, C, D, and E covered by Certificates of Copyright Registration Nos. PD A 15372 to PD A 15376;
 4. Developing Reading Power, Grade V, Books A, B, C, D, and E covered by Certificates of Copyright Registration Nos. PD A 15377 to PD A 15381;
 5. Developing Reading Power, Grade VI, Books A, B, C, D, and E covered by Certificates of Copyright Registration Nos. PD A 15382 to PD A 15385 and PD A 19107;
 6. Developing Reading Power 1 to 6 (Enhanced-Combined Edition) covered by Certificates of Copyright Registration and Deposit Nos. A 2005-1314 to A 2005-1319
 7. Pagpapaunlad ng Kasanayan sa Pagbabasa 1 to 6 (Binagong Edisyon) covered by Certificates of Copyright Registration and Deposit Nos. A 2005-1320 to A 2005-1325;
 8. Developing Reading Power 1 to 6 (Enriched-Combined Edition) covered by Certificates of Copyright Registration and Deposit Nos. PD A 2011-2325 to A 2011-2328 and A 2011-2331 to A 2011-2332;
 9. Pagpapaunlad ng Kasanayan sa Pagbabasa I to 6 (Binagong Edisyon) covered by Certificates of Copyright Registration and Deposit Nos. A 2012-00367 to A 2012-00372;
 10. Developing Reading Power (Revised Edition) described in paragraph 1.16 of the Complaint;
 11. Pagpapaunlad ng Kasanayan sa Pagbabasa (Binagong Edisyon) described in paragraph 1.16 of the Complaint;
 12. Developing Reading Power (Enhanced Edition) described in paragraph 1.16 of the Complaint;

and copies thereof including copies of the Revised Editions or other formatted versions of said works.

- b. Solidarily pay:

1. Damages of [PHP] 18,060,000.00;
2. Moral damages of [PHP] 1,000,000.00
3. Exemplary damages of [PIIP] 2,000,000.00
4. Attorney's fees of [PHP] 500,000.00; and



5. Costs of suit.

SO ORDERED.³⁹

The trial court held that it was not contested that the books were imported and sold by Allianz on the strength of M.Y. Intercontinental's registered copyright over the subject books. It held that the Deed of Assignment from which M.Y. Intercontinental derived its rights over the subject textbooks was not properly notarized. There was no notarial seal on the pages of the instrument without its photographically reproducible mark. It also lacked the serial number of the commission of the notary, and the acknowledgement does not reflect the community tax certificate of the person who attested to the document before the notary public. Hence, the Regional Trial Court considered it as a private document whose authenticity must be established under the Rules of Court, Rule 132, Section 20. The defendants, having the burden to authenticate the Deed of Assignment, failed to present the notary public.⁴⁰

Second, the Regional Trial Court observed that the signatures in the documents submitted by Catabijan differed from his purported signature in the Deed of Assignment. It also appreciated the findings of the Crime Laboratory Office of the Philippine National Police and the National Bureau of Investigation that the signatures were not made by one and the same person.⁴¹ The trial court thus did not find Uy's lone testimony credible due to the inconsistencies in his statements and the belated registration of the Deed of Assignment. The trial court considered the totality of the evidence and held that the Deed of Assignment was forged, and the copyright of petitioner based on the Deed of Assignment as void.⁴²

The trial court held that Fujian committed copyright infringement when it authorized M.Y. Intercontinental to sell St. Mary's Publishing's books in the Philippines, because at that time, St. Mary's Publishing was the copyright owner of the subject textbooks.⁴³ Without the consent of the copyright owner, reproduction of the copyrighted books amounted to copyright infringement. The trial court relied on the Berne Convention for the Protection of Literary and Artistic Works to hold Fujian, a foreign corporation, liable.⁴⁴ It also held Allianz liable for infringement for printing, publishing and selling copies of the St. Mary's Publishing's *Development Reading Power Supplements K+12 Compliance Textbooks* (Revised Edition), which is the same book, except for the copyright page and cover.⁴⁵ The defendants were ordered to desist from "copying, printing, using, importing, revising, distributing, reproducing, promoting and selling of

³⁹ *Id.* at 113–114.

⁴⁰ *Id.* at 105–106.

⁴¹ *Id.* at 106–107.

⁴² *Id.* at 108–109.

⁴³ *Id.* at 109.

⁴⁴ *Id.* at 110.

⁴⁵ *Id.*

copies of said textbooks including all copies of the Revised Editions and other formatted versions of said works.”⁴⁶

The Regional Trial Court awarded actual damages equivalent to 20% of the gross selling price of the books covered under the December 7, 2009 purchase order.⁴⁷ The trial court used the Department of Education’s mandated selling price of the book at PHP 300.00 and deducted overhead costs, printing, royalties, customs brokerage fees, taxes, and other expenses at arriving at the just and reasonable amount of damages.⁴⁸ It awarded moral damages amounting to PHP 1,000,000.00 and exemplary damages of PHP 2,000,000.00, attorney’s fees of PHP 500,000.00, legal costs, and other expenses.⁴⁹

M.Y. Intercontinental filed an appeal by way of a Petition for Review under Rule 43 before the Court of Appeals. On April 11, 2019, the Court of Appeals dismissed the appeal and affirmed the trial court’s ruling:

WHEREFORE, premises considered, the 8 December 2017 decision of the Regional Trial Court- Branch 24, Manila in Civil Case No. 13-129631 is herein AFFIRMED in *toto*.

SO ORDERED.⁵⁰

The Court of Appeals did not give due course to the petition because there was no *prima facie* showing that the trial court committed errors of fact or law. Its findings were consistent with evidence on record.⁵¹ The Court of Appeals sustained the findings that the Deed of Assignment was not properly notarized.⁵² The Court of Appeals found preponderance of evidence sustaining St. Mary’s Publishing’s allegation that the signature in the Deed of Assignment was not authentic.⁵³ It applied the presumption of regularity of official duties since M.Y. Intercontinental did not present contrary evidence against the findings of the Philippine National Police and the National Bureau of Investigation.⁵⁴ Finally, it did not rule upon the merits of the infringement case, there being no misapprehension of facts and law on the part of the trial court. Thus, its findings on the issue were upheld.⁵⁵

Petitioners contend that they did not commit copyright infringement

⁴⁶ *Id.* at 111.

⁴⁷ The Regional Trial Court Decision erroneously referred to the December 7, 2009 purchase order covering 301,000 pieces of books as Purchase Order dated December 7, 2010. *See* Rollo pp. 220–222.

⁴⁸ *Id.* at 111–112.

⁴⁹ *Id.* at 112.

⁵⁰ *Id.* at 73.

⁵¹ *Id.* at 71–73.

⁵² *Id.* at 71–72.

⁵³ *Id.* at 74.

⁵⁴ *Id.*

⁵⁵ *Id.* at 73.

because M.Y. Intercontinental is the holder of a valid and existing certificate of copyright registration. Thus, there is a *prima facie* proof of its ownership, which is valid until annulled in a separate proceeding. Since there was no order from the trial court cancelling their certificate of copyright registration, it continues to subsist.⁵⁶

Petitioners also contend that the trial court should not have disregarded the findings in the declaratory relief case in Civil Case No. MC-10-5078. They assert that the infringement case was a mere afterthought without a real cause of action.⁵⁷ Petitioners admit that their acts of selling St. Mary's Publishing's books was not done pursuant to the declaratory relief case but it is relevant to show that the award has no basis.⁵⁸

In sustaining the award of the trial court, the Court of Appeals acquiesced to unjust enrichment. In invalidating the Deed of Assignment, petitioners claim that the trial court should have acknowledged the debt of respondent St. Mary's, especially since they raised it as a compulsory counterclaim in their Answer. Since the Deed of Assignment was used to pay for respondent's debt to petitioners, the lower courts should have ordered petitioners to pay for the same as a consequence of the nullity of the Deed of Assignment.⁵⁹ Even assuming there was forgery, there was no proof or allegation that it was Uy who was responsible for the same. Thus, respondent's debts should also be restored from the time they fell due, earning legal interest, so as not to result in unjust enrichment.⁶⁰

Petitioners likewise assail the award of the trial court. There was no basis for the trial court's computation of actual damages because there was no proof that the 301,000 books were sold at PHP 300.00 each. Moreover, the Declaratory Relief Case adjudged their right to import and resell the books covered by the December 7, 2009 purchase order. There was injustice in the amount of damages awarded given that respondent owes petitioners millions of pesos.⁶¹ Moreover, there being no proof that it was Uy who forged the Deed of Assignment, the trial court should not have awarded actual, moral, exemplary, and other types of damages and costs. The forgery could have been done by Catabijan since when Uy received the Deed of Assignment, it was already signed. In fact, it was petitioners who sought the National Bureau of Investigation's examination of the Deed of Assignment for forgery.⁶²

Petitioners argue that the trial court erred in refusing to resolve its compulsory counterclaim based on alleged non-payment. They contend that

⁵⁶ *Id.* at 38-40.

⁵⁷ *Id.* at 41.

⁵⁸ *Id.* at 40-43.

⁵⁹ *Id.* at 44-46.

⁶⁰ *Id.* at 46.

⁶¹ *Id.* at 47-48.

⁶² *Id.* at 49.

they paid for a permissive counterclaim as directed by the trial court, knowing that such is prohibited in intellectual property rights cases. Their claim against respondent is compulsory because it arose out of and relates to the subject matter of the case.⁶³ They also seek the issuance of the temporary restraining order and preliminary injunction against the execution of the trial court's award.⁶⁴

Respondents filed their Comment⁶⁵ alleging that there was no question of law raised in the Petition. They claim that the Court of Appeals did not commit any error of law in its decision because both the lower courts' decisions are based upon facts and the evidence on record.⁶⁶ Thus, there is no special reason for this Court to review the decision of the Court of Appeals. As owner of the copyright of the books, M.Y. Intercontinental hold the exclusive rights to distribute, sell, and to promote these books to the exclusion of petitioners. There was no legal transfer of copyright from St. Mary's Publishing to petitioners.⁶⁷

To resolve whether there is copyright infringement, the following sub-issues are relevant:

first, whether the Deed of Assignment is genuine and valid;

second, whether the declaratory relief ruling is binding in the infringement case; whether the trial court correctly awarded damages; and

finally, whether the counterclaim of petitioners should have been resolved in the infringement case.

We partially grant the Petition.

I

A copyright owner has exclusive economic rights in the reproduction and distribution of the original copy of their work through sale and other forms of transfer of ownership.⁶⁸ The owner, by themselves or through

⁶³ *Id.* at 50–52.

⁶⁴ *Id.* at 52–54.

⁶⁵ *Id.* at 971–974.

⁶⁶ *Id.* at 971.

⁶⁷ *Id.* at 972.

⁶⁸ INTELLECTUAL PROPERTY CODE, secs. 177.1 and 177.3 state:

SECTION 177. *Copyright or Economic Rights.* — Subject to the provisions of Chapter VIII, copyright or economic rights shall consist of the exclusive right to carry out, authorize or prevent the following acts:

177.1. Reproduction of the work or substantial portion of the work;

....

177.3. The first public distribution of the original and each copy of the work by sale or other forms of

others, may authorize the conduct of these activities. They may also prevent unauthorized activities.⁶⁹

Chief Justice Davide, Jr., in his dissenting opinion in *Habana v. Robles*,⁷⁰ explains that reproduction of copyright and its enforcement are necessary for the full enjoyment of its creator:

Stripped in the meantime of its indisputable social and beneficial functions, the use of intellectual property or creations should basically promote the creator or author's personal and economic gain. Hence, the copyright protection extended to the creator should ensure his attainment of some form of personal satisfaction and economic reward from the work he produced. Without conceding the suitability of *Laktaw* as precedent, the Court there quoted *Manresa* and explained:

He who writes a book, or carves a statue, or makes an invention, has the absolute right to reproduce or sell it, just as the owner of the land has the absolute right to sell it or its fruits. But while the owner of the land, by selling it and its fruits, perhaps fully realizes all its economic value, by receiving its benefits and utilities, which are represented for example, by the price, on the other hand the author of a book, statue or invention does not reap all the benefits and advantages of his own property by disposing of it, for the most important form of realizing the economic advantages of a book, statue or invention, consists in the right to reproduce it in similar or like copies, everyone of which serves to give to the person reproducing them all the conditions which the original requires in order to give the author the full enjoyment thereof. If the author of a book, after its publication, cannot prevent its reproduction by any person who may want to reproduce it, then the property right granted him is reduced to a very insignificant thing and the effort made in the production of the book is in no way rewarded.

The execution, therefore, of any one or more of the exclusive rights conferred by law on a copyright owner, without his consent, constitutes copyright infringement. In essence, copyright infringement, known in general as "piracy," is a trespass on a domain owned and occupied by a copyright owner; it is violation of a private right protected by law. With the invasion of his property rights, a copyright owner is naturally entitled to seek redress, enforce and hold accountable the defrauder or usurper of said economic rights.⁷¹ (Emphasis supplied, citations omitted)

Nevertheless, copyright and all its appurtenant rights may be assigned entirely or in parts. The assignee enjoys the rights and has the remedies of the assignor of the copyright.⁷² The assignment must be contained in a

transfer of ownership].

⁶⁹ *Id.*

⁷⁰ 369 Phil. 764 (1999) [Per J. Pardo, First Division].

⁷¹ *Habana v. Robles*, 369 Phil. 764, 789-790 (1999) [Per J. Pardo, First Division].

⁷² INTELLECTUAL PROPERTY CODE, as amended, sec. 180 states:

written declaration, stating the intention to assign the copyright in whole or in part.⁷³

Here, the issue is centered on the validity of the Deed of Assignment that was purportedly executed by St. Mary's Publishing in favor of M.Y. Intercontinental as payment of its obligations. It reads:

1. The ASSIGNOR in acknowledgement of its indebtedness to the ASSIGNEE, by these presents do hereby assigns and transfers unto the ASSIGNEE, the whole right and interest to the copyright of the following books:

- Developing Reading Power 1 to 6 (Enriched Combined Edition) Copyright Registration Number A2005-1314 up to A2005-1319 registered on 20 July 2005
- Pagpapaunlad ng Kasanayan sa Pagbasa 1 to 6 (Binagong Edisyon) Copyright Registration Number A2005-1320 up to A2005-1325 registered on 20 July 2005

2. In pursuance of the aforesaid deed ASSIGNOR hereby assigns, transfers and sells absolutely to the ASSIGNEE the copyright of the above-named books of the ASSIGNOR, the same to be held and enjoyed by the ASSIGNEE hereof to the full end of the term for which said copyright as fully and entirely as the same would have been held by the ASSIGNOR herein had this assignment not been made - including the exclusive right to sell the subject books.

3. The ASSIGNOR further assigns and cedes to ASSIGNEE the right of further printing, publishing and selling thereof in whole or in parts and in any form that the ASSIGNEE may desire. The ASSIGNOR also grants to the ASSIGNEE the right of translation or of making any other use of the said book, all the rights hereby granted are subject however, to the provisions of Republic Act 9283.

4. The ASSIGNOR hereby covenants with the ASSIGNEE that he is the sole owner of the copyright in the said book and that there is no right, claim or interest of any kind, whatsoever, of any other person in the copyright of the said book.⁷⁴

The Court of Appeals sustained the trial court's finding that Catabijan's signature in the Deed of Assignment was forged, thus invalidating the certificates of registration of copyright in favor of M.Y. Intercontinental.⁷⁵

SECTION 180.1. Rights of Assignee or Licensee. - The copyright may be assigned or licensed in whole or in part. Within the scope of the assignment or license, the assignee or licensee is entitled to all the rights and remedies which the assignor or licensor had with respect to the copyright.

⁷³ INTELLECTUAL PROPERTY CODE, as amended, sec. 180.2 provides:

SECTION 180.2. The copyright is not deemed assigned or licensed *inter vivos*, in whole or in part, unless there is a written indication of such intention.

⁷⁴ *Rollo*, pp. 281.

⁷⁵ *Id.* at 109.

Petitioners allege that they are valid holders of copyright certificates which remain valid until annulled. Their issuance in M.Y. Intercontinental's favor constitutes *prima facie* evidence of M.Y. Intercontinental's ownership.⁷⁶ There was also no allegation that it was petitioners who forged the Deed of Assignment.⁷⁷ Uy testified that the Deed of Assignment had already been signed when Catabijan gave him the document. Further, it was Uy who sought the National Bureau of Investigation's help to verify the authenticity of the document.⁷⁸ Thus, petitioners are not responsible for the alleged forgery of the document.

Their argument fails to persuade.

Copyright registration does not vest ownership of the copyright. Failure to register does not remove copyright protection under the law, but this does make the owner liable to pay a fine.⁷⁹ Registration of copyright only serves as a notice, but it does not confer rights. *Ching v. Salinas*⁸⁰ explains that the certificate is only *prima facie* proof of the facts stated therein which can be rebutted by contrary evidence:

To discharge his burden, the applicant may present the certificate of registration covering the work or, in its absence, other evidence. A copyright certificate provides *prima facie* evidence of originality which is one element of copyright validity. *It constitutes prima facie evidence of both validity and ownership and the validity of the facts stated in the certificate. The presumption of validity to a certificate of copyright registration merely orders the burden of proof.* The applicant should not ordinarily be forced, in the first instance, to prove all the multiple facts that underline the validity of the copyright unless the respondent, effectively challenging them, shifts the burden of doing so to the applicant. Indeed, Section 218.2 of R.A. No. 8293 provides:

218.2. In an action under this Chapter:

(a) Copyright shall be presumed to subsist in the work or other subject matter to which the action relates if the defendant does not put in issue the question whether copyright subsists in the work or other subject matter; and

(b) Where the subsistence of the copyright is established, the plaintiff shall be presumed to be the owner of the copyright if he claims to be the owner of the copyright and the defendant does not put in issue the question of his ownership.

A certificate of registration creates no rebuttable presumption of copyright validity where other evidence in the record casts doubt on the

⁷⁶ *Id.* at 39.

⁷⁷ *Id.* at 46.

⁷⁸ *Id.* at 49–50.

⁷⁹ *Manly Sportswear Manufacturing, Inc. v. Dadodette Enterprises and/or Hermes Sports Center*, 507 Phil. 375, 382 [Per J. Ynares-Santiago, First Division].

⁸⁰ 500 Phil. 628 (2005) [Per J. Callejo, Second Division].

*question. In such a case, validity will not be presumed.*⁸¹ (Emphasis supplied, citations omitted)

In the 2020 Revised Rules of Procedure for Intellectual Property Rights Cases, “[r]egistration and deposit of a work with the National Library or the IPO shall not carry with it the presumption of ownership of the copyright by the registrant or depositor, nor shall it be considered a condition *sine qua non* to a claim of copyright infringement.”⁸²

Petitioners’ rights as assignee originate from the Deed of Assignment. Its subsequent deposit and issuance of certificates of registration do not give them rights beyond what was assigned in the contract. More importantly, the *prima facie* proof of validity, ownership, and facts stated in the certificates of registration have been destroyed with the finding of forgery of Catabijan’s signature.

The totality of evidence shows that Catabijan’s signature in the Deed of Assignment was forged. The trial judge personally examined and compared Catabijan’s signatures on the documents on record and found significant differences in his signature in the Deed of Assignment and the other documents. The findings of the Quezon City Police District Crime Laboratory and the National Bureau of Investigation were also appreciated. Finally, the trial judge evaluated Uy’s lone testimony and the circumstances surrounding the deed of assignment’s registration. We quote the relevant factual findings on the forgery:

On the other hand, the evidence on record supports plaintiffs’ stance that the Deed of Assignment is a forged document.

The Court finds significant differences between the signature of plaintiff Catabijan in the Deed of Assignment and the signature of plaintiff Catabilan in (1) the Declaration of Pledge and Undertaking dated 26 February 2010, (2) the Memorandum of Agreement dated 12 March 2010 and the Statement of Account as of 16 March 2010 annexed thereto, (3) Contract Ref. SMPCMY 76M 009, (4) P.O. dated 7 December 2009, (5) the Secretary’s Certificate dated 10 March 2010, (6) Export and Industry Bank Check No. 6498253 dated 14 May 2010, and (7) the numerous bounced checks presented by defendants Uy, et. al., among others. Under Section 22, Rule 132 of the Rules of Court, evidence respecting a handwriting may be given by a comparison, made by the court, with writings admitted or treated as genuine by the party against whom the evidence is offered, or proved to be genuine to the satisfaction of the judge.

Plaintiffs likewise presented the Report dated 015-2012 dated 12 September 2012 of the Crime Laboratory Office Station 10 of the Quezon City Police District of the PNP, which found strong indication that the signature of plaintiff Catabijan in the Deed of Assignment and documents

⁸¹ *Ching v. Salinas*, 500 Phil. 628, 640–641 (2005) [Per J. Callejo, Second Division].

⁸² A.M. No. 10-3-10-SC (2020), sec. 2.

bearing his true signature were not written by one and the same person, and the Questioned Documents Report dated 30 July 2013 of the NBI which also states that the questioned signature in the Deed of Assignment and sample signatures of plaintiff Catabijan were not written by one and the same person. Thus:

The Report dated 015-2012 dated 12 September 2012 states:

Scientific comparative examination and analysis of questioned signature JERRY VICENTE CATABIJAN marked "Q" and the standard signatures of Jerry Catabijan marked "S-1" to "S-9", inclusive reveal significant divergences in handwriting movement, stroke structure and other individual handwriting characteristics; Hence strong indication that THEY WERE NOT WRITTEN BY ONE AND THE SAME PERSON.

The Questioned Documents Report dated 30 July 2013 states:

FINDINGS:

Scientific comparative examinations made on the specimens submitted under magnification using stereoscopic microscope, magnifying lens and with the aid of photographic enlargements, reveal significant differences in handwriting characteristics and habits existing between the questioned and standard / sample signatures JERRY VICENTE S. CATABIJAN, such as in: Manner of execution, and other details in elements formation.

CONCLUSION

Based pm [sic] the above FINDINGS, the questioned and the standard/sample signatures of JERRY VICENTE S. CATABIJAN *were not written* by one and the same person.

Needless to state, the above documents are admissible and may be given probative value without the necessity of presenting in court the officer or person who made them.

The Court likewise doubts the credibility of defendants' sole witness, defendant Uy, who testified on the supposed delivery of the Deed of Assignment. Based on his direct examination, the Declaration of Pledge and Undertaking dated 26 February 2010 was the first document executed. Since such execution did not improve the situation, the parties entered into a Memorandum of Agreement on 12 March 2010. Subsequently, sometime in April 2010, the parties agreed to meet to forge a dacion in payment arrangement to finally settle plaintiff SMPC's obligation. Based on his cross-examination, however, it appears that the meeting regarding the execution of a dacion in payment arrangement was held before the parties executed the Memorandum of Agreement dated 12 March 2010. Thus, he testified on cross-examination that there were two to three meetings held between the parties - the first meeting held resulted in the execution of the Declaration of Pledge and Undertaking the second meeting held was where payment by dacion was discussed, and the third



meeting held was where the Memorandum of Agreement was signed.

Moreover, the testimony of defendant Uy on the purported delivery of the Deed of Assignment does not ring true. Said deed was purportedly given to defendant Uy a couple of weeks after 12 March 2010. Defendant Uy himself testified that by that time plaintiff SMPC already faltered in its payment as its check payments worth millions already bounced. It appears that the textbooks covered by P.O. dated 7 December 2010 were already printed but were not delivered because of non-payment. If defendant MITC already has the Deed of Assignment at that time (2010), it could have caused the registration of the copyrights to said textbooks in its name to erase any doubt on its right to sell the same, and eventually sell the same. Indeed, on 22 October 2010, defendant MITC filed the Petition for Declaratory Relief which effectively sought clearance to resell the textbooks covered by P.O. dated 7 December 2009 on the theory that it is an “unpaid seller” of said books. It was only in January 2012, or almost two years after its purported receipt of the Deed of Assignment, that defendant MITC registered the copyrights of said books in its name.

In light of the totality of evidence at hand, the Court finds that plaintiffs were able to preponderate their claim of forgery against the Deed of Assignment of Copyright dated 12 March 2010. In view of its invalidity, the Certificates of Copyright Registration dated 18 January 2012 relied upon by defendants Uy, et. al. to prove defendant MITC’s copyrights are therefore void.⁸³ (Citations omitted)

We see no reason to overturn the factual findings of the lower courts on the existence of forgery of Catabijan’s signature in the Deed of Assignment.

Consent is an essential requirement for the perfection of a contract.⁸⁴ A contract with a forged signature is a fictitious contract, and “conveyances by virtue of a forged signature or a fictitious deed of sale are *void ab initio*.”⁸⁵ Since Catabijan’s signature was forged, there was no consent which perfected the contract of assignment. It is fictitious and thus void. St. Mary’s Publishing’s copyright over the subject books was not transferred in whole or in part to M.Y. Intercontinental.⁸⁶ There was no basis for the issuance of the certificates of registration of copyright in favor of petitioners.

The Intellectual Property Office issued Revised Rules and Regulations on Copyright Registration and Recordation of Transfer, Assignment and License of Copyright⁸⁷ stating the procedure for cancellation of certificate of registration:

⁸³ *Rollo*, pp. 106-109.

⁸⁴ CIVIL CODE, art. 1318 provides [t]here is no contract unless the following requisites concur:

- (1) Consent of the contracting parties;
- (2) Object certain which is the subject matter of the contract;
- (3) Cause of the obligation which is established.

⁸⁵ *Go Chan v. Heirs of Baba*, 456 Phil. 569, 578-579 (2003) [Per J. Ynares-Santiago, First Division].

⁸⁶ CIVIL CODE, art. 1409 (2) states: [t]he following contracts are inexistent and void from the beginning : . . . (2) Those which are absolutely simulated or fictitious[.]

⁸⁷ IPOPHL Memorandum Circular No. 2020-025.

Section 2. Cancellation of Certificate. - The Bureau Director may, upon written request by an interested party and upon payment of applicable fee equivalent to the application fee, cancel the Certificate of Copyright Registration covering a specific work on the following grounds:

2.1 *Upon a final court decision ordering the cancellation of the certificate;*

2.2 By final order of the Director of the Bureau of Legal Affairs of the IPOPHL in copyright infringement cases; or

2.3 Upon recordation of the assignment or transfer as provided under Rule VII hereof or under the rules of the NLP[.]⁸⁸ (Emphasis supplied)

Given that the Deed of Assignment was forged, which is the basis for the petitioner M.Y Intercontinental's copyright registration, the lower courts should have directed the cancellation of its certificates of registration.

II

There is copyright infringement when “in the doing by any person, without the consent of the owner of the copyright, of anything the *sole right* to do which is conferred by statute on the owner of the copyright.”⁸⁹ *Olaño v. Lim Eng Co*⁹⁰ provides the requirements for a claim of copyright infringement to prevail:

Copyright infringement is thus committed by any person who *shall use original literary or artistic works, or derivative works, without the copyright owner's consent in such a manner as to violate the foregoing copy and economic rights.* For a claim of copyright infringement to prevail, the evidence on record must demonstrate: (1) ownership of a validly copyrighted material by the complainant; and (2) infringement of the copyright by the respondent.⁹¹

It has several modes of commission, either directly, benefiting from, or inducement or materially causing the commission of infringing acts:

SECTION 216. *Infringement.* — A person infringes a right protected under this Act when one:

- (a) Directly commits an infringement;
- (b) Benefits from the infringing activity of another person who commits an infringement if the person benefiting has been given notice of

⁸⁸ IPOPHL Memorandum Circular No. 2020-025.

⁸⁹ *Columbia Pictures, Inc. v. Court of Appeals*, 329 Phil. 875, 926 (1996) [Per J. Regalado, *En Banc*].

⁹⁰ G.R. No. 195835, March 14, 2016 [Per J. Reyes, Third Division].

⁹¹ *Olaño v. Lim Eng Co.* G.R. No. 195835, March 14, 2016 [Per J. Reyes, Third Division].

the infringing activity and has the right and ability to control the activities of the other person;

(c) With knowledge of infringing activity, induces, causes or materially contributes to the infringing conduct of another.⁹²

The Intellectual Property Code prescribes a strict liability in both civil and criminal cases for copyright infringement where “lack of intention to infringe is not a defense to an action for infringement.”⁹³

Here, it is not disputed that St. Mary’s Publishing is the copyright owner of the subject textbooks because petitioners derive their rights from the Deed of Assignment purportedly executed by Catabijan. It is also not disputed that the following acts were committed: Fujian authorized M.Y. Intercontinental to sell and market the textbooks covered by the December 7, 2009 purchase order. It issued several commercial documents facilitating its importation to the Philippines.⁹⁴ Petitioners alleged that Allianz was incorporated to engage in the business of publishing. Afterwards, it marketed and sold St. Mary’s Publishing’s books namely the Revised Edition, *Binagong Edisyon*, and Enhanced Edition textbooks.⁹⁵

While records show that St. Mary’s Publishing issued several authorities to print its textbooks to Fujian,⁹⁶ these did not include importing books and selling them to the public. Without a valid Deed of Assignment, petitioners had no right to sell these books, infringing upon the exclusive economic rights of St. Mary’s Publishing to sell under Section 177 of the Intellectual Property Code. Petitioners committed copyright infringement.

III

Petitioners invoke the ruling of the Regional Trial Court of Mandaluyong City in its declaratory relief case assailing the award of damages to be without legal basis. Petitioners contend that since the trial court recognized their right to sell the books covered by the purchase order, St. Mary’s Publishing is not entitled to the sales proceeds of the books.⁹⁷

This Court does not agree.

In raising the ruling in the declaratory relief case, petitioners mislead this Court in presenting it as if the ruling is final and executory. They invoke the ruling to assail the basis of the award of the trial court but at the same

⁹² INTELLECTUAL PROPERTY CODE, as amended.

⁹³ *ABS-CBN Corporation v. Gozon*, 755 Phil. 709- 782 (2015) [Per J. Leonen, Second Division].

⁹⁴ *Rollo*, pp. 42-43.

⁹⁵ *Id.* at 42.

⁹⁶ *Id.* at 568 -573.

⁹⁷ *Id.* at 47.

time, they qualify that they are no longer relitigating the merits of this case, after supposedly having won the same.⁹⁸

However, records show that upon the filing of the Petition, an appeal had already been submitted for decision before the Court of Appeals.⁹⁹ We take judicial notice of the decision of the Court of Appeals that was promulgated on January 6, 2021 during the pendency of the present Petition. The Court of Appeals decision reversed the Regional Trial Court Mandaluyong's ruling in the declaratory relief case, which was promulgated after the filing of the instant Petition. The Court of Appeals held that declaratory relief is not available because there was already a breach in St. Mary's Publishing's obligation when the case was filed and that M.Y. Intercontinental has adequate remedies, such as an action for breach of contract or specific performance with damages.¹⁰⁰

Petitioners do not dispute that they committed the infringing acts raising the affirmative defense of their copyright by virtue of a Deed Assignment. Since the basis of their ownership has been declared void *ab initio*, they are left without an excuse to justify importing, marketing, and selling St. Mary's Publishing's copyrighted books. Clearly, petitioners committed copyright infringement for which they should be held civilly liable.

Contrary to the declaratory relief case, the nature of the contract between petitioners and St. Mary's Publishing is primarily a loan with payment of interest for the costs in printing St. Mary's Publishing's books. The contract states:

1) AMOUNT TO BE FINANCED:

The amount to be financed which shall be known as the principal loan amount, and which is also stated in the formal quotation nos. MYSMPC 0620129 designated herein as Annex 1-A of this contract and dated November 11, 2008, is in the amount of Php 76,748,494.68; the said amount indicated herein shall be the reference basis amount for the computation of interest amounts payable, and shall be hereinafter referred to as the principal loan amount. In case of increase or decrease in the amount of funding due to any other mutual reasonable negotiations in the amount by both parties—for reasons such as the printing of new titles and additional print runs for existing orders—the said amount to be financed shall then be adjusted according to the new agreed to amount which shall be made and mutually agreed to by both parties as an amendment to this contract;

⁹⁸ *Id.* at 40–43.

⁹⁹ *Id.* at 146.

¹⁰⁰ CA Decision in C.A. G.R. CV No. 110189 entitled *Mary Ann Carmen F. Ferrer in her capacity as Attorney-in-Fact of M.Y. Intercontinental Trading Corporation and/or Tedwin T. Uy v. St. Mary's Publishing and/or Jerry Vicente S. Catabijan* was promulgated on January 6, 2021, available at <https://services.ca.judiciary.gov.ph/csisver3-war/faces/pages/ResultInformation.xhtml>.

2) INTEREST RATES:

The interest rates that will be imposed on the loan, as indicated in article 1 of this contract, shall be two (2%) percent per month or a total of twenty-four (24%) percent per annum, using as reference basis the principal loan amount which is indicated in article 1, or more particularly, in the amount of Php76,748,494.68; it is mutually understood, that all payments of interest and principal shall be paid in Philippine Currency;

3) PAYMENT OF PRINCIPAL LOAN AMOUNT:

The said principal loan amount shall be paid to the AGENTS designated bank account starting from June 2009 up to June 2010, until paid in full; the interest rate which shall be due and payable thereupon availing thereof, shall be computed on a diminishing basis as the principal loan amount becomes paid;

4) TERM OR PERIOD OF LOAN:

The term or period of this loan granted by the funders to the CLIENT shall commence from 1st December, 2008, up to June, 2010 or a total of 19 months as repayment period; The client shall pay interest rates at the rate as prescribed and mutually agreed to under article 2 of this contract, commencing from December 2008 until June 2010: repayment of principal loan amount, including interest for unpaid portion of the principal loan amount, shall commence on June, 2009 up to June 2010, until fully paid;

5) MANNER OF PAYMENT OF INTEREST AND PRINCIPAL:

The CLIENT by way of issuance of Purchase Orders in favor of the AGENT, *for the printing of textbooks*, acknowledges that he is availing of the principal loan amount, and the interest rates payable on the principal loan amount, for the printing of his textbook requirements; the AGENT, by way of acceptance of the Purchase Orders of the CLIENT *confirms that the principal loan is available, in the form of delivery of printed textbooks as required by the CLIENT*.

The CLIENT shall issue Corporate POST-DATED checks, from a bank designated by the CLIENT, corresponding to the required number of Post-Dated Checks, as prescribed in the schedule of payment attached to this contract to be known as Annex 2-A, which is hereby acknowledged as part and parcel of this contract;

6) DELIVERIES OF TEXTBOOKS:

The AGENT, representing the printing factory for the textbooks, hereby warrants that the deliveries of textbooks, to be paid for by the loan amounts, shall abide by the dates of deliveries as mutually agreed upon on the attached annex for schedule deliveries, known herein as Annex 3-A, which is now mutually acknowledge to be a part and parcel of this contract.

Information on the changes of said delivery schedule due to unforeseen events, or occurrences, i.e., acts of god, typhoon, earthquake, natural disasters, or similar events, which may in turn delay the deliveries of printed textbooks, shall be immediately transmitted and relayed to the

CLIENT, including the new schedules of deliveries,

Further, by mutual consultation between CLIENT and the AGENT, the titles specified in Annex 1-A and in Annex 3-A may be modified to conform with any change in actual market demand for titles, provided that the total amount of availment shall not be reduced.¹⁰¹ (Emphasis supplied)

This is a contract of loan for payment of printing services for its books with a stipulation for payment of interest and penalty for delay in payment. In defaulting in their obligations, St. Mary's Publishing breached its contract with petitioners, which gives them a cause of action for specific performance, rescission of the contract, and/or damages.¹⁰² The contract provides that in case of default:

8) PENALTIES FOR DELAYS IN PAYMENTS:

The CLIENT hereby warrants full and strict compliance with the dates and amount of loan and interest payments, as provided for and prescribed under Annex 2-A, and as indicated in the POST-DATED checks issued; the CLIENT hereby agrees that POST-DATED checks issued will not be arbitrarily stopped for payment on or before the dates indicated on the checks, nor will the bank account servicing the issued POST-DATED checks be arbitrarily closed, without replacing the said POST-DATED checks with new POST-DATED checks, of and for value;

It is hereby mutually agreed that all delays in payment, if any, shall incur a penalty of two and one-half (2.5%) percent, based on the unpaid portion of the principal loan amount, for every month of delay; the CLIENT shall undertake to issue the additional POST-DATED checks to cover the said amount of interest due to the delays, immediately upon demand by the Funder[.]¹⁰³

There was nothing in the contract which allows petitioners and their principal to sell the printed books due to default.

Aside from the loan, the contract of the parties is also for a piece of work where "the contractor binds himself to execute a piece of work for the employer, in consideration of a certain price or compensation. The contractor may either employ only his labor or skill, or also furnish the material."¹⁰⁴

Article 1467 of the Civil Code distinguishes a contract of sale of goods and a contract for a piece of work:

Article 1467. A contract for the delivery at a certain price of an

¹⁰¹ *Id.* at 207-208.

¹⁰² *Spouses Pajares v. Remarkable Laundry and Dry Cleaning*, 806 Phil. 39, 47 (2017) [Per J. Tinga, Second Division].

¹⁰³ *Rollo*, p. 209.

¹⁰⁴ CIVIL CODE, art. 1713.

article which the vendor in the ordinary course of his business manufactures or procures for the general market, whether the same is on hand at the time or not, is a contract of sale, *but if the goods are to be manufactured specially for the customer and upon his special order, and not for the general market, it is a contract for a piece of work.* (Emphasis supplied)

Article 1731 of the Civil Code provides that an unpaid contractor has a right to retain the subject of the work by way of pledge until payment.¹⁰⁵ This right arises out of “performing the work or furnishing the materials” and not by virtue of the owner’s failure to pay.¹⁰⁶ There is no right to resell the books under Article 1731 by mere operation of law. Otherwise, the exclusive economic rights of the copyright owner will be prejudiced.

Given the foregoing, petitioners have no right to sell the books covered by the December 7, 2009 purchase order. Thus, we uphold the existence of copyright infringement in the unauthorized importation, marketing, and selling of the subject textbooks of St. Mary’s Publishing.

IV

Regarding the liability for copyright infringement, the trial court awarded reasonable damages in lieu of actual damages amounting to 20% of the total sales, or PHP 18,060,000.00. This is based on the PHP 300.00 mandated selling price of books multiplied by 301,000 pieces of books under the purchase order.¹⁰⁷ Finding bad faith due to the concerted, successive, and repeated acts of petitioners, PHP 1,000,000.00 was awarded as moral damages, PHP 2,000,000.00 as exemplary damages, and PHP 500,000.00 as attorney’s fees and legal costs and other expenses.¹⁰⁸

Petitioners contend that the award of damages is without basis because there was no allegation and proof that it was them who forged the Deed of Assignment. It was allegedly Catabijan who signed the document differently and delivered a signed Deed of Assignment to petitioners. They assert that they had nothing to do with the forgery because they sought the National Bureau of Investigation to test the existence of forgery. They likewise assail the amount of damages there being no proof that 301,000 books were actually sold at PHP 300.00.¹⁰⁹

We are not convinced.

¹⁰⁵ Article 1731 of the Civil Code provides:

ARTICLE 1731. He [or she] who has executed work upon a movable has a right to retain it by way of pledge until he [or she] is paid.

¹⁰⁶ *Optimum Motor Center Corp. v. Tan*, 580 Phil. 244, 254 (2008) [Per J. Tinga, Second Division].

¹⁰⁷ *Rollo*, pp. 111–112.

¹⁰⁸ *Id.* at 112.

¹⁰⁹ *Id.* at 47–50.

Section 216.1 of the Intellectual Property Code, as amended,¹¹⁰ provides the civil liabilities for copyright infringement. The infringer is liable to pay actual damages, the profits made from the infringing activity, moral and exemplary damages, legal costs, and other expenses:

SECTION 216. *Remedies for Infringement.* — 216.1. Any person infringing a right protected under this law shall be liable:

(a) To an injunction restraining such infringement. The court may also order the defendant to desist from an infringement, among others, to prevent the entry into the channels of commerce of imported goods that involve an infringement, immediately after customs clearance of such goods.

(b) Pay to the copyright proprietor or his assigns or heirs such *actual damages, including legal costs and other expenses, as he may have incurred due to the infringement as well as the profits the infringer may have made due to such infringement*, and in proving profits the plaintiff shall be required to *prove sales only and the defendant shall be required to prove every element of cost which he claims*, or, *in lieu of actual damages and profits, such damages which to the court shall appear to be just and shall not be regarded as penalty*: Provided, That the amount of damages to be awarded shall be doubled against any person who:

(i) Circumvents effective technological measures;

or

(ii) Having reasonable grounds to know that it will induce, enable, facilitate or conceal the infringement, remove or alter any electronic rights management information from a copy of a work, sound recording, or fixation of a performance, or distribute, import for distribution, broadcast, or communicate to the public works or copies of works without authority, knowing that electronic rights management information has been removed or altered without authority.

(c) Deliver under oath, for impounding during the pendency of the action, upon such terms and conditions as the court may prescribe, sales invoices and other documents evidencing sales, all articles and their packaging alleged to infringe a copyright and implements for making them.

(d) Deliver under oath for destruction without any compensation all infringing copies or devices, as well as all plates, molds, or other means for making such infringing copies as the court may order.

(e) *Such other terms and conditions, including the payment of moral and exemplary damages, which the court may deem proper, wise and equitable* and the destruction of infringing copies of the work even in the event of acquittal in a criminal case.

The copyright owner may elect, at any time before

¹¹⁰ Republic Act No. 8293 as amended by Republic Act No. 10372.

final judgment is rendered, to recover instead of actual damages and profits, an award of statutory damages for all infringements involved in an action in a sum equivalent to the filing fee of the infringement action but not less than Fifty thousand pesos (Php50,000.00). In awarding statutory damages, the court may consider the following factors:

- (1) The nature and purpose of the infringing act;
- (2) The flagrancy of the infringement;
- (3) Whether the defendant acted in bad faith;
- (4) The need for deterrence;
- (5) Any loss that the plaintiff has suffered or is likely to suffer by reason of the infringement; and
- (6) Any benefit shown to have accrued to the defendant by reason of the infringement.

In case the infringer was not aware and had no reason to believe that his acts constitute an infringement of copyright, the court in its discretion may reduce the award of statutory damages to a sum of not more than Ten thousand pesos (Php10,000.00): Provided, That the amount of damages to be awarded shall be doubled against any person who:

- (i) Circumvents effective technological measures; or
- (ii) Having reasonable grounds to know that it will induce, enable, facilitate or conceal the infringement, remove or alter any electronic rights management information from a copy of a work, sound recording, or fixation of a performance, or distribute, import for distribution, broadcast, or communicate to the public works or copies of works without authority, knowing that electronic rights management information has been removed or altered without authority.¹¹¹ (Emphasis supplied)

Article 2217 of the Civil Code provides that moral damages may be recovered if the wrongful act of omission is the proximate cause of the “physical suffering, mental anguish, fright, serious anxiety, besmirched reputation, wounded feelings, moral shock, social humiliation, and similar injury” of the plaintiff.

In *Ganancial v. Cabugao*,¹¹² the person claiming moral damages must show clear and convincing evidence of bad faith:

Francisco v. Ferrer, Jr. explains the determination of propriety of moral damages:

¹¹¹ INTELLECTUAL PROPERTY CODE, sec. 216 as amended by Republic Act No. 10372.

¹¹² G.R. No. 203348, July 6, 2020 [Per J. Hernando, Second Division].

The person claiming moral damages must prove the existence of bad faith by clear and convincing evidence for the law always presumes good faith. It is not enough that one merely suffered sleepless nights, mental anguish, serious anxiety as the result of the actuations of the other party. Invariably such action must be shown to have been willfully done in bad faith or with ill motive. Mere allegations of besmirched reputation, embarrassment and sleepless nights are insufficient to warrant an award for moral damages. It must be shown that the proximate cause thereof was the unlawful act or omission of the x x x petitioners.¹¹³

Article 2232 of the Civil Code states that exemplary damages are awarded when the defendant “acted in a wanton, fraudulent, reckless, oppressive, or malevolent manner.”¹¹⁴ The person claiming the same must show entitlement to moral, temperate, or compensatory damages.¹¹⁵ Its award is discretionary upon the court and not a matter of right.¹¹⁶

Article 2208 of the Civil Code provides that generally, attorney’s fees and litigation expenses are awarded when stipulated by the parties. However, these costs can be recovered in certain instances such as when exemplary damages are awarded or when the plaintiff was compelled to litigate the case because of the defendant’s actions.

In this case, it bears emphasis that the trial court awarded just and reasonable damages in lieu of actual damages. It does not appear that petitioners impleaded evidence of costs involved in the printing and selling of the books. Thus, the trial court pegged the damages to a reasonable estimation of profits, taking into consideration the various costs that may have been involved.¹¹⁷ Considering that petitioners did not prove the actual costs incurred, we find that 20% of the total sales of books covered in the purchase order is a just and reasonable amount of damages.

We also find the award of moral and exemplary damages proper considering that there is bad faith in the forging of the deed of assignment in favor of M.Y. Intercontinental. Petitioner suggests that it was Catabijan who forged his own signature, relying on Uy’s lone testimony that he received a signed Deed of Assignment. Aside from the self-serving allegations and conjectures of Uy, respondents failed to refute the *prima facie* presumption that he was the author of the forgery.

¹¹³ *Id.*

¹¹⁴ CIVIL CODE, art. 2232.

¹¹⁵ CIVIL CODE, art. 2234 states that “[w]hile the amount of the exemplary damages need not be proved, the plaintiff must show that he is entitled to moral, temperate or compensatory damages before the court may consider the question of whether or not exemplary damages should be awarded[.]”

¹¹⁶ CIVIL CODE, art. 2223 states that “[e]xemplary damages cannot be recovered as a matter of right; the court will decide whether or not they should be adjudicated.”

¹¹⁷ *Rollo*, pp. 111-112.

In *Pacasum v. People*:¹¹⁸

The rule is that if a person had in his possession a falsified document and he made use of it (uttered it), taking advantage of it and profiting thereby, the presumption is that he is the material author of the falsification. This is especially true if the use or uttering of the forged documents was so closely connected in time with the forgery that the user or possessor may be proven to have the capacity of committing the forgery, or to have close connection with the forgers.

In line with the above ruling, and considering that it was the accused who took advantage and profited in the use of the falsified Employees Clearance in question, the presumption is inevitable that she is the material author of the falsification. And despite full opportunity, she was not able to rebut such presumption by failing to show that it was another person who forged or falsified the signature of Laura Pangilan or that at least another person and not she alone, had the reason or motive to commit the forgery or falsification, or was or could have been benefited by such falsification/forgery.¹¹⁹ (Emphasis supplied)

Given that forgery has been established, the presumption that responsibility for it falls on those who used and benefitted from a forged instrument arise. All petitioners benefitted from the forged Deed of Assignment. They used it to transfer the copyright of the books of St. Mary's Publishing to M.Y. Intercontinental, who in turn exercised the reproduction rights to the books, which were marketed and sold by Allianz Marketing. They offered no evidence to rebut this presumption. Thus, the responsibility for the forgery of the Deed of Assignment falls to petitioners, having used and benefitted from the same. The amount of moral damages awarded appears to be reasonable given the scope of the forged deed of assignment which allowed petitioners to engage in publishing business with St. Mary's Publishing's books. Since there is basis for the award of moral damages, the award of exemplary damages, attorney's fees and costs of litigation are proper.

V

Petitioners assail the dismissal of their compulsory counterclaim for failure to pay docket fees. The trial court granted St. Mary's Publishing's motion to direct them to pay docket fees based on their permissive counterclaim.¹²⁰ Petitioners contend that their counterclaim is compulsory, which is allowed under the Rules of Procedure for Intellectual Property Cases. There was no finding from the trial court that their claims were permissive in nature, and thus it was an error to award St. Mary's Publishing damages when they owe petitioners PHP 100 million.¹²¹

¹¹⁸ 603 Phil. 612 (2009) [Per J. Chico-Nazario, *En Banc*].

¹¹⁹ *Pacasum v. People*, 603 Phil. 612, 636 (2009) [Per J. Chico-Nazario, *En Banc*] citing *People v. Sendaydiego*, 171 Phil. 114 (1978) [Per J. Aquino, Second Division].

¹²⁰ *Rollo*, p. 82.

¹²¹ *Id.* at 50-52.

This Court finds that the Court of Appeals gravely erred in sustaining the trial court's refusal to grant petitioners' compulsory counterclaim.

Rule 6, Section 7 of the Rules of Court, as amended defines a compulsory counterclaim as follows:

Section 7. Compulsory counterclaim. — A compulsory counterclaim is one which, being cognizable by the regular courts of justice, *arises out of or is connected with the transaction or occurrence constituting the subject matter of the opposing party's claim and does not require for its adjudication the presence of third parties of whom the court cannot acquire jurisdiction.* Such a counterclaim must be within the jurisdiction of the court both as to the amount and the nature thereof, except that in an original action before the Regional Trial Court, the counterclaim may be considered compulsory regardless of the amount. A compulsory counterclaim not raised in the same action is barred, unless otherwise allowed by these Rules.¹²² (Emphasis supplied)

Since a counterclaim is auxiliary to the main action, the dismissal of the latter necessarily leads to the dismissal of the former. The rationale is explained in *Metals Engineering Resources Corp. v. Court of Appeals*:¹²³

For all intents and purposes, such proposition runs counter to the nature of a compulsory counterclaim in that it cannot remain pending for independent adjudication by the court. This is because a compulsory counterclaim is auxiliary to the proceeding in the original suit and derives its jurisdictional support therefrom, inasmuch as it arises out of or is necessarily connected with the transaction or occurrence that is the subject matter of the complaint. It follows that if the court does not have jurisdiction to entertain the main action of the case and dismisses the same, then the compulsory counterclaim, being ancillary to the principal controversy, must likewise be dismissed since no jurisdiction remained for any grant of relief under the counterclaim.

The aforementioned doctrine is in consonance with the primary objective of a counterclaim which is *to avoid and prevent circuity of action by allowing the entire controversy between the parties to be litigated and finally determined in one action, wherever this can be done with entire justice to all parties before the court. The philosophy of the rule is to discourage multiplicity of suits.* It will be observed that the order of the trial court allowing herein private respondent to proceed with the presentation of his evidence in support of the latter's counterclaim is repugnant to the very purpose and intent of the rule on counterclaims.¹²⁴ (Emphasis supplied)

In determining whether a counterclaim is compulsory or permissive,

¹²² As amended by A.M. No. 19-10-20-SC 2019.

¹²³ 280 Phil. 298 (1991) [Per J. Regalado, Second Division].

¹²⁴ *Metals Engineering Resources Corp. v. Court of Appeals*, 280 Phil. 298, 309–310 (1991) [Per J. Regalado, Second Division].

courts are guided by the following tests:

Thus, a compulsory counterclaim cannot be the subject of a separate action but it should instead be asserted in the same suit involving the same transaction or occurrence, which gave rise to it. To determine whether a counterclaim is compulsory or not, we have devised the following tests: (1) Are the issues of fact or law raised by the claim and the counterclaim largely the same? (2) Would *res judicata* bar a subsequent suit on defendant's claim absent the compulsory counterclaim rule? (3) Will substantially the same evidence support or refute plaintiff's claim as well as the defendant's counterclaim? and (4) Is there any logical relation between the claim and the counterclaim? Affirmative answers to the above queries indicate the existence of a compulsory counterclaim.¹²⁵

The rules regarding the payment of docket fees are settled in *Sun Insurance Office, Ltd. v. Asuncion*:

1. It is not simply the filing of the complaint or appropriate initiatory pleading, but the payment of the prescribed docket fee, that vests a trial court with jurisdiction over the subject matter or nature of the action. Where the filing of the initiatory pleading is not accompanied by payment of the docket fee, the court may allow payment of the fee within a reasonable time but in no case beyond the applicable prescriptive or reglementary period.

2. *The same rule applies to permissive counterclaims, third-party claims and similar pleadings*, which shall not be considered filed until and unless the filing fee prescribed therefor is paid. The court may also allow payment of said fee within a reasonable time but also in no case beyond its applicable prescriptive or reglementary period.

3. Where the trial court acquires jurisdiction over a claim by the filing of the appropriate pleading and payment of the prescribed filing fee but, subsequently, the judgment awards a claim not specified in the pleading, or if specified the same has been left for determination by the court, the additional filing fee therefor shall constitute a lien on the judgment. It shall be the responsibility of the Clerk of Court or his duly authorized deputy to enforce said lien and assess and collect the additional fee.¹²⁶ (Emphasis supplied)

In requiring the petitioners to pay docket fees, the trial court indirectly categorized its counterclaim as permissive. This is because payment of docket fees is not required in compulsory counterclaim.¹²⁷ However, it is clear that petitioners' counterclaim as to the loan obligations of St. Mary's Publishing under Contract Reference No. SMPCKMY 76M 009 and the December 7, 2009 purchase order are *compulsory* counterclaims. They are the very same contract to which St. Mary's Publishing's cause of action for

¹²⁵ *Financial Building Corp. v. Forbes Park Association, Inc.*, 392 Phil. 895, 902-903 (2000) [Per J. De Leon Jr., Second Division].

¹²⁶ *Sun Insurance Office, Ltd. v. Asuncion*, 252 Phil. 280, 291-292 (1989) [Per J. Gancayco, *En Banc*].

¹²⁷ *Cabalero v. Cantos*, 338 Phil. 105, 116-117 (1997) [Per J. Panganiban, *En Banc*] citing *Sun Insurance Office, Ltd. v. Asuncion*, 252 Phil. 280 (1989) [Per J. Gancayco, *En Banc*].

copyright infringement arose, which is the financing of the printing of its books that were imported and sold by petitioners without their consent. The issues are intertwined that petitioners' counterclaims cannot proceed independently because the same evidence will be relitigated.

The Rules of Procedure for Intellectual Property Rights Cases allows the filing of "compulsory counterclaims and crossclaims pleaded in the answer, and the answers thereto."¹²⁸ Thus, petitioners are correct that there is no basis for the trial court to have ignored their claims against respondents, which are admittedly unpaid.

In their Amended Answer, petitioners seek the payment of principal loan value of PHP 76,748,494.68 and PHP 11,347,781.08 for the purchase order, and payment of moral and exemplary damages amounting to PHP 50,000,000.00 each, PHP 10,000,000.00 as cost of litigation.¹²⁹ The case should be remanded to hear the merits of these compulsory counterclaims.

ACCORDINGLY, the Petition is **PARTIALLY GRANTED**. The April 11, 2019 Decision and September 27, 2019 Resolution of the Court of Appeals in CA-G.R. SP No. 154035 are **AFFIRMED WITH MODIFICATIONS**. The Intellectual Property Office is directed to **CANCEL** Copyright Registration Nos. A2012-24 to A2012-35 issued under the name of M.Y. Intercontinental Trading Corporation. The case is **REMANDED** to the Regional Trial Court of Manila, Branch 24 to determine the propriety of the compulsory counterclaims raised by Tedwin T. Uy, M.Y. Intercontinental Trading Corporation, and Allianz Marketing and Publishing Corporation.

SO ORDERED.



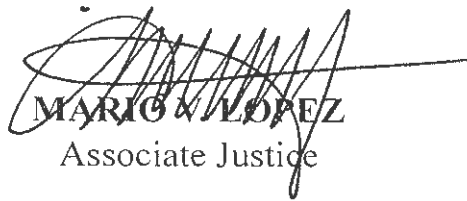
MARVIC M.V.F. LEONEN
Senior Associate Justice

¹²⁸ A.M. No. 10-3-10-SC, Rules of Procedure for Intellectual Property Rights Cases, rule 3, sec. 1 states: SECTION 1. Pleadings. — The only pleadings allowed to be filed are the complaints, compulsory counterclaims and cross-claims pleaded in the answer, and the answers thereto, as well as those not expressly prohibited under Section 4 of this Rule. All pleadings shall be verified.

¹²⁹ *Rollo*, pp. 477–478.

WE CONCUR:


AMY C. LAZARO-JAVIER
 Associate Justice


MARICEL LOPEZ
 Associate Justice


JHOSEPY LOPEZ
 Associate Justice


ANTONIO T. KHO, JR.
 Associate Justice

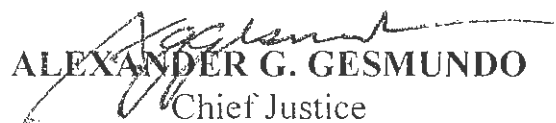
ATTESTATION

I attest 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.


MARVIC M.V.F. LEONEN
 Senior Associate Justice
 Chairperson

CERTIFICATION

Pursuant to Article VIII, Section 13 of the Constitution and the Division Chairperson's Attestation, 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.


ALEXANDER G. GESMUNDO
 Chief Justice