



Republic of the Philippines  
Supreme Court  
Manila

SECOND DIVISION

**RICARDO C. HONRADO,**  
Petitioner,

**G.R. No. 204702**

Present:

- versus -

CARPIO, *J.*, Chairperson,  
VELASCO, JR.,\*  
DEL CASTILLO,  
MENDOZA, and  
LEONEN, *JJ.*

**GMA NETWORK FILMS, INC.,**  
Respondent.

Promulgated:

JAN 14 2015

*HR Cabalag Perfecto*

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**DECISION**

**CARPIO, *J.*:**

**The Case**

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

**The Facts**

On 11 December 1998, respondent GMA Network Films, Inc. (GMA Films) entered into a "TV Rights Agreement" (Agreement) with petitioner under which petitioner, as licensor of 36 films, granted to GMA Films, for a fee of ₱60.75 million, the exclusive right to telecast the 36 films for a period

\* Designated Acting Member per Special Order No. 1910 dated 12 January 2015.

<sup>1</sup> Under Rule 45 of the 1997 Rules of Civil Procedure.

<sup>2</sup> Dated 30 April 2012 and penned by Associate Justice Stephen C. Cruz, with Associate Justices Vicente S.E. Veloso and Angelita A. Gacutan concurring. The Resolution of 19 November 2012 denied reconsideration.

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of three years. Under Paragraph 3 of the Agreement, the parties agreed that “all betacam copies of the [films] should pass through broadcast quality test conducted by GMA-7,” the TV station operated by GMA Network, Inc. (GMA Network), an affiliate of GMA Films. The parties also agreed to submit the films for review by the Movie and Television Review and Classification Board (MTRCB) and stipulated on the remedies in the event that MTRCB bans the telecasting of any of the films (Paragraph 4):

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

Two of the films covered by the Agreement were *Evangeline Katorse* and *Bubot* for which GMA Films paid ₱1.5 million each.

In 2003, GMA Films sued petitioner in the Regional Trial Court of Quezon City (trial court) to collect ₱1.6 million representing the fee it paid for *Evangeline Katorse* (₱1.5 million) and a portion of the fee it paid for *Bubot* (₱350,000<sup>4</sup>). GMA Films alleged that it rejected *Evangeline Katorse* because “its running time was too short for telecast”<sup>5</sup> and petitioner only remitted ₱900,000 to the owner of *Bubot* (Juanita Alano [Alano]), keeping for himself the balance of ₱350,000. GMA Films prayed for the return of such amount on the theory that an implied trust arose between the parties as petitioner fraudulently kept it for himself.<sup>6</sup>

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

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<sup>3</sup> Records, p. 11.

<sup>4</sup> In its Memorandum, GMA Films increased this amount to ₱750,000.

<sup>5</sup> Records, p. 5.

<sup>6</sup> Invoking Article 1456 of the Civil Code (“If property is acquired through mistake or fraud, the person obtaining it is, by force of law, considered a trustee of an implied trust for the benefit of the person from whom the property comes.”).

<sup>7</sup> Records, p. 82.

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

The trial court dismissed GMA Films' complaint and, finding merit in petitioner's counterclaim, ordered GMA Films to pay attorney's fees (₱100,000). The trial court gave credence to petitioner's defense that he replaced *Evangeline Katorse* with *Winasak na Pangarap*. On the disposal of the fee GMA Films paid for *Bubot*, the trial court rejected GMA Films' theory of implied trust, finding insufficient GMA Films' proof that petitioner pocketed any portion of the fee in question.

GMA Films appealed to the CA.

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

The CA granted GMA Films' appeal, set aside the trial court's ruling, and ordered respondent to pay GMA Films ₱2 million<sup>8</sup> as principal obligation with 12% annual interest, exemplary damages (₱100,000), attorney's fees (₱200,000), litigation expenses (₱100,000) and the costs. Brushing aside the trial court's appreciation of the evidence, the CA found that (1) GMA Films was authorized under Paragraph 4 of the Agreement to reject *Evangeline Katorse*, and (2) GMA Films never accepted *Winasak na Pangarap* as replacement because it was a "bold" film.<sup>9</sup>

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

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

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<sup>8</sup> The CA sustained the increased amount (₱750,000) demanded by GMA Films for *Bubot* (see note 3), which, together with the demand for the refund for *Evangeline Katorse* (₱1.25 million), totals ₱2 million.

<sup>9</sup> *Rollo*, p. 29

<sup>10</sup> *Id.* at 31-32.

### **The Issue**

The question is whether the CA erred in finding petitioner liable for breach of the Agreement and breach of trust.

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

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

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

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

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

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

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

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

Petitioner maintains that the Film Certification issued by GMA Network attesting to the "good broadcast quality" of *Winasak na Pangarap* amounted to GMA Films' acceptance of such film. On the other hand, GMA

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<sup>11</sup> Supra note 3.

Films insists that such clearance pertained only to the technical quality of the film but not to its content which it rejected because it found the film as “*bomba*” (bold).<sup>12</sup> The CA, working under the assumption that the ground GMA Films invoked to reject *Winasak na Pangarap* was sanctioned under the Agreement, found merit in the latter’s claim. We hold that regardless of the import of the Film Certification, GMA Films’ rejection of *Winasak na Pangarap* finds no basis in the Agreement.

In terms devoid of any ambiguity, Paragraph 4 of the Agreement requires the intervention of MTRCB, the state censor, before GMA Films can reject a film and require its replacement. Specifically, Paragraph 4 requires that MTRCB, after reviewing a film listed in the Agreement, disapprove or X-rate it for telecasting. GMA Films does not allege, and we find no proof on record indicating, that MTRCB reviewed *Winasak na Pangarap* and X-rated it. Indeed, GMA Films’ own witness, Jose Marie Abacan (Abacan), then Vice-President for Program Management of GMA Network, testified during trial that *it was GMA Network* which rejected *Winasak na Pangarap* because the latter considered the film “*bomba*.”<sup>13</sup> In doing so, GMA Network went beyond its assigned role under the Agreement of screening films to test their broadcast quality and assumed the function of MTRCB to evaluate the films for the propriety of their content. This runs counter to the clear terms of Paragraphs 3 and 4 of the Agreement.

***Disposal of the Fees Paid to  
Petitioner Outside of the Terms  
of the Agreement***

GMA Films also seeks refund for the balance of the fees it paid to petitioner for *Bubot* which petitioner allegedly failed to turn-over to the film’s owner, Alano.<sup>14</sup> Implicit in GMA Films’ claim is the theory that the Agreement obliges petitioner to give to the film owners the entire amount he received from GMA Films and that his failure to do so gave rise to an implied trust, obliging petitioner to hold whatever amount he kept in trust for GMA Films. The CA sustained GMA Films’ interpretation, noting that

<sup>12</sup> TSN (Jose Marie Abacan), 20 February 2008, p. 15.

<sup>13</sup> Abacan testified (id. at 14-15):

Q [Atty. Estoesta]: Now, can you please tell us Mr. Abacan what was the reason why the said film of *Winasak na Pangarap* **was not accepted by GMA Network?**

A: Sir, *bomba* eh.

Q: When you say *bomba*, Mr. Abacan, what do you mean?

A: It is something that you cannot really – the material presented is not something that you can really air on television because of the censorship problem x x x. (Italicization in the original; boldfacing supplied)

<sup>14</sup> The amount demanded increased from ₱350,000 as stated in GMA Films’ complaint to ₱750,000 as alleged in its memorandum before the trial court.

the Agreement “does not provide that the licensor is entitled to any commission.”<sup>15</sup>

This is error.

The Agreement, as its full title denotes (“TV Rights Agreement”), is a licensing contract, the essence of which is the transfer by the licensor (petitioner) to the licensee (GMA Films), for a fee, of the exclusive right to telecast the films listed in the Agreement. Stipulations for payment of “commission” to the licensor is incongruous to the nature of such contracts unless the licensor merely acted as agent of the film owners. Nowhere in the Agreement, however, did the parties stipulate that petitioner signed the contract in such capacity. On the contrary, the Agreement repeatedly refers to petitioner as “licensor” and GMA Films as “licensee.” Nor did the parties stipulate that the fees paid by GMA Films for the films listed in the Agreement will be turned over by petitioner to the film owners. Instead, the Agreement merely provided that the total fees will be paid in three installments (Paragraph 3).<sup>16</sup>

We entertain no doubt that petitioner forged separate contractual arrangements with the owners of the films listed in the Agreement, spelling out the terms of payment to the latter. Whether or not petitioner complied with these terms, however, is a matter to which GMA Films holds absolutely no interest. Being a stranger to such arrangements, GMA Films is no more entitled to complain of any breach by petitioner of his contracts with the film owners than the film owners are for any breach by GMA Films of its Agreement with petitioner.

We find it unnecessary to pass upon the question whether an implied trust arose between the parties, as held by the CA. Such conclusion was grounded on the erroneous assumption that GMA Films holds an interest in the disposition of the licensing fees it paid to petitioner.

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<sup>15</sup> *Rollo*, p. 31.

<sup>16</sup> This provides:

TERMS OF PAYMENT

60,750,000 payable as follows:

30% (18,225,000) Dec. 23, 1998 (downpayment)

30% (18,225,000) March 23, 1999 (w/post-dated check)

40% (24,000,000) June 23, 1999 (w/post-dated check)

30% downpayment will only be released on December 23, 1998 upon submission of:

a) all betacam copies of the above-listed titles which should pass through broadcast quality test conducted by GMA-7, and b) all relevant authorities to sell from producers.

(Records, p. 11)

*Award of Attorney's Fees to Petitioner Improper*

The trial court awarded attorney's fees to petitioner as it "deemed it just and reasonable"<sup>17</sup> to do so, using the amount provided by petitioner on the witness stand (₱100,000). Undoubtedly, attorney's fees may be awarded if the trial court "deems it just and equitable."<sup>18</sup> Such ground, however, must be fully elaborated in the body of the ruling.<sup>19</sup> Its mere invocation, without more, negates the nature of attorney's fees as a form of actual damages.

**WHEREFORE**, we **GRANT** the petition. The Decision, dated 30 April 2012 and Resolution, dated 19 November 2012, of the Court of Appeals are **SET ASIDE**. The Decision, dated 5 December 2008, of the Regional Trial Court of Quezon City (Branch 223) is **REINSTATED** with the **MODIFICATION** that the award of attorney's fees is **DELETED**.

**SO ORDERED.**



**ANTONIO T. CARPIO**  
Associate Justice

**WE CONCUR:**



**PRESBITERO J. VELASCO, JR.**  
Associate Justice

<sup>17</sup> Id. at 328.

<sup>18</sup> Article 2208(11), Civil Code.

<sup>19</sup> *Scott Consultants & Resources Dev't. Corp., Inc. v. Court of Appeals*, 312 Phil. 466, 481 (1995).


  
**MARIANO C. DEL CASTILLO**  
Associate Justice

  
**JOSE CATRAL MENDOZA**  
Associate Justice

  
**MARVIC M.V.F. LEONEN**  
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.

  
**ANTONIO T. CARPIO**  
Associate Justice  
Chairperson

### CERTIFICATION

Pursuant to Section 13, Article VIII 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.

  
**MARIA LOURDES P. A. SERENO**  
Chief Justice