

FLORO ENTERPRISES, INC., PETITIONER, VS. COURT OF APPEALS AND PHILIPPINE RABBIT BUS LINES, INC., RESPONDENTS.

G.R. No. 105649. October 18, 1995

Ponente: FELICIANO, J.

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FELICIANO, J.:

In this Petition for Review, Floro Enterprises, Inc. seeks to set aside the decision of the Court of Appeals in CA-G.R. CV No. 27602 which reversed the decision of the Regional Trial Court, Branch 16, Manila, in the action for replevin with damages instituted by herein petitioner Floro Enterprises, Inc. ("Floro, Inc.") against herein private respondent Philippine Rabbit Bus Lines, Inc. ("Phil. Rabbit").

On 25 February 1981, Floro, Inc. and Phil. Rabbit entered into an agreement denominated as "Agreement for Equipment Lease, Service and Maintenance" whereby Floro, Inc. agreed to furnish Phil. Rabbit with certain computer equipment including four (4) Model 85 Visual Display Units or monitors. Appearing on the bottom portion of the Agreement was a handwritten annotation made by Mr. Ernesto P. Lagman, a sales representative of Floro, Inc., which read: "After (5) five years, the computer becomes your property."

The Agreement provided for the payment by Phil. Rabbit to Floro, Inc. of a downpayment upon signing of the Agreement and certain monthly payments, plus certain other amounts upon delivery of the computer equipment.[1] The computer equipment specified in the Agreement was delivered to Phil. Rabbit on September 1981 except for the four (4) Model 85 monitors. In lieu thereof, Floro, Inc. delivered and installed Model 82 monitors. Phil. Rabbit made several verbal and written demands on Floro, Inc. to deliver the Model 85 monitors. Upon assurances made by Floro, Inc. that the Model 85 monitors "will be forthcoming", Phil. Rabbit made several payments in accordance with the terms of the Agreement. However, despite the assurances made by Floro, Inc., the Model 85 monitors were never delivered to Phil. Rabbit.

On 10 January 1983, Phil. Rabbit wrote Floro, Inc. asking for the cancellation of the Agreement alleging that the computers were not placed in full operation due to the nondelivery of the Model 85 monitors. In a letter dated 4 February 1983, Floro, Inc. expressed its conformity to the "mutual cancellation" of the Agreement and demanded the return of the computer equipment. Phil. Rabbit informed Floro, Inc. that the computer equipment would be returned only upon the reimbursement of the amount of P295,169.00, which the former had already paid the latter.

On 31 May 1983, Floro, Inc. wrote Phil. Rabbit reiterating its demand for the return of the equipment and payment of back rentals in the amount of P265,291.50. Phil. Rabbit insisted on the return of the payments it had previously made. On 10 August 1983, Floro, Inc. proposed to put the computer systems in operating condition and to start the "lease contract" all over again for another sixty (60) months but crediting under the new contract the monthly rentals already paid by Phil. Rabbit. No agreement was reached by the parties.

On 27 July 1984, Floro, Inc. filed in the Regional Trial Court ("RTC"), Branch 16, Manila, an action to recover possession of the computer equipment through a writ of replevin, unpaid rentals, damages for depreciation and attorney's fees.

The RTC rendered judgment ordering Phil. Rabbit to pay Floro, Inc. the sums of P291,008.36 as back rental payments, P8,000.00 as attorney's fees and the costs of suit.[2] The trial court characterized the Agreement between the parties as one of lease and ruled that the handwritten annotation made by Mr. Ernesto P. Lagman on the Agreement was not authorized by Floro, Inc. The trial court also held that Phil. Rabbit was not entitled to reimbursement of the amounts it had paid to Floro, Inc. since it had been able to make use of the computer equipment for its operations despite the nondelivery of the Model 85 monitors.[3]

On appeal, the Court of Appeals ("CA") reversed the decision of the trial court. The CA characterized the agreement between the parties as one of sale on an installment basis and not of lease. That the intention of Phil. Rabbit and Floro, Inc. was to enter into a contract of sale on installment was found by the CA to have been sufficiently established by the handwritten annotation made by Mr. Ernesto P. Lagman on the bottom portion of the Agreement stating: "After (5) five years, the computer becomes your property." [4]

The CA did not give credence to the contention of Floro, Inc. that it did not authorize Mr. Lagman to make said annotation on its behalf. Respondent appellate court noted that Floro, Inc. did not express any objection to the annotation despite knowledge of the existence thereof. In addition, officers of Floro Inc. who were presented as its witnesses testified to the effect that the transaction between Phil. Rabbit and Floro, Inc. had been one of sale on an installment basis.[5]

Since the parties had agreed to a mutual cancellation of the Agreement, respondent appellate court ordered each to restore to the other what each had received under the Agreement in accordance with Article 1385 of the Civil Code. The computer equipment had been previously returned to Floro, Inc. by virtue of the writ of replevin issued by the trial court. The CA found that Phil. Rabbit had been able to make use of the computer equipment for a period of six (6) months; hence, Phil. Rabbit was ordered to pay the sum of P120,564.00 to be deducted from the sum of P295,169.00 which it had already paid to Floro, Inc. For its part, Floro, Inc. was ordered to return the balance of P174,605.00.[6]

Floro, Inc. filed this Petition for Review on Certiorari praying for the reversal of the decision of the CA and the reinstatement of the RTC decision.[7] Specifically, Floro, Inc. takes exception to the finding of respondent appellate court that the Agreement between the parties was one of sale on installment and not of lease. Floro, Inc. maintains that it was not bound by the annotation made by Mr. Lagman on the Agreement as it did not authorize the latter to make said annotation.

It would seem that the issue to be resolved in this case is whether the contract entered into by petitioner Floro, Inc. and private respondent Phil. Rabbit was one of sale on installment basis, as found by the CA, or one of lease, as found by the RTC. However, the Court does not see any real need for resolving this issue in view of the fact that the parties had agreed to a mutual cancellation of their transaction. As established by both respondent appellate court and the trial court, on 10 January 1983 private respondent Phil. Rabbit wrote petitioner Floro, Inc. asking for the cancellation of the Agreement and the latter, through a letter dated 4 February 1983, communicated to the former its conformity thereto.[8] Whether the contract is characterized as a sale or a lease, the consequences of the cancellation would be the same. The parties are to be restored to their original positions inter se as far as practicable.

When petitioner Floro, Inc. failed to deliver the Model 85 monitors, private respondent Phil. Rabbit would have been entitled to refuse to pay the full amount stipulated in the Agreement. However, private respondent Phil. Rabbit opted to cancel the Agreement, to which petitioner Floro, Inc. expressed its conformity. In legal effect, the parties entered into another contract for the dissolution of the previous one, and they are bound by that contract. The dissolution or the cancellation of the original Agreement necessarily involves restoration of the parties to the

status quo ante prevailing immediately prior to the execution of the Agreement i.e. the computer equipment reverts back to petitioner Floro, Inc. and private respondent Phil. Rabbit is reimbursed the amounts it had paid to the former. However, in this case, Phil. Rabbit cannot reasonably demand reimbursement for the full amount it had paid to petitioner Floro, Inc. because it cannot be gainsaid that Phil. Rabbit had utilized the computer equipment for its operations and benefitted from such use. Phil. Rabbit cannot be allowed to unjustly enrich itself at the expense of Floro, Inc.

Hence, respondent appellate court was correct in ordering the parties to restore to each other what each of them had received under the contract but taking into account the use by private respondent Phil. Rabbit of the computer equipment. However, it was not quite correct in invoking, in this connection, Article 1385 of the Civil Code. Article 1385 refers to contracts that are rescissible for causes specified in Articles 1381 and 1382 of the Civil Code but it does not refer to contracts that are dissolved by mutual consent of the parties.[9] Rather, the mutual restoration is in consonance with the basic principle that when an obligation has been extinguished or resolved, it is the duty of the court to require the parties to surrender whatever they may have received from the other so that they may be restored, as far as practicable, to their original situation.[10]

Petitioner Floro, Inc. had already been able to recover the computer equipment through the writ of replevin issued by the trial court in its favor. Upon the other hand, on the basis of the records of the case, respondent appellate court ordered Phil. Rabbit to pay petitioner Floro, Inc. the sum of P120,564.00 representing payment for the use of the computer equipment for a period of approximately six (6) months, said amount to be deducted from the sum of P295,169.00 which had already been paid to the latter. Floro, Inc. was accordingly ordered to return to Phil. Rabbit the remaining balance of P174,605.00. The Court finds no reason to disturb this finding by the CA there being no showing that the same was based on a misapprehension of facts or constituted grossly excessive imputed compensation for the period of use by Phil. Rabbit.

The Court sees no need to resolve the other issues raised in the petition.

WHEREFORE, finding no reversible error on the part of respondent Court of Appeals, the Court Resolved to DENY the Petition for Review on Certiorari and the decision in CA-G.R. CV No. 27602 is hereby AFFIRMED.

Romero, Melo, Vitug, and Panganiban, JJ., concur.

[1] Rollo, p. 57.

[2] RTC Decision, p. 6; Rollo, p. 74.

[3] *id.*, pp. 4-5; *id.*, pp. 72-73.

[4] CA Decision, p. 3; Rollo, p. 51.

[5] *id.*, pp. 3-4; *id.*, pp. 51-52.

[6] *id.*, p. 6; *id.*, p. 54.

[7] Rollo, p. 45.

[8] RTC Decision, pp. 2-3; Rollo, pp. 70-71. CA Decision, p. 2; Rollo, p. 50.

[9] *Pagco vs. Court of Appeals*, 231 SCRA 354 (1994); *Aquino vs. Tanedo*, 39 Phil. 517 (1919).

[10] *Agustin vs. Court of Appeals*, 186 SCRA 375 (1990); *Magdalena Estate, Inc. vs. Myrick*, 71 Phil. 344 (1941); *Po Pauco vs. Siguenza, et al.*, 49 Phil. 404 (1926).

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