

**MAVEST (U.S.A.) INC., AND MAVEST MANILA LIAISON OFFICE,
PETITIONERS, VS. SAMPAGUITA GARMENT CORPORATION,
RESPONDENT.**

G.R. NO. 127454. September 21, 2005

Ponente: GARCIA, J.

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GARCIA, J.

Assailed and sought to be set aside in this petition for review on certiorari under Rule 45 of the Rules of Court is the Decision[1] dated 10 December 1996 of the Court of Appeals in CA-G.R. No. 48232-CV, affirming, with modifications, an earlier decision of the Regional Trial Court at Makati City in Civil Case No. 90-1131, an action for a sum of money thereat commenced by the herein respondent Sampaguita Garment Corporation against the herein petitioners MAVEST (U.S.A.), Inc. and MAVEST Manila Liaison Office and two (2) others.

Petitioner MAVEST (U.S.A.), Inc. (MAVEST, U.S.A., for short) is a corporation duly organized and existing under the laws of the United States of America but registered with the Philippine Board of Investments, while co-petitioner MAVEST Manila Liaison Office is MAVEST U.S.A.'s representative in the Philippines. On the other hand, respondent ampaguita Garment Corporation is a domestic corporation engaged in the business of manufacturing and exporting garments.

As found by the appellate court in the decision under review, the factual antecedents are:

- Sometime in July and August 1989, [petitioners Mavest U.S.A. and Mavest Manila Liaison Office] entered into a series of transactions with [respondent] Sampaguita Garment Corporation, whereby the former would furnish from abroad raw materials to be manufactured by the latter into finished products, for shipment to [petitioners'] foreign buyers, Sears Roebuck and JC Penney.
- Each transaction was embodied in a purchase order [PO] specifying the style and description, as follows:
 - Style 33303 (SZ-217), 100% Cotton Pigment Twill Shorts, [PO] dated August 9, 1989 ;
 - Style 45712 (S/44759), Nylon Swim Trunks, [PO] dated July 24, 1989 ;
 - Style 45714 (S/SZ-218), Nylon Swim Trunks, [PO] dated July 24, 1989 ;
 - Style 45715 (S/SZ219), Nylon Swim Trunks, [PO] dated July 24, 1989 ;
 - Style 7511, Solid Woven Hooded Jacket, (PO) dated July 12, 1989 ;
 - Style Nos. DJ-1 BR and DJ-1 XT, Cotton Woven Pants [PO] dated August 10, 1989 ; as well as the quantity, mode and date of delivery.
- Styles (33303, 45712, 45714, 45715) were upon the orders of Sears Roebuck ,while Styles (7511, DJ-1 BR and DJ-1 XT) were upon the orders of JC Penney.

- The orders of Sears Roebuck were duly paid in full by way of letter of credit. The JC Penney orders consisting of 8,000 pcs. Cotton Woven Pants (Styles DJ-1 BR and DJ-1 XT x x x at \$3.65 per piece or a total of \$29,200.00 were not covered by a letter of credit.

- Despite shipment and receipt by JC Penney of said orders, no payment was made, thus prompting [respondent] to send demand letters which remained unheeded.

- On April 27, 1990, [respondent] filed a complaint for collection of a sum of money amounting to US\$29,200.00 with damages [before the Regional Trial Court at Makati City against the herein petitioners and two (2) others, namely, MAVEST International Co., LTD and Patrick Wang, former General Manager of MLO].

- In their Answer with Counterclaim filed on June 21, 1990, [petitioners and their two co-defendants] countered that "plaintiff [Sampaguita Garment Corporation] has already been paid by virtue of legal compensation, and that it is plaintiff which owes defendants US\$5, 799.57 due to the damages and losses it (sic) incurred as a result of the breaches committed in the previous shipments to Sears Roebuck. The damages and losses refer to: i) failure to observe specifications and quantity requirements; ii) delay in shipping out the garments; iii) over declaration of value in Style No. 33303; iv) shortshipment of garments; v) failure to return raw materials for the unshipped garments, amounting to US\$34,999.57. Moreover, [petitioners and their co-defendants] alleged that they also suffered losses on account of delays in the JC Penney shipments.

- During the pre-trial, the parties came up with the following stipulation of facts:

xxx xxx xxx

"1. That the defendant(s) ordered from plaintiff an aggregate volume of 8,000 pieces Youngmen's Cotton Woven Pants at US\$29,200.00 and which were delivered to JC Penney Corporation of California, the consignee;

2. That the total costs of the goods remained unpaid, subject to the defense of compensation.

However, as further proposed by the plaintiff, the defendant(s) denied that the goods were accepted by the consignee and that it was properly inspected by them."

- On September 9, 1991, a partial stipulation of facts duly signed by counsels of both parties was submitted, with the following statements:

"22. That all the foregoing garments Style Nos. 45712, 45714, 45715, 7511 and SZ-217 were airshipped after inspection and acceptance and upon the instruction of defendant Mavest Int'l. Corp, as evidenced by the following documents to be marked as plaintiffs exhibits xxx".

- On August 6, 1993, [petitioners and their co-defendants] filed an Amended Answer (To Conform To Evidence) with counterclaim

- In said Amended Answer with Counterclaim, [defendants] alleged that "by virtue of legal compensation, plaintiff has already been paid as, in fact, it still owes defendants US\$101,259.47, more or less". (Words in bracket, underscoring and italicization ours).

After a protracted trial that lasted for four (4) years, the trial court rendered judgment in favor of herein respondent, as plaintiff and against the petitioners and their co-defendants, thus:

WHEREFORE, judgment is hereby rendered in favor of plaintiff and against the defendants ordering the defendants jointly and severally to pay plaintiff, as follows:

1) the amount of US\$29,200.00 or its equivalent in Philippine Pesos at the time of payment plus interest at the

rate of six percent (6%) per annum from the time of filing of this complaint until fully paid as actual damages;

2) the amount of P300,000.00 as and for attorney's fees; and

3) costs of suit.

SO ORDERED.

Therefrom, petitioners and their co-defendants a quo appealed to the Court of Appeals (CA) whereat their recourse was docketed as CA-G.R. No. 48232-CV. And, in a decision[2] dated 10 December 1996, the appellate court modified that of the trial court in the sense that petitioners' co-defendants were in effect released from any liability and the award of attorney's fees and costs of suit deleted. Dispositively, the appellate court's decision reads:

WHEREFORE, the appealed decision in Civil Case No. 90-1131 is AFFIRMED with the following MODIFICATIONS:

- The complaint against defendants Mavest International Co., Ltd. and Patrick Wang is DISMISSED;

- {Petitioner} Mavest-U.S.A., Inc./Mavest Manila Liaison Office is ordered to pay [respondent] the amount of US\$29,200.00 or its equivalent in Philippine Pesos at the time of payment plus interest at the rate of six percent (6%) per annum from the time of filing of this complaint until fully paid as actual damages;

- The attorney's fees and costs of suit are deleted.

No costs.

SO ORDERED. (Words in bracket ours).

Undaunted, petitioners are now with us via the instant recourse, contending that the appellate court erred –

I

IN AFFIRMING THE TRIAL COURT'S DECISION THAT LEGAL COMPENSATION DOES NOT APPLY IN THIS CASE;

II

IN APPLYING ARTICLE 1719 OF THE NEW CIVIL CODE AS SUPPORT TO THE TRIAL COURT'S FINDING THAT PETITIONERS ACCEPTED THE FINISHED GARMENTS WITHOUT PROTEST AND IN NOT CONSIDERING THE SAME AS AN EXERCISE TO MITIGATE DAMAGE;

III

IN NOT ACCORDING PROBATIVE VALUE TO THE EVIDENCE SUPPORTING PETITIONERS' DAMAGE;

IV

IN HOLDING THAT MAVEST LIAISON OFFICE IS SOLIDARILY LIABLE WITH MAVEST USA, INC.;

V

IN RULING THAT PETITIONERS ARE LIABLE TO PAY RESPONDENT ACTUAL DAMAGES IN THE AMOUNT OF US\$29,200.00 OR ITS EQUIVALENT IN PHILIPPINES PESOS AT THE TIME OF PAYMENT PLUS INTEREST AT THE RATE OF SIX PERCENT (6%) PER ANNUM FROM THE TIME OF FILING OF THE COMPLAINT UNTIL FULLY PAID AND IN NOT HOLDING RESPONDENT LIABLE TO PAY PETITIONERS.

The interrelated first, second and fifth assigned errors converged on petitioners' main submission that the amount of US\$29,200.00 claimed by respondent for garments delivered to J.C. Penney is compensable and has in fact been compensated by the damages/losses petitioners suffered from previous transactions involving deliveries to Sears Roebuck. Expounding, petitioners assert that respondent, with respect to the Sears Roebuck shipment, inter alia failed to observe the specifications and quantity requirements, missed delivery dates and incurred delay in the shipment of certain goods. Upon this postulate, petitioners argue that the unpaid amount due respondent has thereby been extinguished by reason of legal compensation.

We are not persuaded.

Concededly, the Civil Code lists compensation as one of the modes of extinguishing the obligations of persons who, in their own right, are creditors and debtors of each other.[3] Compensation may be legal or conventional. Legal compensation takes place ipso jure when all the requisites of law are present,[4] as opposed to conventional or voluntary compensation which occurs when the parties agree to the mutual extinguishment of their credits or to compensate their mutual obligations even in the absence of some of the legal requisites.[5]

For compensation to validly take place, the governing Civil Code provisions[6] require the concurrence of well-defined conditions. At its minimum, compensation presupposes two persons who, in their own right and as principals, are mutually indebted to each other respecting equally demandable and liquidated obligations over any of which no retention or controversy commenced and communicated in due time to the debtor exists. But while compensation, be it legal or conventional, requires the confluence in the parties of the characters of mutual debtors and creditors, their rights as such creditors, or their obligations as such debtors, need not spring from one and the same contract or transaction.[7]

With the view we take of this controversy, legal compensation could not have occurred in this case. The appellate court delved on the reason why legal compensation does not obtain herein. It pointed to the fact that petitioners, on one hand, and respondent, on the other, are not mutually bound as creditors and debtors. As correctly found by the Court of Appeals, it was only the petitioners' debt to the respondent that had been rightfully established. The same court added the observation that petitioners even acknowledged their obligation to respondent in the amount of US\$29,200.00. Said the appellate court, quoting with approval the trial court's decision:

It is likewise observed that [petitioners] had acknowledged their obligation to [respondent] in the amount of US\$29,200.00. On February 15, 1990, defendant Patrick Wang, general manager of Mavest Manila Liaison Office, wrote [respondent] stating that they "would not want to give the impression that we are holding the payment for DJ-1 Twill Pants. x x x We honor our word that we will issue corresponding check valued at US\$29,200.00". (Words in bracket ours).

Not to be overlooked on the acknowledgment-of-debt angle is what the parties stipulated during the pre-trial conference before the trial court, to wit:

- That the defendant ordered from plaintiff an aggregate volume of 8,000 pieces of young men's cotton woven pants at US\$3.65 per piece or a total amount of US\$29,200.00 and which were delivered to JC Penney Corporation of California, the consignee;
- That the total cost of the goods remains unpaid, subject to the defense of compensation.[8]

In contrast, petitioners failed to establish respondent's purported liability to them which would have then set the automatic operation of legal compensation in motion. As may be recalled, petitioners' unyielding stance is that respondent is indebted to them to the liquidated tune of US\$34,999.57, the money value of the damages/losses they incurred respecting the previous shipments to Sears Roebuck. These damages/losses, they add, arose out of respondent's alleged failure to observe specifications and quantity requirements; short shipment and delay in

shipment; and other breaches of contract. It cannot be overemphasized, however, that, as found by the appellate court, petitioners appeared not to have objected to the quality or quantity of the work done by respondent or to the production or delivery schedule it observed. In fact, their actuations relative to the Sears Roebuck shipments, particularly their having paid in full for such shipments, argue against the notion of respondent reneging on its faithful part of the bargain. Aptly wrote the Court of Appeals in this regard:

Defendants [petitioners] base their defense of compensation, as in set-off, on previously delivered goods covered by different [POs]. However, these [POs] had been completely settled and paid before this case was instituted. It was also established that defendants accepted those deliveries made without any qualification, protest or challenge. All goods were properly inspected by the defendants and/or the defendants' buyers. The acceptance of the goods by defendants' buyers . . . is an indication that they were satisfied with the goods delivered, thus, the consummation of the contract with respect to the goods accepted. The defendants never informed plaintiff [respondent] that they had suffered any loss with respect to the previous shipments sent to their buyers. Therefore, the defendants cannot now claim compensation for the damages they allegedly incurred for the plaintiff's allegedly incurred (Underscoring and words in bracket added)

It may be that petitioners' acceptance of the goods delivered does not preclude them from subsequently raising objections about the existence of hidden defects in the finished and delivered products of respondent. In fact, Article 1719 of the Civil Code admits of two (2) exceptions to the rule that acceptance relieves the contractor of liability for any defect in the work, to wit: (1) the defect is hidden and the employer is not, by his special knowledge, expected to recognize the same; and (2) the employer expressly reserves his right against the contractor by reason of hidden defects.

Sadly, however, petitioners, with respect to defects, if any, in the manufactured clothes which were not discoverable upon a casual examination thereof, appeared to have kept silent. Neither did they, upon acceptance of the garments, expressly reserve the right to take such action as may be appropriate against respondent. Quite the contrary, in the stipulation of facts signed by counsels of both parties, it is even acknowledged –

- That all the foregoing garments Style Nos. 45712, 45714, 45715, 7511 and SZ 217 were airshipped after inspection and acceptance and upon the instruction of defendant Mavest Int'l Corp., as evidenced by the following documents to be marked as plaintiff's exhibits, xxx..[9] (Emphasis supplied)

Given the foregoing perspective, we rule without hesitancy that what petitioners take as losses and damages incurred while transacting with respondent cannot plausibly be categorized as respondent's compensable debt to them. And since the parties are not mutually creditors and debtors of each other, there can be no valid set-off. In short, petitioners still owe respondent the amount of US\$29,200.00.

On their third assigned error, petitioners fault the appellate court for not giving probative value to their evidence in support of their claim for damages.

Section 1, Rule 131 of the Rules of Court,[10] assigns the burden of proof upon the party who alleges the truth of his claim or defense, or any fact in issue. And this, he must discharge by the amount of evidence required by law. In civil cases, the burden of proof is on the defendant if he alleges, in his answer, an affirmative defense, which is not a denial of an essential ingredient in the plaintiff's cause of action, but is one which, if established, will be a good defense — i.e., an "avoidance" of the claim, which prima facie, the plaintiff already has because of the defendant's own admissions in the pleadings.[11]

Petitioners' defense in this case is doubtless affirmative in character. As it were, they did not deny owing respondent the amount of US\$29,200.00. What they averred was that their obligation to pay was deemed extinguished because of legal compensation. They also maintained having incurred losses and damages due to

respondent's actions or inaction, as the case may be. Because these are allegations in petitioners' pleadings, the burden is on them to prove their averments by the quantum of proof required in civil cases, namely, preponderance of evidence,[12] i.e., "evidence which is of greater weight, or more convincing than that which is offered in opposition to it".[13]

The categorical conclusion of the Court of Appeals, confirmatory of that of the trial court, is that that petitioners' evidence, albeit numerous, failed to sufficiently establish, by the required quantum of evidence, the underlying causes of their losses/ damages which they alleged to be respondent's doing. As earlier mentioned, these causes stemmed from respondent's failure to meet specifications and quantity standards, delay in shipment, under - shipment, over declaration of value in Style 33303 and its failure to return raw materials from unshipped garments. To the appellate court, what petitioners adduced could not support a solid inference that respondent should be held liable for the damages and losses they allegedly sustained that would justify the application, under the premises, of legal compensation.

It is evident that the issue tendered under petitioners' third assignment of error relates to the correctness of the Court of Appeals' factual determination as to whether or not they incurred losses/damages as a result of what they regard as contractual breaches committed by respondent in the shipment of garments to meet Sears Roebuck job orders. Such issue, however, is contextually beyond the purview of the Court's reviewing power. For, it is not the function of this Court to analyze or weigh all over again the evidence or premises supportive of such factual determination,[14] except for the most compelling and well-defined cogent reasons.[15] As nothing in the record indicates any of such exceptions, the factual conclusion of the appellate court that petitioners' evidence did not adequately support their claim for damages must be affirmed.

In their fourth assigned error, petitioners submits that Mavest Manila Liaison Office (MLO), being merely an agent of Mavest U.S.A, should not be held solidarily liable with the principal.

Petitioners were two (2) of the original four (4) defendants impleaded in the basic complaint, the other two (2) being Mavest International Co., Ltd. (MICL), a firm organized under the laws of Taiwan, and Mr. Patrick Wang, a former manager of MICL and MLO. Both MICL and Mr. Wang, while adjudged liable in solidum with the petitioners by the trial court, were eventually absolved from any liability by the Court of Appeals.

In holding MLO solidarily liable with Mavest U.S.A., the appellate court proceeded on the postulate that MLO is the liaison office of Mavest U.S.A and the extension office of both Mavest U.S.A. and MILC.

The Court of Appeals' holding commends itself for concurrence.

As it were, Mavest U.S.A. appears to have constituted MLO as its representative and its fully subsidized extension office in the Philippines. As such, MLO can be charged for the liabilities incurred by Mavest U.S.A. in the country. And if MLO can be so charged, there is no rhyme nor reason why it cannot be adjudged, as did the appellate court, as solidarily liable with head office, Mavest U.S.A.

WHEREFORE, the instant petition is DENIED and the assailed decision of the Court of Appeals AFFIRMED in toto.

Costs against petitioners.

SO ORDERED.

Panganiban (chairman), Sandoval-Gutierrez, Corona, and Carpio Morales, JJ, , concur

[1] Penned by then Associate Justice Ma. Alicia Austria-Martinez, (now a member of this Court) with then and

later a member of this Court Associate Justice Arturo B. Buena (now ret.) and Associate Justice Bernardo L. Salas (now ret.), concurring.

[2] See Note No.1; Rollo, pp. 8-28.

[3] Art. 1231. Obligations are extinguished:

- (1) By payment or performance;
- (2) By the loss of the thing due;
- (3) By the condonation or remission of the debt;
- (4) By the confusion or merger of the rights of creditor and debtor;
- (5) By compensation;
- (6) By novation.

xxx xxx xxx

[4] Art. 1290, Civil Code

[5] Tolentino, Commentaries and Jurisprudence on the Civil Code, Vol. IV, 1991 ed., pp. 366-367.

[6] Articles 1277 & 1278 .

[7] PNB MADECOR vs. Uy, 363 SCRA128 [2001].

[8] Original Records, p. 119; Court of Appeals' Decision, p. 3.

[9] Original records, p. 229; Court of Appeals Decision, p. 4.

[10] Section 1, Rule 131. Burden of Proof — Burden of proof is the duty of a party to present evidence on the facts in issue necessary to establish his claim or defense by the amount of evidence required by law.

[11] Sambar vs. Levi Strauss & Co., 378 SCRA 364, [2002].

[12] Section 1, Rule 133, Rules of Court.

[13] Montañez vs. Mendoza, 392 SCRA 541, [2002].

[14] PT&T vs. Court of Appeals, 412 SCRA 263 [2003].

[15] Republic vs. Court of Appeals, 349 SCRA 451 [2001].

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