

GOODYEAR PHILIPPINES, INC., PETITIONER, VS. ANTHONY SY AND JOSE L. LEE, RESPONDENTS.

G.R. No. 154554. November 09, 2005

Ponente: PANGANIBAN, J.

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PANGANIBAN, J.:

A complaint must contain a concise statement of the ultimate facts constituting the plaintiff's cause of action. To determine whether a cause of action is stated, the test is as follows: admitting *arguendo* the truth of the facts alleged, can the court render a valid judgment in accordance with the prayer? If the answer is "no," the complaint does not state a cause of action and should be dismissed forthwith. If "yes," then it does and must be given due course.

The Case

Before us is a Petition for Review[1] under Rule 45 of the Rules of Court, assailing the June 5, 2002 Decision[2] and the August 8, 2002 Resolution[3] of the Court of Appeals (CA) in CA-GR CV No. 61229. The dispositive portion of the challenged Decision reads as follows:

"WHEREFORE, the instant appeal is GRANTED. The Order dated May 27, 1998 of the Regional Trial Court of Legazpi City, Branch 9, is hereby REVERSED and the case is remanded to the court a quo for the appropriate further proceedings."[4]

The assailed Resolution denied petitioner's Motion for Reconsideration.

The Antecedents

The CA narrated the antecedents of the case as follows:

"The subject of this case involves a motor vehicle, particularly described as:

MAKE: 1984 Isuzu JCR 6-Wheeler

PLATE NUMBER: PEL 685

MOTOR NO.: 6BD1-371305

SERIAL NO.: JCR500BOF-21184

"The vehicle was originally owned by Goodyear Philippines, Inc. ([Goodyear]) which it purchased from Industrial and Transport Equipment, Inc. in 1983. It had since been in the service of [Goodyear] until April 30, 1986 when it was hijacked. This hijacking was reported to the Philippine National Police (PNP) which issued out an alert alarm on the said vehicle as a stolen one. It was later on recovered also in 1986.

"The vehicle was used by [Goodyear] until 1996, when it sold it to Anthony Sy on September 12, 1996.

"Sy, in turn, sold it to Jose L. Lee on January 29, 1997. But the latter on December 4, 1997, filed an action for rescission of contract with damages against Sy[,] because he could not register the vehicle in his name due to the certification from the PNP Regional Traffic Management Office in Legazpi City that it was a stolen vehicle

and the alarm covering the same was not lifted. Instead, the PNP in Legazpi City impounded the vehicle and charged Lee criminally.

"Upon being informed by Sy of the denial of the registration of the vehicle in Lee's name, [Goodyear] requested on July 10, 1997 the PNP to lift the stolen vehicle alarm status. This notwithstanding, [Goodyear] was impleaded as third-party defendant in the third-party complaint filed by Sy on January 9, 1998.

"A motion to dismiss was filed by [Goodyear] on March 24, 1998 on the twin grounds that the third-party complaint failed to state a cause of action and even if it did, such cause of action was already extinguished. An opposition thereto was interposed by Sy on April 17, 1998.

"The Regional Trial Court [(RTC)] resolved to dismiss the third-party complaint on the basis of the first proffered ground in its challenged Order dated May 27, 1998. It ratiocinated:

'A perusal of the third party complaint does not expressly show any act or omission committed by the third party defendant which violates a right of the third party complainant. The third party complaint failed to show that the vehicle in question belongs to a person other than the third party defendant at the time the said motor vehicle was sold by the third party defendant to the third party plaintiff. On the contrary[,] the third party defendant has not denied having sold to the third party plaintiff the said motor vehicle which had been in its possession as owner from 1986 to 1996. The fact that the said motor vehicle was included by the PNP in its alert status as stolen vehicle[,] resulted only following the report by the third party defendant that it was hijacked in 1986. But when the said motor vehicle was recovered, the third party defendant informed the PNP about the said recovery and requested the lifting of the alert status on it as stolen vehicle.

'If the PNP has not removed the said vehicle from its alert status as a stolen vehicle, [then] that does not make [Goodyear] not the owner thereof. Hence, [Goodyear], the third party defendant, is not guilty of any breach resulting from any flaw in the title over the said vehicle. This is confirmed by the allegation of the third party plaintiff as answering defendant in paragraph 6 of its Answer with Counterclaim and Affirmative Defenses dated January 9, 1998, hereunder quoted as follows:

'6. Defendant specifically denies the allegations contained in paragraph 9 of [p]laintiff's complaint, the truth of the matter is that [d]efendant help[ed] plaintiff in removing the impediments in the registration and transfer of ownership and that defendant ha[d] no knowledge of any flaw [in] the title of Goodyear Philippines, Inc."

'Under Rules 16, a motion to dismiss may be made on any of the following grounds:

"g) That the pleading asserting the claim states no cause of action."

"WHEREFORE, for failure of the third party complaint to state a cause of action, the same is hereby ordered DISMISSED."[5]

Ruling of the Court of Appeals

In granting the appeal, the CA reasoned that the Third-Party Complaint had stated a cause of action. First, petitioner did not make good its warranty in the Deed of Sale: to convey the vehicle to Respondent Anthony Sy free from all liens, encumbrances and legal impediments. The reported hijacking of the vehicle was a legal impediment that prevented its subsequent sale.

Second, Respondent Sy had a right to protect and a warranty to enforce, while petitioner had the corresponding obligation to honor that warranty. The latter caused the impairment of that right, though, when the vehicle it had sold to him was refused registration, because of the non-lifting of the alert status issued at its instance. That petitioner had to execute all documents necessary to confer a perfect title to him before he could seek recourse to the courts was deemed a ludicrous condition precedent, because it could easily refuse to fulfill that condition in order to obviate the filing of a case against it.

Hence, this Petition.[6]

The Issues

Petitioner raises the following issues for the Court's consideration:

"I.

Whether or not the Court of Appeals erred in reversing and setting aside the decision of the Regional Trial Court, dismissing the complaint against petitioner for lack of a cause of action.

"II.

Whether or not the Court of Appeals erred in failing to find that petitioner did not breach any warranty in the absence of proof that at the time it sold the subject vehicle to Sy, petitioner was not the owner thereof.

"III.

Whether or not the Court of Appeals erred in failing to find that the cause of action, if ever it existed, was already extinguished."[7]

The foregoing issues actually point to one main question: did the Third-Party Complaint state a cause of action against petitioner?

The court's ruling

The Petition has merit.

Main Issue:

Whether a Cause of Action Was Stated in the Third-Party Complaint

A cause of action is a formal statement of the operative facts that give rise to a remedial right.[8] The question of whether the complaint states a cause of action is determined by its averments regarding the acts committed by the defendant.[9] Thus, it "must contain a concise statement of the ultimate or essential facts constituting the plaintiff's cause of action." [10] Failure to make a sufficient allegation of a cause of action in the complaint "warrants its dismissal." [11]

Elements of a Cause of Action

A cause of action, which is an act or omission by which a party violates the right of another,[12] has these elements:

"1) the legal right of the plaintiff;

"2) the correlative obligation of the defendant to respect that legal right; and

"3) an act or omission of the defendant that violates such right." [13]

In determining whether an initiatory pleading states a cause of action, "the test is as follows: admitting the truth of the facts alleged, can the court render a valid judgment in accordance with the prayer?" [14] To be taken into account are only the material allegations in the complaint; extraneous facts and circumstances or other matters aliunde are not considered.[15] The court may consider -- in addition to the complaint -- the appended annexes or documents, other pleadings of the plaintiff, or admissions in the records.[16]

No Cause of Action Against Petitioner

In the present case, the third element is missing. The Third-Party Complaint filed by Sy is inadequate, because it

did not allege any act or omission that petitioner had committed in violation of his right to the subject vehicle. The Complaint capitalized merely on the fact that the vehicle -- according to the records of the PNP, which was a stranger to the case -- was "a stolen vehicle." The pleading did not contain "sufficient notice of the cause of action"[17] against petitioner.

Without even going into the veracity of its material allegations, the Complaint is insufficient on its face.[18] No connection was laid out between the owner's sale of the vehicle and its impounding by the PNP. That the police did not lift the alert status did not make petitioner less of an owner.

The Deed of Sale between petitioner and Respondent Sy was attached as Annex A[19] to the Third-Party Complaint filed by the latter against the former. The Deed stated that petitioner was the absolute owner of the subject vehicle. No contrary assertion was made in the Complaint. Hence, the trial court correctly observed that the Complaint had failed to show that, at the time of its sale to Respondent Sy, the vehicle belonged to a person other than petitioner.[20]

To reiterate, the Third-Party Complaint absolutely failed to state an act or omission of petitioner that had proximately caused injury or prejudice to Sy. Indeed, based on that pleading alone, the latter's claim for relief against petitioner does not appear to exist.

Warranties Passed On By the Vendor to the Vendee

In a contract of sale, the vendor is bound to transfer the ownership of and to deliver the thing that is the object of the sale.[21] Moreover, the implied warranties are as follows: first, the vendor has a right to sell the thing at the time that its ownership is to pass to the vendee, as a result of which the latter shall from then on have and enjoy the legal and peaceful possession of the thing;[22] and, second, the thing shall be free from any charge or encumbrance not declared or known to the vendee.[23]

Upon the execution of the Deed of Sale, petitioner did transfer ownership of and deliver the vehicle to Respondent Sy.[24] No other owner or possessor of the vehicle had been alleged, and the ownership and possession rights of petitioner over it had never been contested. The Deed of Sale executed on September 12, 1996 showed that petitioner was the absolute owner. Therefore, at the time that ownership passed to Sy, petitioner alone had the right to sell the vehicle.

In the same manner, when he sold the same truck to Jose L. Lee,[25] Respondent Sy was exercising his right as absolute owner. Unfortunately, though, from the time Respondent Lee attempted to register the truck in his name, he could not have or enjoy the legal and peaceful possession of the vehicle, because it had been impounded by the PNP, which also opposed its registration.

The impoundment of the vehicle and the failure to register it were clearly acts that were not deliberately caused by petitioner, but that resulted solely from the failure of the PNP to lift the latter's own alarm over the vehicle. Pursuant to Republic Act 6975,[26] these matters were purely administrative and governmental in nature. Petitioner had no authority, much less power, over the PNP. Hence, the former did not breach its obligation as a vendor to Respondent Sy; neither did it violate his right for which he could maintain an action for the recovery of damages. Without this crucial allegation of a breach or violation, no cause of action exists.[27]

A warranty is an affirmation of fact or any promise made by a vendor in relation to the thing sold. As such, a warranty has a natural tendency to induce the vendee --relying on that affirmation or promise -- to purchase the thing.[28] The vendor impliedly warrants that that which is being sold is free from any charge or encumbrance not declared or known to the vendee. The decisive test is whether the vendor assumes to assert a fact of which the vendee is ignorant.[29]

No Lien or Breach of Warranty

In the present case, petitioner did not breach the implied warranty against hidden encumbrances. The subject vehicle that had earlier been stolen by a third party was subsequently recovered by the authorities and restored to petitioner, its rightful owner. Whether Sy had knowledge of the loss and subsequent recovery, the fact remained that the vehicle continued to be owned by petitioner, free from any charge or encumbrance whatsoever.

A lien is "a legal right or interest that a creditor has in another's property, lasting usually until a debt or duty that it secures is satisfied."^[30] An encumbrance is "a claim or liability that is attached to property or some other right and that may lessen its value, such as a lien or mortgage."^[31] A legal impediment is a legal "hindrance or obstruction."^[32]

The Third-Party Complaint did not allege that petitioner had a creditor with a legal right to or interest in the subject vehicle. There was no indication either of any debt that was secured by the vehicle. In fact, there was not even any claim, liability or some other right attached to the vehicle that would lessen its value. Its impoundment, as well as the refusal of its registration, was not the hindrance or obstruction in the contemplation of law that the vendor warranted against. Neither of those instances arose from any liability or obligation that could be satisfied by a legal claim or charge on, or property right to -- other than an ownership interest in -- the subject vehicle.^[33]

No Notice of Any Breach of Warranty

Gratia argumenti that there was a breach of the implied warranty against hidden encumbrances, notice of the breach was not given to petitioner within a reasonable time. Article 1586 of the Civil Code requires that notice be given after the breach, of which Sy ought to have known. In his Third-Party Complaint against petitioner, there was no allegation at all that respondent had given petitioner the requisite notice.^[34]

More important, an action for damages for a breach of implied warranties must be brought within six months from the delivery of the thing sold.^[35] The vehicle was understood to have been delivered to Sy when it was placed in his control or possession.^[36] Upon execution of the Deed of Sale on September 12, 1996, control and possession of the vehicle was transferred to respondent. That the vehicle had been delivered is bolstered by the fact that no contrary allegation was raised in the Third-Party Complaint. Whether the period should be reckoned from the actual or from the constructive delivery through a public instrument, more than six months had lapsed before the filing of the Third-Party Complaint.

Finally, the argument that there was a breach of the implied warranty against eviction does not hold water, for there was never any final judgment based on either a right prior to the sale; or an act that could be imputed^[37] to petitioner and deprive Sy of ownership or possession of the vehicle purchased.

WHEREFORE, the Petition is hereby GRANTED, and the assailed Decision and Resolution are REVERSED. The May 27, 1998 Order of the Regional Trial Court is REINSTATED. No costs.

SO ORDERED.

Carpio-Morales, and Garcia, JJ. conur.
Sandoval-Gutierrez, J., on official leave.
Corona, J., on medical leave.

[1] Rollo, pp. 11-29.

[2] Id., pp. 33-44. Thirteenth Division. Penned by Justice Salvador J. Valdez Jr. (Division chair) and concurred in by Justices Mercedes Gozo-Dadole and Amelita G. Tolentino (members).

[3] *Id.*, p. 45.

[4] Assailed Decision, p. 12; rollo, p. 44. Uppercase and italics in the original.

[5] *Id.*, pp. 2-4 & 34-36.

[6] This case was deemed submitted for decision on November 21, 2003, upon this Court's receipt of Respondent Lee's Memorandum, signed by Lee himself, assisted by Atty. Danilo S. Azana. Respondent Sy's Memorandum, signed by Atty. Aniano A. Albon, was received by this Court on November 13, 2003; that of petitioner, signed by Attys. Cesar P. Manalaysay and Ajee Acuin Tiu, on November 18, 2003.

[7] Petitioner's Memorandum, pp. 6-7; rollo, pp. 162-163. Original in uppercase.

[8] *Feria & Noche*, Civil Procedure Annotated, Vol. I (2001), p. 213.

[9] *Regalado*, Remedial Law Compendium, Vol. I (7th rev. ed., 1999), p. 19.

[10] *Jimenez Jr. v. Jordana*, 444 SCRA 250, 259-260, November 25, 2004, per Panganiban, J. (citing *Vda. de Daffon v. CA*, 436 Phil. 233, 240, August 20, 2002).

[11] *Regino v. Pangasinan Colleges of Science and Technology*, 443 SCRA 56, 69, November 18, 2004, per Panganiban, J. (citing §1 of Rule 16 of the Rules of Court).

[12] §2 of Rule 2 of the Rules of Court.

[13] *Jimenez Jr. v. Jordana*; *supra*, p. 259.

[14] *Id.*, p. 260.

[15] *Regalado*, *supra*, p. 251.

[16] See *Alberto v. CA*, 390 Phil. 253, 264-266, June 30, 2000; *City of Cebu v. CA*, 327 Phil. 799, 807-808, July 5, 1996; and *Marcopper Mining Corp. v. Garcia*, 227 Phil. 166, 176, July 30, 1986.

[17] See *Ramos v. Condez*, 127 Phil. 601, 606, August 30, 1967, per Angeles, J.

[18] See *Hongkong and Shanghai Banking Corp. Ltd. v. Catalan*, 440 SCRA 498, 510, October 18, 2004 (citing *Dabuco v. CA*, 322 SCRA 853, 862, January 20, 2000).

[19] Rollo, p. 56.

[20] RTC Order dated May 27, 1998, p. 1; rollo, p. 66.

[21] §1495 of the Civil Code.

[22] §1547(1) of the Civil Code.

[23] §1547(2) of the Civil Code.

[24] Annex "A" of Third-Party Complaint; rollo, p. 56.

[25] Annex "B" of Third-Party Complaint; rollo, p. 57.

[26] §24 of Republic Act No. 6975, otherwise known as the "Department of the Interior and Local Government Act of 1990," provides that the Philippine National Police (PNP) shall absorb the office of the National Action Committee on Anti-Hijacking (NACAH) of the Department of National Defense.

[27] See *Heirs of Gregorio Licaros v. Sandiganbayan*, 440 SCRA 483, 491, October 18, 2004 (citing *Vergara v.*

CA, 319 SCRA 323, 327, November 26, 1999).

[28] Baviera, Sales (1981), p. 128.

[29] Ibid.

[30] Garner (ed. in chief), Black's Law Dictionary (7[th] ed., 1999), p. 933.

[31] Id., p. 547.

[32] Id., p. 756.

[33] See *Sabio v. International Corporate Bank, Inc.*, 416 Phil. 785, 817-818, September 4, 2001 (citing *People v. RTC of Manila*, 178 SCRA 299, 307-308, October 4, 1989).

[34] Third-Party Complaint, pp. 1-4; rollo, pp. 50-53.

[35] Art. 1571 of the Civil Code.

[36] See Baviera, *supra*, pp. 61-62.

[37] See Baviera, *supra*, pp. 131-132.

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