

UNION REFINERY CORPORATION, PETITIONER, VS. REYNALDO C. TOLENTINO, SR., LUCIA BUSOG TOLENTINO, ROLAND B. TOLENTINO, REX B. TOLENTINO, REYNALDO B. TOLENTINO, JR., AND MARYLOU B. ...

G.R. NO. 155653. September 30, 2005

Ponente: PUNO, J.

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PUNO, J.:

Before us is a petition for review on certiorari under Rule 45 of the Rules of Court assailing the September 27, 2002 Decision of the Court of Appeals in CA-G.R. CV No. 52599,[1] which modified that of the Regional Trial Court in Civil Case No. 550-M-87 dated July 11, 1994.[2]

Petitioner Union Refinery Corporation is the owner of brand name "Unioil" and is engaged in the refining and manufacturing of lube oil and other petroleum products. On March 3, 1987, petitioner and respondent Roland B. Tolentino executed a Memorandum of Agreement (MOA) where the former appointed the latter as its authorized dealer of Unioil products for Quezon province and the Bicol region. Respondent Roland bound himself to either post a bond or execute a mortgage as security for his accountabilities under the contract. Pursuant to the MOA, the brothers of respondent Roland, respondents Rex and Reynaldo, Jr., executed deeds of chattel mortgage over four (4) vehicles in favor of petitioner. Accordingly, respondent Roland was granted by petitioner a credit line of P600,000.00 – P400,000.00 for fuels and P200,000.00 for lubes.

Respondent Roland, through his father respondent Reynaldo, Sr., whom the former authorized to manage and handle the dealership in a Special Power of Attorney executed for the purpose, was able to secure Unioil products and made regular payments to petitioner. But by June 1987, respondent Roland had allegedly overdrawn his credit line. Petitioner restructured respondent Roland's credit line after he issued UCPB Check No. 184124 to pay off his May 1987 purchases. Thus, his dealership of Unioil products continued but he started getting his supplies through ACOBI Resources Corporation (ACOB), a subsidiary and marketing arm of the petitioner.

Respondent Roland's UCPB Check No. 184124 bounced for insufficiency of funds. Petitioner filed a complaint for violation of Batas Pambansa Blg. 22 or the Bouncing Checks Law, but respondent Roland was acquitted.[3]

Respondent Roland's unpaid debt allegedly ballooned to P2,555,362.34, hence, petitioner terminated the dealership contract on August 24, 1987. When its formal demand for payment was unheeded, petitioner instituted an action for collection of sum of money with preliminary attachment against respondent Roland. His parents, respondents Reynaldo C. Tolentino, Sr. and Lucia B. Tolentino, and siblings, respondents Reynaldo, Jr. and Rex, were impleaded as co-defendants. The respondents-spouses Reynaldo, Sr. and Lucia were impleaded in the suit allegedly because they were the ones who actually secured the dealership contract with petitioner. Respondents Reynaldo, Jr. and Rex were sued for the chattel mortgage of their vehicles executed as security for their brother's obligation with petitioner.

On October 19, 1987, the trial court granted the prayer of petitioner for the issuance of a writ of preliminary attachment against the properties of respondents, sufficient to cover the obligation. On March 9, 1988, it likewise granted petitioner's application for replevin of the vehicles subject to the chattel mortgage executed by respondent Roland in representation of his brothers Rex and Reynaldo, Jr.

On February 9, 1988, petitioner amended its complaint to include respondent Roland's sister, Marylou B. Tolentino, for allegedly hiding the mortgaged vehicles.

On July 11, 1994, the trial court ruled for respondents,[4] thus:

WHEREFORE, premises considered, judgment is hereby rendered DISMISSING the complaint. On the counterclaim, plaintiff is hereby ordered:

- to pay the defendants Lucia Busog Tolentino, Dra. Marylou Tolentino, Rex Tolentino and Reynaldo Tolentino, Jr. the amount of P25,000.00 each for having been unnecessarily and unjustly sued in this case;
- to pay the defendants the amount of P25,000.00 as attorney's fees, and
- to pay the defendants the amount of P30,000.00 as actual damages.

Petitioner elevated the case to the Court of Appeals, which ruled that:[5]

IN VIEW OF ALL THE FOREGOING, save for the awards of P25,000.00 each in favor of appellees Lucia B. Tolentino and Marylou Tolentino which are hereby Affirmed, the rest of the appealed decision is REVERSED and SET ASIDE, and a new one entered ordering appellee Roland B. Tolentino to pay the balance of his debt to appellant in the sum of P1,541,211.51 with interest at the rate of 6% per annum from the date of this decision until fully paid. No cost.

On December 4, 2002, instead of filing a Motion for Reconsideration like respondents, petitioner went to this Court on a petition for review on certiorari under Rule 45 of the Rules of Court. Meanwhile, the Motion for Reconsideration filed by respondents was denied by the Court of Appeals on August 20, 2003.[6]

Petitioner contends that the Court of Appeals erred in ruling that:

- (1) Only respondent Roland B. Tolentino was liable to petitioner;
- (2) Respondents only owe petitioner the amount of P1,541,211.51;
- (3) Interest of 6% should run only from the date of judgment until fully paid; and
- (4) Respondents Lucia B. Tolentino and Marylou B. Tolentino are entitled to P25,000.00 each as damages for having been unnecessarily and unjustly sued in the case.

At a glance, it is obvious that the petition submits factual matters for determination of the Court. It disputes mainly the finding of the Court of Appeals on the amount owed by respondent Roland B. Tolentino to petitioner. The rule is well-settled that this Court's jurisdiction in cases brought before it from the Court of Appeals via Rule 45 of the Rules of Court is limited to reviewing errors of law. Generally, findings of fact of the Court of Appeals are conclusive.[7] However, the rule admits of some exceptions, which include: (1) when the findings are grounded entirely on speculation, surmises, or conjectures; (2) when the inference made is manifestly mistaken, absurd, or impossible; (3) when there is grave abuse of discretion; (4) when the judgment is based on a misapprehension of facts; (5) when the findings of fact are conflicting; (6) when in making its findings the Court of Appeals went beyond the issues of the case, or its findings are contrary to the admissions of both the appellant and the appellee; (7) when the findings are contrary to those of the trial court; (8) when the findings are conclusions without citation of specific evidence on which they are based; (9) when the facts set forth in the

petition as well as in the petitioner's main and reply briefs are not disputed by the respondent; and (10) when the findings of fact are premised on the supposed absence of evidence and contradicted by the evidence on record.[8]

The case at bar clearly falls within one of the enumerated exceptions as the factual findings and conclusions of the trial court and Court of Appeals are conflicting. Thus, we have to re-examine and review the factual findings of the Court of Appeals.

I.

The basic civil law principle of relativity of contracts[9] demands that contracts only bind the parties (their heirs and assigns) who entered into it. It cannot favor or prejudice third persons. Thus, the appellate court was correct in holding that the MOA between petitioner and respondent Roland binds only them, and that any obligation arising therefrom may only be invoked against each or both of them.

II.

Petitioner, however, contends that the appellate court erred in holding that respondent Roland only owes it P1,541,211.51 and not P2,183,895.43 as claimed.

The Court of Appeals found undisputed the P4,861,536.51 total purchases of respondent Roland's company from petitioner and ACOBI, and the P2,318,314.50 payments made by respondent Roland, which were covered by official receipts and one credit memo issued by the petitioner. Nonetheless, petitioner faults the ruling of the Court of Appeals that respondent Roland made a total of P1,002,010.50 unrecorded payments to it, thus:

- (1) Cash and check payments amounting to P131,346.00 evidenced by Invoice Nos. 6378-6382, 6385 and 6386;
- (2) Delivery Receipt No. 070 issued by URC with a notation that Roland made a partial payment of P11,041.46;
- (3) Checks of Roland's customers amounting to P412,683.39 which were all turned-over to URC but only the amount of P364,464.39 should be credited inasmuch as this was the only amount which URC admits to have been cleared by the banks concerned;
- (4) Cash payments as well as check payments which appear to have been properly encashed by the URC in the amount of P495,159.17.

After adding P1,002,010.50 to the P2,318,314.50 total payments admitted by petitioner, the Court of Appeals arrived at an aggregate sum of P3,320,325.00 and a remaining balance of P1,541,211.51.

After a review of the records of the instant case, we sustain the contention of petitioner that the amount of P412,683.39, of which only P364,464.39 was credited by the Court of Appeals in favor of respondent Roland, does not represent payment duly made by respondent Roland. Indeed, the records reveal that of the P412,683.39, P209,148.65 was already credited to respondents, P123,750.00 was not a part of petitioner's claim and P79,784.74 represented total check payments of customers that bounced. However, since the Court of Appeals credited only P364,464.39 in favor of respondent Roland, it shall be the amount added to the balance of P1,541,211.51 found by the Court of Appeals. Hence, the total balance before interest is P1,905,675.90.

The Court rejects the claim of respondent Roland that he made several payments but were unrecorded by the petitioner. This claim runs against the grain of the rule that the one who pleads payment has the burden of proving it. In the world of business, it is unnatural to make payments and allow them to be unrecorded. To be sure, even where the plaintiff alleges nonpayment, the general rule is that the burden rests on the defendant to prove

payment, rather than on the plaintiff to prove nonpayment.[10]

III.

Petitioner also finds error in the appellate court's declaration that since the amount of indebtedness was "ascertained only at this time, (petitioner) is only entitled to an interest on the debt at the rate of 6% per annum, which shall run from the date of this judgment until fully paid." [11] It invokes paragraph 6 of the MOA, which provides that:

- That the FIRST PARTY (petitioner URC) may, upon either the non-payment of any invoice within the term or saturation of credit limit whichever comes first, elect to terminate the dealership and forfeit/foreclose the bonds or mortgages assigned to the FIRST PARTY. Any account left unpaid within the Thirty (30) days term even without the saturation of the credit limit shall be charged interest at 2½% per month;

and the pertinent provisions of the Deeds of Chattel Mortgage, thus:

- That in case the MORTGAGOR's brother fails to pay the amounts due to the MORTGAGEE in the course of the former's distributorship/dealership agreement with the latter, the mortgage on the motor vehicles hereinabove described may be foreclosed by the MORTGAGEE or the MORTGAGOR may take any other legal action to enforce collection of the obligation hereby secured and in either case, the MORTGAGOR agrees to pay the MORTGAGEE an additional sum of 25% of the principal due and unpaid but in no case less than SIXTY THOUSAND PESOS (P60,000.00) as liquidated damages;

x x x x

- That if, after default on the part of the MORTGAGOR or his brother in the performance of any of the conditions in this mortgage, said MORTGAGOR refuses to deliver the mortgaged vehicles to the MORTGAGEE for the purpose of its foreclosure and thereby compels said MORTGAGEE to bring an action in replevin, or sequestration to obtain said vehicles, or any judicial action for a similar purpose, the said MORTGAGOR shall pay to the MORTGAGEE all expenses and costs connected with such action including the costs of bond for replevin or sequestration; and the MORTGAGOR, for solely causing the bringing of such suit in replevin or sequestration, shall ipso facto pay to the MORTGAGEE, in addition to the aforesaid costs and expenses, and additional sum equivalent to ten percent (10%) of the total indebtedness as special liquidated damages, without prejudice to the right of the MORTGAGEE to collect the full balance of the principal, interest and costs due under and [by] virtue of this mortgage.

Petitioner's claims of 2½% monthly interest, 25% liquidated damages and 10% special liquidated damages must be measured in light of the MOA and the Deeds of Chattel Mortgage. The contract is the law between the parties and unless its validity is questioned, it controls the obligations of the parties vis-à-vis one another. In the case at bar, the parties do not assail the validity of the MOA and the Deeds of Chattel Mortgage, which provide for the payment of the foregoing interests. Necessarily, the stipulated interests have to apply. Be that as it may, the Court cannot award the 2½% interest, which petitioner claims must be applied to the entire indebtedness from August 24, 1987 until full payment. It is clear that the entire obligation of respondent Roland did not accrue at one time. It represents the collective accountabilities for a period of time.

IV.

Finally, petitioner assails the P25,000.00 damages awarded to respondents Lucia B. Tolentino and Marylou B. Tolentino. The records show that respondents Lucia and Marylou Tolentino were not sued in bad faith. Indeed, the Answer of said respondents did not allege bad faith on the part of petitioner when it included the two respondents in the suit. Nor was evidence presented to prove the bad faith of the petitioner. They were impleaded

by petitioner in an effort to protect its rights. Resultantly, the awards for damages have no leg to stand on.

IN VIEW WHEREOF, the petition is partly GRANTED. The appealed decision is AFFIRMED with the MODIFICATION that respondent ROLAND B. TOLENTINO is ORDERED to pay petitioner UNION REFINERY CORPORATION the amount of P1,905,675.90 with liquidated interest at 25% and special liquidated interest at 10%.

SO ORDERED.

Austria-Martinez, Callejo, Sr., Tinga, and Chico-Nazario, JJ., concur.

[1] Penned by Associate Justice Conrado M. Vasquez, Jr., concurred in by Associate Justices Remedios Salazar-Fernando and Regalado E. Maambong.

[2] Penned by Judge Demetrio B. Macapagal, Sr., RTC-Br. 18, Malolos, Bulacan.

[3] Criminal Case No. 4131, Regional Trial Court, Branch 6, Legaspi City.

[4] See note 2.

[5] See note 1.

[6] Id.

[7] Siguan v. Lim, 318 SCRA 725 (1999).

[8] Ibid., citing Sta. Maria v. Court of Appeals, 285 SCRA 351 (1998).

[9] Article 1311, Civil Code of the Philippines.

[10] Audion Electric Co., Inc. v. NLRC, 308 SCRA 340 (1999).

[11] Citing Eastern Shipping Lines, Inc. v. Court of Appeals, 234 SCRA 78 (1994).

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