

SELWYN F. LAO AND EDGAR MANANSALA, PETITIONERS, SPECIAL PLANS, INC., RESPONDENT.

G.R. No. 164791. June 29, 2010

Ponente: DEL CASTILLO, J.

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DEL CASTILLO, J.:

In Roman Law, compensation was the reciprocal extinction of claims between mutual debtors. In the earlier stages of that system the practice did not exist as a matter of right but its application was discretionary with the judex. Later the praetor applied it by incorporating into the formula, which he prepared for the judex, an exception doli, that is, an authorization to take into account any circumstances which would render inequitable the enforcement of the claim. The effect was to cause a dismissal of the claim, however large, if a counterclaim, however small, was proven and the indirect result was to compel the actor (plaintiff) to deduct the counterclaim in advance.[1]

Factual Antecedents

Petitioners Selwyn F. Lao (Lao) and Edgar Manansala (Manansala), together with Benjamin Jim (Jim), entered into a Contract of Lease[2] with respondent Special Plans, Inc. (SPI) for the period January 16, 1993 to January 15, 1995 over SPI's building at No. 354 Quezon Avenue, Quezon City. Petitioners intended to use the premises for their karaoke and restaurant business known as "Saporro Restaurant".

Upon expiration of the lease contract, it was renewed for a period of eight months at a rental rate of P23,000.00 per month.

On June 3, 1996, SPI sent a Demand Letter[3] to the petitioners asking for full payment of rentals in arrears.

Receiving no payment, SPI filed on July 23, 1996 a Complaint[4] for sum of money with the Metropolitan Trial Court (MeTC) of Quezon City, claiming that Jim and petitioners have accumulated unpaid rentals of P118,000.00 covering the period March 16, 1996 to August 16, 1996.

After service of summons, petitioners filed their Verified Answer[5] faulting SPI for making them believe that it owns the leased property. They likewise asserted that SPI did not deliver the leased premises in a condition fit for petitioners' intended use. Thus, petitioners claimed that they were constrained to incur expenses for necessary repairs as well as expenses for the repair of structural defects, which SPI failed and refused to reimburse. Petitioners prayed that the complaint be dismissed and judgment on their counterclaims be rendered ordering SPI to pay them the sum of P422,920.40 as actual damages, as well as moral damages, attorney's fees and exemplary damages.

After the issues were joined, trial on the merits ensued. As culled from the MeTC Decision, the following account was presented by SPI:

Delfin Cruz, president of Special Plans, Inc. testified that on January 7, 1993, plaintiff-corporation and herein defendants entered into a two-year Contract of Lease (Exhibit "A" inclusive, with sub-markings) starting

January 16, 1993 until January 15, 1995, involving a portion of said plaintiff-corporation's office building which used to be the Bahay Namin Food and Drinks at 354 Quezon Avenue, Quezon City. Defendants used the leased premises for their karaoke and restaurant business known as Saporro Restaurant. Upon [expiration of the lease], defendants, through defendant Lao requested in writing (Exhibit "B") for a renewal of the contract of lease, but plaintiff-corporation agreed only for an eight-month extension of [the] contract with all its terms and conditions on a month-to-month basis at a monthly rental of P23,000.00.

This witness further testified that while defendants paid the sum of P23,000.00 in August 1996 they nevertheless failed to pay the agreed rental since March 16, 1996, thus the accumulated unpaid rentals shot up to P118,000.00. Plaintiff-corporation demanded upon defendants payment therefor in a letter dated June 3, 1996 (Exhibit "D" inclusive with sub-markings).

On cross, Delfin Cruz admitted that plaintiff-corporation did not inform defendants that it was not the owner of the leased premises during the signing of the contract of lease and that said defendants did not inform him of the structural defects of the subject premises, including the repair works conducted thereon.

Antonio San Mateo, vice-president for legal affairs of plaintiff-corporation, averred that he made the demand to pay upon defendants for their failure to settle their agreed monthly rentals starting March 16, 1996 to August 15, 1996; and that for the period covering September 16, 1995 to October 15, 1995, defendants paid only P20,000.00, hence, the balance of P3,000.00 (Exhibit "E").[6]

In their defense, Jim and petitioners proffered the following:

Meanwhile, defendant Benjamin Jim testified that he was one of the signatories [to] the original contract of lease involving the subject premises whose facilities, including the roof, were already dilapidated: thus prompting the group to renovate the same. After a year of operation, Saporro lost so he decided to back out but defendant Lao convinced him to stay with the group for another x x x year. But the business lost even more so he finally called it quits with the consent of the group. He pulled out his audio-video equipment, refrigerator, and air-conditioning unit on January 2, 1995, thirteen (13) days before the expiration of the contract of lease. He further denied having signed the request for the extension of the contract.

On cross, he stated that he did not sign documents for and in behalf of Saporro; and, that he allowed defendant Lao and Victor San Luis to sign for the group.

Testifying for defendant Jim, Atty. Maria Rosario Carmela Nova declared that defendant Jim sought her services on August 30, 1996 for the recovery of his money invested at Mount Fuji and Saporro but Atty. Cesa, who acted as counsel for defendants Lao and Manansala, refused to return the same in a letter-reply dated September 23, 1996 (Exhibit "1-Jim" inclusive with sub-markings).

Defendant Selwyn Lao testified that the group was not able to inspect the leased premises since Delfin Cruz had no key thereon during the signing of the contract of lease on January 7, 1993. He stated that paragraph 6 of the said contract provides that the LESSEE shall maintain the leased premises, including the parking lot, in good, clean and sanitary condition and shall make all necessary repairs thereon at his own expense except repairs of structural defects which shall be the responsibility of the LESSOR (Exhibit "1-Lao and Manansala"). When the group took possession of the leased premises on January 16, 1993, the equipment and furniture, among others, were found to be not in good condition. The trusses, roof and ceiling of the premises were already dilapidated. Rain seeped through the floor. When the group talked with Delfin Cruz about the condition of the leased property, the latter would just tell the former not to worry about it.

The group conducted structural and necessary repairs thereon, thus incurring the sum of P545,000.00 (Exhibit "2-Lao and Manansala" inclusive, with sub-markings), P125,000.00 of which was spent on structural defects, as follows:

Roofing repair

-

P 45,000.00 (Exhibit "2-A")

Ceiling repair

-

50,000.00 (Exhibit "2-B")

Flooring repair

-

20,000.00 (Exhibit "2-C")

Waterproofing

-

10,000.00 (Exhibit "2-D")

Defendant Lao further testified that Delfin Cruz told him to proceed with the repair work without informing him (Lao) that plaintiff-corporation was not the owner of the leased premises. The witness added that the group paid the sum of P23,000.00 on July 21, 1996 for the period March 16, 1996 to April 15, 1996.

On cross, he averred that he sought the expertise of Gregorio Tamayo to repair the premises for P545,000.00; and that he had a verbal authority to sign for and in behalf of defendant Jim who took his audio-video equipment on January 2, 1996.

Presented at the witness stand to testify for defendant Lao and Manansala, Gregorio Tamayo admitted that defendant Lao sought his services to undertake both structural and finishing works on the subject property at a cost of P545,00.00.

On cross, he declared that he was the subcontractor of defendant Lao.[7]

Ruling of the Metropolitan Trial Court

On December 15, 1999, the MeTC rendered its Decision[8] finding that the unpaid rentals stood at only P95,000.00. It also found that SPI is solely responsible for repairing the structural defects of the leased premises, for which the petitioners spent P125,000.00. It held that even assuming that petitioners did not notify SPI about the structural defects and the urgency to repair the same, Article 1663 of the Civil Code allows the lessee to make urgent repairs in order to avoid an imminent danger at the lessor's cost. Hence, the MeTC dismissed the complaint for lack of cause of action. The dispositive portion of the Decision reads:

Wherefore, in view of the foregoing considerations, let this case be, as it is, hereby ordered DISMISSED for lack of cause of action. No costs.

The counterclaim and cross-claim of the defendants are likewise DENIED for lack of merit.

SO ORDERED.[9]

Ruling of the Regional Trial Court

Aggrieved, SPI filed an appeal before the RTC of Quezon City. Both parties filed their respective memoranda.[10] However, on November 24, 2000, counsel for SPI filed his Withdrawal of Appearance[11] with the conformity of SPI, through its Vice President Antonio L. San Mateo.[12] In an Order[13] dated January 5,

2001, the RTC granted the Withdrawal of Appearance and ordered that all notices, orders and other court processes in the case be forwarded to SPI at its address at 354 Quezon Avenue, Quezon City.

On March 12, 2001, the RTC rendered a Decision[14] affirming with modification the MeTC Decision by ordering petitioners to pay SPI the amount of P95,000.00 for unpaid rentals.[15] The RTC disagreed with the MeTC on the aspect of off-setting the amount allegedly spent by petitioners for the repairs of the structural defects of subject property with their unpaid rentals. The dispositive portion of the RTC Decision reads:

FROM THE GOING MILLIEU, premises considered, the lower court's (Branch 38) decision dated December 15, 1999 is modified to the effect that Defendants Selwyn Lao and Edgar Manansala are ordered to pay to the plaintiff-corporation the amount of Ninety Five Thousand (P95,000.00) pesos for unpaid rentals. With respect to the other aspect of the decision, there being no cogent reason to disturb the lower court's ruling, the same stands.

SO ORDERED.[16]

Ruling of the Court of Appeals

On April 25, 2003, petitioners Lao and Manansala filed a Petition for Review with the CA.[17] Jim did not join them. Hence, the appealed Decision of the RTC had become final insofar as Jim is concerned.

On June 30, 2003, the CA rendered a Decision[18] affirming in toto the RTC Decision. Petitioners moved for reconsideration, but it was denied in a Resolution[19] dated August 9, 2004.

Issues

Petitioners do not take issue that the unpaid rentals amount to P95,000.00.[20]

Nonetheless, they assert that the amount of P545,000.00 they spent for repairs, P125,000.00 of which was spent on structural repairs, should be judicially compensated against the said unpaid rentals amounting to P95,000.00.[21] On the other hand, SPI avers that petitioners have not shown proof that they spent these amounts.[22]

Our Ruling

The petition is without merit.

The Civil Code provides that compensation shall take place when two persons, in their own right, are creditors and debtors of each other.[23] In order for compensation to be proper, it is necessary that:

- Each one of the obligors be bound principally and that he be at the same time a principal creditor of the other;
- Both debts consist in a sum of money, or if the things due are consumable, they be of the same kind, and also of the same quality if the latter has been stated;
- The two debts are due;
- The debts are liquidated and demandable;
- Over neither of them be any retention or controversy, commenced by third parties and communicated in due time to the debtor. [24]

Petitioners failed to properly discharge their burden to show that the debts are liquidated and demandable. Consequently, legal compensation is inapplicable.

A claim is liquidated when the amount and time of payment is fixed.[25] If acknowledged by the debtor, although

not in writing, the claim must be treated as liquidated.[26] When the defendant, who has an unliquidated claim, sets it up by way of counterclaim, and a judgment is rendered liquidating such claim, it can be compensated against the plaintiff's claim from the moment it is liquidated by judgment.[27] We have restated this in *Solinap v. Hon. Del Rosario*[28] where we held that compensation takes place only if both obligations are liquidated.

In addition, paragraph 6 of the contract of lease between the petitioners and the respondent reads:

The lessee shall maintain the leased premises including the parking lot in good, clean and sanitary condition and shall make all the necessary repairs thereon at their own expense except repairs of the structural defects which shall be the responsibility of the lessor. x x x (Emphasis supplied)

As the contract contrastingly treats necessary repairs, which are on the account of the lessee, and repairs of structural defects, which are the responsibility of the lessor, the onus of the petitioners is two-fold: (1) to establish the existence, amount and demandability of their claim; and (2) to show that these expenses were incurred in the repair of structural defects.

Respecting these issues, petitioner Lao testified as follows:[29]

Q:

When you took possession of the premises on January 16, 1993, were you able to notice or discover anything about the structure of the premises, if any?

A:

Being an engineer, when I took possession of the premises I have noticed the structure of the premises specially the trusses and the roof and the ceiling were already dilapidated.

Q:

What else if any were you able to discover?

A:

We discovered that when it is raining, water [seeped] through the floor and it caused a lot of mess especially the carpet getting wet.

Q:

What did you do next after having discovered the defects in the premises?

A:

I tried to talk to Mr. Cruz regarding our position because based on our agreement the rental is high because according to him we can move in immediately without so much cost to our company that's why the 3 of us came up only with P120,000.00 for the immediate operation of the Karaoke but Mr. Cruz told us never mind, *pag-usapan na natin sa ibang araw yan*.

Q:

What happened next after you were [able] to talk to Mr. Cruz?

A:

The group decided not to waste time because our rental expenses are already running so, we decided that I will [be] the one to shoulder first the construction and repair of the premises.

Q:

How much did you spend and were you able to repair the defects?

A:

I was able to repair the defects but it caused me a lot of time and money because usually repairs cannot be controlled and my expenses reached more than P500,000.00.

Q:

I am showing to you a document can you please go over it and identify it if this is the document?

A:

This is the contract signed by me and the sub-contractor who was assigned to renovate and prepare the whole structure.

Q:

According to this document you submitted a quotation?

A:

Yes, sir.

Q:

And whose signature appears above the name Gregorio Tamayo?

A:

The signature of an engineer/contractor, sir.

Q:

Among the list of scope of work can you please specify the repairs done x x x.

A:

It was indicated here that the roofing repair works costs around P45,000.00; the ceiling repair works is P50,000.00; the floor repair works is P50,000.00; and the water proofing works is P10,000.00.

Q:

And what happened to the repairs?

A:

It was completed, sir.

x x x x

Q:

All in all how much did it cost you in Exh. "2"?

A:

More than P500,00.00 sir.

x x x x

Q:

With respect to the roofing repair works, the ceiling repair works, the flooring repair works and the water proofing works, all in all how much is total amount you incurred in these repairs?

A:

P 140,000.00 sir

x x x x

Q:

And, what happened next after informing the lessor.

A:

He told me that I being an engineer/contractor, just proceed with the repair works and then he said, saka na lang pag-usapan yan maliit lang naman na bagay yan.

Q:

Were you able to talk to him some other day with respect to these repairs?

A:

Yes, sir.

Q:

What happened when you were able to talk to Mr. Cruz?

A:

He is shy on us sometime but don't talk to us, sir.

On the basis of Lao's testimony, the MeTC found that "the group conducted structural and necessary repairs thereon, incurring the sum of P545,000.00, P125,000.00 of which was spent on structural defects."

We are not persuaded. The evidence presented by the petitioners failed to establish by preponderant evidence that they have indeed spent the amounts they claim. Based on the arguments presented by both parties, we agree with the observation of the CA that:

Petitioners did not present any convincing evidence of proof which could support their allegation on structural defects and the subsequent repairs made on the leased premises, i.e. documentary evidence (receipts of payments made to subcontractor Tamayo for the repairs made on the building) except for the self-serving testimony of petitioner Lao. They (petitioners) merely submitted an estimated statement of account which did not show that there were actual expenses made for the alleged structural defects. Neither were they able to submit proofs of actual expenses made on the alleged structural defects. Besides, it is contrary to human experience that a lessee would continually renew the lease contract if the subject property were not in good condition free from structural defects.

Further, the testimony of Tamayo, the alleged subcontractor who made the repairs on the leased premises did not convince Us that there were repairs made thereat since he failed to present any receipts of acknowledgments of payments which was allegedly made to him.[30]

Further manifesting the present appeal's lack of merit, petitioner Lao, as shown above in his testimony, did not define the lessor's and the lessees' understanding of the demarcation between "repairs of structural defects" and "necessary repairs." Even petitioners' second witness, Gregorio Tamayo, the contractor who supposedly performed the repair work on the leased premises, did not credibly and categorically testify on classification of structural repairs:

Q:

Insofar as you are concerned, what do you mean by structural?

A:

Because when I inspect the building...

Q:

In this room, what is the structural defect?

A:

Rocks on the wall.

Q:

It has something to do with the foundation?

A:

Maybe, sir.[31] (Emphasis supplied)

The petitioners attempted to prove that they spent for the repair of the roofing, ceiling and flooring, as well as for waterproofing. However, they failed to appreciate that, as per their lease contract, only structural repairs are for the account of the lessor, herein respondent SPI. In which case, they overlooked the need to establish that aforesaid repairs are structural in nature, in the context of their earlier agreement. It would have been an altogether different matter if the lessor was informed of the said structural repairs and he implicitly or expressly consented and agreed to take responsibility for the said expenses. Such want of evidence on this respect is fatal to this appeal. Consequently, their claim remains unliquidated and, legal compensation is inapplicable.

For failure to timely appeal the RTC
Decision before the CA and subsequently
the latter's Decision before this Court, SPI
can no longer ask for affirmative reliefs.

In its Memorandum, SPI prays that petitioners be ordered to pay 3% interest monthly as stipulated in the Contract for Lease, plus attorney's fees. However, as SPI did not appeal the RTC Decision before the appellate court, we cannot act on the same.

It is well-settled that a party who has not appealed from a Decision cannot seek any relief other than what is provided in the judgment appealed from.[32] SPI did not appeal, thus it cannot obtain from the appellate court any affirmative relief other than those granted in the Decision of the court below.[33] It can only advance any argument that it may deem necessary to defeat petitioners' claim or to uphold the Decision that is being disputed, and it can assign errors in its brief if such is required to strengthen the views expressed by the court a quo.[34] These assigned errors, in turn, may be considered by the appellate court solely to maintain the appealed decision on other grounds, but not for the purpose of reversing or modifying the judgment in SPI's favor and giving it other

reliefs.[35]

We find on record that SPI's counsel, with the concurrence of its Vice President, withdrew his appearance on November 24, 2000. The RTC granted said withdrawal in its Order dated January 5, 2001. Subsequently, the case was decided by the RTC and appealed by the petitioners to the CA. In due time, the CA rendered judgment on the same and petitioners filed this Petition for Review on Certiorari. SPI did not interpose an appeal from the RTC Decision nor from the CA Decision. After more than six years, on September 13, 2007, a new law firm entered its appearance as counsel of SPI.[36] SPI now claims that it was not able to appeal the Decision of the RTC and subsequently of the CA which failed to impose 3% monthly interest as provided in the Contract of Lease because it never received said Decisions, considering that its counsel has migrated to another country and that petitioners misled the courts about SPI's address.[37]

We are not persuaded. SPI failed to exercise due diligence in keeping itself updated on the developments of the case. That its erstwhile counsel has not communicated for a long period of time and has migrated abroad, should have cautioned it that something was amiss with the case. By that time, SPI should have initiated moves to locate its counsel or to inquire from the court on the progress of the case. It should have ensured that its address on record with the court is updated and current. Thus, it has been equally stressed that litigants represented by counsel should not expect that all they need to do is sit back, relax and await the outcome of the case.[38] Instead, they should give the necessary assistance to their counsel and exercise due diligence to monitor the status of the case for what is at stake is ultimately their interest.

WHEREFORE, the instant petition is DENIED. The June 30, 2003 Decision of the Court of Appeals in CA-G.R. SP No. 76631 ordering the petitioners to pay P95,000.00 as unpaid rentals and the August 9, 2004 Resolution denying the motion for reconsideration are AFFIRMED.

SO ORDERED.

Corona, C.J., (Chairperson), Velasco, Jr., Leonardo-De Castro, and Perez, JJ., concur.

[1] 12 C.J. 224.

[2] Rollo, pp. 547-552.

[3] Id. at 553.

[4] Id. at 70-73.

[5] Id. at 74-95.

[6] Id. at 96-97.

[7] Id. at 97-99.

[8] Id. at 96-101; penned by Presiding Judge Augustus C. Diaz, Pairing Judge for MeTC Branch 38.

[9] Id. at 101.

[10] CA rollo, p. 78-97.

[11] Id. at 98-99.

[12] Id. at 98.

[13] Rollo, 314.

[14] Id. at 560-562; penned by Judge Percival Mandap Lopez.

[15] Id. at 562.

[16] Id.

[17] Id. at 2.

[18] Id. at 108-116; penned by Associate Justice Bienvenido L. Reyes and concurred in by Associate Justices Salvador J. Valdez, Jr. and Danilo B. Pine.

[19] Id. at 162-163.

[20] CA rollo, p. 487.

[21] Id. at 487-486.

[22] Id. at 524.

[23] CIVIL CODE, Art. 1278.

[24] CIVIL CODE, Art. 1279.

[25] Sentence Spanish Supr. Trib. March 21, 1898, 83 Jur. Civ. 679.

[26] Ogden v. Cain, 5 La. Ann. 160; Reynaud v. His Creditors, 4 Rob. (La.) 514.

[27] TOLENTINO, CIVIL CODE OF THE PHILIPPINES VOL. IV (1973 edition), 354 citing Manresa 409-410.

[28] 208 Phil. 561, 565 (1983).

[29] Rollo, p. 107-115.

[30] Id. at 37.

[31] Id. at 532-533.

[32] Solidbank Corp. v. Court of Appeals, 456 Phil. 879, 887 (2003).

[33] Quezon Development Bank v. Court of Appeals, 360 Phil. 392, 399 (1998).

[34] Spouses Buot v. Court of Appeals, 410 Phil. 183, 200 (2001).

[35] Spouses Custodio v. Court of Appeals, 323 Phil. 575, 584 (1996).

[36] Rollo at 430-433.

[37] Id. at 464.

[38] Friend v. Union Bank of the Philippines, G.R. No. 165767, November 29, 2005, 476 SCRA 453, 549.

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