

FIRST UNITED CONSTRUCTORS CORPORATION AND BLUE STAR CONSTRUCTION CORPORATION, PETITIONERS, VS. BAYANIHAN AUTOMOTIVE CORPORATION, RESPONDENT.

G.R. No. 164985. January 15, 2014

Ponente: BERSAMIN, J.

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BERSAMIN, J.:

This case concerns the applicability of the legal principles of recoupment and compensation.

The Case

Under review is the decision promulgated on July 26, 2004,[1] whereby the Court of Appeals (CA) affirmed the judgment rendered on May 14, 1996 by the Regional Trial Court, Branch 107, in Quezon City adjudging the petitioners (defendants) liable to pay to the respondent (plaintiff) various sums of money and damages.[2]

Antecedents

Petitioner First United Constructors Corporation (FUCC) and petitioner Blue Star Construction Corporation (Blue Star) were associate construction firms sharing financial resources, equipment and technical personnel on a case-to-case basis. From May 27, 1992 to July 8, 1992, they ordered six units of dump trucks from the respondent, a domestic corporation engaged in the business of importing and reconditioning used Japan-made trucks, and of selling the trucks to interested buyers who were mostly engaged in the construction business, to wit:

UNIT

TO WHOM DELIVERED

DATE OF DELIVERY

Isuzu Dump Truck

FUCC

27 May 1992

Isuzu Dump Truck

FUCC

27 May 1992

Isuzu Dump Truck

FUCC

10 June 1992

Isuzu Dump Truck

FUCC

18 June 1992

Isuzu Dump Truck

Blue Star

4 July 1992

Isuzu Cargo Truck

FUCC

8 July 1992

The parties established a good business relationship, with the respondent extending service and repair work to the units purchased by the petitioners. The respondent also practiced liberality towards the petitioners in the latter's manner of payment by later on agreeing to payment on terms for subsequent purchases.

On September 19, 1992, FUCC ordered from the respondent one unit of Hino Prime Mover that the respondent delivered on the same date. On September 29, 1992, FUCC again ordered from the respondent one unit of Isuzu Transit Mixer that was also delivered to the petitioners. For the two purchases, FUCC partially paid in cash, and the balance through post-dated checks, as follows:

BANK/CHECK NO.

DATE

AMOUNT

Pilipinas Bank 18027379

23 November 1992

P360,000.00

Pilipinas Bank 18027384

1 December 1992

P375,000.00

Upon presentment of the checks for payment, the respondent learned that FUCC had ordered the payment stopped. The respondent immediately demanded the full settlement of their obligation from the petitioners, but to no avail. Instead, the petitioners informed the respondent that they were withholding payment of the checks due to the breakdown of one of the dump trucks they had earlier purchased from respondent, specifically the second dump truck delivered on May 27, 1992.

Due to the refusal to pay, the respondent commenced this action for collection on April 29, 1993, seeking payment of the unpaid balance in the amount of P735,000.00 represented by the two checks.

In their answer, the petitioners averred that they had stopped the payment on the two checks worth P735,000.00 because of the respondent's refusal to repair the second dump truck; and that they had informed the respondent of the defects in that unit but the respondent had refused to comply with its warranty, compelling them to incur expenses for the repair and spare parts. They prayed that the respondent return the price of the defective dump truck worth P830,000.00 minus the amounts of their two checks worth P735,000.00, with 12% per annum interest on the difference of P90,000.00 from May 1993 until the same is fully paid; that the respondent should also reimburse them the sum of P247,950.00 as their expenses for the repair of the dump truck, with 12% per annum interest from December 16, 1992, the date of demand, until fully paid; and that the respondent pay exemplary damages as determined to be just and reasonable but not less than P500,000, and attorney's fees of P50,000 plus P1,000.00 per court appearance and other litigation expenses.

It was the position of the respondent that the petitioners were not legally justified in withholding payment of the unpaid balance of the purchase price of the Hino Prime Mover and the Isuzu Transit Mixer due the alleged defects in second dump truck because the purchase of the two units was an entirely different transaction from the sale of the dump trucks, the warranties for which having long expired.

Judgment of the RTC

On May 14, 1996, the RTC rendered its judgment,[3] finding the petitioners liable to pay for the unpaid balance of the purchase price of the Hino Prime Mover and the Isuzu Transit Mixer totaling P735,000.00 with legal interest and attorney's fees; and declaring the respondent liable to pay to the petitioners the sum of P71,350.00 as costs of the repairs incurred by the petitioners. The RTC held that the petitioners could not avail themselves of legal compensation because the claims they had set up in the counterclaim were not liquidated and demandable. The fallo of the judgment states:

WHEREFORE, judgment is hereby rendered:

- Ordering defendants, jointly and severally to pay plaintiff the sum of P360,000.00 and P375,000.00 with interest at the legal rate of 12% per annum computed from February 11, 1993, which is the date of the first extrajudicial demand, until fully paid;
- Ordering the defendants, jointly and severally, to pay plaintiff the sum equivalent to 10% of the principal amount due, for attorney's fees;
- On the counterclaim, ordering plaintiff to pay defendants the sum of P71,350.00 with interest at the legal rate of 12% per annum computed from the date of this decision until fully paid;
- Ordering plaintiff to pay the defendants attorney's fees equivalent to 10% of the amount due;
- No pronouncement as to costs.

SO ORDERED.[4]

Decision of the CA

The petitioners appealed, stating that they could justifiably stop the payment of the checks in the exercise of their right of recoupment because of the respondent's refusal to settle their claim for breach of warranty as to the purchase of the second dump truck.

In its decision promulgated on July 26, 2004,[5] however, the CA affirmed the judgment of the RTC. It held that the remedy of recoupment could not be properly invoked by the petitioners because the transactions were different; that the expenses incurred for the repair and spare parts of the second dump truck were not a proper subject of recoupment because they did not arise out of the purchase of the Hino Prime Mover and the Isuzu

Transit Mixer; and that the petitioners' claim could not also be the subject of legal compensation or set-off, because the debts in a set-off should be liquidated and demandable.

Issues

The petitioners are now before the Court asserting in their petition for review on certiorari that the CA erred in:

I

x x x NOT UPHOLDING THE RIGHT OF PETITIONER[S] TO RECOUPMENT UNDER PAR. (1) OF ART. 1599 OF THE CIVIL CODE, WHICH PROVIDES [FOR] THE RIGHTS AND REMEDIES AVAILABLE TO A BUYER AGAINST A SELLER'S BREACH OF WARRANTY.

II

x x x RULING THAT PETITIONERS CANNOT AVAIL OF COMPENSATION ALLEGEDLY BECAUSE THEIR CLAIMS AGAINST RESPONDENT ARE NOT LIQUIDATED AND DEMANDABLE.

III

x x x NOT HOLDING RESPONDENT LIABLE TO PETITIONERS FOR LEGAL INTEREST COMPUTED FROM THE FIRST EXTRAJUDICIAL DEMAND, AND FOR ACTUAL EXEMPLARY DAMAGES.[6]

The petitioners submit that they were justified in stopping the payment of the two checks due to the respondent's breach of warranty by refusing to repair or replace the defective second dump truck earlier purchased; that the withholding of payments was an effective exercise of their right of recoupment as allowed by Article 1599(1) of the Civil Code; due to the seller's breach of warranty that the CA's interpretation (that recoupment in diminution or extinction of price in case of breach of warranty by the seller should refer to the reduction or extinction of the price of the same item or unit sold and not to a different transaction or contract of sale) was not supported by jurisprudence; that recoupment should not be restrictively interpreted but should include the concept of compensation or set-off between two parties who had claims arising from different transactions; and that the series of purchases and the obligations arising therefrom, being inter-related, could be considered as a single and ongoing transaction for all intents and purposes.

The respondent counters that the petitioners could not refuse to pay the balance of the purchase price of the Hino Prime Mover and the Isuzu Transit Mixer on the basis of the right of recoupment under Article 1599 of the Civil Code; that the buyer's remedy of recoupment related only to the same transaction; and that compensation was not proper because the claims of the petitioners as alleged in their counterclaim were not liquidated and demandable.

There is no longer any question that the petitioners were liable to the respondent for the unpaid balance of the purchase price of the Hino Prime Mover and the Isuzu Transit Mixer. What remain to be resolved are strictly legal, namely: one, whether or not the petitioners validly exercised the right of recoupment through the withholding of payment of the unpaid balance of the purchase price of the Hino Prime Mover and the Isuzu Transit Mixer; and, two, whether or not the costs of the repairs and spare parts for the second dump truck delivered to FUCC on May 27, 1992 could be offset for the petitioners' obligations to the respondent.

Ruling

We affirm the decision of the CA with modification.

1.

Petitioners could not validly resort to recoupment against respondent

Recoupment (reconvencion) is the act of rebating or recouping a part of a claim upon which one is sued by means of a legal or equitable right resulting from a counterclaim arising out of the same transaction.[7] It is the setting up of a demand arising from the same transaction as the plaintiff's claim, to abate or reduce that claim.

The legal basis for recoupment by the buyer is the first paragraph of Article 1599 of the Civil Code, viz:

Article 1599. Where there is a breach of warranty by the seller, the buyer may, at his election:

(1) Accept or keep the goods and set up against the seller, the breach of warranty by way of recoupment in diminution or extinction of the price;

(2) Accept or keep the goods and maintain an action against the seller for damages for the breach of warranty;

(3) Refuse to accept the goods, and maintain an action against the seller for damages for the breach of warranty;

(4) Rescind the contract of sale and refuse to receive the goods or if the goods have already been received, return them or offer to return them to the seller and recover the price or any part thereof which has been paid.

When the buyer has claimed and been granted a remedy in anyone of these ways, no other remedy can thereafter be granted, without prejudice to the provisions of the second paragraph of article 1191. (Emphasis supplied)

x x x x

In its decision, the CA applied the first paragraph of Article 1599 of the Civil Code to this case, explaining thusly:

Paragraph (1) of Article 1599 of the Civil Code which provides for the remedy of recoupment in diminution or extinction of price in case of breach of warranty by the seller should therefore be interpreted as referring to the reduction or extinction of the price of the same item or unit sold and not to a different transaction or contract of sale. This is more logical interpretation of the said article considering that it talks of breach of warranty with respect to a particular item sold by the seller. Necessarily, therefore, the buyer's remedy should relate to the same transaction and not to another.

Defendants-appellants' act of ordering the payment on the prime mover and transit mixer stopped was improper considering that the said sale was a different contract from that of the dump trucks earlier purchased by defendants-appellants.

The claim of defendants-appellants for breach of warranty, i.e. the expenses paid for the repair and spare parts of dump truck no. 2 is therefore not a proper subject of recoupment since it does not arise out of the contract or transaction sued on or the claim of plaintiff-appellee for unpaid balances on the last two (2) purchases, i. e. the prime mover and the transit mixer.[8]

The CA was correct. It was improper for petitioners to set up their claim for repair expenses and other spare parts of the dump truck against their remaining balance on the price of the prime mover and the transit mixer they owed to respondent. Recoupment must arise out of the contract or transaction upon which the plaintiff's claim is founded.[9] To be entitled to recoupment, therefore, the claim must arise from the same transaction, i.e., the purchase of the prime mover and the transit mixer and not to a previous contract involving the purchase of the dump truck. That there was a series of purchases made by petitioners could not be considered as a single transaction, for the records show that the earlier purchase of the six dump trucks was a separate and distinct transaction from the subsequent purchase of the Hino Prime Mover and the Isuzu Transit Mixer. Consequently, the breakdown of one of the dump trucks did not grant to petitioners the right to stop and withhold payment of their remaining balance on the last two purchases.

2.

Legal compensation was permissible

Legal compensation takes place when the requirements set forth in Article 1278 and Article 1279 of the Civil Code are present, to wit:

Article 1278. Compensation shall take place when two persons, in their own right, are creditors and debtors of each other.”

Article 1279. In order that compensation may be proper, it is necessary:

- (1) That each of the obligors be bound principally, and that he be at the same time a principal creditor of the other;
- (2) That both debts consists 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;
- (3) That the two debts be due;
- (4) That they be liquidated and demandable;
- (5) That over neither of them there be any retention or controversy, commenced by third persons and communicated in due time to the debtor.

As to whether petitioners could avail themselves of compensation, both the RTC and CA ruled that they could not because the claims of petitioners against respondent were not liquidated and demandable.

The Court cannot uphold the CA and the RTC.

The RTC already found that petitioners were entitled to the amount of P71,350.00 stated in their counterclaim, and the CA concurred in the finding, stating thusly:

It is noteworthy that in the letter of December 16, 1992 (Exh. “1”) defendants were charging plaintiff only for the following items of repair:

1. Cost of repair and spare parts - P46,800.00
 2. Cost of repair and spare parts - 24,550.00
- P71,350.00

Said amounts may be considered to have been spent for repairs covered by the warranty period of three (3) months. While the invoices (Exhs. “2-B” and “3-A”) dated September 26, 1992 and September 18, 1992, this delay in repairs is attributable to the fact that when defects were brought to the attention of the plaintiff in the letter of August 14, 1992 (Exh. “8”) which was within the warranty period, the plaintiff did not respond with the required repairs and actual repairs were undertaken by defendants. Thereafter, the spare parts covered by Exhibits “2-B” and “3-A” pertain to the engine, which was covered by the warranty.

x x x. Defendants in their letter of August 14, 1992 (Exhb. “8”) demanded correction of defects. In their letter of August 22, 1992 (Exh. “9”) they demanded replacement. In their letter of August 27, 1992 (Exh. “10”), they demanded ‘replacement/repair’. In September, 1992, they undertook repairs themselves (Exhs. “2-B” and “3-A”) and demanded payment for the expenses in their letter of December 16, 1992 (Exh. “1”). All other items of expenses connected with subsequent breakdowns are no longer chargeable to plaintiff which granted only a 3-month warranty. x x x[10]

Considering that preponderant evidence showing that petitioners had spent the amount of P71,350.00 for the repairs and spare parts of the second dump truck within the warranty period of three months supported the finding of the two lower courts, the Court accepts their finding. Verily, factual findings of the trial court, when affirmed by the CA, are conclusive on the Court when supported by the evidence on record.[11]

A debt is liquidated when its existence and amount are determined.[12] Accordingly, an unliquidated claim set up as a counterclaim by a defendant can be set off against the plaintiff's claim from the moment it is liquidated by judgment.[13] Article 1290 of the Civil Code provides that when all the requisites mentioned in Article 1279 of the Civil Code are present, compensation takes effect by operation of law, and extinguishes both debts to the concurrent amount. With petitioners' expenses for the repair of the dump truck being already established and determined with certainty by the lower courts, it follows that legal compensation could take place because all the requirements were present. Hence, the amount of P71,350.00 should be set off against petitioners' unpaid obligation of P735,000.00, leaving a balance of P663,650.00, the amount petitioners still owed to respondent.

We deem it necessary to modify the interest rate imposed by the trial and appellate courts. The legal interest rate to be imposed from February 11, 1993, the time of the extrajudicial demand by respondent, should be 6% per annum in the absence of any stipulation in writing in accordance with Article 2209 of the Civil Code, which provides:

Article 2209. If the obligation consists in the payment of a sum of money, and the debtor incurs in delay, the indemnity for damages, there being no stipulation to the contrary, shall be the payment of the interest agreed upon, and in the absence of stipulation, the legal interest, which is six per cent per annum.

WHEREFORE, the Court AFFIRMS the decision promulgated on July 26, 2004 in all respects subject to the MODIFICATION that petitioners are ordered, jointly and severally, to pay to respondent the sum of P663,650.00, plus interest of 6% per annum computed from February 11, 1993, the date of the first extrajudicial demand, until fully paid; and ORDERS the petitioners to pay the costs of suit.

SO ORDERED.

Sereno, C.J., Leonardo-De Castro, Villarama, Jr., and [*]Perlas-Bernabe, JJ., concur.

[*] Vice Associate Justice Bienvenido L. Reyes, who took part in the Court of Appeals, per the raffle of December 9, 2013.

[1] Rollo, pp. 8-20; penned by Associate Justice Rosalinda Asuncion-Vicente (retired), with the concurrence of Associate Justice Eugenio S. Labitoria (retired) and Associate Justice Bienvenido L. Reyes (now a Member of this Court).

[2] Id. at 52-69; penned by Presiding Judge Rosalina L. Luna Pison.

[3] Id. at 52-69.

[4] Id. at 52-69.

[5] Id. at 8-20.

[6] Id. at 26-27.

[7] Lopez v. Gloria and Sheriff of Leyte, 40 Phil. 26, 31 (1919).

[8] Rollo, pp. 48-49.

[9] Korea Exchange Bank v. Gonzales, G.R. Nos. 142286-87, April 15, 2005, 456 SCRA 224, 239.

[10] Rollo, pp. 65-66.

[11] Dimaranan v. Heirs of Spouses Hermogenes Arayata and Flaviana Arayata, G.R. No. 184193, March 29, 2010, 617 SCRA 101.

[12] Tolentino, Civil Code of the Philippines, Vol. IV, 2002 Ed., p. 371, cited in Montemayor v. Millora, G.R. No. 168251, July 27, 2011, 654 SCRA 580, 589.

[13] Lao v. Special Plans, Inc., G.R. No. 164791, June 29, 2010, 622 SCRA 27, 36.

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