

RAFAEL S. BELTRAN AND MA. VIOLETA BELTRAN, PETITIONER, VS. PAIC FINANCE CORPORATION, SERVICE EQUIPMENT SPECIALISTS CO., INC., RODRIGO REYES AND IRAIDA REYES, RESPONDENTS.

G.R. No. 83113. May 19, 1992

Ponente: FELICIANO, J.

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FELICIANO, J.:

The consolidated petitions here before the Court compel us to consider the nature and at least some of the legal effects of a "financing lease" or "financial lease." Such an instrument must seem an exotic creation in the eyes of many civil law jurists; for a financial lease does not fit neatly into the tight and orderly categories of the Civil Code. But financial leases are quite commonplace in today's commercial and financial world and the law must take account of developments and practice in that world.

On 15 July 1980, the Beltran spouses purchased from Service Equipment Specialists Co. ("SESCO") one unit of Infra-Red Performance Analyzer with Serial No. 19B2870, SUN 1115, for P137,000.00. Upon delivery of the unit on the same day, the Beltrons returned to SESCO a Performance Analyzer SUN 1011 previously purchased from SESCO, and the payments made thereon, plus two (2) other checks made out by the Beltrons in the name of SESCO, were applied as down-payment on the new Performance Analyzer SUN 1115. Further, SESCO agreed with the Beltrons that the balance of the purchase price of the new SUN 1115 would be placed under a financing arrangement which SESCO was to enter into with PAIC.[1]

On 3 September 1980, the Beltrons issued another check in favor of SESCO in the amount of P3,780.00. On the same date, SESCO assigned the sales invoice it issued to the Beltran spouses to PAIC; the documentation dated 3 September 1980 stated that the Performance Analyzer SUN 1115 with Serial No. 19B2870 was delivered to PAIC. At the same time, PAIC executed a contract of lease over the SUN 1115 with the spouses Beltran as lessees for a term of 36 months at a monthly rental of P3,903.52 commencing on 2 September 1980 and ending on 2, October 1983. On 19 September 1980, SESCO executed in favor of PAIC a surety undertaking under which SESCO guaranteed solidarily the faithful performance of all obligations of the Beltran lessees to PAIC.

Sometime in October 1980, the SUN 1115 malfunctioned. The Beltrons sought the assistance of SESCO which in turn promised to repair the equipment. The repairs made on the SUN 1115 were, however, found to be unsatisfactory by the Beltrons who thereupon decided to return the unit and discontinued the monthly rental payments to PAIC.

When the spouses Beltran failed to pay four (4) succeeding monthly payments, PAIC sent them a letter demanding payment of the rentals in arrears. When the spouses Beltran failed to pay the arrearages, PAIC, on 23 February 1981, filed a complaint for a sum of money against the spouses. On 31 March 1981, the spouses Beltran filed an answer with counterclaim and a third-party complaint against SESCO. SESCO eventually filed an answer to the third-party complaint as required by the trial court.

On 16 October 1985, the trial court rendered a decision in favor of the spouses Beltran. The trial court held that

the transaction between PAIC and the spouses Beltran was one of lease and dismissed the complaint of PAIC, as well as the Beltrons' counterclaim against PAIC and their third party complaint against SESCO. The trial court held:

"Under the terms of the lease, in case of fault of the lessee (defendant Beltran), the plaintiff may declare any and all sums due and to become due and payable and in addition the lessor shall be entitled to take possession of the leased equipment and to recover as damages an amount equal to the difference of the rent for the unexpired term of the lease and aggregate rental value of the leased equipment.

Categorizing the transaction had between plaintiff and defendant Rafael S. Beltran as one of lease, which binds the plaintiff, we are constrained to dismiss the plaintiff's case.

Under Article 1654 f the Civil Code, the lessor is obliged to deliver the object of the lease in such condition as to render it fit for the use intended; to make on the same during the lease all the necessary repairs in order to keep it suitable for the use to which it has been devoted and to maintain the lessee in the peaceful enjoyment of the lease during the contract.

Defendants Beltran's evidence, without contradiction is that the performance analyzer became unfit for the use intended soon after delivery. Plaintiff [PAIC] has not repaired such defect in order to keep the equipment suitable for the use to which it is devoted.

Consequently, the lease must be deemed extinguished because the thing leased was totally unfit for the purposes of the lease."[2] (Underscoring and brackets supplied)

The Beltran spouses filed a notice of appeal dated 12 April 1986 with the trial court in view of the failure of the trial court to rule on the liability of SESCO on its contract of sale. The notice of appeal was, however, denied due course by the trial court for having been filed late. The motion for reconsideration filed by the spouses Beltran was denied on the ground that the period for appeal is jurisdictional. A second motion for reconsideration was filed with, but was not acted upon by, the trial court. Instead, the trial court transmitted the records of the case to the Court of Appeals since PAIC had filed its own appeal in a timely manner. Upon such transmittal, the Court of Appeals assumed jurisdiction of the appealed case.

The judgment of the trial court was affirmed by the Court of Appeals in a decision dated 30 June 1987. In that decision, however, the Court of Appeals held the transaction between the Beltrons and PAIC to be one of sale rather than a lease:

"We agree with the contention of the defendants-appellees. An examination of the records shows that indeed the Contract of lease 'is but a scheme to simulate the real agreement between the parties which is a financing arrangement for the defendants Beltran to pay the unpaid price of the performance analyzer with Serial No. SUN 1115 to the plaintiff'. (p. 251, Record). The equipment in question was sold to defendant-appellee Rafael S. Beltran on July 15, 1980 by Service Equipment Specialist Co., Inc. (SESCO) as evidenced by Sales Invoice No. 050 (p. 10, Folder of Exhibits), by Warranty Certificate dated July 15, 1980 (p. 11, Folder of Exhibits), and by a letter of SESCO addressed to defendant appellee dated October 21, 1980 (p. 13, Folder of Exhibits).

Plaintiff-appellant's evidence shows some glaring inconsistencies. The contract of lease covers the equipment in question which was already sold and delivered to defendant-appellee. The date of the contract of lease is July 31, 1980 but the subject of the lease was 'sold' to plaintiff-appellant only on September 3, 1980 (p. 4, Folder of Exhibits). The original of Sales Invoice No. 050 reflect both plaintiff-appellant and defendant-appellee Rafael S. Beltran as vendees of the equipment in question but the contract of lease shows that defendant-appellee is the lessee and the plaintiff-appellant is the lessor. The delivery receipts show that the equipment in question was delivered to defendant-appellee on July 15, 1980 (p.10, Folder of Exhibits) by SESCO, on September 2, 1980 by plaintiff-appellant, and on September 3, 1980 by SESCO (pp. 5-6, Folder of

Exhibits). Exhibit D shows that the equipment in question was delivered to both plaintiff-appellant and defendant-appellee on September 3, 1980 by SESCO (p. 6, Folder of Exhibits). These inconsistencies belie plaintiff-appellant's contention that the contract of lease is not a 'scheme to simulate the real agreement between the parties which is a financing arrangement.'

Defendants-appellees [Beltrans] cannot be held liable for the breakdown of the equipment in question pursuant to the Warranty Certificate of SESCO dated July 15, 1980 (p. 11, Folder of Exhibits). It is admitted that the cause of the breakdown was when one of SESCO's technicians 'accidentally damaged the PCB of the equipment' (p. 13 Folder of Exhibits). When the equipment was not repaired despite SESCO's assurance, defendants-appellees decided to return the equipment and discontinued amortization payments (pp. 12-13, Folder of Exhibits). As found by the trial court:

'Defendant Beltran's evidence, without contradiction is that the performance analyzer became unfit for the use intended soon after delivery. Plaintiff has not repaired such defect in order to keep the equipment suitable for the use it is devoted.' (p. 252, Record).

Defendants-appellees seek a rescission of the contract of sale pursuant to Article 1599 of the Civil Code which provides for such a remedy when there is breach of warranty by the seller. Since the records show that the equipment in question became unfit for the use it is intended, defendants-appellees are entitled to rescission of the contract of sale with SESCO or its (SESCO's) assigns.

xxx xxx xxx"[3]
(Underscoring supplied)

Both PAIC and the Beltrans moved for reconsideration of the Court of Appeals' decision. In a resolution dated 28 April 1988, the Court of Appeals rejected both motions and ruled that the Beltrans, not having perfected any appeal from the decision of the trial court, could not seek modification of that decision.

A Petition for Review on Certiorari was then filed by the Beltran spouses with this Court and docketed as G.R. No. 83113, assailing the Court of Appeals's refusal to entertain their appeal. In a Resolution dated 4 January 1989, the Court dismissed the petition of the Beltran spouses for "insufficiency in form and substance and for lack of merit." The Beltrans moved for reconsideration, without success. A second motion for reconsideration was filed by the Beltrans.

Meantime, PAIC also filed a Petition for Review on certiorari before this Court, docketed as G.R. No. 83256. On 25 January 1989, the Court issued a Resolution in G.R. No. 83256, granting the motion of the spouses Beltran for consolidation of G.R. No. 83256 with G.R. No. 83113, in effect reconsidering the previous dismissal of the petition in G.R. No. 83113.

PAIC, in its petition, mainly alleges that the Court of Appeals erred in applying the provisions of the Civil Code in the construction of its contract with the Beltran spouses. PAIC maintains that the Court of Appeals should have applied instead the provisions of R.A. No 5980 entitled "An Act Regulating the Organization and Operation of Financing Companies," in characterizing the relationship between PAIC and the spouses Beltran. It is argued that the contract of lease is actually a financial lease governed by Section 3 (a) of R.A. No. 5980; that under such scheme, PAIC undertook no warranty as to the fitness design or condition of or as to the quality or capacity of the equipment.

The threshold problem relates to characterization of the relationships between the three (3) parties: PAIC, the

Beltrans and SESCO. Characterization of these relationships requires us to examine the real nature of the commercial transactions entered into by these parties inter se, and in doing so, we need to look through the forms of the agreements and related documents and to examine the effective intent of the parties as well as the economic facts and circumstances which existed at the time of establishment of such agreements.[4]

We begin by summarizing the claims asserted by each of the parties against the others.

The Beltrans asserted against PAIC and against SESCO two (2) principal claims. The first claim was for rescission of the lease agreement with PAIC, which had obligated the Beltrans to make monthly payments to PAIC, for failure of PAIC to render the SUN 1115 fit for the purpose for which the Beltrans wanted it in the first place. The second was a claim to recover the downpayment that the Beltrans had made to SESCO on the purchase price of the SUN 1115.

The principal claim of PAIC was asserted against the Beltrans under the lease agreement. That claim was for specific performance of the Beltrans' obligations under the lease agreement, i.e., payment of the specified monthly payments all of which had become due and payable in view of the default on the part of the Beltrans. The aggregate of those monthly payments in effect represented the payment which PAIC had previously made to SESCO for the balance of the purchase price (remaining after the Beltrans' downpayment) of the SUN 1115, plus financing charges which included PAIC's profit. PAIC also had a cause of action against SESCO under the suretyship agreement which SESCO had signed guaranteeing solidarily with the Beltrans payment of the amounts due from the Beltrans under the lease agreement. PAIC did not originally implead SESCO as a defendant in the complaint against the Beltrans. SESCO was originally brought in as a party-litigant through the medium of the third-party complaint filed by the Beltrans against SESCO before the trial court. Later, PAIC amended its complaint, this time bringing in SESCO as a defendant; the amended complaint was admitted and SESCO in due time filed an answer.

SESCO sought to defend itself against PAIC's claims by asserting that PAIC's remedies were against the Beltrans under their lease contract; that by entering into the lease with the Beltrans, PAIC had waived any rights it had as a buyer from SESCO; that SESCO's solidary guarantee in favor of PAIC had been extinguished or prescribed; that the Beltrans had prevented SESCO from complying with its warranty on the SUN 1115; and that any defect of the SUN 1115 was due to the acts and negligence of the users, i.e., the Beltrans. SESCO did not appeal from the trial court's decision but was, of course, a party to the proceedings before the Court of Appeals and is a party to the two (2) Petitions for Review. In each of the Petitions for Review (G.R. Nos. 83113 and 83256) now consolidated before our Court, SESCO was served with a copy of the Petition. Clearly, therefore, the Supreme Court has jurisdiction over the person of SESCO.

We turn to the important circumstances constituting and attending the transactions between SESCO, PAIC and the Beltrans:

1. Initially, SESCO sold the Performance Analyzer SUN 1115 to the Beltran spouses as evidenced by SESCO's Sales Invoice No. 050 dated 15 July 1980.[5] Accompanying this Sales Invoices was a Certificate of Warranty issued by SESCO in favor of the Beltrans, also dated 15 July 1980.[6] Thereupon, delivery of the Performance Analyzer was made to the Beltrans, as indicated in the Sales Invoice and in the delivery receipt dated 15 July 1980.[7] As downpayment for this purchase, the Beltrans paid SESCO the total amount of P29,672.11.

2. Next, SESCO sold to PAIC the same equipment it had earlier sold to the Beltran spouses. The sale to PAIC is evidenced by SESCO's Sales Invoice No. 050 dated 3 September 1980 and issued in the name of both PAIC and the Beltrans as vendees. For this transaction, PAIC paid SESCO the amount of P91,751.60. A delivery receipt covering the SUN 1115 and dated 3 September 1980 was issued in the name of both PAIC and the Beltrans. A

close examination of the records will, however, show that PAIC never took physical possession of the SUN 1115, since on the stated date of delivery to PAIC, the SUN 1115 was already physically in the hands of the Beltrans.

3. Shortly after the transaction between SESCO and PAIC, a lease contract dated 19 September 1990 was entered into between PAIC and the Beltrans. The lease agreement provided for a fixed monthly rental payment for a period of thirty-six (36) months. It is important to note that under this lease contract, the lessor PAIC undertook no warranty of the fitness, design and condition of, or of the quality or capacity of the leased Performance Analyzer SUN 1115. The relevant provision of the lease agreement reads as follows:

"2.1. - Warranties; Negation -- Lessor not being the manufacturer of the Equipment, nor manufacturer's agent, makes no warranty or representation, either expressed or implied, as to the fitness, design or condition of, or as to the quality or capacity of the material, equipment or workmanship in the Equipment, nor any warranty that the equipment will satisfy the requirements of any law, rule, specification or contract which provides for specific machinery or operation, or special methods, it being agreed that all such risks as between the Lessor and the Lessee are to be borne by the Lessee at its sole risk and expense. No oral agreement, guaranty, promise condition, representation or warranty shall be binding; all prior conversations, agreements, or representations related hereto and/or to the Equipment are integrated herein, and no modification hereof shall be binding unless in writing signed by Lessor. All repairs, parts, supplies, accessories, equipment and device, furnished or added to any Equipment under lease shall become the property of the Lessor. The Lessee also agrees that each Equipment under lease is of a design, capacity and size selected and approved by the Lessee, and the Lessee is satisfied that the same is suitable for its purposes. The Lessor shall not be liable to the Lessee for any loss, damage or expense of any kind or nature, caused directly or indirectly, by any Equipment under lease, or the use or maintenance thereof, or the repairs, servicing or adjustments thereto, or by any delay or failure to provide the same, or by any interruption of service or loss of use thereof or for any loss of business or damage whatever and however the same may have been caused." (Underscoring supplied)

The lease contract also provided that "the lessee shall have no option to purchase or otherwise acquire title or ownership of any of the leased equipment and shall have only the right to use the same under and subject to the terms and conditions of [the] lease."

4. Pursuant to the lease agreement, another delivery receipt was issued, this time in the name of the Beltrans by PAIC, and dated 2 September 1980. It may be noted that this delivery receipt dated 2 September 1980 was in fact dated a day earlier than the date when SESCO, per its own document-ation, delivered the equipment to PAIC.

5. Since the Beltrans were in possession of the SUN 1115 before PAIC, per SESCO's documentation, purchased the same from SESCO, it necessarily follows that the Beltrans, rather than PAIC, had selected and inspected the equipment.

6. The amount paid by PAIC to SESCO represented the discounted value of the total amount receivable by SESCO from the Beltrans.[8] At the time of the sale by SESCO to PAIC, the amount receivable by SESCO from the Beltrans (i.e., the balance of the purchase price of the equipment remaining after application of the downpayment) was P107,327.89 (P137,000.00 - P29,672.11 = P107,327.89).

7. The rental payments stipulated in the lease contract between PAIC and the Beltrans were so computed as to cover the amount paid by PAIC to SESCO plus the financing charges.[9]

8. Although the lease contract gave no option to the Beltrans to purchase or to acquire the SUN 1115, the declarations of the parties in their different pleadings[10] afford clear indication that the parties had contemplated that the ownership of the SUN 1115 would pass to the Beltrans after the end of the lease period. It was not, therefore, anticipated by the parties that the SUN 1115 would be returned to the lessor PAIC. PAIC was not in the business of leasing out machinery or equipment and did not maintain a warehouse or workshop nor service and

maintenance personnel for the repair and servicing of machinery or equipment.

It will be recalled that the trial court concluded that the contract between PAIC and the Beltrans was a real lease or a "civil law lease" and held that the lease was extinguished because the thing leased was or had become totally unfit for the purposes of the lease, in accordance with the provisions of Article 1654 of the Civil Code. It will also be recalled that the Court of Appeals had concluded after examination of the above circumstances that the contract of lease was "a scheme to simulate the real agreement between the parties" which "real agreement" was a composite of a contract of sale between the Beltrans as vendees and SESCO (or SESCO's assigns [PAIC]) as vendor, and a "financing arrangement."

We believe that the Court of Appeals was substantially correct in holding that the principal transactions were two-fold: firstly, a sale of the SUN No. 1115 from SESCO to PAIC/ the Beltrans and secondly, a financing arrangement that would permit the ultimate users of the SUN 1115 the Beltrans -- to use that equipment and pay for it by installments, spread out over thirty-six (36) months. The inconsistencies in the details of the documentation of the transactions may be seen to be due, not so much to "simulation" of the "real agreement of the parties" but rather to the fact that the financing company was chosen and the financing arrangement concluded sometime after the original sale transaction between SESCO and the Beltrans'. That original transaction was in effect remodelled or restructured to conform with the financing arrangement, which took the form of a financial lease. A financial lessor, like all lessors, is legal owner of the thing leased. Accordingly, SESCO documented a sale to PAIC; because the SUN 1115 had earlier been sold to the Beltrans, the SESCO invoice was modified and made out to both PAIC and the Beltrans. The possession originally held by the Beltrans in concept of owner, was transmuted into possession by the Beltrans in concept of lessee.

In this jurisdiction, financial leases as a species of secured financing are of fairly recent vintage. Financial leases, while they are complex arrangements, cannot be casually dismissed as "simulated contracts." To the contrary, they are genuine or legitimate contracts which have been accorded statutory and administrative recognition. Section 3 (a) Republic Act No. 5980, as amended by Presidential Decrees Nos. 1454 and 1793; known as the "Financing Company Act," defines financing companies in the following manner:

"Financing companies, hereinafter called companies, are corporations, or partnerships, except those regulated by the Central Bank of the Philippines, the Insurance Commissioner and the Cooperatives Administration Office, which are primarily organized for the purpose of extending credit facilities to consumers and to industrial, commercial, or agricultural enterprises, either by discounting or factoring commercial papers or accounts receivables, or by buying and selling contracts, leases, chattel mortgages, or other evidences of indebtedness, or by leasing motor vehicles, heavy equipment and industrial machinery, business and office machines and equipment, appliances and other movable property." [11] (Underscoring supplied)

Section 1, paragraph 1 of the Revised Rules and Regulations Implementing the Provisions of the Financing Company Act, as amended, adopted jointly by the Securities and Exchange Commission and the Monetary Board of the Central Bank of the Philippines, defines leasing in the following terms:

"1. 'LEASING' shall refer to financial leasing which is a mode of extending credit through a non-cancellable contract under which the lessor purchases or acquires at the instance of the lessee heavy equipment, motor vehicles, industrial machinery, appliances, business and office machines, and other movable property in consideration of the periodic payment by the lessee of a fixed amount of money sufficient to amortize at least 70% of the purchase price or acquisition cost, including any incidental expenses and a margin of profit, over the lease period. The contract shall extend over an obligatory period during which the lessee has the right to hold and use the leased property and shall bear the cost of repairs, maintenance, insurance and preservation thereof, but with no obligation or option on the part of the lessee to purchase the leased property at the end of the lease contract." (Underscoring supplied)

The tax treatment of lease agreements, as distinguished from conditional sales contracts, is governed by Revenue Regulations No. 19-86, promulgated by the Department of Finance on 1 January 1987. These Revenue Regulations recognize two (2) types of leases. The first type, denominated an "operating lease", is defined as

"x x x a contract under which the asset is not wholly amortized during the primary period of the lease, and where the lessor does not rely solely on the rentals during the primary period for his profits, but looks for the recovery of the balance of his costs and for the rest of his profits from the sale or re-lease of the returned asset at the end of the primary lease period." (Underscoring supplied)

The second type of recognized lease is designated as a "finance lease" and defined in the Revenue Regulations in the following manner:

"x x x 'Finance lease,' or 'full payout lease' is a contract involving payment over an obligatory period (also called primary or basic period) of specified rental amounts for the use of a lessor's property, sufficient in total to amortize the capital outlay of lessor and to provide for the lessor's borrowing costs and profits. The obligatory period refers to the primary or basic non-cancellable period of the lease which in no case shall be less than 730 days. The lessee, not the lessor, exercises the choice of the asset and is normally responsible for maintenance, insurance and such other expenses pertinent to the use, preservation and operation of the asset. Finance leases may be extended, after the expiration of the primary period, by non-cancellable secondary or subsequent periods with the rentals significantly reduced. The residual value shall in no instance be less than five per cent (5%) of the lessor's acquisition cost of the leased asset." (Underscoring supplied).

The basic purpose of a financial leasing transaction is to enable the prospective buyer of equipment, who is unable to pay for such equipment in cash in one lump sum, to lease such equipment in the meantime for his use, at a fixed rental sufficient to amortize at least 70% of the acquisition cost (including the expenses and a margin of profit for the financial lessor) with the expectation that at the end of the lease period, the buyer/financial lessee will be able to pay any remaining balance of the purchase price.[12] Generally speaking, a financing company is not a buyer or seller of goods; it is not a trading company. Neither is it an ordinary leasing company; it does not make its profit by buying equipment and repeatedly leasing out such equipment to different users thereof. But a financial lease must be preceded by a purchase and sale contract covering the equipment which becomes the subject matter of the financial lease. The financial lessor takes the role of the buyer of the equipment leased. And so the formal or documentary tie between the seller and the real buyer of the equipment, i.e., the financial lessee, is apparently severed. In economic reality, however, that relationship remains. The sale of the equipment by the supplier thereof to the financial lessor and the latter's legal ownership thereof are intended to secure the repayment over time of the purchase price of the equipment, plus financing charges, through the payment of lease rentals; that legal title is the upfront security held by the financial lessor, a security probably superior in some instances to a chattel mortgagee's lien.

A financing lease may be seen to be a contract *sui generis*, possessing some but not necessarily all of the elements of an ordinary or civil law lease. Thus, legal title to the equipment leased is lodged in the financial lessor. The financial lessee is entitled to the possession and use of the leased equipment. At the same time, the financial lessee is obligated to make periodic payments denominated as lease rentals, which enable the financial lessor to recover the purchase price of the equipment which had been paid to the supplier thereof. However, the financial lessor, being a financing company, i.e., an extender of credit rather than an ordinary equipment rental company, does not extend a warranty of the fitness of the equipment for any particular use. In the instant case, the contract of lease between PAIC and the Beltrans, in addition to expressly disclaiming any obligation on the part of PAIC to warrant the fitness of the SUN 1115 for any particular use, had specified that the equipment warranty, issued by SESCO the supplier of the equipment, "shall be passed on by [PAIC] to the lessee." In fact, as noted, SESCO issued a Certificate of Warranty to the Beltrans. Thus, the financial lessee was precisely in a position to enforce

such warranty directly against the supplier of the equipment and not against the financial lessor. We find nothing contra legem or contrary to public policy in such a contractual arrangement.

Considering all the circumstances listed earlier, and bearing in mind the economic and legal nature and objectives of a financing lease, we conclude and so hold that the financial lease between PAIC and the Beltrans was a valid and enforceable contract as between the two (2) contracting parties. The Beltrans are therefore bound to pay to PAIC all the rental payments which accrued and are due and payable under that contract.

At the same time, PAIC is entitled to require SESCO to respond under its solidary guarantee of the obligations of the Beltrans under the lease contract. PAIC may thus opt to recover from either the Beltrans or SESCO alone, or from both the Beltrans and SESCO solidarily at the same time.

Should PAIC recover fully or partially the amounts due from the Beltrans, we believe and so hold that the Beltrans are entitled to reimbursement from SESCO of such amounts as they shall have been compelled to pay PAIC. In addition, the Beltrans are entitled to recover from SESCO the downpayment they had previously made to SESCO on the SUN 1115, and as well to require SESCO to take back that equipment. These rights of the Beltrans flow from their rescission of the contract of sale covering the SUN 1115 for failure of SESCO to make good on its warranty against defects in materials and workmanship set out in its "Warranty Certificate," and on its warranty against hidden defects which render the thing sold "unfit for the use of which it is intended" under the general law on sales.[13]

It is clear to the Court that it is SESCO who must bear the legal consequences of its failure to make good on the warranty it had given as vendor of the SUN 1115. SESCO received the full value of the SUN 1115: (a) the downpayment from the Beltrans; and (b) the balance of the purchase price from PAIC. The record shows that PAIC had not breached any of its undertakings to the Beltrans under the financial lease. Upon the other hand, the Beltrans, because of failure of the equipment warranty given by SESCO, could not benefit either from the purchase of the equipment or from the financial lease. Clearly, it would be inequitable and unconscionable to permit SESCO to hold on to the purchase price and to shift the burden of its own failure either to the ultimate buyers or to the company which financed the bulk of the purchase price.

The Court is aware that the Beltrans were unable to file a timely appeal from the ruling of the trial court which had dismissed their claim against SESCO. However, guided by the principle that technicality should not be allowed to stand in the way of equitably and completely resolving the rights and obligations of the parties[14], this Court now resolves to treat the Beltrans' appeal as having been seasonably filed so as to permit complete resolution of this trilateral controversy on the merits.

IN VIEW OF THE ALL THE FOREGOING, the Decision of the Court of Appeals dated 30 June 1987 in C.A.-G.R. CV No. 10078 and the decision of the Regional Trial Court of Manila dated 16 October 1985 in Civil Case No. 138233, are hereby SET ASIDE, and a new judgment is hereby ENTERED providing as follows:

1. The spouses Beltran and SESCO are hereby ORDERED to pay jointly, and severally, to PAIC the rental payments accrued and remaining unpaid under the lease agreement, with interest at six percent (6%) per annum starting from 16 October 1985 and until full payment thereof.
2. SESCO is also hereby ORDERED to reimburse the spouses Beltran any amount that they are actually compelled to pay to PAIC under paragraph 1 of the dispositive portion of this Decision, with interest thereon at six percent (6%) per annum counting from the date of payment by the Beltran spouses and until full reimbursement thereof.
3. The spouses Beltran are hereby REQUIRED to return the Infra-Red Performance Analyzer SUN 1115 to

SESCO, at the expense of SESO. SESO is in turn hereby ORDERED to accept that equipment.

4. SESO is, finally, hereby ORDERED to return to the spouses Beltran the downpayment of P29,672.11 made on the SUN 1115, with interest thereon at six percent (6%) per annum counting from 16 October 1985 and until full payment thereof.

No pronouncement as to costs. This Decision is immediately executory.

SO ORDERED.

Gutierrez, Jr., (Chairman), Bidin, Davide, Jr., and Romero, JJ., concur.

[1] Decision, CA-G.R. CV. No.10078, p. 3; Rollo of G.R. 83256, p. 48.

[2] Decision in Civil Case No. 138233, pp. 3-4; Rollo, pp. 25-26.

[3] Decision; C.A.-G.R. No. 10078, pp. 5-6; Rollo (G.R. No. 83113), pp. 29-30.

[4] In Re Sherwood Diversified Services, Inc., 382 F. Supp. 1359 (1944).

[5] See Folder of Exhibits, p. 10.

[6] Id., p. 11.

[7] Id., p. 6. Although the receipt is dated 3 September 1980, a close examination of the same shows that said date was altered; that originally, it was dated 15 July 1980.

[8] Disclosure Statement of Loan/Credit Transactions, Exhibits "E," Folder of Exhibits, p. 7.

[9] Exhibit "E" supra.

[10] Petition in G.R. No. 83256 p. 8.; Rollo, p. 5; Comment of Respondent in G.R. No. 83256, pp. 3-6; Rollo, pp. 58-61.

[11] Republic Act No. 5980, as amended by Presidential Decree Nos. 1454 and 1793.

[12] Inverstors Finance Corporation v. Court of Appeals, 193 SCRA 701 (1991).

[13] Article 1561, Civil Code.

[14] Atlas Lithographic Service, Inc. vs. Ledesma et al., G.R. No. 96566 (6 January 1992); Rapid Manpower Consultants, Inc. v. National Labor Relations Commission, 190 SCRA 747 (1990).

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