

FIRST DIVISION

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

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

D E C I S I O N

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:

<u>BANK/CHECK NO.</u>	<u>DATE</u>	<u>AMOUNT</u>
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:

1. 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;
2. Ordering the defendants, jointly and severally, to pay plaintiff the sum equivalent to 10% of the principal amount due, for attorney's fees;
3. 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;
4. Ordering plaintiff to pay the defendants attorney's fees equivalent to 10% of the amount due;
5. 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.