

## FIRST DIVISION

[ G.R. No. 170486, September 12, 2011 ]

**SWIFT FOODS, INC., PETITIONER, VS. SPOUSES JOSE MATEO, JR. AND IRENE MATEO, RESPONDENTS.**

### D E C I S I O N

**DEL CASTILLO, J.:**

A review of the facts of the case is necessary when the courts below fail to make findings that are necessary for a proper disposition of the case.

Before the Court is a Petition for Review<sup>[1]</sup> of the November 15, 2005 Decision<sup>[2]</sup> of the Court of Appeals (CA) in CA-G.R. CV No. 73368. The dispositive portion of the assailed Decision reads:

**WHEREFORE**, the appealed decision is AFFIRMED with MODIFICATION, in that the trial court's award of attorney's fees to the [respondents] is deleted for lack of basis.

**SO ORDERED.**<sup>[3]</sup>

The affirmed ruling of the trial court contained the following disposition:

**WHEREFORE**, in view of the foregoing, the Court hereby renders judgment in favor of [respondents] SPS. JOSE & IRENE MATEO and against [petitioner] SWIFT FOODS, INC., directing [petitioner] to:

1. **RETURN** the Owner's Duplicate Copies of Transfer Certificates of Title Nos. T-19808 P(M), T-19809 P (M) and T-19810 P(M) of the Registry of Deeds of Bulacan immediately;
2. **RETURN** P100,000.00 cash bond upon the finality of this Decision with interest at twelve [percent] (12%) per annum from the filing of this Complaint until fully satisfied;
3. **PAY** to [respondents] the following amounts, to wit:
  - a. Two Hundred Forty Three Thousand (P243,000.00) Pesos as actual damages representing the warehousing fees from May 13, 1996 up to June 30, 1997;
  - b. Two Hundred Thousand (P200,000.00) Pesos as moral damages;

c. One Hundred Thousand (P100,000.00) Pesos for and as attorney's fees; and

d. Cost of suit.

**SO ORDERED.**<sup>[4]</sup>

### ***Factual antecedents***

Petitioner Swift Foods, Inc. (Swift) is a corporation engaged in the manufacture, sale, and distribution of animal feeds.

Respondent-spouses Jose and Irene Mateo (respondents) are businessmen engaged in a dealership in poultry and feeds supply and a trucking business in San Jose Del Monte, Bulacan.

In 1984, the two parties entered into a Trucking Agreement whereby respondents' trucks hauled Swift's feeds from its central office in Pioneer Street in Mandaluyong City to its various warehouses in Luzon. Under this agreement, respondents deposited cash bonds of P100,000.00 per truck. Several years into their contract, only one truck of respondents remained under contract but Swift maintained respondents' cash bond of P100,000.00. Respondents requested the return of the excess cash bond but the same was inexplicably denied by Swift.

In June 1995, respondent Jose Mateo (Jose) spoke with Swift's Feeds Sales Supervisor, Efren Buhain<sup>[5]</sup> (Buhain), regarding the possible lease of Jose's warehouse for the storage of Swift's feeds products. The two agreed and on July 5, 1995, Jose signed the Warehousing Agreement, which was to remain in force for a two-year period.<sup>[6]</sup> The signatory for Swift was its Vice-President for Feed Operations, Edward R. Acosta.<sup>[7]</sup> While the warehousing agreement required Jose to post a bond to secure his faithful compliance with his obligations,<sup>[8]</sup> both parties nonetheless proceeded with the enforcement of the contract even without compliance with such requirement.

In the same month, Swift began delivering feeds to respondents' warehouse.<sup>[9]</sup> Swift's booking salesman, Rosalino Enfestan<sup>[10]</sup> (Enfestan), worked closely with respondents in the warehouse operations, even supervising the work of respondents' *bodegero*, Vicente Mateo (Vicente).<sup>[11]</sup> To properly document the movement of the stocks, Swift, through Enfestan gave respondents two kinds of warehouse documents: the Daily Warehouse Stock Report (DWSR), which is the inventory of incoming stocks, and the Warehouse Issue Slip (WIS), which is a receipt for released stocks.<sup>[12]</sup> According to Swift, the WIS should contain the signature of the sales personnel as proof that the latter received the released stocks, in accordance with Paragraph V of the agreement. According to Jose, Wilfredo Pacres (Wilfredo), Swift's National Feed Sales Manager, would sometimes inspect respondents' warehouse and the warehouse documents.<sup>[13]</sup>

On February 16, 1996, seven months into the contract, the respondents in apparent compliance with the bond requirement, delivered three land titles to Swift.<sup>[14]</sup> The

acknowledgment receipt issued by Swift for the surrendered titles stated that these were "collateral for feeds warehousing."<sup>[15]</sup> The receipt was duly signed by Swift officials and by respondent Jose.

On May 9, 1996, Swift's personnel, Wilfredo and Jasmine Pena, conducted an audit of the stocks stored in respondents' warehouse. They went over the warehousing documents (*i.e.*, WIS and DWSR) and counted the remaining stocks. A comparison of the two warehouse documents revealed one missing bag, which respondent Jose duly paid on the same day.<sup>[16]</sup>

On May 20, 1996, however, Swift informed respondents that it was terminating their contract effective May 13, 1996 because of respondents' violations of their Warehousing Agreement.<sup>[17]</sup> Swift explained that, under Paragraph V of the Warehousing Agreement, the warehouse operator should only release stocks to Swift's sales personnel after the latter presents a clearance to withdraw stocks.<sup>[18]</sup> This was to ensure that Swift's stocks would only be released to authorized individuals and Swift could collect payment accordingly. Contrary to this provision, respondents released stocks without the necessary clearance to withdraw and without the participation of Swift's sales personnel. The violations were evident from the WIS which did **not** contain the signatures of Swift's sales personnel. The absence of the sales personnel's signature meant that the warehouseman released stocks, *without the participation of Swift's sales personnel, and without any written authority from Swift*. These unauthorized releases caused Swift a cash shortage of around P2 million, for which respondents should be held liable.<sup>[19]</sup> Swift then retained respondents' three land titles until the latter shall have fully complied with their obligation. It cited as its basis Paragraph XII of the Warehousing Agreement, which states that the "bond x x x shall answer for whatever obligation the warehouse operator may have with [Swift]."<sup>[20]</sup>

Respondents denied violating the terms of the warehousing agreement. They explained their actions as mere obeisance to Buhain and Enfestan's instructions to release the stocks directly to customers. As proof of these instructions, respondents presented the handwritten letter they received from Buhain<sup>[21]</sup> authorizing them to release the stocks directly to customers. Respondents maintained that Buhain and Enfestan should answer for the cash shortages. Expecting their explanation to be satisfactory, respondents demanded that Swift return their three land titles.<sup>[22]</sup> When Swift did not accede to their demand,<sup>[23]</sup> respondents filed a complaint against Swift for the surrender of their certificates of

title with damages<sup>[24]</sup>

Respondents' complaint alleged that petitioner is retaining respondents' titles without legal justification. They maintained that the alleged cash shortage is attributable to petitioner's negligence in the supervision of its sales personnel. Respondents claimed actual damages from petitioner consisting of the monthly rentals for the unexpired term of the contract for the unjustified termination of their warehousing agreement.

Respondents then filed an Amended Complaint.<sup>[25]</sup> They included an additional cause of action, whereby respondents asserted that petitioner is in possession of

respondents' cash bond, worth P100,000.00, under their expired trucking agreement. Respondents argued that petitioner had no right to retain the bond because the trucking agreement had already expired and respondents did not incur liabilities under the said trucking agreement that may be chargeable to the cash bond.

Petitioner countered in its Answer that it was respondents' breach of the clear written terms of the agreement which facilitated the unauthorized sales committed by the sales personnel.<sup>[26]</sup> It was respondents who were well aware that petitioner's sales personnel were not following the procedure set out in the warehousing agreement. It was therefore incumbent upon them to have alerted petitioner to the matter. Respondents' failure to do so constitutes bad faith in the performance of their contractual obligations.<sup>[27]</sup>

### ***Ruling of the Regional Trial Court***<sup>[28]</sup>

The trial court ruled in favor of respondents and ordered petitioner to return

the three land titles. The RTC held that respondents did not breach the Warehousing Agreement for which their titles may be answerable. They merely followed the instructions given to them by Swift's sales personnel, which instructions they had no reason to doubt. Since respondents were first-time warehouse operators, they could not have been presumed to have any knowledge of the warehouse operating procedures. It was therefore incumbent upon Swift to have conducted training and seminars for respondents. It was Swift's failure to conduct such trainings for respondents that allowed the Swift sales personnel to take advantage of the novice warehouse operators. Moreover, Swift should recover their cash shortages from its own employees who appear to have malversed the same.

In the absence of a breach of contract, Swift was not justified in prematurely terminating the warehouse agreement. For this, it was ordered by the court to pay respondents the unrealized warehousing fees for the remaining duration of the contract.

Since Swift did not allege damages incurred pursuant to the trucking agreement, it is not justified in keeping the P100,000.00 cash bond beyond its purpose. Thus, the trial court ordered petitioner to return respondent's cash bond.<sup>[29]</sup>

The trial court also ordered petitioner to pay P100,000.00 as attorney's fees and P200,000.00 as moral damages, as well as costs of suit.<sup>[30]</sup>

Petitioner appealed the adverse Decision. It argued that the trial court erred in finding respondents free of any liability under the warehousing agreement. Respondents were not justified in contravening the written terms of their agreement. Their contractual breach is clear and their bond, consisting of the three

land titles, is properly answerable for the damages caused to petitioner.

### ***Ruling of the Court of Appeals***<sup>[31]</sup>

The CA disagreed with petitioner. First, the CA held that petitioner had no basis for

terminating the Warehousing Agreement. The CA observed that petitioner did not bring the alleged contractual breach to respondents' attention. Its silence can be taken as its condonation of respondents' acts.<sup>[32]</sup> Having condoned these acts for several months, petitioner's sudden unilateral termination of the warehouse agreement was tainted with bad faith for which petitioner should be held liable for damages.<sup>[33]</sup>

Second, petitioner failed to prove its allegation that respondents incurred cash shortages that can be charged against the surrendered titles. The CA noted petitioner's utter failure to present the Audit Report, which could have proven the existence and extent of the cash shortage. Moreover, it failed to present the original or duplicate originals of the WIS. Weighing the evidence on record, the CA ruled that the shortages appear to be attributable to petitioner's employees, Buhain and Enfestan, not to respondents. Thus, petitioner has no justification for withholding respondents' titles and was ordered to return the same to respondents.<sup>[34]</sup>

The CA also found sufficient basis for the trial court's award of moral damages to respondents in the amount of P200,000.00.<sup>[35]</sup> The CA, however, deleted the award of attorney's fees to respondents for lack of basis.<sup>[36]</sup>

Hence, this petition.

### ***Petitioner's arguments***

Petitioner assails the CA Decision that petitioner has no right to withhold respondents' land titles.

Petitioner points out that respondent Jose and his *bodegero*, Vicente, admitted in open court that they issued stocks directly to customers without a prior written clearance from the petitioner and without obtaining the signature of the sales personnel on the WIS. Respondents' irregular practice constitutes a breach of the contract, which caused substantial financial losses to petitioner and is chargeable against respondents' collateral.<sup>[37]</sup>

Petitioner likewise assails the CA Decision for relieving respondents of all the blame and finding petitioner's sales personnel responsible for the incurred cash shortage. Petitioner insists that respondents did not present admissible proof of the sales personnel's culpability.<sup>[38]</sup>

Petitioner maintains that the CA erred in ordering petitioner to return respondents' cash bond of P100,000.00 under an alleged trucking agreement. Petitioner argues that there was no basis for the said Decision given that respondents never presented such agreement and any proof of the delivery of the cash bond to petitioner. It invoked the Best Evidence Rule that when the contents of a document are in issue, the best evidence thereof is the original document which contains all the terms between the contracting parties.<sup>[39]</sup>

### ***Respondents' arguments***

Respondents pray for the dismissal of the petition on the ground that it raises