

SIXTEENTH DIVISION

[CA-G.R. CV NO. 98780, November 19, 2014]

DENNIS U. OLIVAN, PLAINTIFF-APPELLANT, VS. GLOBE COCO PRODUCTS MFG. CORPORATION AND WORLDWIDE COCO PRODUCTS, INC., DEFENDANTS-APPELLEES.

D E C I S I O N

BATO, JR., J.:

This is an appeal from the Decision^[1] dated October 24, 2011 issued by the Regional Trial Court of Naga City, Branch 19, in Civil Case No. RTC '99-4285, which dismissed plaintiff-appellant's Complaint for *Sum of Money* on the ground of compensation or set-off.

The facts are borne out by the records.

On April 19, 1999, plaintiff-appellant Dennis U. Olivan (hereinafter "Dennis Olivan") filed a Complaint^[2] dated March 22, 1999, seeking to collect the total sum of P519,870.40 from defendant-appellee Globe Coco Products Manufacturing Corporation (hereinafter "Globe Coco") representing the unpaid price of a total of 34,365 kilograms of copra which Dennis sold and delivered to Globe Coco. According to the Complaint, Globe Coco, instead of paying its obligation, applied the amount due to Dennis Olivan's alleged remaining contract balance of 119,016 kilograms of copra with Globe Coco's sister company, defendant-appellant Worldwide Coco Products, Inc. (hereinafter "Worldwide Coco").

On September 22, 2000, Dennis filed an Amended Complaint,^[3] impleading Worldwide Coco as additional defendant and alleging that:

9. It appears that in evident bad faith and in collusion with defendant Worldwide Coco, defendant Globe Coco fraudulently applied the proceeds of the sale of copra to the alleged obligation of another person, Adolfo Olivan, with defendant Worldwide Coco.

Thus, as amended, the Complaint prayed that judgment be rendered:

- a) On the first and second causes of action, to order the defendants, jointly and severally, to pay the plaintiff the total sum of P519,870.40.
- b) [O]rdering the defendants, jointly and severally, to pay plaintiff the sum of not less than P50,000.00 by way of attorney's fees and related expenses of litigation, plus such sum as this Honorable Court may fix by way of moral damages of not less than P300,000.00.
- c) [O]rdering the defendants, jointly and severally, to pay the plaintiff

exemplary damages, and the cost of the suit; and
d) Granting plaintiff such other reliefs remedies (sic) as this Honorable Court may deem just and equitable.^[4]

Globe Coco and Worldwide Coco filed their respective Answers.^[5] Globe Coco alleged that Dennis Olivan contracted interchangeably with Globe Coco and Worldwide Coco in his name or in the names of Adolfo Olivan or Allan Olivan, through his mother Heidi Olivan; that Worldwide Coco had a contract for purchase and sale of copra with Adolfo Olivan in 1997 for 300 tons of copra at the price of P9.90 per kilo, of which only 119,016 kilograms of copra were delivered, forcing Worldwide Coco to buy the difference from other copra sellers at a higher price; and that the payment for the copra which Dennis Olivan contracted to deliver to Globe Coco was applied to the balance of 119,016 kilograms of copra owed to Worldwide Coco.

Meanwhile, in its Answer, Worldwide Coco corroborated the claims of Globe Coco and, additionally, alleged that Dennis Olivan was in bad faith in attempting to evade his outstanding obligation to Worldwide Coco by subsequently transacting with Globe Coco.

During the pre-trial, the parties entered into the following stipulations:

- 1) That Globe Coco Products Manufacturing Co., one of the defendants in this case, is a corporation separate and distinct from Worldwide Coco Products, Inc.;
- 2) That the person of Dennis U. Olivan is different from the person of Adolfo Olivan;
- 3) That Contract No. 97-261 dated September 3, 1997 refers to a contract between Adolfo Olivan and Worldwide Coco Products, Inc.;
- 4) That a certain Haide Olivan is the mother of the plaintiff Dennis Olivan and Allan Olivan; and
- 5) That Adolfo Olivan is the brother of Benito Olivan, husband of Haide Olivan.^[6]

Also, in the same pre-trial, the parties agreed to limit the issues to the following:

- 1) Whether or not plaintiff has a cause of action against defendant Globe Coco Products;
- 2) Whether or not defendant Globe Coco Products acted properly in offsetting the receivable of Dennis Olivan against the payment of Adolfo Olivan to the defendant's sister company, the Worldwide Coco Products, Inc.;
- 3) Whether or not Haide Olivan used the account names of Adolfo

Olivan, Allan Olivan and plaintiff Dennis Olivan; and

- 4) Whether or not defendants are entitled to damages and attorney's fees.^[7]

Thereafter, trial on the merits ensued.

Dennis Olivan testified and identified several exhibits to prove the allegations of the Amended Complaint. As demonstrated by his evidence, Dennis Olivan sold and delivered to Globe Coco a total of 34,365 kilograms of copra on May 28 and 30, 1998, respectively. Instead of paying the price for the copra, Globe Coco told Dennis Olivan that it applied the payment for said copra to his remaining contract balance with Worldwide Coco, which he denies.

Meanwhile, the defendants-appellees presented Aibe U. Tan, the Administrative Manager of both Globe Coco and Worldwide Coco, and Julius Barrameda, Assistant Copra Supervisor of Globe Coco. They testified that the real seller or dealer of copra is Heidi Olivan, acting under the account names of "Adolfo Olivan", "Dennis Olivan" and "Allan Olivan"; that from 1993 to 1997, Heidi Olivan, using the account name of Adolfo Olivan, contracted with Worldwide Coco; that Heidi Olivan failed to deliver 119 tons and 16 kilograms of copra with a value of P630,784.80; that in 1998 Heidi Olivan transacted with Globe Coco, using the account name of Dennis Olivan; and that Aibe Tan, as Administrative Manager of both Worldwide Coco and Globe Coco, debited the accounts receivable of Heidi Olivan (using the name of Dennis Olivan) from Globe Coco against the accounts payable of Heidi Olivan (using the name of Adolfo Olivan) to Worldwide Coco.

On October 24, 2011, the court *a quo* issued its now assailed Decision which dismissed the complaint and holding that the defendants-appellees were right to offset the account receivable from Globe Coco and the account payable to Worldwide Coco. The court ruled:

To the mind of the court, there is only one seller here, Haide Olivan. There can be no doubt that Haide Olivan using the account name Adolfo Olivan, is indebted to Worldwide Coco Products. That is admitted. But whether Globe Coco is indebted to Dennis Olivan is vigorously disputed by the former. It was gleaned from testimonial evidence that only Haide Olivan transacted business with defendants thru the companies' manager, Aibe Tan. Aibe Tan contended that she only transacted with Haide Tan who used the account names of Dennis, Adolfo and Bestra. Because of Haide's outstanding balance with Worldwide Coco Products using Adolfo's name, she instead used the account name of Dennis Olivan and transacted business with Globe Coco Products.

In the desire of defendant Worldwide Coco Products to be paid the balance incurred by Adolfo Olivan, Aibe Tan, manager of both companies, applied the money supposed to be paid to Dennis Olivan to Adolfo's balance.

The court is not persuaded by plaintiff's argument that defendants were

in evident bad faith in applying his accounts receivable to the outstanding obligation of Adolfo Olivan. There is no question that deceit was employed by Haide Olivan to evade the payment of obligation to Worldwide Coco by again transacting business with Globe Coco using another account name. It is therefore proper for defendant Worldwide Coco to apply plaintiff's receivable as payment of Adolfo's obligation. After all, only one person really transacted with them, Haide Olivan.^[8]

His Motion for Reconsideration having been denied in the Order^[9] dated February 10, 2012, Dennis filed the present appeal, alleging that:

ASSIGNED ERROR NO. 1

THE LOWER COURT ERRED IN HOLDING THAT THE TRANSACTIONS OF PLAINTIFF-APPELLANT DENNIS U. OLIVAN WITH TWO (2) DEFENDANTS-APPELLEES GLOBE COCO AND WORLDWIDE COCO WHICH WERE MADE BY THE FORMER THROUGH HAIDE OLIVAN AS FORMER'S AGENT WERE INTERCHANGEABLY APPLICABLE TO THE OTHER TRANSACTIONS OF THE OTHER TWO (2) 'OLIVANS', NAMELY: ADOLFO OLIVAN AND BESTRA COMMERCIAL C/O ALLAN OLIVAN, DESPITE THE FACT THAT THE THREE 'OLIVANS' HAVE SEPARATE AND DISTINCT DEALINGS WITH THE LATTER.

ASSIGNED ERROR NO. 2

THE LOWER COURT ERRED IN HOLDING THAT COMPENSATION TOOK PLACE WHEN THE AMOUNT OF P519,870.40 COLLECTIBLE BY PLAINTIFF-APPELLANT DENNIS U. OLIVAN FROM DEFENDANT-APPELLEE GLOBE COCO WAS OFFSETTED BY IT IN FAVOR OF CO-DEFENDANT-APPELLEE WORLDWIDE COCO BASED ON AN ALLEGED OBLIGATION OF A CERTAIN ADOLFO OLIVAN WITH THE LATTER CO-DEFENDANT-APPELLEE.^[10]

Defendants-appellees oppose the appeal, claiming that Heidi Olivan transacted business with Worldwide Coco and Globe Coco, that she is guilty of bad faith and that the lower court acted correctly in holding that legal compensation applies in the case.

Thus, the issue for the Court is whether or not the court *a quo* committed reversible error in dismissing the Amended Complaint on the ground of compensation or set-off.

The appeal is impressed with merit.

Compensation is a mode of extinguishing to the concurrent amount, the obligations of those persons who in their own right are reciprocally debtors and creditors of each other.^[11] It is the offsetting of two obligations which are reciprocally extinguished if they are of equal value, or extinguished to the concurrent amount of different values.^[12] According to Article 1279 of the Civil Code, the requisites of compensation are: