

SECOND DIVISION

[G.R. No. 115117, June 08, 2000]

INTEGRATED PACKAGING CORP., PETITIONER, VS. COURT OF APPEALS AND FIL-ANCHOR PAPER CO., INC. RESPONDENTS.

DECISION

QUISUMBING, J.:

This is a petition to review the decision of the Court of Appeals rendered on April 20, 1994 reversing the judgment of the Regional Trial Court of Caloocan City in an action for recovery of sum of money filed by private respondent against petitioner. In said decision, the appellate court decreed:

"WHEREFORE, in view of all the foregoing, the appealed judgment is hereby REVERSED and SET ASIDE. Appellee [petitioner herein] is hereby ordered to pay appellant [private respondent herein] the sum of P763,101.70, with legal interest thereon, from the date of the filing of the Complaint, until fully paid.

SO ORDERED."^[1]

The RTC judgment reversed by the Court of Appeals had disposed of the complaint as follows:

"WHEREFORE, judgment is hereby rendered:

Ordering plaintiff [herein private respondent] to pay defendant [herein petitioner] the sum of P27,222.60 as compensatory and actual damages after deducting P763,101.70 (value of materials received by defendant) from P790,324.30 representing compensatory damages as defendant's unrealized profits;

Ordering plaintiff to pay defendant the sum of P100,000.00 as moral damages;

Ordering plaintiff to pay the sum of P30,000.00 for attorney's fees; and to pay the costs of suit.

SO ORDERED."^[2]

The facts, as culled from the records, are as follows:

Petitioner and private respondent executed on May 5, 1978, an order agreement whereby private respondent bound itself to deliver to petitioner 3,450 reams of printing paper, coated, 2 sides basis, 80 lbs., 38" x 23", short grain, worth P1,040,060.00 under the following schedule: May and June 1978--450 reams at

P290.00/ream; August and September 1978--700 reams at P290/ream; January 1979--575 reams at P307.20/ream; March 1979--575 reams at P307.20/ream; July 1979--575 reams at P307.20/ream; and October 1979--575 reams at P307.20/ream. In accordance with the standard operating practice of the parties, the materials were to be paid within a minimum of thirty days and maximum of ninety days from delivery.

Later, on June 7, 1978, petitioner entered into a contract with Philippine Appliance Corporation (Philacor) to print three volumes of "*Philacor Cultural Books*" for delivery on the following dates: Book VI, on or before November 1978; Book VII, on or before November 1979 and; Book VIII, on or before November 1980, with a minimum of 300,000 copies at a price of P10.00 per copy or a total cost of P3,000,000.00.

As of July 30, 1979, private respondent had delivered to petitioner 1,097 reams of printing paper out of the total 3,450 reams stated in the agreement. Petitioner alleged it wrote private respondent to immediately deliver the balance because further delay would greatly prejudice petitioner. From June 5, 1980 and until July 23, 1981, private respondent delivered again to petitioner various quantities of printing paper amounting to P766,101.70. However, petitioner encountered difficulties paying private respondent said amount. Accordingly, private respondent made a formal demand upon petitioner to settle the outstanding account. On July 23 and 31, 1981 and August 27, 1981, petitioner made partial payments totalling P97,200.00 which was applied to its back accounts covered by delivery invoices dated September 29-30, 1980 and October 1-2, 1980.^[3]

Meanwhile, petitioner entered into an additional printing contract with Philacor. Unfortunately, petitioner failed to fully comply with its contract with Philacor for the printing of books VIII, IX, X and XI. Thus, Philacor demanded compensation from petitioner for the delay and damage it suffered on account of petitioner's failure.

On August 14, 1981, private respondent filed with the Regional Trial Court of Caloocan City a collection suit against petitioner for the sum of P766,101.70, representing the unpaid purchase price of printing paper bought by petitioner on credit.

In its answer, petitioner denied the material allegations of the complaint. By way of counterclaim, petitioner alleged that private respondent was able to deliver only 1,097 reams of printing paper which was short of 2,875 reams, in total disregard of their agreement; that private respondent failed to deliver the balance of the printing paper despite demand therefor, hence, petitioner suffered actual damages and failed to realize expected profits; and that petitioner's complaint was prematurely filed.

After filing its reply and answer to the counterclaim, private respondent moved for admission of its supplemental complaint, which was granted. In said supplemental complaint, private respondent alleged that subsequent to the enumerated purchase invoices in the original complaint, petitioner made additional purchases of printing paper on credit amounting to P94,200.00. Private respondent also averred that petitioner failed and refused to pay its outstanding obligation although it made partial payments in the amount of P97,200.00 which was applied to back accounts, thus, reducing petitioner's indebtedness to P763,101.70.

On July 5, 1990, the trial court rendered judgment declaring that petitioner should pay private respondent the sum of P763,101.70 representing the value of printing paper delivered by private respondent from June 5, 1980 to July 23, 1981. However, the lower court also found petitioner's counterclaim meritorious. It ruled that were it not for the failure or delay of private respondent to deliver printing paper, petitioner could have sold books to Philacor and realized profit of P790,324.30 from the sale. It further ruled that petitioner suffered a dislocation of business on account of loss of contracts and goodwill as a result of private respondent's violation of its obligation, for which the award of moral damages was justified.

On appeal, the respondent Court of Appeals reversed and set aside the judgment of the trial court. The appellate court ordered petitioner to pay private respondent the sum of P763,101.70 representing the amount of unpaid printing paper delivered by private respondent to petitioner, with legal interest thereon from the date of the filing of the complaint until fully paid.^[4] However, the appellate court deleted the award of P790,324.30 as compensatory damages as well as the award of moral damages and attorney's fees, for lack of factual and legal basis.

Expectedly, petitioner filed this instant petition contending that the appellate court's judgment is based on erroneous conclusions of facts and law. In this recourse, petitioner assigns the following errors:

[I]

"THE COURT OF APPEALS ERRED IN CONCLUDING THAT PRIVATE RESPONDENT DID NOT VIOLATE THE ORDER AGREEMENT.

[II]

THE COURT OF APPEALS ERRED IN CONCLUDING THAT RESPONDENT IS NOT LIABLE FOR PETITIONER'S BREACH OF CONTRACT WITH PHILACOR.

[III]

THE COURT OF APPEALS ERRED IN CONCLUDING THAT PETITIONER IS NOT ENTITLED TO DAMAGES AGAINST PRIVATE RESPONDENT."^[5]

In our view, the crucial issues for resolution in this case are as follows:

- (1) Whether or not private respondent violated the order agreement, and;
- (2) Whether or not private respondent is liable for petitioner's breach of contract with Philacor.

Petitioner's contention lacks factual and legal basis, hence, bereft of merit.

Petitioner contends, firstly, that private respondent violated the order agreement when the latter failed to deliver the balance of the printing paper on the dates agreed upon.

The transaction between the parties is a contract of sale whereby private respondent