



SUPREME COURT OF THE PHILIPPINES  
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Supreme Court

Manila

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**THIRD DIVISION**

**LINEAR CONSTRUCTION  
CORPORATION,**

**G.R. No. 212327**

*Petitioner, Present:*

- versus -

**DOLMAR PROPERTY VENTURES,  
INC.,**

LEONEN, Chairperson  
CARANDANG,  
ZALAMEDA,  
ROSARIO, and  
DIMAAMPAO,\* JJ.

*Respondent.*

Promulgated:

**November 17, 2021**

*MisDcBatt*

X-----X

**DECISION**

**ZALAMEDA, J.:**

This resolves the Petition for Review on *Certiorari* (Petition)<sup>1</sup> seeking to reverse and set aside the Decision<sup>2</sup> dated 29 April 2014 of the Court of Appeals (CA) in CA-G.R. CV No. 101201. The CA reversed the Decision<sup>3</sup> dated 22 January 2013 of Branch 213, Regional Trial Court (RTC) of Mandaluyong City in Civil Case No. MC07-3385.

\* Designated additional member per Special Order No. 2839.

<sup>1</sup> *Rollo*, pp. 3-31.

<sup>2</sup> *Id.* at 89-110; penned by Associate Justice Stephen C. Cruz and concurred in by Associate Justices Magdangal M. De Leon and Eduardo B. Peralta, Jr.

<sup>3</sup> *Id.* at 68-88; penned by Presiding Judge Carlos A. Valenzuela.

### Antecedents

In 1998, respondent Dolmar Property Ventures, Inc.<sup>4</sup> (Dolmar) contracted petitioner Linear Construction Corporation (Linear) to construct the drainage system of Dolmar Golden Hills Subdivision at *Brgy. Loma De Gato*, Marilao, Bulacan (Marilao Project). The Marilao Project was covered by several contracts, including separate agreements for its Phases 1 and 2 (collectively, the Marilao Contracts).<sup>5</sup>

Subsequently, in 2003, Linear and Dolmar entered into a contract for the construction of the Dolmar Golden Hills Subdivision at San Vicente, Sta. Maria, Bulacan (Sta. Maria Project). The engagement was covered by a service contract, as well as two (2) supplemental agreements (collectively, the Sta. Maria Contracts).<sup>6</sup> Under the Sta. Maria Contracts, Dolmar would pay Linear Php40,820,000.00 for construction works to be undertaken by the latter.<sup>7</sup> Payments were to be made on a progress billing basis, as determined and accepted by Dolmar, less eight percent (8%) retention.<sup>8</sup>

Articles 6 and 8 of the Sta. Maria Contracts specified the conditions for the final payment of the retention money. It shall be paid within forty-five (45) days from Dolmar's final written acceptance of the Sta. Maria Project. The final certificate of acceptance shall be issued after submission of proof of payment of all project-related debts and the as-built plans of the completed work.<sup>9</sup>

Meanwhile, Dolmar engaged the services of R.S. Caparros and Associates (R.S. Caparros) to manage the construction of the Marilao Project, among others.<sup>10</sup> R.S. Caparros invited Linear to attend a joint inspection of the construction works at the Marilao Project, preparatory to the issuance of the certificate of acceptance in Linear's favor.<sup>11</sup>

<sup>4</sup> Also referred to as Dolmar Property Ventures, Incorporated in other portions of the *rollo* (pp. 35, 42, 89, 112, 171, 358, 359, 362, 364, 367, 369, 373, 376, and 382).

<sup>5</sup> *Rollo*, pp. 157-160 (Contract for Horizontal Construction of Loma De Gato, Marilao, Bulacan dated 11 January 1998); pp. 161-165 (Supplemental Agreement for the Horizontal Construction of Loma De Gato, Marilao, Bulacan dated 20 March 2000); and pp. 171-176 (Horizontal Construction Agreement for Dolmar Golden Hills Subdivision, Phase II, Brgy. Loma De Gato, Marilao, Bulacan dated 04 January 2002).

<sup>6</sup> *Id.* at 12, 42-48 (Horizontal Construction Agreement for Dolmar Golden Hills Subdivision [San Vicente, Sta. Maria, Bulacan]).

<sup>7</sup> *Id.* at 44.

<sup>8</sup> *Id.*

<sup>9</sup> *Id.* at 46.

<sup>10</sup> *Id.* at 177-182.

<sup>11</sup> *Id.* at 183.

Linear did not send a representative to the inspection. Nonetheless, Dolmar proceeded with the inspection and inventory.<sup>12</sup> In the course of inspection and inventory conducted on several dates, R.S. Caparros allegedly discovered numerous defects and irregularities in the construction of the drainage system, such as missing drainage pipes and discrepancies between existing layouts and as-built drawings.<sup>13</sup> These were duly communicated to Linear in separate letters.<sup>14</sup>

Thus, Linear conducted some rectification works, but Dolmar claimed that these were insufficient.<sup>15</sup> R.S. Caparros then prepared reports, specifying that the works necessary to correct the defects and irregularities cost Php6,379,935.00.<sup>16</sup> Dolmar engaged the services of Mr. Elpidio D. Agapito for the Marilao Project's drainage rehabilitation and repair.<sup>17</sup>

In the interim, Linear completed the Sta. Maria Project and demanded in writing the payment of the retention money in the amount of Php3,766,292.12.<sup>18</sup> In a letter dated 7 June 2007, Dolmar required the submission of the requisite proof of non-indebtedness and as-built plans,<sup>19</sup> which Linear submitted.<sup>20</sup>

In a separate letter likewise dated 07 June 2007, Dolmar demanded from Linear Php6,379,875.00, corresponding to the claimed rectification cost for the alleged defective works in the Marilao Project.<sup>21</sup> This led to an exchange of correspondence between the parties. Linear maintained its demand for the retention money which, after a review of its records, was increased to Php3,823,997.96.<sup>22</sup> Meanwhile, Dolmar acknowledged Linear's entitlement to the final certification of completion and acceptance but withheld the release of the retention money, asserting that the parties' respective liabilities for the Marilao and Sta. Maria Projects had been offset through legal compensation.<sup>23</sup> The offset supposedly left Linear owing

<sup>12</sup> *Id.* at 115.

<sup>13</sup> *Id.* at 116.

<sup>14</sup> *Id.* at 184.

<sup>15</sup> *Id.* at 118.

<sup>16</sup> *Id.* at 118, 244-264.

<sup>17</sup> *Id.* at 283-295 (Drainage Rehabilitation Agreement dated 04 December 2008).

<sup>18</sup> *Id.* at 119.

<sup>19</sup> *Id.* at 9.

<sup>20</sup> *Id.* at 6.

<sup>21</sup> *Id.* at 91; The alleged rectification cost for Phase 1 was Php3,241,474.00 and the alleged cost for Phase 2 was Php3,138,401.00.

<sup>22</sup> *Id.* at 92.

<sup>23</sup> *Id.* at 50 (Dolmar's Letter dated 05 September 2007, par. 3): "Under the Agreement, the release of Linear's retention money shall be made forty-five (45) days after issuance of the Final Certificate of Completion and the Owner's Acceptance. We regret to inform you, however, that while the Final Certificate of Completion and the Owner's Acceptance shall be issued in your client's favor, our client has decided to withhold the release of your client's retention money for the Sta. Maria Project in view

Dolmar Php2,613,642.88.<sup>24</sup> Linear denied liability.<sup>25</sup>

Impasse in the negotiations prompted Linear to file a complaint for collection of a sum of money with damages against Dolmar.<sup>26</sup>

### Ruling of the RTC

In a Decision dated 22 January 2013, the RTC ruled in favor of Linear and denied Dolmar's counterclaims, to wit:

WHEREFORE, premises considered, judgment is hereby rendered in favor of plaintiff, Linear Construction Corporation, and against defendant, Dolmar Property Ventures, Inc.

In view thereof, defendant, Dolmar Property Ventures, Inc., is order [*sic*] to pay plaintiff, Linear Construction Corporation[,] the following:

1. the amount of THREE MILLION EIGHT HUNDRED TWENTY THREE THOUSAND NINE HUNDRED NINETY SEVEN PESOS AND 96/100 (₱3,823,997.96) covering plaintiff's unpaid retention money with 12% interest per *annum* commencing from the date of filing the complaint;
2. the amount of FOUR HUNDRED THOUSAND PESOS (₱418,000.00) [*sic*] covering the acceptance fee and appearance fees;
3. the amount of NINE HUNDRED FIFTY SIX THOUSAND PESOS (₱956,000.00) as by way of [*sic*] attorney's fee[s];
4. the amount of TWENTY THOUSAND PESOS (₱20,000.00) as and by way of exemplary damages; and
5. to pay the costs of suit.

SO ORDERED.<sup>27</sup>

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of your client's outstanding accountabilities arising from numerous defects and irregularities in the construction works at Dolmar Golden Hills- Marilao ('Marilao Project')."

<sup>24</sup> *Id.* at 6-7.

<sup>25</sup> *Id.* at 52.

<sup>26</sup> *Id.* at 4.

<sup>27</sup> *Id.* at 87-88.

The RTC held that the elements of legal compensation were not present since Dolmar had yet to establish that Linear was legally indebted to the former.<sup>28</sup> Dolmar failed to squarely meet Linear's cause of action because the former presented evidence on the latter's liabilities for the Marilao Project, when Linear's cause of action was based on the Sta. Maria Project.<sup>29</sup> All of Dolmar's witnesses testified on the Marilao Project.<sup>30</sup>

The lower court also found that Dolmar acted in bad faith when it refused to issue a certificate of acceptance for the Sta. Maria project.<sup>31</sup> According to the RTC, Dolmar neither acted with justice nor observed honesty and good faith in the performance of its duties under the construction contract.<sup>32</sup>

Dolmar moved for reconsideration, but it was denied by the RTC in an Order dated 24 June 2013.<sup>33</sup>

### **Ruling of the CA**

On appeal, the CA reversed the RTC Decision and ruled in favor of Dolmar. The dispositive portion of the Decision dated 29 April 2014 reads:

**WHEREFORE**, in view of the foregoing premises, the instant appeal is hereby **GRANTED**. The assailed Decision dated January 22, 2013 issued by the Regional Trial Court (RTC), Branch 213, Mandaluyong City, in Civil Case No. MC07-3385, is **REVERSED** and **SET ASIDE**. Instead, plaintiff-appellee Linear is ordered to pay defendant-appellant Dolmar the following:

- a) the amount of **TWO MILLION FIVE HUNDRED FIFTY-FIVE THOUSAND NINE HUNDRED THIRTY-SEVEN PESOS AND 4/100 PESOS (Php2,555,937.04)**, representing the balance after deducting the retention money in the amount of Three Million Eight Hundred Twenty Three Thousand Nine Hundred Ninety-Seven PESOS and 96/100 (Php3,823,997.96), being claimed by plaintiff-appellee Linear in the Sta. Maria Project from the cost of rectification works in the amount of Six Million Three Hundred Seventy-Nine Thousand

<sup>28</sup> *Id.* at 86.

<sup>29</sup> *Id.*

<sup>30</sup> *Id.* at 87.

<sup>31</sup> *Id.* at 86.

<sup>32</sup> *Id.*

<sup>33</sup> *Id.* at 94.

Nine Hundred Thirty Five Pesos (Php6,379,935.00) incurred by defendant-appellant Dolmar in the Marilao Project with 6% interest per *annum* commencing from the date of the filing of the complaint until fully paid;

b) the amount of **ONE HUNDRED THOUSAND PESOS (Php100,000.00)** as exemplary damages;

c) the amount of **ONE MILLION TWO HUNDRED THOUSAND PESOS (Php1,200,000.00)** as and by way of attorney's fees and litigation expenses; and

d) cost[s] of suit.

**SO ORDERED.**<sup>34</sup>

The CA found that Dolmar sufficiently proved Linear's obligation to pay Php6,379,935.00 for the defective works in the Marilao Project.<sup>35</sup> On the other hand, Linear did not present any countervailing evidence negating its liability for the reconstruction cost.<sup>36</sup>

Moreover, according to the CA, all the elements of legal compensation were present. Linear and Dolmar became mutual creditors and debtors of each other due to their respective obligations in the Marilao and Sta. Maria Projects.<sup>37</sup> By operation of law, Dolmar's obligation was extinguished to the concurrent amount.<sup>38</sup> That the obligations did not spring from the same contract or transaction was deemed immaterial, contrary to the ruling of the RTC.<sup>39</sup>

The CA further held that Linear acted in bad faith because it tried to conceal from the trial court the circumstances surrounding the Marilao Project, and failed to finish or pay for the requisite rectification works.<sup>40</sup> Hence, the CA adjudged Linear liable for exemplary damages, attorney's fees, and litigation expenses.<sup>41</sup> The CA refused to award moral damages, citing the doctrine that a juridical person is generally not entitled to the same.<sup>42</sup>

Hence, this Petition.

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<sup>34</sup> *Id.* at 109-110.

<sup>35</sup> *Id.* at 96.

<sup>36</sup> *Id.* at 99.

<sup>37</sup> *Id.* at 104.

<sup>38</sup> *Id.* at 105.

<sup>39</sup> *Id.* at 106.

<sup>40</sup> *Id.* at 106-107.

<sup>41</sup> *Id.* at 106-108.

<sup>42</sup> *Id.* at 108.

### Issues

The issues for this Court's resolution are: (1) whether or not the petition should be dismissed for Linear's failure to strictly comply with procedural requirements; and (2) whether or not Linear's claim over the retention money has already been extinguished *ipso jure* through legal compensation.

### Ruling of the Court

*Notwithstanding Linear's procedural lapses, the merits of the petition call for the resolution of the substantive issue presented*

The Court recognizes that the petition did not strictly conform to certain procedural requirements, such as the attachment of a certified true copy of the assailed decision and material portions of the record,<sup>43</sup> a duly dated affidavit of service,<sup>44</sup> and proof of authority of Linear's corporation to sign the verification for and on behalf of the corporation. No soft copy of the petition was also submitted.<sup>45</sup> Dolmar claims that these procedural errors warrant the outright denial of the petition.<sup>46</sup>

Nonetheless, Linear submitted the relevant records and soft copy of the petition two (2) days after the filing of the petition.<sup>47</sup> Following Our 17 July 2014 Resolution, Linear also complied with all the other procedural requirements, except the duly dated affidavit of service.<sup>48</sup> Due to Linear's failure to comply with our subsequent Resolution requiring submission of

<sup>43</sup> RULES OF COURT, Rule 45, Sec. 4.

<sup>44</sup> The attached affidavit of service was notarized on 19 May 2014, but the petition was served on the CA and on Dolmar on 20 May 2014.

<sup>45</sup> See A.M. No. 11-9-4-SC or the Efficient Use of Paper Rule in 2012.

<sup>46</sup> *Rollo*, p. 16.

<sup>47</sup> *Id.* at 32.

<sup>48</sup> *Id.* at 326.



the affidavit of service,<sup>49</sup> Dolmar filed a Motion to Dismiss,<sup>50</sup> which We noted without action in a Resolution dated 08 April 2019.<sup>51</sup>

Subsequently, Linear's counsel withdrew his appearance due to ill health, and shortly after, passed away during the pendency of this case.<sup>52</sup> He has since been substituted by another counsel.

While it is true that rules of procedure are intended to promote rather than frustrate the ends of justice, and while the swift unclogging of the dockets of the courts is a laudable objective, these rules nevertheless must not be met at the expense of substantial justice. The Court has allowed some meritorious cases to proceed despite inherent procedural defects and lapses. This is in keeping with the principle that rules of procedure are mere tools designed to facilitate the attainment of justice, and that strict and rigid application of rules which should result in technicalities that tend to frustrate rather than promote substantial justice must always be avoided.<sup>53</sup>

The merits of this petition move Us to resolve the substantive issue elevated before the Court. After an exhaustive review of the records, We are convinced that dismissing the petition on a mere technicality would amount to a miscarriage of justice. Besides, Linear has already complied with the requirements and, in lieu of the affidavit of service, submitted proof of service and the original registry return card.<sup>54</sup> Both the CA and Dolmar received the petition, and Dolmar was able to fully ventilate its position before the Court. The rationale behind the rules, *i.e.*, to ensure receipt by the concerned parties, has been served.

Notably, Linear's petition raises a question of fact, specifically, the factual basis of the CA's conclusion that Linear owed Dolmar Php6,379,935.00 as reconstruction costs.<sup>55</sup> An appeal under Rule 45 must raise only questions of law, unless the factual findings are not supported by evidence or the judgment is based on a misapprehension of facts.<sup>56</sup> We find these exceptions present in this case. Hence, We will rule on the factual issue presented.

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<sup>49</sup> *Id.* at 340.

<sup>50</sup> *Id.* at 382-393.

<sup>51</sup> *Id.* at 415.

<sup>52</sup> *Id.* at 425.

<sup>53</sup> *City of Lapu-Lapu v. Phil. Economic Zone Authority*, 748 Phil. 473 (2014) [Per J. Leonen], citing *Municipality of Pateros v. Court of Appeals*, 607 Phil. 104 (2009) [Per J. Nachura].

<sup>54</sup> *Id.* at 328-329.

<sup>55</sup> *Id.* at 21.

<sup>56</sup> *Spouses Aboitiz v. Spouses Po*, 810 Phil. 123 (2017) [Per J. Leonen].





*Legal compensation is inapplicable*

Dolmar's obligation to pay the retention money for the Marilao project is no longer at issue. Dolmar did not contest the CA Decision finding it liable for the retention money in the amount of Php3,823,997.96.<sup>57</sup> Based on the records, it even wrote to Linear that a certificate of completion for the Marilao project would be issued, only that it is refusing to release the retention money based on its claim of legal compensation. Indeed, by insisting on the application of legal compensation, Dolmar necessarily conceded and admitted that it is Linear's debtor. The record is replete with Dolmar's judicial admissions on its indebtedness to Linear.<sup>58</sup> The remaining issue is whether Dolmar validly withheld the retention money through the invocation of legal compensation.

Compensation is a mode of extinguishing obligations of two persons who, in their own right, are creditors and debtors of each other.<sup>59</sup> Legal compensation requires the concurrence of several conditions: (1) each one of the obligors is bound principally and a principal creditor of the other; (2) both debts consist in a sum of money, or if the things due are consumable, they are of the same kind, and also of the same quality if the latter has been stated; (3) the two debts are due; (4) the debts are liquidated and demandable; and (5) over neither of them is there any retention or controversy, commenced by third persons and communicated in due time to the debtor.<sup>60</sup>

Linear denies its alleged indebtedness to Dolmar. It claims that the Marilao Project has long been completed and fully paid.<sup>61</sup> Linear further maintains that the warranty for the Marilao Project and the period to raise defects in its construction had already expired.<sup>62</sup> These arguments mainly bear on the fourth requisite of legal compensation – that the debts are liquidated and demandable.

A debt is considered liquidated when the amount and time of payment

<sup>57</sup> *Id.* at 104, 109-110.

<sup>58</sup> *See id.* at 150: "[P]etitioner Linear and respondent Dolmar are mutual debtors and creditors of each other. xxx [B]oth obligations are already due and demandable - petitioner Linear's obligation to commence, perform and complete the work called and defined in the Marilao Project Construction Contract and respondent Dolmar's indebtedness based on the agreements it entered with petitioner Linear for the construction of the Sta. Maria Project."

<sup>59</sup> CIVIL CODE, Art. 1278.

<sup>60</sup> CIVIL CODE, Art. 1279.

<sup>61</sup> *Rollo*, pp. 21-23.

<sup>62</sup> *Id.* at 24-27.

is fixed,<sup>63</sup> and its exact amount is known.<sup>64</sup> The exact amount of the debt may be expressed already in definite figures or determinable through a simple arithmetical operation.<sup>65</sup> Compensation cannot extend to unliquidated, disputed claims arising from breach of contract.<sup>66</sup>

Meanwhile, a debt is demandable when it is enforceable in court, there being no apparent defenses inherent in it. For instance, debts which are subject to suspensive conditions or those barred by prescription are not considered demandable.<sup>67</sup>

In this case, Dolmar's claim is neither liquidated nor demandable because, first, it is disputed by Linear. From the parties' early correspondence<sup>68</sup> all the way to this Court, Linear has consistently maintained that it has no liability for the amount being demanded by Dolmar. That Dolmar had to present several witnesses to establish the alleged defects highlights the contentious nature of its claim.

Second, the amount of Php6,379,935.00 was self-determined by Dolmar and not binding on Linear. This amount was based solely on cost estimates prepared by R.S. Caparros for Dolmar,<sup>69</sup> and not on actual expenses incurred. The claimed amount is not supported by receipts or other evidence of expense. The testimony of Dolmar's own witness, Ms. Teodorica S. Perida, confirms the foregoing:

Q: In connection with the rectification works undertaken by Dolmar, how much was paid to the contractor for such works?

A: As of date, defendant Dolmar paid the other contractors approximately over Seven Hundred Thousand Pesos (P700,000.00).

Q: Where did Dolmar source the cost of initial rectification works?

<sup>63</sup> *Lao v. Special Plans, Inc.*, G.R. No. 164791, 29 June 2010 [Per J. Del Castillo].

<sup>64</sup> *Montemayor v. Millora*, 636 Phil. 28 (2011) [Per J. Del Castillo], citing IV Tolentino Arturo M., Commentaries and Jurisprudence of the Civil Code of the Philippines, p. 371 (2002).

<sup>65</sup> *Id.*

<sup>66</sup> *Silahis Marketing Corp. v. Intermediate Appellate Court*, 259 Phil. 489 (1989) [Per J. Fernan].

<sup>67</sup> *Supra* at note 62.

<sup>68</sup> *Rollo*, p. 52 (Linear's Letter dated 26 September 2007, pars. 1 and 2):

It appears in your letter that our client is still indebted to you in the amount of P2,613,642.88 after deducting the amount of P3,766,292.12, from the amount of P6,379,935.00 covering the alleged expenses for the rectification and corrective works at the Marilao project.

According to our client, it does not agree with your stand as it is not correct for you to deduct any amount of which our client is not indebted. [xxx]

<sup>69</sup> *Id.* at 118, 244-264.

A: From the retention money of Linear.

Q: You said that the retention money of Linear for Sta. Maria Project is approximately Three Million Eight Hundred Thousand Pesos (P3,800,000.00) and the cost of initial rectification works is over Seven Hundred Thousand Pesos already (P700,000.00). Why does Dolmar continue to withhold the balance from the retention money?

A: Because the rectification works in Marilao Project is still ongoing. Based on the estimate prepared by R.S. Caparros, the cost of the rectification works in Marilao would amount to around Six Million Five Hundred Thousand Pesos (P6,500,000.00).<sup>70</sup>

The cash vouchers presented in evidence merely reflect an amount of over Php700,000.00 supposedly paid by Dolmar to Mr. Elpidio D. Agapito.<sup>71</sup> Even then, it has yet to be conclusively established whether these payments pertain to the allegedly defective works of Linear, and whether Linear should reimburse these amounts. Linear asserts apparent defenses inherent in Dolmar's claim, that it has completed the Marilao Project, and the period to question defects in the construction has already prescribed.<sup>72</sup> These defenses, if proved, would bar recovery by Dolmar.

Moreover, since the vouchers only evince payments of around Php700,000.00, the records do not show that Dolmar has already spent Php6,379,935.00 at the time it withheld the retention money. Hence, assuming that there was indeed a debt, the same was not yet due. This negates the third requisite of legal compensation.

Dolmar's insistence that Linear is "deemed to have admitted" the defects in the Marilao Project, as well as the costs of rectification,<sup>73</sup> has no factual, contractual, or legal basis. As mentioned, the records bear Linear's consistent disavowal of its alleged liability. Linear did not also signify its conformity with the reports and cost estimates prepared by R.S. Caparros.

Clearly, the amount of Php6,379,935.00 is merely a claim and not a demandable debt that may be the subject of legal compensation. Dolmar cannot take the law into its own hands and withhold the retention money based on a unilateral declaration and determination of damages. Dolmar's entitlement to and the amount of recoverable rectification costs must be judicially ascertained and proved. At most, the amount of Php6,379,935.00

<sup>70</sup> *Id.* at 302-303.

<sup>71</sup> *Id.* at 304-312.

<sup>72</sup> *Id.* at 24-27.

<sup>73</sup> *Id.* at 146.

represents an unliquidated claim that Dolmar may attempt to collect from Linear through the appropriate action.

On this score, We have ruled that when the defendant, who has an unliquidated claim, sets it up by way of counterclaim, and a judgment is rendered liquidating such claim, it can be compensated against the plaintiff's claim from the moment it is liquidated by judgment.<sup>74</sup> This is pursuant to the principle of judicial compensation, as articulated in Article 1283 of the Civil Code: "If one of the parties to a suit over an obligation has a claim for damages against the other, the former may set it off by proving his right to said damages and the amount thereof." While legal compensation takes effect *ipso jure* upon the concurrence of all its requisites, judicial compensation only takes place upon final judgment.<sup>75</sup>

Here, Dolmar pleaded the rectification costs as a compulsory counterclaim.<sup>76</sup> If We were to rule on Dolmar's unliquidated claim, the same may be liquidated by final judgment, and judicial compensation may ensue. However, several factors proscribe Us from ruling on the merits of Dolmar's claim.

*First*, the main issue brought before Us is the applicability of legal compensation, and not judicial compensation. *Second*, the claim for rectification costs was merely pleaded by way of compulsory counterclaim in the context of the theorized legal compensation. Ruling on the merits of Dolmar's claim, as an independent cause of action, would be akin to resolving a permissive counterclaim; the Marilao Project is an entirely different transaction from the Sta. Maria Project and gives rise to issues that are unrelated to Linear's principal claim.<sup>77</sup> Doing so would ignore the varying procedural rules governing compulsory vis-à-vis permissive counterclaims, including those on the requirements for an initiatory pleading,<sup>78</sup> payment of docket fees,<sup>79</sup> necessity for an answer, and order of trial.<sup>80</sup> In fact, several issues on the Marilao Project have yet to be fully

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<sup>74</sup> *Supra* at note 61.

<sup>75</sup> *Supra* at note 62.

<sup>76</sup> *Rollo*, p. 18.

<sup>77</sup> See *Spouses Mendiola v. Court of Appeals*, 691 Phil. 244 (2012) [Per J. Bersamin]: "[T]he one compelling test of compulsoriness is the logical relation between the claim alleged in the complaint and that in the counterclaim. Such relationship exists when conducting separate trials of the respective claims of the parties would entail substantial duplication of time and effort by the parties and the court; when the multiple claims involve the same factual and legal issues; or when the claims are offshoots of the same basic controversy between the parties.

<sup>78</sup> *Cruz-Agana v. Santiago-Lagman*, 495 Phil. 188 (2005) [Per J. Carpio].

<sup>79</sup> *Villanueva-Ong v. Enrile*, 821 Phil. 538 (2017) [Per J. Tijam].

<sup>80</sup> RULES OF COURT, Rule 30, Sec. 5 (e) — *Order of Trial*. "The parties against whom any counterclaim or cross-claim has been pleaded, shall adduce evidence in support of their defense, in the order to be prescribed by the court."

threshed out due to the position of Linear and the RTC that the Marilao Project is irrelevant to this case.

*Third*, and of equal importance, to rule on Dolmar's claim would be to validate or legalize Dolmar's improper act of unilaterally withholding the retention money. We have refused to countenance such unwarranted shortcuts, as they amount to a mockery of Our judicial processes.<sup>81</sup>

### *Monetary awards and damages*

In view of the foregoing, We reinstate the RTC Decision with modifications. Linear is entitled to actual damages in the amount of Php3,823,997.96, representing its unpaid retention money. The award of interest should be modified to 12% per *annum* from the date of judicial demand,<sup>82</sup> or on 06 December 2007,<sup>83</sup> until 30 June 2013, and 6% per *annum* from 01 July 2013 until fully paid.<sup>84</sup>

We likewise affirm the award of exemplary damages because Dolmar acted in an oppressive or malevolent manner.<sup>85</sup> It withheld the retention money lawfully due to Linear based on its self-proclaimed entitlement to reimbursement of expenses not yet incurred. It sought to secure its unliquidated claim for the Marilao Project by taking the law into its own hands. In light of the scheme employed by Dolmar and the considerable period that Linear was deprived of its lawful claim, We find that the award of Php50,000.00 as exemplary damages is justified.

Since exemplary damages are awarded and because Linear was compelled to litigate to protect its interests, the award of attorney's fees is also proper.<sup>86</sup> Considering the protracted litigation of this dispute, rendered more complex by the inclusion of Dolmar's unliquidated claim in a relatively straightforward collection suit, the award of Php100,000.00 as attorney's fees is proper. The award representing acceptance and appearance fees of counsel is deleted, since these are already encompassed by the award

<sup>81</sup> See *Philippine National Bank v. Court of Appeals*, 328 Phil. 486 (1996) [Per J. Panganiban].

<sup>82</sup> The final amount of the retention money was alleged and demanded in the complaint. Linear alleges that it demanded the payment of the correct amount on 12 November 2007. However, the records do not bear proofs of demand by Linear and receipt by Dolmar.

<sup>83</sup> *Rollo*, pp. 68 and 90.

<sup>84</sup> *Nacar v. Gallery Frames*, G.R. No. 189871, 13 August 2013 [Per J. Peralta].

<sup>85</sup> CIVIL CODE OF THE PHILIPPINES, Art. 2232.

<sup>86</sup> *Philippine National Bank v. Santos*, G.R. Nos. 208293 & 208295, 10 December 2014 [Per J. Leonen].

for attorney's fees.

**WHEREFORE**, premises considered, the Petition for Review on *Certiorari* is **GRANTED**. The Decision dated 29 April 2014 of the Court of Appeals in CA-G.R. CV No. 101201 is **REVERSED** and **SET ASIDE**. The Decision dated 22 January 2013 of Branch 213, Regional Trial Court of Mandaluyong City in Civil Case No. MC07-3385 is **AFFIRMED** with **MODIFICATIONS**. Respondent Dolmar Property Ventures, Inc. (also known as Dolmar Property Ventures, Incorporated) is **ORDERED** to pay petitioner **Linear Construction Corporation**:

- (1) Php3,823,997.96 representing petitioner's unpaid retention money, with legal interest at twelve percent (12%) per *annum* from judicial demand, or on 06 December 2007, until 30 June 2013, and six percent (6%) per *annum* from 01 July 2013 until fully paid;
- (2) Php50,000.00 as exemplary damages;
- (3) Php100,000.00 as attorney's fees; and
- (4) Costs of suit.

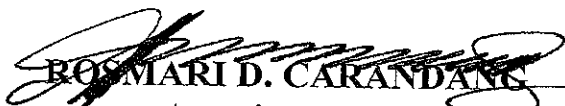
The total judgment award shall earn legal interest at six percent (6%) per *annum* from the finality of this Decision until fully paid.

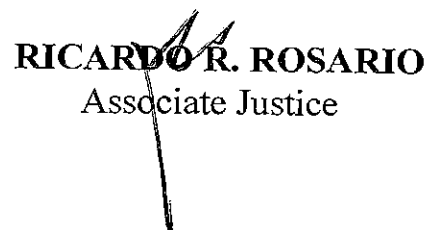
**SO ORDERED.**

  
**RODIL V. ZALAMEDA**  
Associate Justice

**WE CONCUR:**

  
**MARVIC M.V.F. LEONEN**  
Associate Justice  
Chairperson


  
**ROSMARI D. CARANDANG**  
Associate Justice

  
**RICARDO R. ROSARIO**  
Associate Justice

  
**JAPAR B. DIMAAMPAO**  
Associate Justice

**ATTESTATION**

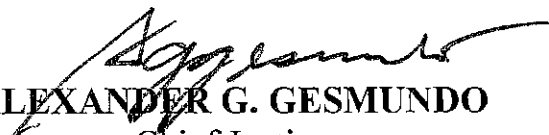
I attest that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

  
**MARVIC M.V.F. LEONEN**  
Associate Justice  
Chairperson



**CERTIFICATION**

Pursuant to the Section 13, Article VIII of the Constitution, I certify that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

  
**ALEXANDER G. GESMUNDO**  
Chief Justice

