



Republic of the Philippines
Supreme Court
Manila

SUPREME COURT OF THE PHILIPPINES
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SECOND DIVISION

SAN MIGUEL FOODS, INC.
and JAMES A. VINOYA,
Petitioners,

G.R. No. 225007

Present:

- versus -

CARPIO, J., Chairperson,
PERLAS-BERNABE,
CAGUIOA,
REYES, J., JR., and
LAZARO-JAVIER, JJ.

ERNESTO RAOUL V. MAGTUTO,
Respondent.

Promulgated:
24 JUL 2019

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[Handwritten Signature]-----x

DECISION

CARPIO, J.:

The Case

This is a petition for review on certiorari¹ assailing the Decision² dated 28 August 2015 and the Resolution³ dated 6 May 2016 of the Court of Appeals (CA) in CA-G.R. CV No. 101074.

The Facts

Sometime in July 2002, respondent Ernesto Raoul V. Magtuto (Magtuto), a businessman engaged in growing broiler chicks and doing business under the name Alyssandra Farms, attended a gathering of broiler chick growers of Swift Foods, Inc., which was closing operations in Bicol at the end of the year 2002. The gathering, organized by Dr. Edwin Rosales, at that time the Branch Manager of the Bicol branch and a veterinarian for the contract growing operation of Swift Foods, Inc., was held at Villa Caceres Hotel in Naga City. Those in attendance were broiler chick growers and some employees of Swift Foods, Inc. and representatives of petitioner San

¹ Under Rule 45 of the 1997 Revised Rules of Civil Procedure.
² *Rollo*, pp. 40-57. Penned by Associate Justice Samuel H. Gaerlan, with Associate Justices Normandie B. Pizarro and Ma. Luisa C. Quijano-Padilla concurring.
³ *Id.* at 68-69.

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Miguel Foods, Inc. (SMFI), a company engaged in the business of breeding and hatching broiler chickens, poultry processing, and manufacturing of poultry and livestock feeds.

Magtuto was present at the gathering since he was a grower for Swift Foods, Inc. for six years from 1996 to 2002 and was well-known as one of the biggest broiler chick growers in the Bicol region maintaining several grow-out facilities in Carolina, Nabua and Baao, Camarines Sur. Petitioner Dr. James A. Vinoya⁴ (Vinoya), SMFI's veterinarian and production supervisor, and Engr. Rene C. Ogilvie (Ogilvie), SMFI's Bicol Region Poultry Operations Manager, attended the gathering representing SMFI. The growers were there to know if they can do business with SMFI and successively, SMFI, as an integrator, was looking into recruiting new growers or getting additional capacity for the company's production program in the region. At the gathering, SMFI presented to the contract growers SMFI's chick growing scheme, payment system, and benefits.

Several months after the said gathering or sometime in September 2002, Magtuto and Vinoya arrived at an agreement. Vinoya told Magtuto that he can be accommodated as a broiler chick grower of SMFI only if excess chicks would be available from the SMFI hatchery located in Laguna. They did not execute a written contract. However, Vinoya showed Magtuto a copy of SMFI's standard Broiler Chicken Contract Growing Agreement and told Magtuto that he is bound by the same terms and conditions as their regular contract growers and Magtuto agreed.

The agreement involved the delivery of 36,000 day-old chicks by SMFI which Magtuto would grow for a period of about 30-35 days at his grow-out facility located in Carolina, Camarines Sur. SMFI would provide all the feeds, medicines, materials, and technical support. After the 30-35 day period, the grown chickens, after reaching the desired age and weight, would be harvested and hauled by SMFI. Then Magtuto would be given a period of 15 days to clear, disinfect, and prepare his grow-out facility for the next delivery.

To guarantee the faithful performance by Magtuto of his obligations as a grower and for the protection of both parties, Magtuto gave SMFI the amount of ₱72,000, as cash bond, equivalent to two successive grows of ₱36,000 per grow where ₱1 for every chick delivered would be deducted from Magtuto's account.

Magtuto and Vinoya did not discuss how long the agreement would last but for the months of October and November 2002, and January and April 2003, SMFI delivered chicks to Magtuto four times consisting of

⁴ Referred to as James Benoya in the records and transcript of stenographic notes. Proper name shows James A. Vinoya, see *rollo*, pp. 28-29.

36,000 chicks per delivery. After every harvest, SMFI paid Magtuto a grower's fee for his service of growing the chicks for the company.

Then sometime in June 2003, on the fifth delivery, the broiler chicks delivered by SMFI was short of 4,000 heads. Instead of 36,000 broiler chicks, SMFI only delivered 32,000 chicks. Magtuto reported this to Vinoya. Vinoya replied and told Magtuto that there were no more excess chicks to give due to the low supply from the hatchery and the decline in the demand of chicken in the market because of the influx of cheap chicken coming from other countries. Magtuto demanded that Vinoya deliver more chicks in order to make use of his facility to the maximum capacity but Vinoya said that he was only being accommodated and their priority would be the official contract growers of SMFI.

After several exchange of messages, Magtuto felt that Vinoya responded arrogantly and in an insulting manner instead of addressing his query; thus, Magtuto went straight to SMFI and sent a letter-complaint⁵ dated 12 June 2003 addressed to Ogilvie expressing his dissatisfaction with Vinoya's alleged "arrogance, incompetence and unprofessional attitude."⁶ Ogilvie, however, did not take any action on the matter.

On 12 August 2003, Vinoya informed Magtuto that their arrangement was terminated due to "poor working relationship." Magtuto was surprised claiming that the termination was prompted by the complaint on unprofessional conduct he made against Vinoya. Magtuto then sent a letter⁷ dated 25 August 2003 to Benjamin Hilario, SMFI's Assistant Vice President and Luzon Processing Manager, narrating his experience with Vinoya and Ogilvie's inaction. Magtuto mentioned that the timing of the notice of termination delayed his July chick-in by three weeks and that he incurred considerable expenses in preparing his grow-out facility and was deprived of income for the month of July. In the same letter, Magtuto stated that he was withdrawing the ₱72,000 cash bond that he posted which should be deducted from his account with SMFI.

Thereafter, Magtuto filed a complaint⁸ for damages against SMFI, Vinoya, and Ogilvie before the Regional Trial Court (RTC) of Naga City, Branch 22.

In his complaint, Magtuto claimed that because of the abrupt unilateral termination of contract by SMFI (1) he was deprived of income for the month of July 2003 in the amount of not less than ₱360,000; (2) he incurred considerable expenses in preparing his grow-out facility in the amount of not less than ₱150,000; and (3) his good reputation as a contract

⁵ Records, pp. 6-7.

⁶ Id. at 6.

⁷ Id. at 8-9.

⁸ Id. at 1-5. Docketed as Civil Case No. 2004-0008.



grower was tainted, causing him social humiliation, mental anguish and serious anxiety, which SMFI must compensate in the amount of not less than ₱500,000. Also, Magtuto alleged that SMFI's act in terminating the agreement was contrary to justice and good faith causing damage and injury to his rights for which SMFI, Vinoya, and Ogilvie must be condemned to pay nominal damages of not less than ₱100,000, and by way of example for the public good, SMFI, Vinoya, and Ogilvie must pay him exemplary damages in the amount of not less than ₱200,000. Further, Magtuto (1) claimed that the 4,000 broiler chicks lacking in the delivery of June 2003 deprived him of income amounting to ₱48,000, (2) demanded the return of the bond deposited with SMFI in the amount of ₱72,000, and (3) claimed that he was constrained to litigate and engage the services of counsel at an agreed attorney's fees of ₱100,000 and ₱1,500 per appearance fee.

In its Answer,⁹ SMFI claimed that Magtuto was not a contract grower of SMFI and that SMFI did not execute any written broiler chicken contract growing agreement with Magtuto. SMFI narrated that sometime in September 2002, Magtuto was the one who manifested his desire to become a contract grower of SMFI to Vinoya. Vinoya, without the knowledge and prior consent of SMFI, entered into a private arrangement by way of "accommodation" with Magtuto. As an accommodation, Vinoya promised to deliver to Magtuto broiler chicks from the SMFI hatchery only when the surplus was not earmarked for delivery to contract growers of SMFI. Vinoya intended that if Magtuto maintains a healthy working relation and proves his competence, Vinoya would recommend Magtuto for possible execution of the written broiler chicken contract growing agreement with SMFI. SMFI added that since the accommodation by Vinoya was without the knowledge and consent of SMFI, Vinoya required Magtuto to post a bond of ₱72,000 to secure SMFI from any loss and Vinoya from being held liable by SMFI for extending an accommodation to Magtuto. Afterwards, Vinoya delivered 36,000 heads of broiler chicks to Magtuto. Other deliveries were made, though not on a regular basis, and only when there were surplus broiler chicks from the hatchery not earmarked for delivery to contract growers of SMFI. Then, sometime in June 2003, Magtuto conveyed to Vinoya that the delivery of broiler chicks was short of 4,000 heads. Vinoya explained that as an accommodated party, the delivery would depend on the surplus of broiler chicks, and that SMFI's priority would be the official contract growers. However, Magtuto continuously demanded delivery of the 4,000 heads. Thus, Vinoya ignored Magtuto's demands. Magtuto then sent a letter to Ogilvie who also ignored said letter thinking that Magtuto does not have any vested right to demand from SMFI. Also, SMFI averred that Magtuto was formerly a contract grower of Swift Foods, Inc. and at the time he was accommodated by Vinoya, Magtuto had a contract with Bounty Fresh Food, Inc., a competing company. SMFI asserted that Magtuto maintains his grow-out facility in Carolina and incurred expenses, not because of his relation with SMFI, but because he was also a regular grower for other companies

⁹ Id. at 21-28.

engaged in the same business. Thus, SMFI strongly averred that Magtuto was not a contract grower of SMFI and that the delivery of broiler chicks made to Magtuto was only by way of accommodation. There is no termination of contract but a mere withdrawal or termination of the accommodation due to the decrease in the production of broiler chicks and decline in the demand for chicken in the market. SMFI claimed that Magtuto was aware of the accommodation given to him by Vinoya and that he was never made nor misled to believe that there existed a contract between him and SMFI.

Magtuto, aside from presenting himself as a witness in court also presented two other witnesses: (1) Dr. Edwin Rosales and (2) Ramon B. Bayta, Jr., a former co-contract grower at Swift Foods, Inc. who also had an experience being “accommodated” by SMFI for two grows and at the time he testified, was a poultry contract grower for Bounty Fresh Food, Inc.

SMFI, on the other hand, presented three witnesses: (1) Vinoya, (2) Ogilvie, and (3) Dante Gito, a Finance Analyst of SMFI Naga Plant in-charge of the liquidation of contract growers.

In a Decision¹⁰ dated 4 February 2013, the RTC resolved the case in favor of Magtuto. The RTC stated that Magtuto was a contract grower of SMFI even in the absence of a written broiler chicken contract growing agreement. The RTC explained that the verbal agreement of Magtuto and Vinoya created respective obligations between them. Magtuto posted a cash bond to guarantee full performance of his obligations under the same terms and conditions as contained in a written growing agreement. SMFI, in turn, delivered five times to Magtuto for the growing of the day-old chicks, harvested the grown chickens, and paid Magtuto his grower’s fee like any of its contract growers. Thus, the RTC did not treat the arrangement between Magtuto and Vinoya as an accommodation only but as a contract growing agreement even if not made in writing. The dispositive portion states:

WHEREFORE, viewed in the light of the foregoing premises, DECISION is hereby rendered ORDERING the DEFENDANTS SAN MIGUEL FOODS, INC. and JAMES VINOYA, to jointly and severally pay PLAINTIFF, ERNESTO RAOUL V. MAGTUTO, the following:

- a) The amount of Php 334,556.41 as ACTUAL and COMPENSATORY DAMAGES;
- b) The amount of Php 500,000.00 as MORAL DAMAGES;
- c) The amount of Php 100,000.00 as NOMINAL DAMAGES;
- d) The amount of Php 200,000.00 as EXEMPLARY DAMAGES;

¹⁰ CA rollo, pp. 65-87. Penned by Judge Efren G. Santos.



- e) The amount of Php 100,000.00 as and for ATTORNEY'S FEES;
- f) The further sum of Php 13,583.80 as EXPENSES OF LITIGATION; and
- g) All other CLAIMS and COUNTERCLAIMS are hereby ordered DISMISSED for lack of merit.

No pronouncement as to costs.

SO ORDERED.¹¹

Petitioners filed an appeal with the CA. In a Decision dated 28 August 2015, the CA affirmed with modification the decision of the RTC. The dispositive portion of the decision states:

WHEREFORE, premises considered, the assailed 04 February 2013 Decision of the Regional Trial Court of Naga City, Branch 22 is hereby MODIFIED. The amount of the actual or compensatory damages is INCREASED to PhP383,835.85. The awards for moral and exemplary damages are hereby DELETED for lack of factual basis. Likewise, the award for nominal damages is DELETED for being improper.

SO ORDERED.¹²

Petitioners filed a Motion for Reconsideration which was denied by the CA in a Resolution dated 6 May 2016.

Hence, this petition.

The Issue

Whether or not the appellate court committed reversible error in holding that Magtuto is entitled to actual or compensatory damages absent a written broiler chicken contract growing agreement between Magtuto and SMFI.

The Court's Ruling

The petition is partly meritorious.

Petitioner SMFI contends that there was never any written broiler chicken contract growing agreement between SMFI and Magtuto. SMFI asserts that it had no participation in and knowledge of the agreement made to Magtuto by Vinoya, who had no authority to enter into a contract growing

¹¹ Id. at 86-87.

¹² Rollo, p. 56.



agreement with any person in behalf of SMFI. SMFI asserts that Vinoya only accommodated Magtuto on the condition that excess chicks would be available since the company's priority would be their official contract growers. Thus, the continuity of the accommodation and the supply of the day-old chicks were contingent upon the availability of excess chicks from SMFI's hatchery. SMFI also submits that Vinoya and Magtuto did not even fix a duration on how long the arrangement would be. SMFI insists that the lower and appellate courts, in awarding actual or compensatory damages, erroneously relied on the self-serving testimony of Magtuto, absent any clear and convincing proof that Magtuto is entitled to such damages.

Under the Civil Code, a contract is a meeting of the minds, with respect to the other, to give something or to render some service. Article 1318 of the Civil Code provides:

Art. 1318. There is no contract unless the following requisites concur:

- (1) Consent of the contracting parties;
- (2) Object certain which is the subject matter of the contract;
and
- (3) Cause of the obligation which is established.

Accordingly, for a contract to be valid, it must have the following essential elements: (1) consent of the contracting parties; (2) object certain, which is the subject matter of the contract; and (3) cause of the obligation which is established. Consent is manifested by the meeting of the offer and the acceptance of the thing and the cause, which are to constitute the contract.¹³ The contract is perfected at the moment there is a meeting of the minds upon the thing that is the object of the contract and the price.

In the present case, all the essential elements – consent, object and cause – are present. Magtuto entered into an agreement with Vinoya for the growing of broiler chicks. They agreed that SMFI would provide the day-old chicks, feeds, medicines, materials and technical support, while Magtuto would be given a certain period to grow the chicks and keep them healthy. Afterwards, SMFI would harvest the chicks and Magtuto would be paid a grower's fee depending on the number of chicks harvested. The chicks delivered by SMFI and grown by Magtuto constitutes the object or subject matter of the contract and the grower's fee is the consideration.

Thus, a contract, once perfected, is generally binding in whatever form, whether written or oral, it may have been entered into, provided the essential requisites for its validity are present. Article 1356 of the Civil Code provides:

Art. 1356. Contracts shall be obligatory in whatever form they may have been entered into, provided all the essential requisites for their validity are present. x x x.

¹³ Art. 1319 of the Civil Code.



SMFI claims that the agreement is unenforceable in the absence of a written contract and that Vinoya had no authority to enter into any contracts in the name of SMFI.

We disagree.

SMFI cannot assail the unenforceability of the agreement entered into between Magtuto and Vinoya on the ground that Vinoya had no authority to bind the corporation. The contract, assuming that Vinoya had no authority to sign for SMFI, was impliedly ratified when the broiler chicks subject of the contract were delivered by SMFI, together with the feeds, medicines and materials, until the grown chickens were harvested by SMFI. This occurred not only once but five times over the course of nine months. In *Prime White Cement Corp. v. IAC*,¹⁴ we held that implied ratification may take various forms – like silence or acquiescence; by acts showing approval or adoption of the contract; or by acceptance and retention of benefits flowing therefrom.

Under Article 1317 of the Civil Code, the contract is enforceable against SMFI. The said provision states:

Art. 1317. No one may contract in the name of another without being authorized by the latter, or unless he has by law a right to represent him.

A contract entered into in the name of another by one who has no authority or legal representation, or who has acted beyond his powers, shall be unenforceable, unless it is ratified, expressly or impliedly, by the person on whose behalf it has been executed, before it is revoked by the other contradicting party.

Also, Magtuto had full faith that Vinoya had authority to deal with him as a chick grower for several reasons: (1) Vinoya, together with Ogilvie, attended the gathering of Swift Foods, Inc. broiler chick growers before Swift Foods, Inc. closed down its operations in 2002 and both gave a presentation as official representatives of SMFI who were there to scout for new partners in the chick growing business; (2) Vinoya, as SMFI's veterinarian and production supervisor in charge of facility inspection, fieldwork, and technical assistance, was the one who directly dealt with Magtuto as a chick grower; (3) Magtuto was shown by Vinoya a standard Broiler Chicken Contract Growing Agreement of SMFI and even if they did not execute one, Magtuto agreed to be bound by the same terms and conditions; and (4) Magtuto posted a ₱72,000 cash bond, equivalent to two consecutive grows, in order to guarantee faithful performance of his obligations as a grower.

Thus, SMFI cannot deny that Vinoya does not have any authority to transact with Magtuto since SMFI delivered day-old chicks to Magtuto for

¹⁴ 292-A Phil. 198, 204 (1993).



almost a year; administered the growth of the chicks for 30-35 days by providing feeds, medicines and technical support; harvested the grown chickens; and finally paid Magtuto for growing said chicks. In every step of the process, Magtuto signed and received several documents and materials from SMFI. These transactions were competently proven during trial with both parties supplying the proper documentation such as delivery receipts, trust receipts, receiving slips, flock records, cash receipts, and liquidation statements. SMFI delivered broiler chicks to Magtuto five times and neither SMFI nor Magtuto had objected to the arrangement until the fifth delivery when SMFI was short of 4,000 broiler chicks.

Also, court records show that SMFI issued official documents: (1) cash receipts for the day-old chicks; (2) delivery receipts for feeds, medicines, and vaccines; (3) transfer receipts; (4) trust/delivery receipts for the harvested birds; and (5) statements of payment or payment request memorandum after each harvest. Magtuto also presented (1) copies of deposit slips of checks paid by SMFI; (2) flock records containing day to day activities of the chicks from day one until the grown chickens are harvested to keep track of the total number of birds, total inventory, and actual reap; and (3) the forecast for one year, the purpose of which is not to overproduce during lean season and under produce during peak season, as provided by SMFI and prepared by Vinoya and SMFI's Sales Department, showing the placement of chicks and feeds of all growers for SMFI which includes Magtuto's farm.

Clearly, these documents would prove that SMFI, even in the absence of a written contract, approved of the "arrangement by way of accommodation" made by Vinoya to Magtuto. The numerous documents submitted did not only pertain to one grow but to four other grows which SMFI evidently consented to. As correctly observed by the lower court in its Decision dated 4 February 2013:

x x x SMFI and VINOYA are in estoppel. Equity demands that SMFI through OGILVIE and VINOYA cannot just disown its previous declarations to the prejudice of MAGTUTO who relied reasonably and justifiably on the former's declarations that they are clothe[d] with authority to enter into contract, verbal or otherwise, being the Area Operations Manager for Bicol since 1996 who manages the operations of poultry raising and operations of the dressing plant and the Veterinarian who handles the contract growers, respectively of SMFI.¹⁵

x x x [T]he claim of SMFI that MAGTUTO was merely a contract-grower by accommodation was belied no less by OGILVIE who testified that he and VINOYA were sent by SMFI to the meeting where he met MAGTUTO, to recruit some contract-growers of SWIFT and several months after the meeting, MAGTUTO went into contract-growing with SMFI. Such declaration was supported by BAYTA, another contract-grower of SMFI who claimed that his contract is not on a per grow basis because if that was the case, he would not have agreed to be a contract-

¹⁵

CA rollo, p. 81.

grower of SMFI, since as such on an accommodation, he will not have any security, a fact corroborated by DR. ROSALES who said that accommodation growing scheme where a contract-grower is only given a certain fix[ed] number of chicks if there are excess chicks available from the hatchery can be made only once or twice because the grower should not be placed in a position where his business has no direction in the future. Delivering 40,000 chicks to a contract-grower every after 15 days rest period from harvest time cannot be considered an accommodation. Clearly, the arrangement between SMFI and MAGTUTO is not an accommodation as the arrangement and/or engagement of the latter to the former was not made as a favor but upon a consideration received by MAGTUTO from SMFI for his services rendered as contract-grower.¹⁶

The CA, in its Decision dated 28 August 2015, also made these observations:

SMFI cannot utilize to exculpate itself from liability [in] the allegation that Mr. Vinoya had no authority to contract in its behalf. Mr. Ogilvie, SMFI's branch manager in [the] Bicol Region, admitted that during the meeting in the Villa Caceres Hotel, they were authorized by SMFI to be there to select among the contract growers of Swift. Moreover, the subsequent actions of the other departments of SMFI indicated no less than the meeting of minds between them. In fact, a minute detail noted by this Court showed that SMFI still had the intention to load Mr. Magtuto when it deducted Php36,000 as cash bond in 12 June 2003 after its deliveries of chicks to Mr. Magtuto on 06 June and 09 June 2003. Noteworthy at this juncture is the equally important observation that despite SMFI's allegation that it did not authorize Mr. Vinoya to contract with Mr. Magtuto, its actions subsequent thereto, such as the delivery of chicks, medicines, feeds necessary for growing the chicks and the checks it issued in favor of Mr. Magtuto indicate otherwise. Obviously, SMFI ratified the action of Mr. Vinoya assuming *arguendo* that he was not authorized.¹⁷

Now that there exists a valid contract between Magtuto and SMFI, the next question would be: Is Magtuto entitled to actual or compensatory damages due to (1) the shortage of 4,000 broiler chicks at the fifth delivery made in June 2003, (2) the expenses that Magtuto incurred during the 15 day rest period while preparing his grow-out facility for the next chick delivery, and (3) the loss on Magtuto's possible income for the month of July 2003 due to the termination of the contract?

The answer is affirmative only on the delivery shortage of 4,000 broiler chicks and not Magtuto's expenses incurred during the 15-day rest period and loss on Magtuto's possible income for the succeeding month.

In the present case, Vinoya and Magtuto arrived at an agreement that SMFI would supply day-old chicks which Magtuto would grow for a certain period. Afterwards, SMFI would harvest the grown chickens and Magtuto

¹⁶ Id. at 80-81.

¹⁷ *Rollo*, p. 48.

would be paid a grower's fee. Both fulfilled their obligations on four occasions in a span of less than a year. However, on the fifth delivery, SMFI failed to complete the 36,000 heads and was only able to deliver 32,000. Given that the parties did not execute any written contract and their verbal agreement involved growing chicks which starts from delivery of the day-old chicks until the grown chickens are harvested, then it is clearly understood that the contract entered into by Vinoya and Magtuto was on a "per grow basis," the duration of which is for one growing season.

This case is akin to a lease without a written contract where the basis of the lease is on a month to month basis. This is called a lease with a definite period which is provided for in Article 1687 of the Civil Code. The provision states:

Art. 1687. If the period for the lease has not been fixed, it is understood to be from year to year, if the rent agreed upon is annual; from month to month, if it is monthly; from week to week, if the rent is weekly; and from day to day, if the rent is to be paid daily. However, even though a monthly rent is paid, and no period for the lease has been set, the courts may fix a longer term for the lease after the lessee has occupied the premises for over one year. If the rent is weekly, the courts may likewise determine a longer period after the lessee has been in possession for over six months. In case of daily rent, the courts may also fix a longer period after the lessee has stayed in the place for over one month. (Emphasis supplied)

In *De Miranda v. Lim Shi*,¹⁸ we held that when there is no clear period of renewal agreed upon between the parties then the implied renewed contract is on a month to month basis. Similarly, the verbal agreement which transpired between Vinoya and Magtuto did not specify any clear period of renewal. Thus, the renewal of the contract would be from one growing season to another or until the next delivery of the new batch of day-old chicks.

Being a valid contract and not one against law, public policy, and custom, then the agreement is binding and serves as the law between them. SMFI delivered 36,000 heads, the maximum number which Magtuto could ideally raise the chicks in his facilities, four times since the start of their contract. SMFI cannot now escape from its obligation to deliver the same number of chicks required for the particular growing season in question.

Article 1159 of the Civil Code provides that obligations arising from contracts have the force of law between the contracting parties and should be complied with in good faith. Since SMFI's obligation is to deliver the 36,000 day-old chicks in the month of June 2003 and there was shortage of 4,000 heads, then Magtuto must be compensated for SMFI's non-fulfillment of its obligation.

¹⁸ 120 Phil. 1392 (1964).



However, given that the renewal of the broiler chick growing contract occurs from one growing season to another, then Magtuto is not entitled to (1) the expenses that he incurred during the 15-day rest period after the fifth delivery, and (2) his loss on possible income for the succeeding month.

As to the amount that must be compensated to Magtuto, we agree with the computation of the actual or compensatory damages made by the appellate court as specified in its decision only as to that portion pertaining to the shortage of delivery of the 4,000 heads by SMFI on the fifth delivery made in June 2003.

An award of actual or compensatory damages requires proof of pecuniary loss. Under Articles 2199¹⁹ and 2200²⁰ of the Civil Code, actual or compensatory damages are those awarded in satisfaction of or in recompense for loss or injury sustained. They proceed from a sense of natural justice and are designed to repair the wrong that has been done. In *Terminal Facilities and Services Corporation v. Philippine Ports Authority*,²¹ we explained that there are two kinds of actual or compensatory damages: (1) the loss of what a person already possesses, and (2) the failure to receive as a benefit that which would have pertained to him. In the latter instance, the familiar rule is that damages consisting of unrealized profits, frequently referred to as *ganacias frustradas* or *lucrum cessans*, are not to be granted on the basis of mere speculation, conjecture, or surmise, but rather by reference to some reasonably definite standard such as market value, established experience, or direct inference from known circumstances. It is not necessary to prove with absolute certainty the amount of *ganacias frustradas* or *lucrum cessans*. Citing *Producers Bank of the Philippines v. Court of Appeals*,²² the Court further ruled that:

x x x. The benefit to be derived from a contract which one of the parties has absolutely failed to perform is of necessity to some extent, a matter of speculation, but the injured party is not to be denied for that reason alone. He must produce the best evidence of which his case is susceptible and if that evidence warrants the inference that he has been damaged by the loss of profits which he might with reasonable certainty have anticipated but for the defendant's wrongful act, he is entitled to recover.

To be entitled to compensatory damages, the amount of loss must be capable of proof and actually proven with a reasonable degree of certainty, premised upon competent proof or the best evidence obtainable. The burden

¹⁹ Art. 2199. Except as provided by law or by stipulation, one is entitled to an adequate compensation only for such pecuniary loss suffered by him as he has duly proved. Such compensation is referred to as actual or compensatory damages.

²⁰ Art. 2200. Indemnification for damages shall comprehend not only the value of the loss suffered, but also that of the profits which the obligee failed to obtain.

²¹ 428 Phil. 99, 138 (2002).

²² 417 Phil. 646, 660 (2001).



of proof of the damage suffered is imposed on the party claiming the same, who should adduce the best evidence available in support thereof.²³

Here, the appellate court based the actual or compensatory damages on the grower's fee paid by SMFI to Magtuto from December 2002 to July 2003 as adequately proved by flock records, liquidation statements, payment request memorandum, check vouchers and deposit slips submitted by the parties then added the ₱72,000 cash bond posted by Magtuto. The appellate court came up with an average of Magtuto's income for the five growing periods amounting to ₱345,452.27. Thus, the unrealized income of the 4,000 heads would be based on the average income of ₱345,452.27 per grow divided by 36,000 heads less the shortage of 4,000 heads totaling to the amount of ₱38,383.58.

Given that SMFI is liable only for the loss of the 4,000 short-delivery of chicks since the contract entered into was on a "per grow basis," we agree with the computation of the appellate court with regard to the unrealized income for the month of June 2003 in the amount of ₱38,383.58. This amount represents the actual or compensatory damages for Magtuto's loss of income on the 4,000 short-delivery of chicks on the fifth grow which SMFI should indemnify.

Also, the amount of ₱38,383.58 shall be subject to the payment of legal interest. In *Nacar v. Gallery Frames*,²⁴ we held that an award of interest in the concept of actual or compensatory damages is imposed when an obligation, not constituting a loan or forbearance of money, is breached, then an interest on the amount of damages awarded may be imposed at the discretion of the court at the rate of 6% *per annum*. Thus, the actual or compensatory damages in the amount of ₱38,383.58 shall earn interest at the rate of 6% *per annum* from the date of finality of this Decision until full payment.

WHEREFORE, we **PARTIALLY GRANT** the petition. The Decision dated 28 August 2015 and the Resolution dated 6 May 2016 of the Court of Appeals in CA-G.R. CV No. 101074 are **AFFIRMED WITH MODIFICATION** that San Miguel Foods, Inc. is liable for actual or compensatory damages in the amount of ₱38,383.58, which shall earn legal interest at the rate of 6% *per annum* from the date of finality of this Decision until full payment.

SO ORDERED.

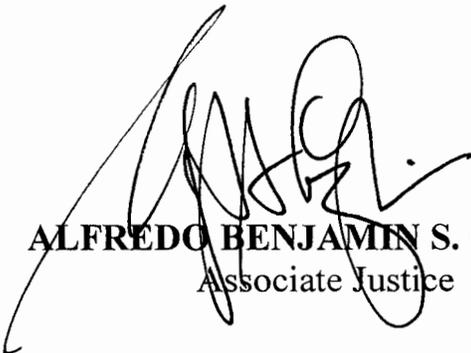

ANTONIO T. CARPIO
Associate Justice

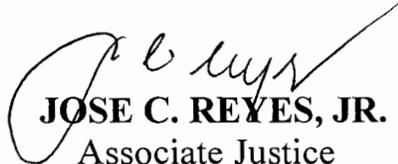
²³ *Pryce Properties Corporation v. Spouses Octubre*, 802 Phil. 391, 397 (2016).

²⁴ 716 Phil. 267, 278-279 (2013), citing *Eastern Shipping Lines, Inc. v. Court of Appeals*, 304 Phil. 236, 252-253 (1994).

WE CONCUR:


ESTELA M. PERLAS-BERNABE
Associate Justice


ALFREDO BENJAMIN S. CAGUIOA
Associate Justice


JOSE C. REYES, JR.
Associate Justice


AMY C. LAZARO-JAVIER
Associate Justice

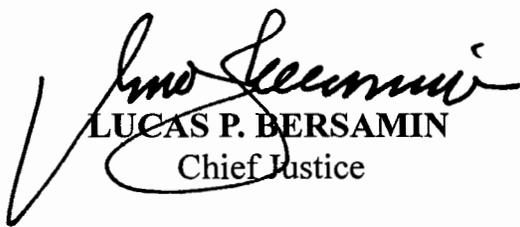
ATTESTATION

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.


ANTONIO T. CARPIO
Associate Justice
Chairperson

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution, and the Division Chairperson's Attestation, 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.



LUCAS P. BERSAMIN
Chief Justice