Title: Pryce Corporation vs. Philippine Amusement and Gaming Corporation

Facts: This case originated from a contractual agreement to establish a casino within Pryce Plaza Hotel, Cagayan de Oro, by Pryce Properties Corporation (PPC) and the Philippine Amusement and Gaming Corporation (PAGCOR). The agreement, formalized on November 11, 1992, faced immediate opposition, evidenced by local resolutions and ordinances prohibiting casino operations. Despite obtaining a Court of Appeals ruling declaring the opposition ordinances unconstitutional and later affirmed by the Supreme Court, PAGCOR's casino operations were suspended due to public protests and advisories from the Office of the President.

PAGCOR ceased casino operations prior to September 1993, leading to disputes over unpaid lease amounts and demands for reimbursement for rental deposits and improvements made by PAGCOR on the leased property. Both parties lodged complaints against each other in the Regional Trial Court of Manila, leading to a consolidated trial. The trial court's decision, partially favorable to PPC, was iteratively appealed by both parties to the Court of Appeals (CA), which modified the trial court's decision by affirming, with modification, the judgment in favor of PPC but reversing the decision on PAGCOR's claim for reimbursement.

Issues: The Supreme Court was tasked with determining the validity of demanding future rental payments after contract termination, the applicability of Article 1659 of the Civil Code vis-à-vis contract stipulations regarding termination for breach, and the appropriate remedies and penalties for contract breach.

Court's Decision: The Supreme Court partially granted the petition, recognizing the validity of contract stipulations granted they are not contrary to law, morals, good customs, public order, or public policy. It distinguished between contract termination (valid upon breach) and rescission (renders contract void ab initio), highlighting that PPC sought termination rather than rescission. Despite affirming the contractual provision allowing for the termination and full payment of future rentals, the Court ruled that demanding future rentals amounted to unjust enrichment and instead considered the advance rentals as a sufficient penalty for PAGCOR's breach.

Doctrine: The decision reiterates the principle that obligations arising from contracts have the force of law between the contracting parties and should be complied with in good faith. It also distinguishes between contract rescission and termination, stating that termination for breach does not entail restoration to the original status quo ante but obliges

parties to their obligations up until termination.

Class Notes:
1. **Obligations Arising from Contracts (Article 1159, Civil Code):** Stipulates that contracts legally bind the parties as per agreed terms, as long as they're not contrary to law, morals, etc.
2. **Termination vs. Rescission:** Termination occurs upon breach, parties must fulfill obligations up until termination. Rescission voids the contract from inception, requiring mutual restitution.
3. **Penalty Clauses (Article 1229, Civil Code):** Allows for the reduction of stipulated penalties if deemed iniquitous or unconscionable.
4. **Application of Law in Contracts:** Laws pertinent to the contract's subject matter are deemed written into the contract, influencing interpretation and enforcement.
5. **Unjust Enrichment:** A contract's termination and demand for future obligations should not result in unjust enrichment at the expense of the other party.

Historical Background: This case reflects the tension between contractual freedom and public opposition to gambling, highlighting the legal challenges in enforcing contractual obligations against a backdrop of societal resistance and regulatory interventions. It illustrates the judiciary's role in balancing contractual rights and societal interests, setting a precedent on the limits of contractual stipulations relating to termination and future obligations in lease agreements.