

Case Title:

L & L Lawrence Footwear, Inc. et al. vs. PCI Leasing and Finance Corporation

Facts:

1. **Contractual Agreements (1994-1997):** PCI Leasing and L & L Lawrence entered into various financial arrangements involving equipment for shoe manufacturing. These were formalized in multiple Memoranda of Agreement and Disclosure Statements, which identified the transactions as loans.
2. **Lease Contracts:** L & L Lawrence was compelled to enter into several 'Lease Contracts' for the imported equipment. Correspondingly, they provided a 30% guaranty deposit totalling US\$359,525.90 and paid rental fees amounting to US\$1,164,380.42.
3. **Continuing Guaranty (May 16, 1994):** Sae Chae Lee, then president of L & L, signed a Continuing Guaranty of Lease Obligations securing any liabilities from the Lease Agreement dated May 13, 1994.
4. **Economic Crisis & Default (1998):** Due to an economic crisis, cancelled contracts, and labor problems, L & L Lawrence defaulted on its payment obligations. Consequently, PCI Leasing demanded full payment of outstanding balances (\$826,003.27 plus penalty charges) or the surrender of the leased equipment.
5. **Filing of Complaint (December 16, 1998):** PCI Leasing filed a complaint with the Regional Trial Court (RTC) for the recovery of sums or property, along with a writ request for replevin.
6. **Replevin Order and Execution (January 28, 1999):** The RTC granted the writ of replevin and the equipment was surrendered to PCI Leasing.
7. **Default and Ex-parte Evidence (February 28, 2000):** The RTC declared L & L Lawrence and Sae Chae Lee in default after failure to file an answer. PCI Leasing then presented evidence ex parte through witness Theresa Soriano, an Account Officer.
8. **RTC Decision (July 3, 2000):** RTC ruled in favor of PCI Leasing, ordering L & L Lawrence and Sae Chae Lee to pay PhP 32,909,836.61 and authorized PCI Leasing to retain possession of the replevined equipment.

9. **Appeal to Court of Appeals (CA):** L & L and Sae Chae Lee filed an appeal. The CA affirmed the RTC decision, leading to the petition for review before the Supreme Court.

Issues:

1. **Automatic Entitlement to Relief:** Whether a plaintiff is automatically entitled to relief upon a declaration of default regardless of evidence presented.
2. **Estoppel Application:** Whether a corporation can be estopped based on its officer's representations.
3. **Surety's Liability:** Whether a surety can be held liable for obligations not explicitly specified in the surety agreement.

Court's Decision:

1. **No Automatic Relief:** The Supreme Court reiterated that a declaration of default does not automatically grant the plaintiff relief. The evidence presented ex parte by PCI Leasing was scrutinized and deemed sufficient to merit the judgment.
2. **No Estoppel:** The Court clarified that the arguments presented did not transform the financial lease agreement into a loan. Testimonies corroborated that the arrangement was a legitimate financial lease agreement, where PCI Leasing retained ownership and L & L Lawrence had use and possession.
3. **Surety is Valid:** The discrepancy in dates did not invalidate the surety agreement. The Court underscored that petitioner Sae Chae Lee's obligations under the Continuing Guaranty were binding and comprehensive, referencing the executed lease agreement date.

Doctrine:

1. **Contractual Obligations:** Contracts have the force of law between the parties. Obligations must be upheld if they are not contrary to law, morals, good customs, public order, or public policy.
2. **Default Declarations:** A declaration of default does not equate to automatic relief; the merits of the evidence still need to be evaluated.
3. **Financial Leasing Agreements:** Such agreements, where the finance company purchases and leases equipment to the lessee, are distinct from traditional loans and are

legally recognized and binding.

Class Notes:

1. **Elements of Default:** Failure to answer, notice given, motion by the plaintiff, and subsequent court declaration.
2. **Principles of Estoppel:** Reliance on a party's conduct or representation leading to a change in position resulting in detriment.
3. **Suretyship:** A surety is bound to the explicit terms of the contract; obligations are coextensive but must be clearly stated.

Civil Code Provisions:

- **Article 1159:** Contracts have the force of law and must be complied with unless they are contrary to law, morals, good customs, public order, or public policy.

Historical Background:

In the late 1990s, the Philippines faced significant economic challenges driven by the Asian Financial Crisis. The crisis led businesses to renegotiate and, in many cases, default on financial obligations, prompting numerous litigations involving financial institutions. The case of L & L Lawrence Footwear highlights the legal precedents surrounding contractual obligations, financial leasing, and the implications of being declared in default during economically tumultuous times.