FIDEL DABUCO, FELICIANO EBINA, MELICIO BOLO, AURELIO CABAJAR, EUSTIQUIO CABATUAN, RAFAEL OCAREZA, SAMUEL RECO, ALEJANDRO IBONALO TEMPLATURA, NEMESIO OBESO, ALEJANDRA CABILES, JU...

G.R. No. 133775. January 20, 2000

Ponente: KAPUNAN, J.

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KAPUNAN, J.:

Before this Court is a Petition for Review on Certiorari under Rule 45, with a prayer for issuance of a Restraining Order or Writ of Preliminary Injunction. The Petition assails the Decision[1], dated October 6, 1997 and the Order, dated April 30, 1998, both of the Court of Appeals. The issue raised in the petition before the Court of Appeals was whether the dismissal of Civil Case No. CEB-16217 by the Regional Trial Court of Cebu City, Branch 15, was proper.

The case in the trial court, Civil Case No. CEB-16217, was an action for quieting of title, accion publiciana and damages involving agricultural lands located in Gabi, Sudlon, Cebu City. Private respondent GABI Multi Purpose Cooperative (GABI, for brevity) was the plaintiff in the case below, while petitioners were the defendants.

As an incident to the instant petition, petitioners filed an Urgent Motion, dated June 10, 1998, for the issuance of a Restraining Order or Writ of Preliminary Injunction, wherein they alleged that GABI had commenced to enter the disputed lands. On July 17, 1998, an Opposition by GABI to petitioners' Urgent Motion was received by the Court. Petitioners filed a Reply to the Opposition on July 28, 1998, and a Rejoinder, dated August 28, 1998 was filed by GABI.

GABI filed a 2-page Comment,[2] wherein GABI dismissed petitioners' contentions as a mere rehash of its arguments in the appellate court. The Solicitor General also filed a Comment[3] in behalf of the respondent Court of Appeals. On February 18, 1999, the Court received petitioners' Reply to the Comment of the Solicitor General.

The antecedent facts are summarized in the assailed Decision of the Court of Appeals. We quote the pertinent portions below:

> The Lazarrabal [sic] family were the registered owners of the properties, subject matter of this case.
>
> In 1991, on different occasions, the subject properties were sold to Ruben Baculi, Editha Belocura, Lira Puno, Rafael Lapuz, Ladrioro Montealto, Joel Masecampo, Delsa N. Manay, Ilderim Castañares, Maria Theresa Puno, [and] Jill Mendoza. On June 27, 1994, plaintiff [herein private respondent GABI Multi-Purpose Cooperative], a registered non-stock, non-profit cooperative filed a civil complaint against defendants [herein petitioners] who were found residing and/or tilling the subject properties. Plaintiff alleged therein that it is the owner in fee simple of the subject properties; that defendants without any authority, resided, tilled, sow [sic] in the subject properties; that defendants refused to vacate inspite [sic] notice.
>
> Plaintiff prays for the issuance of preliminary mandatory injunction to require defendants to remove the

> barricade constructed by them and for the issuance of a writ of injunction to restrain defendants from preventing plaintiff in developing the subject properties.
>
> On July 20, 1997, the trial court issued a Temporary Restraining Order, enjoining defendants to desist from further stopping plaintiff's development of the properties. The trial court further required defendants to show cause why no writ of preliminary or mandatory injunction be issued against them.
>
> On July 27, 1997, after hearing, the trial court lifted and dissolved the temporary restraining order it earlier issued upon failure of the plaintiff to prove its title over the subject properties.
>
> On July 29, 1994, defendants filed their answer alleging that plaintiff has no personality to file this case since plaintiff does not appear to be the buyer of the properties neither were the properties titled in its name; that the subject properties are part of the forest reserve which cannot be privately acquired.
>
> On August 3, 1994, defendants filed a Motion to Dismiss the complaint on the ground of lack of cause of action, plaintiff has no personality to sue; and lack of jurisdiction.
>
> Plaintiff moved for the striking out of defendants' motion to dismiss, alleging that at this stage defendants could no longer file the said motion.
>
> On August 18, 1994, the assailed order dismissing the complaint on the ground that plaintiff has no real interest in the case, was rendered.
>
> Plaintiff filed a motion for reconsideration of the said order, but the trial court denied the same. The dispositive portion of the order dated January 9, 1995, of the trial court denying plaintiff's motion for reconsideration reads:
>
> WHEREFORE, finding the Motion for Reconsideration to be without merit, the same is hereby denied. Notify counsel accordingly.
>
> IT IS SO ORDERED.[4]

GABI appealed to the Court of Appeals. Thereafter, the respondent court issued its assailed decision, the dispositive portion of which reads:

> WHEREFORE, foregoing considered, the appealed order is hereby REVERSED and SET-ASIDE. A new one is hereby issued ordering the trial court to reinstate the complaint and to proceed with deliberate speed with the trial of the case.[5]

Petitioners' Motion for Reconsideration was denied by the appellate court in its assailed Order, dated April 30, 1998. They then filed the instant petition praying that the dismissal of Civil Case No. CEB-16217 by the trial court be affirmed, and the decision by the appellate court reversing such dismissal be set aside.

The success of this petition rests on the validity of the dismissal by the trial court. Petitioners assert that there was sufficient reason to dismiss the action below on the ground that GABI had no cause of action against petitioners. They also aver in the alternative that the Complaint by GABI was properly dismissed on the ground that it failed to state a cause of action.

As a preliminary matter, we wish to stress the distinction between the two grounds for dismissal of an action: failure to state a cause of action, on the one hand, and lack of cause of action, on the other hand. The former refers to the insufficiency of allegation in the pleading, the latter to the insufficiency of factual basis for the action. Failure to state a cause may be raised in a Motion to Dismiss under Rule 16,[6] while lack of cause may be raised any time.[7] Dismissal for failure to state a cause can be made at the earliest stages of an action. Dismissal for lack of cause is usually made after questions of fact have been resolved on the basis of stipulations, admissions or

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evidence presented.[8]

We find no merit in petitioners' first contention that dismissal was proper on the ground of lack of cause of action. We note that the issue of sufficiency of GABI's cause of action does not appear to have been passed upon by the appellate court in its assailed decision. However, inasmuch as this issue was raised in the trial court as an affirmative defense by petitioners and is now assigned in error, we resolve the same.

The pertinent portions of the trial court Order dismissing the action are reproduced below:

> The court was confronted with plaintiff's Motion to Strike Out defendants' pleading entitled: Motion to Dismiss, after the court allowed the same to be filed on the ground alleged in the affirmative defenses, that the plaintiff has no real interest in the property in question. Inasmuch as the action in this case was instituted by the Gabi Multi-Purpose Cooperative which is not the titled owner, nor the holder of the title to the property in question, therefore, it has no legal capacity to sue in this case for lack of interest, not being the real party in interest of the property involved in this litigation. Plaintiff's motion to strike out defendants' motion to dismiss is therefore denied for lack of merit, on the ground that the court has already resolved in the July 27, 1994 Order that if until today the plaintiff cannot produce and to show to this court the title in the name of Gabi Multi-Purpose Cooperative, the court will proceed to dismiss this case.
>
> xxx
>
> WHEREFORE, in view of all the foregoing arguments and considerations, this court hereby resolves to dismiss this case as it is hereby disrnissed.[9]

It appears that the trial court dismissed the case on the ground that GABI was not the owner of the lands or one entitled to the possession thereof, and thus had no cause of action. In dismissal for lack of cause of action, the court in effect declared that plaintiff is not entitled to a favorable judgment inasmuch as one or more elements of his cause of action do not exist in fact.

Because questions of fact are involved, courts hesitate to declare a plaintiff as lacking in cause of action. Such declaration is postponed until the insufficiency of cause is apparent from a preponderance of evidence. Usually, this is done only after the parties have been given the opportunity to present all relevant evidence on such questions of fact.

We do not here rule on whether GABI has a cause of action against petitioners. What we are saying is that the trial court's ruling, to the effect that GABI had no title to the lands and thus had no cause of action, was premature. Indeed, hearings were conducted. And the view of the Court of Appeals was that such hearings were sufficient. In its assailed decision, the appellate court stated the following:

> Records show that plaintiff-appellant was afforded the preliminary hearing required by law before the dismissal of the complaint based on the ground raised in the affirmative defenses.
>
> x x x
>
> Procedurally, therefore, the complaint was properly dismissed.[10]

The Court disagrees with the appellate court's ruling. The hearing of July 27, 1994 was on the propriety of lifting the restraining order. At such preliminary hearing, the trial court required GABI to produce Certificates of Title to the lands in its name. GABI admitted that it did not have such Certificates, only Deeds of Sale from the registered owners. The order of the trial court dated July 27, 1994, reads in part:

> To begin with, the discussions started with the court asking whether the parties are present, and asked the defendants whether they have evidence to show why the temporary restraining order should not be continued,

> and not ripen into a preliminary injunction and they answered that the plaintiff, Gabi Multi Purpose Cooperative has "no locus standi" with Col.Solomon Dalid, to appear and litigate in this case, not being the actual registered owner of the property in question and therefore not the real party in interest.
>
> In view thereof, the court asked the plaintiff's counsel to show to the court titles to prove that they are really the owners of the properties in question. And they could [not] show any, inasmuch as from the records before this court, only Deeds of Sale from the original owners of the properties in favor of individual persons appear.
>
> WHEREFORE, as this hearing was called for the purpose of determining whether the temporary restraining order should ripen into a permanent injunction or in the alternative be lifted this afternoon, for failure of the plaintiffs to show titles to the properties in their names, and they have miserably failed the court hereby resolves to lift and dissolve the temporary restraining order it has issued. However, the defendants are hereby allowed, upon their own request, to file a motion to dismiss questioning the legal personality of Gabi Multi Purpose Cooperative within 15 days from today.[11]

Instead, GABI offered to present evidence to prove its title in the ordinary course of trial. The pertinent portions of the Transcript of Stenographic Notes quoted by petitioners in their Manifestation and Motion, dated September 29, 1998, are reproduced below:

> COURT:
>
> What we are saying, because it has been raised by counsel for the defendants[,] is: what personality has Gabi to sue in this case[.] They are saying that you have no locus standing[sic] in court. You need the proper party in interest. You are not the owners according to the titles. And you are suing, claiming that you are the owners and you have been in possession and that you have been molested by the defendants because you are the owner. But where does it show these? Of course, you alleged that. But where is the proof? We want the proof that you are really the owner. (TSN, 27 July 1994, at 9)
>
> We are asking a question of how does Gabi become the owner of this property such that Gabi is now trying to claim this property against the defendants. Such as [to] exclude the defendants from cultivating or tilting [sic] this property. There is no question about it. We are not questioning your existence as a corporation[,] as a corporate entity. We are asking the question, where lies the right of the ownership of Gabi? How can you prove that you own the property, adverse or against these defendants? And you did not show it to this court. I am afraid you have no cause of action. (TSN, id., at 9-10).
>
> ATTY. P. FLORES:
>
> ...in due time, we are going to present the document.
>
> COURT:
>
> But you have to present that now. Otherwise, I lift the injunction. I lift the temporary restraining order. And I have said and do [sic] it.
>
> ATTY. P. FLORES:

> Your Honor, please, the incident this afternoon is for the defendants to show cause why the injunction cannot be issued.
>
> COURT:
>
> When the court made a mistake in giving you this petition, the court cannot order another procedure. If the court commit[s] an error, it is the inherent power of this court to see to it that no injustice is committed. I am not bound by my own error. Only the dead and fools don't change their minds. (TSN, id., at 10)
>
> ATTY. FLORES
>
> First of all, your Honor, it is not [sic] an error to say that the Gabi Cooperative is not the owner because as a matter of fact, it is the owner. It is just bad enough that [they] were not able to bring with them the documents.[12]

On August 18, 1994, another hearing was conducted wherein GABI was again required to show Certificates of Title to the property in its name. On the basis of GABI's failure to show such Certificates at this second preliminary hearing, the trial court concluded that GABI had no title and thereafter dismissed the case.[13] Such action by the trial court was premature inasmuch as the issues of fact pertaining to GABI's title had not yet been adequately ventilated at that preliminary stage.

Anent petitioners' thesis that dismissal of the complaint by the trial court was proper for failure to state a cause of action, we, likewise, find no valid basis to sustain the same.

Dismissal of a Complaint for failure to state a cause of action is provided for by the Rules of Court.[14]

In dismissal for failure to state a cause, the inquiry is into the sufficiency, not the veracity, of the material allegations.[15] The test is whether the material allegations, assuming these to be true, state ultimate facts which constitute plaintiff's cause of action, such that plaintiff is entitled to a favorable judgment as a matter of law.[16] The general rule is that inquiry is confined to the four corners of the complaint, and no other.[17]

This general rule was applied by the Court of Appeals. Said court stated:

> It is a well-settled rule that in determining the sufficiency of the cause of action, ONLY the facts alleged in the complaint and no others, should be considered. In determining the existence of a cause of action, only the statements in the complaint may properly be considered. If the complaint furnish sufficient basis by which the complaint may be maintained, the same should not be dismissed regardless of the defenses that may be assessed [sic] by defendants-appellees.[18]

The appellate court, relying on the general rule, made the following conclusion:

> A reading of the above-quoted complaint would readily show that plaintiff-appellant has sufficient cause of action as against defendants-appellees.
>
> In the complaint, it is alleged that plaintiff-appellant is the owner of the subject properties, thus, entitled to be respected in its possession and ownership. This is the first element.
>
> Defendants-appellees are mere squatters of the subject properties who should vacate the premises upon demand by plaintiff-appellant. This is the second element.
>
> Defendants-appellees unjustly refused to vacate the subject premises, thus, depriving plaintiff-appellant possession of the same. This is the third element.

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> In this case therefore, plaintiff-appellant has sufficient cause of action.[19]

There are well-recognized exceptions to the rule that the allegations are hypothetically admitted as true and inquiry is confined to the face of the complaint. There is no hypothetical admission of the veracity of allegations if their falsity is subject to judicial notice,[20] or if such allegations are legally impossible, or if these refer to facts which are inadmissible in evidence, or if by the record or document included in the pleading these allegations appear unfounded.[21] Also, inquiry is not confined to the complaint if there is evidence which has been presented to the court by stipulation of the parties,[22] or in the course of hearings related to the case.[23]

Petitioners invoke these exceptions to justify the dismissal by the RTC. They particularly rely on the ruling of this Court in Tan vs. Director of Forestry.[24] As in this case, Tan involved the issue of whether the dismissal for failure to state a cause of action was proper. A hearing was conducted on Tan's prayer for preliminary injunction, wherein evidence was submitted by the parties and extensive discussion held. The trial court then resolved the Motion to Dismiss and dismissed Tan's petition for failure to state a cause of action. The trial court held that, on the basis of the evidence presented in the hearings, the timber license relied upon by Tan was null and void. Such license being void, Tan's allegation that his right had been violated was false. On appeal, this Court ruled that the trial court was correct in considering the evidence already presented and in not confining itself to the allegations in Tan's petition.

The theory behind Tan is that the trial court must not rigidly apply the device of hypothetical admission of allegations when, on the basis of evidence already presented, such allegations are found to be false. Thus, findings of fact are not postponed until after trial, but are made at the preliminary stage because there is sufficient evidence available.

We find, however, that Tan is not applicable in this case. Unlike in Tan where the parties were given ample opportunity in the preliminary hearing to present evidence on their contentions, GABI did not have sufficient chance to prove its allegation of ownership. Thus, the conclusion that GABI's allegation of ownership is false and that its complaint stated no cause of action, appears to be without basis.

Petitioners also invoke Drilon vs. Court of Appeals.[25] Yet, a close reading of Drilon reveals that petitioners' contention is weakened rather than strengthened by said case. Drilon also involved the issue of whether the dismissal for failure to state a cause of action was proper. However, the Court applied the general rule that inquiry is confined to the face of the complaint and no other.[26]

In sum, as appears from the available records, the Court of Appeals was correct in ruling that the dismissal by the trial court of GABI's complaint was incorrect. The case should, therefore, proceed to trial where the parties may adduce evidence to support their claims and defenses.

IN VIEW OF THE FOREGOING, the Court resolved to DENY the Petition.

SO ORDERED.

Davide, Jr., C.J., (Chairman), Puno, Pardo, and Ynares-Santiago, JJ., concur.

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[1] Rollo, p. 39.

[2] Id., at 78-80.

[3] Id., at 141-156.

[4] Id., at 41-42 (emphasis ours).

[5] Id., at 48.

[6] Rule 16 of the Rules of Court reads:

> Section 1. Grounds.-Within the time for but before filing the answer to the complaint or pleading asserting a claim, a motion to dismiss may be made on any of the following grounds:
>
> xxx
>
> (g) That the pleading asserting the claim states no cause of action;
>
> xxx

[7] Quiaoit vs. Consolacion, 73 SCRA 208, 212 (1976), per Antonio, J.

[8] For further discussion on other distinctions and difference in procedure between these two grounds for dismissal, refer to REGALADO, I REMEDIAL LAW CONPENDIUM 164 (6th rev. ed. 1997); MORAN, I COMMENTS ON THE RULES OF COURT 608 (1995 ed. as revised by Dr. Fortunato Gupit, Jr.)

[9] Rollo, pp. 123-124.

[10] Id., at 42-43.

[11] Id., at 122.

[12] Id., at 116-117.

[13] Supra, note 8.

[14] Supra, note 6.

[15] Ventura vs. Bernabe, 38 SCRA 587, 598 (1971), per Barredo, J., citing Palma vs. Graciano, 99 Phil. 72 (1956).

[16] Suyom, et al. v. Collantes, et al., 69 SCRA 514, 520 (1976), per Esguerra, J.

[17] Acuña vs. Batac Producers Cooperative, 20 SCRA 526, 531 (1967), per Makalintal, J., citing De Jesus, et al. vs. Santos Belarmino, 50 O.G. 3004-3068; Verzosa vs. Rigonan, G.R. No. L-6459, April 23, 1954; Dimayuga vs. Dimayuga, 51 O.G. 2397-2400.

[18] Rollo, p. 43

[19] Id., at 45.

[20] U. Bañez Electric Light Co. vs. Abra Electric Cooperative, Inc., et al., 119 SCRA 90, 93 (1982), per Plana, J.

[21] Regalado, I Remedial Law Compendium (5th rev. ed.) 151, citing Marcopper Mining Corp. vs. Garcia, 143 SCRA 178, 188 (1986), per Gutierrez, J., and Tan vs. Director of Forestry, 125 SCRA 302 (1983) per Makasiar, J.

[22] Locals No. 1470, No. 1469, and No. 1512 of the International Longshoremen's Association vs. Southern Pacific Co., 131 F. 2d 605.

[23] Tan vs. Director of Forestry, 125 SCRA 302 (1983) per Makasiar, J.

[24] 125 SCRA 302 (1983) per Makasiar, J.

[25] 270 SCRA 211 (1997), per Hermosisima, Jr., J.

[26] Id., at 225.

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