

REPUBLIC OF THE PHILIPPINES, REPRESENTED BY THE PHILIPPINE ECONOMIC ZONE AUTHORITY (PEZA) THROUGH ITS DIRECTOR GENERAL, LILIA B. DE LIMA, PETITIONER, VS. ANTONIO AND LILI FLOREN...

G.R. No. 166866. March 27, 2008

Ponente: CORONA, J.

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CORONA, J.:

This is a petition for review on certiorari[1] of the February 7, 2005 decision[2] of the Court of Appeals (CA) in CA-G.R. SP No. 86718. The CA dismissed petitioner Republic of the Philippines' petition for certiorari and prohibition assailing various orders of the Regional Trial Court (RTC), Lapu-Lapu City, Cebu, Branch 27, in connection with the execution of the RTC's judgment dated December 21, 1993 in Civil Case No. 2415-L, as modified by the decision of the CA dated June 25, 2002 in CA-G.R. CV No. 54765. This pertained to a case for expropriation of respondent spouses Antonio and Lili Florendo's properties.[3]

Petitioner Republic of the Philippines is represented in this case by the Philippine Economic Zone Authority (PEZA), a government corporation created under RA 7916,[4] as amended.

On April 14, 1991, the Export Processing Zone Authority, (PEZA), predecessor of PEZA, filed a complaint for the expropriation of seven parcels of land (Lot Nos. 4703-B-part, 4702-C, 4702-B, 4704, 4705-H, 4709 and 4710)[5] located at Barrio Ibo, Lapu-Lapu City, Cebu, owned by respondents. The complaint was filed in the RTC of Lapu-Lapu City, Branch 27 and docketed as Civil Case No. 2415-L. The purpose of the expropriation was to establish and develop an export processing zone or a part thereof on those real properties.[6]

After trial on the merits, the RTC rendered a decision ordering the expropriation of the seven parcels of land and payment of just compensation of P1,500 per sq. m. with 12% interest per annum from the time petitioner took possession on March 12, 1992 until full payment thereof.[7] For the aggregate area of 17,967.5 sq. m., the total compensation was P26,951,250.

Petitioner filed an appeal in the CA docketed as CA-G.R. CV No. 54765 to question the correctness of the valuation of P1,500 per sq. m. as just compensation.[8] Pending appeal, petitioner and respondents reached an amicable settlement and agreed on the following:

- P1,500 per sq. m. valuation fixed by the RTC;
- waiver by respondents of the payment of the court-awarded 12% interest and
- presentation by respondents of clean titles of all the subject properties before payment by petitioner.

Accordingly, the parties executed a deed of absolute sale dated June 25, 2001 which set out the terms and conditions of their settlement, the transfer of ownership of Lot No. 4704 under TCT No. 21289 from respondents to petitioner and the execution by the parties of the corresponding deed of absolute sale for the remaining six lots

as soon as respondents could settle or clear the encumbrances or other problems affecting them.[9]

Thereafter, the consideration for Lot Nos. 4705-H, 4709 and 4710 was paid by petitioner and ownership was subsequently transferred to it. Petitioner prepared a joint motion to dismiss the expropriation case but respondent Antonio Florendo refused to sign because there were still three lots (Lot Nos. 4703-B-part, 4702-C and 4702-B) which had not yet been paid. Respondents could not clear these properties of their encumbrances and liens as there were pending cases filed by third party claimants over them. Instead, they proposed that a partial compromise agreement be executed to cover the four lots that had already been sold and transferred to PEZA. Petitioner, however, found the proposal unacceptable and contrary to their compromise agreement.[10]

While the parties were still trying to decide whether a partial compromise agreement or a joint motion to dismiss should be executed, the CA rendered a decision[11] in CA-G.R. CV No. 54765 dated June 25, 2002 affirming the decision of the RTC with the modification that the fair market value of the subject properties should be P1,000 per sq. m. instead of P1,500 per sq. m. No appeal was taken by either party. Neither did they inform the CA that they had already entered into a compromise agreement.[12] Hence, the decision attained finality on July 18, 2002.[13]

On October 28, 2002, respondents filed a motion for execution of the final judgment of the CA with respect to the three parcels of land, namely Lot Nos. 4703-B-part, 4702-C and 4702-B.[14] In an order dated March 21, 2003, the RTC granted respondents' motion and a writ of execution was issued on April 24, 2003.[15] Consequently, notices of garnishment[16] were served on the Land Bank of the Philippines, Lapu-Lapu City Branch which was petitioner's depository bank, for the amount of P6,108,300.[17]

On May 19, 2003, petitioner filed a motion to quash the writ of execution and an urgent ex-parte motion to lift the garnishment. Both motions were denied by the RTC in an order dated May 21, 2004 on the ground that, since the deed of absolute sale executed by the parties while the appeal was pending in the CA was not approved by the latter, the agreement did not bind it and did not moot the decision it promulgated. In the same order, the RTC ordered the sheriff to implement the writ of execution dated April 24, 2003.[18]

Thereafter, notices of garnishment[19] were served upon business establishments and other locators of PEZA[20] prompting petitioner to file motions to recall, lift and set aside the notices of garnishment.[21]

On September 15, 2004, the RTC denied petitioner's motion for reconsideration of the order dated May 21, 2004.[22] Aggrieved anew, petitioner filed a petition for certiorari and prohibition in the CA docketed as CA-G.R. SP No. 86718.

In a decision promulgated on February 7, 2005, the CA dismissed the petition for lack of merit. It held that there was no supervening event that would render execution of the judgment unjust. However, it directed that in executing the final judgment, any amount that might have already been paid by petitioner to respondents with respect to the four lots should be deducted.[23]

Hence this petition with prayer for the issuance of a temporary restraining order and writ of preliminary injunction. In a resolution dated February 21, 2005, we directed the parties to maintain the status quo before the issuance of the order dated March 21, 2003 until further orders from the Court.[24]

Petitioner raises the following issues: (1) whether the compromise agreement of the parties constituted res judicata and therefore the June 25, 2002 decision of the CA could not have superseded it and (2) whether or not there was a supervening event that rendered the execution of the final judgment inequitable.

The parties agree that out of the seven lots, four had been sold and paid for. The three other lots remain unpaid because respondents could not deliver the clean titles of these lots to petitioner in accordance with their

compromise agreement.[25]

Petitioner argues that the parties' compromise agreement became *res judicata* and was implemented upon the payment of the four lots. Accordingly, respondents are estopped from repudiating this agreement by insisting on the execution of the June 25, 2002 CA decision.[26]

Respondents counter that there was no perfected compromise agreement over the three remaining lots as they were not taken out of the judgment of the appealed case in the CA which became final. Execution of this final judgment would therefore be proper and just compensation for these remaining lots should be paid.[27]

We grant the petition.

The pertinent terms and conditions of the parties' compromise agreement were expressed in the "whereas" clauses of the June 25, 2001 deed of sale they executed:

WHEREAS, on 21 December 1993, the [RTC] rendered its decision fixing the just compensation of the 7 lots at Php1,500 per sq.m. or a total sum of Php26,951,250.00 plus twelve percent (12%) interest per annum from 12 March 1992 until fully paid; which judgment was appealed by the VENDEE to the Court of Appeals under CA-G.R. CV No. 54765 which is still pending with the said court;

WHEREAS, the parties have mutually agreed to settle the said expropriation case amicably with the VENDEE waiving so much of the court awarded interest thereby saving the government much needed funds for other public purposes;

WHEREAS, for this purpose, the Board of Directors of the VENDEE has issued board Resolution No. 00-416 dated 29 December 2000 approving the purchase of the aforementioned lots for Php26,951,250.00;

WHEREAS, the parties have agreed to execute a Deed of Absolute Sale covering initially the lot under TCT No. 21289 (1 of the 7 lots of the vendors, which has only a minor encumbrance/problem) considering that the remaining 6 lots of the vendors either have encumbrances or are untitled, with the understanding that the parties shall execute the corresponding Deed of Absolute Sale for the remaining 6 lots the moment the VENDORS shall have settled/cleared the encumbrances/problems affecting the other 6 lots; (Emphasis supplied)

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A compromise agreement is a contract whereby the parties make reciprocal concessions in order to resolve their differences and thus avoid litigation or to put an end to one already commenced.[28] When it complies with the requisites and principles of contracts, it becomes a valid agreement which has the force of law between the parties.[29] It has the effect and authority of *res judicata* once entered into,[30] even without judicial approval.[31]

A compromise agreement is a simple contract which is perfected by mere consent.[32] From that moment of the meeting of the minds of the parties, it becomes binding on them. To be valid, judicial approval is not required.[33]

When a compromise agreement is given judicial approval, it becomes more than a contract binding upon the parties. Having been sanctioned by the court, it is a determination of the controversy and has the force and effect of a judgment. It is immediately executory and not appealable, except for vices of consent, forgery, fraud, misrepresentation and coercion.[34] Thus, although a compromise agreement has the effect and authority of *res judicata* upon the parties even without judicial approval, no execution may issue until it has received the approval of the court where the litigation is pending and compliance with the terms of the agreement is thereupon decreed.[35]

The first question to answer is whether there was a perfected compromise agreement with respect to the remaining

three lots which have not been paid by petitioner because respondents could not deliver clean titles thereto.

The compromise agreement the parties executed was in the form of a contract of sale. The elements of a valid contract of sale are: (a) consent or meeting of the minds; (b) determinate subject matter and (c) price certain in money or its equivalent.[36] All the elements are present here. The parties agreed on the sale of a determinate object (the seven lots) and the price certain (P26,951,250).[37]

Respondents, however, insist that, as to the three lots, there was no meeting of the minds because the condition relating to the delivery of clean titles was not fulfilled. Respondents are wrong.

The delivery of clean titles was not a condition imposed on the perfection of the contract of sale but a condition imposed on petitioner's obligation to pay the purchase price of these lots.[38] In *Jardine Davies Inc. v. CA*,[39] we distinguished between a condition imposed on the perfection of a contract and a condition imposed merely on the performance of an obligation. While failure to comply with the first condition results in the failure of a contract, non-compliance with the second merely gives the other party options and/or remedies to protect its interests.[40]

The next question is whether this perfected compromise agreement is valid despite the finality of judgment of the CA. In *Magbanua v. Uy*,[41] we answered in the affirmative:

The issue involving the validity of a compromise agreement notwithstanding a final judgment is not novel. *Jesalva v. Bautista* upheld a compromise agreement that covered cases pending trial, on appeal, and with final judgment. The Court noted that Article 2040 impliedly allowed such agreements; there was no limitation as to when these should be entered into. *Palanca v. Court of Industrial Relations* sustained a compromise agreement, notwithstanding a final judgment in which only the amount of back wages was left to be determined. The Court found no evidence of fraud or of any showing that the agreement was contrary to law, morals, good customs, public order, or public policy.

Gatchalian v. Arlegui upheld the right to compromise prior to the execution of a final judgment. The Court ruled that the final judgment had been novated and superseded by a compromise agreement.[42]

Accordingly, we hold that the compromise agreement reached by the parties while the appeal was pending in the CA is valid. When the CA rendered its June 25, 2002 decision, it unknowingly adjudicated a case which, for all intents and purposes, had already been closed and terminated by the parties themselves when they agreed on a settlement.[43] It does not matter that the CA decision lapsed into finality when neither party questioned it. A compromise agreement is still valid even if there is already a final and executory judgment.[44]

Furthermore, compromises are favored and encouraged by the courts.[45] Parties are bound to abide by them in good faith.[46] Since they have the force of law between the parties, no party may discard them unilaterally.[47]

Consequently, considering that the June 25, 2002 decision of the CA had been superseded by the compromise agreement of the parties, the various orders of the RTC directing the execution of the said June 25, 2002 CA decision were invalid and of no force and effect.[48]

And since the compromise agreement between the parties has been upheld and the execution of the June 25, 2002 CA decision has been invalidated, it is no longer necessary to resolve the second issue.[49]

WHEREFORE, the petition is hereby GRANTED. The February 7, 2005 decision of the Court of Appeals in CA-G.R. SP No. 86718 is SET ASIDE. The following orders of the Regional Trial Court, Lapu-Lapu City, Cebu, Branch 27 are hereby declared NULL AND VOID:

(1) order of the RTC, Lapu-Lapu City, Branch 27 dated March 21, 2003 granting respondents' motion for

execution;

(2) order of the RTC dated May 21, 2004 denying petitioner's motion to quash writ of execution and motion to lift garnishment;

(3) order of the RTC dated September 15, 2004 denying petitioner's motion for reconsideration of the order dated May 21, 2004;

(4) writ of execution dated April 24, 2003 and

(5) notices of garnishment dated May 14, 2003, June 22, 2004, and September 23, 2004, and all other orders and notices pursuant to the writ of execution.

The status quo order issued by this Court on February 21, 2005 is LIFTED.

SO ORDERED.

Puno, CJ., (Chairperson), Carpio, Azcuna, and Leonardo-De Castro, JJ., concur.

* Hon. Jesus S. de la Peña, in his capacity as Presiding Judge, Regional Trial Court (RTC), Lapu-Lapu City, Branch 27, Nancy C. Arriescado and Miguel B. Igot, in their capacity as Clerk of Court and Sheriff IV, respectively, of RTC, Lapu-Lapu City, Branch 27, were originally impleaded as public respondents. However, they were excluded pursuant to Rule 45, Section 4 of the Rules of Court.

[1] Under Rule 45 of the Rules of Court.

[2] Penned by Associate Justice Pampio A. Abarintos and concurred in by Associate Justices Mercedes Gozo-Dadole (retired) and Ramon M. Bato, Jr. of the Eighteenth Division of the Court of Appeals; rollo, pp. 41-51.

[3] The orders assailed were the: 1) order of the RTC, Lapu-Lapu City, Branch 27 dated March 21, 2003 granting respondents' motion for execution; (2) order of the RTC dated May 21, 2004 denying petitioner's motion to quash writ of execution and motion to lift garnishment; (3) order of the RTC dated September 15, 2004 denying petitioner's motion for reconsideration of the order dated May 21, 2004; (4) writ of execution dated April 24, 2003; (5) notices of garnishment dated May 14, 2003, June 22, 2004, September 23, 2004; (6) Order of Delivery of Money dated February 3, 2005 and such other orders and notices pursuant to the writ of execution; id., p. 35.

[4] The Special Economic Zone Act of 1995.

[5] The details of the lots are as follows:

(1) 4703-B-part - Tax Declaration (TD) No. 00567 with an area of 1,689.5 square meters; (2) 4702-C - TD No. 00566 with an area of 2,418 sq. m.; (3) Unregistered land, Lot No. 4702-B with an area of 520 sq. m.; (4) 4704 - TCT No. 21289 with an area of 3,548 sq. m.; (5) 4705-H - TCT No. 21288 with an area of 1,601 sq. m.; (6) 4709 - TCT No. 21290 with an area of 6,013 sq. m.; (7) 4710 - TCT No. 21291 with an area of 2,178 sq. m.; id., p. 85.

[6] Id., p. 42.

[7] Id., p. 85.

[8] Id., p. 100.

[9] Id., p. 87.

[10] *Id.*, pp. 45, 384-385.

[11] Penned by Associate Justice Marina L. Buzon and concurred in by Associate Justices Cancio C. Garcia (now retired Supreme Court Justice) and Eliezer R. de los Santos of the First Division of the CA; *id.*, pp. 100-108.

[12] *Id.*, pp. 45-46.

[13] *Id.*, p. 109.

[14] *Id.*, p. 111.

[15] *Id.*, pp. 52-53.

[16] Dated May 14, 2003 and September 23, 2004; *id.*, pp. 59 and 62. An amended notice of garnishment for the amount of P11,670,555 was issued on November 18, 2004; *id.*, p. 252. An Order of Delivery of Money was issued on February 3, 2005; *id.*, p. 266.

[17] *Id.*, p. 59.

[18] *Id.*, p. 56.

[19] Dated June 22, 2004.

[20] For the rentals of NEC Technologies Phils., Inc., TMX Philippines, KT Sakaral, Corp., Daitoh Precision, Inc., Philippine Makoto Corp., Pentax Cebu Phils., Corp., Cebu Dai-ichi, Corp., Lear Automotive Corp. Plant 222 & 223, Philippine Tonan Corp., Exas Phils. Inc., Fairchild Semiconductor, Inc., Taiyo Yuden (Phils.), Inc., Cebu Microelectronics, Corp.; rollo, pp. 61-74.

[21] *Id.*, p. 47. The rollo does not indicate if these were acted on.

[22] *Id.*, pp. 57-58.

[23] *Id.*, p. 51. These four lots are lot nos. 4705-H, 4709, 4710 and 4704; *id.*, pp. 44-45.

[24] *Id.*, p. 269.

[25] *Id.*, pp. 370-371, 377, 384.

[26] *Id.*, pp. 373-374.

[27] *Id.*, pp. 386-387.

[28] Civil Code, Article 2028.

[29] *Magbanua v. Uy*, G.R. No. 161003, 6 May 2005, 458 SCRA 184, 190-191, citations omitted.

[30] Civil Code, Article 2037.

[31] *Chavez v. CA*, G.R. No. 159411, 18 March 2005, 453 SCRA 843, 850, citing *Vda. de Guilas v. David*, G.R. No. L-24280, 27 May 1968, 23 SCRA 762, 766.

[32] *Mayuga v. CA*, G.R. No. L-46953, 28 September 1987, 154 SCRA 309, 319, citing Article 1315 of the Civil Code.

[33] *Id.*, p. 320.

[34] *Supra* note 29 at 191, citations omitted.

[35] *Martir v. Verano*, G.R. No. 170395, 28 July 2006, 497 SCRA 120, 127, citing *Armed Forces of the Philippines Mutual Benefit Association, Inc. v. Court of Appeals*, G.R. No. 126745, 26 July 1999, 311 SCRA 143, 154-155.

[36] Civil Code, Art. 1458; *Swedish Match, AB v. CA*, G.R. No. 128120, 20 October 2004, 441 SCRA 1, 18, citing *Roble v. Arbasa*, 414 Phil. 434 (2001).

[37] P1,500 per sq. m. for the total area of 17,967.5 sq. m.; rollo, pp. 86-87.

[38] *Almira v. Court of Appeals*, G.R. No. 115966, 20 March 2003, 399 SCRA 351, 363.

[39] 389 Phil. 204, 213 (2000), citing *Babasa v. Court of Appeals*, G.R. No. 124045, 21 May 1998, 290 SCRA 532.

[40] *Id.*; Art. 1545 of the Civil Code states :

Art. 1545. Where the obligation of either party to a contract of sale is subject to any condition which is not performed, such party may refuse to proceed with the contract or he may waive performance of the condition
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[41] *Supra* note 29.

[42] *Id.*, p. 193, citing *Jesalva v. Bautista*, 105 Phil. 348, 351 (1959); *Palanca v. Court of Industrial Relations*, 150-C Phil. 354, 359 (1972) and *Gatchalian v. Arlegui*, G.R. Nos. L-35615 and L-41360, 17 February 1977, 75 SCRA 234, 241.

[43] *Olaybar v. NLRC*, G.R. No. 108713, 28 October 1994, 237 SCRA 819, 824.

[44] *Supra* note 29.

[45] *Supra* note 43 at 823, citing *McCarthy v. Barber Steamship Lines*, 45 Phil. 488, 498 (1923); *Viesca v. Gilinsky*, G.R. No. 171698, 4 July 2007.

[46] *Clark Development Corporation*, G.R. No. 150986, 2 March 2007, 517 SCRA 203, 219, citing *Ramnani v. Court of Appeals*, G.R. Nos. 85494, 85496 and 195071, 10 July 2001, 360 SCRA 645, 654.

[47] *Hernaez v. Yan Kao*, 123 Phil. 1147, 1153 (1966).

[48] *Tambunting v. Court of Appeals*, G.R. No. 135786, 23 July 2004, 435 SCRA 48, 54.

[49] Petitioner asserted that the case of *Aznar Enterprises, Inc. v. Spouses Lili and Antonio Florendo, et al.* for Quieting of Title and Partition also pending in RTC, Lapu-Lapu City, Cebu, Branch 27, and docketed as Civil Case No. 4743-L (rollo, p. 154) was a supervening event that rendered the execution of the June 25, 2002 CA decision in CA-G.R. CV No. 54765 unjust and inequitable. This decision became final on July 18, 2002. One of the exceptions to the principle of immutability of final judgments is the existence of supervening events. Supervening events refer to facts which transpire after judgment has become final and executory or to new circumstances which develop after the judgment has acquired finality. The amended complaint in the *Aznar* case was filed on July 25, 2002. While it is true that the amended complaint was filed after the CA decision attained finality, petitioner did not indicate when the original complaint was filed. This is essential because respondents were impleaded as original defendants in the original complaint and not just in the amended complaint. Thus, we cannot determine with certainty if the *Aznar* case is properly a supervening event.

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