

COMGLASCO CORPORATION/AGUILA GLASS, PETITIONER, VS. SANTOS CAR CHECK CENTER CORPORATION, RESPONDENT.

G.R. No. 202989. March 25, 2015

Ponente: REYES, J.

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REYES, J.:

On August 16, 2000, respondent Santos Car Check Center Corporation (Santos), owner of a showroom located at 75 Delgado Street, in Iloilo City, leased out the said space to petitioner Comglasco Corporation (Comglasco), an entity engaged in the sale, replacement and repair of automobile windshields, for a period of five years at a monthly rental of P60,000.00 for the first year, P66,000.00 on the second year, and P72,600.00 on the third through fifth years.[1]

On October 4, 2001, Comglasco advised Santos through a letter[2] that it was pre-terminating their lease contract effective December 1, 2001. Santos refused to accede to the pre-termination, reminding Comglasco that their contract was for five years. On January 15, 2002, Comglasco vacated the leased premises and stopped paying any further rentals. Santos sent several demand letters, which Comglasco completely ignored. On September 15, 2003, Santos sent its final demand letter,[3] which Comglasco again ignored. On October 20, 2003, Santos filed suit for breach of contract.[4]

Summons and a copy of the complaint, along with the annexes, were served on Comglasco on January 21, 2004, but it moved to dismiss the complaint for improper service. The Regional Trial Court (RTC) of Iloilo City, Branch 37, dismissed the motion and ordered the summons served anew. On June 28, 2004, Comglasco filed its Answer.[5] Santos moved for a judgment on the pleadings, which the RTC granted. On August 18, 2004, the trial court rendered its judgment,[6] the dispositive portion of which reads:

WHEREFORE, judgment is hereby rendered in favor of [Santos] and against [Comglasco]:

1. Ordering [Comglasco] to faithfully comply with [its] obligation under the Contract of Lease and pay its unpaid rentals starting January 16, 2002 to August 15, 2003 in the total amount of Php1,333,200.00, plus 12% interest per annum until fully paid;

2. To pay [Santos]:

- a) Php200,000.00 as attorney's fees;
- b) [Php]50,000.00 as litigation expenses;
- c) [Php]400,000.00 as exemplary damages.

3. Costs of the suit.

SO ORDERED.[7]

On February 14, 2005, Santos moved for execution pending Comglasco's appeal, which the trial court granted on May 12, 2005. In its appeal, Comglasco interposed the following issues for resolution:

- Whether or not judgment on the pleadings was properly invoked by the trial court as basis for rendering its decision;
- Whether or not material issues were raised in [Comglasco's] Answer;
- Whether or not damages may be granted by the trial court without proof and legal basis.[8]

In its Decision[9] dated August 10, 2011, the Court of Appeals (CA) affirmed the judgment of the RTC but reduced the award of attorney's fees to P100,000.00 and deleted the award of litigation expenses and exemplary damages.

Petition for Review to the Supreme Court

In this petition, Comglasco raises the following issues:

- Whether or not judgment on the pleadings was properly invoked by the trial court as basis for rendering its decision?
- Whether or not material issues were raised in [Comglasco's] answer?
- Whether or not summary judgment or judgment on the pleadings is the proper remedy for [Santos] under the circumstances of the present case?
- Whether or not the amount deposited for advance rental and deposit should be credited to [Comglasco's] account?
- Whether or not attorney's fees may be granted by the trial court without proof and legal basis?[10]

Paragraph 15 of the parties' lease contract[11] permits pre-termination with cause in the first three years and without cause after the third year. Citing business reverses which it ascribed to the 1997 Asian financial crisis, Comglasco insists that under Article 1267 of the Civil Code it is exempted from its obligation under the contract, because its business setback is the "cause" contemplated in their lease which authorized it to pre-terminate the same. Article 1267 provides:

Art. 1267. When the service has become so difficult as to be manifestly beyond the contemplation of the parties, the obligor may also be released therefrom, in whole or in part.

Comglasco argues that it cannot be said to have admitted in its Answer the material allegations of the complaint precisely because it invoked therein a valid cause for its decision to pre-terminate the lease before the lapse of three years; that therefore, in view of its pleaded "cause" for reneging on its rentals (the 1997 Asian financial crisis), the RTC should have ordered the reception of evidence for this purpose, after which a summary judgment would then have been proper, not a judgment on the pleadings. After all, Santos has claimed in its Motion for Summary Judgment that Comglasco's cited "cause" for pre-termination was fictitious or a sham, whereas in truth the prevailing business climate which ensued after the 1997 currency crisis resulted in great difficulty on its part to comply with the terms of the lease "as to be manifestly beyond the contemplation of the parties"; thus, Comglasco should be deemed released from the lease.

Next, Comglasco insists that its advance rentals and deposit totaling P309,000.00 should be deducted from any sum awarded to Santos while it also insists that there is no factual and legal basis for the award of damages.

Ruling of the Court

The petition is denied.

The first three issues being related will be discussed together.

Comglasco maintains that the RTC was wrong to rule that its answer to Santos' complaint tendered no issue, or admitted the material allegations therein; that the court should have heard it out on the reason it invoked to justify its action to pre-terminate the parties' lease; that therefore a summary judgment would have been the proper recourse, after a hearing.

In *Philippine National Construction Corporation v. CA*[12] (PNCC), which also involves the termination of a lease of property by the lessee "due to financial, as well as technical, difficulties,"[13] the Court ruled:

The obligation to pay rentals or deliver the thing in a contract of lease falls within the prestation "to give"; hence, it is not covered within the scope of Article 1266. At any rate, the unforeseen event and causes mentioned by petitioner are not the legal or physical impossibilities contemplated in said article. Besides, petitioner failed to state specifically the circumstances brought about by "the abrupt change in the political climate in the country" except the alleged prevailing uncertainties in government policies on infrastructure projects.

The principle of *rebus sic stantibus* neither fits in with the facts of the case. Under this theory, the parties stipulate in the light of certain prevailing conditions, and once these conditions cease to exist, the contract also ceases to exist. This theory is said to be the basis of Article 1267 of the Civil Code, which provides:

Art. 1267. When the service has become so difficult as to be manifestly beyond the contemplation of the parties, the obligor may also be released therefrom, in whole or in part.

This article, which enunciates the doctrine of unforeseen events, is not, however, an absolute application of the principle of *rebus sic stantibus*, which would endanger the security of contractual relations. The parties to the contract must be presumed to have assumed the risks of unfavorable developments. It is therefore only in absolutely exceptional changes of circumstances that equity demands assistance for the debtor.

In this case, petitioner wants this Court to believe that the abrupt change in the political climate of the country after the EDSA Revolution and its poor financial condition "rendered the performance of the lease contract impractical and inimical to the corporate survival of the petitioner."

This Court cannot subscribe to this argument. As pointed out by private respondents:

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Anent petitioner's alleged poor financial condition, the same will neither release petitioner from the binding effect of the contract of lease. As held in *Central Bank v. Court of Appeals*, cited by private respondents, mere pecuniary inability to fulfill an engagement does not discharge a contractual obligation, nor does it constitute a defense to an action for specific performance.[14]

Relying on Article 1267 of the Civil Code to justify its decision to pre-terminate its lease with Santos, Comglasco invokes the 1997 Asian currency crisis as causing it much difficulty in meeting its obligations. But in PNCC,[15] the Court held that the payment of lease rentals does not involve a prestation "to do" envisaged in Articles 1266 and 1267 which has been rendered legally or physically impossible without the fault of the obligor-lessor. Article 1267 speaks of a prestation involving service which has been rendered so difficult by unforeseen subsequent events as to be manifestly beyond the contemplation of the parties. To be sure, the Asian currency crisis befell the region from July 1997 and for sometime thereafter, but Comglasco cannot be permitted to blame its difficulties on the said regional economic phenomenon because it entered into the subject lease only on August 16, 2000, more than three years after it began, and by then Comglasco had known what business risks it assumed when it opened a new shop in Iloilo City.

This situation is no different from the Court's finding in PNCC wherein PNCC cited the assassination of Senator

Benigno Aquino Jr. (Senator Aquino) on August 21, 1983 and the ensuing national political and economic crises as putting it in such a difficult business climate that it should be deemed released from its lease contract. The Court held that the political upheavals, turmoils, almost daily mass demonstrations, unprecedented inflation, and peace and order deterioration which followed Senator Aquino's death were a matter of judicial notice, yet despite this business climate, PNCC knowingly entered into a lease with therein respondents on November 18, 1985, doing so with open eyes of the deteriorating conditions of the country. The Court rules now, as in PNCC, that there are no "absolutely exceptional changes of circumstances that equity demands assistance for the debtor." [16]

As found by the CA, Comglasco's Answer admitted the material allegations in the complaint, to wit: a) that Santos holds absolute title to a showroom space; b) that Comglasco leased the said showroom from Santos; c) that after a little over a year, Comglasco pre-terminated the lease; d) that, disregarding Santos' rejection of the pre-termination of their lease, Comglasco vacated the leased premises on January 15, 2002; e) that Comglasco never denied the existence and validity of the parties' lease contract. Specifically, the CA noted that Paragraph 2 of the Answer admitted the allegations in Paragraphs 2, 3 and 4 of the complaint that the lease was for five years, starting on August 16, 2000 and to expire on August 15, 2005, at a monthly rental of P60,000.00 on the first year, P66,000.00 on the second year, and P72,600.00 on the third up to the fifth year.

The RTC acted correctly in resorting to Section 1 of Rule 34, on Judgment on the Pleadings, to cut short a needless trial. This Court agrees with the CA that Comglasco cannot cite Article 1267 of the Civil Code, and that it must be deemed to have admitted the material allegations in the complaint. Section 1, Rule 34 reads:

Sec. 1. Judgment on the pleadings. - Where an answer fails to tender an issue, or otherwise admits the material allegations of the adverse party's pleading, the court may, on motion of that party, direct judgment on such pleading. However, in actions for declaration of nullity or annulment of marriage or for legal separation, the material facts alleged in the complaint shall always be proved.

A judgment on the pleadings is a judgment on the facts as pleaded, [17] and is based exclusively upon the allegations appearing in the pleadings of the parties and the accompanying annexes. [18] It is settled that the trial court has the discretion to grant a motion for judgment on the pleadings filed by a party if there is no controverted matter in the case after the answer is filed. [19] A genuine issue of fact is that which requires the presentation of evidence, as distinguished from a sham, fictitious, contrived or false issue. [20] Come to think of it, under Rule 35, on Summary Judgments, Comglasco had recourse to move for summary judgment, wherein it could have adduced supporting evidence to justify its action on the parties' lease, but it did not do so. Section 2 of Rule 35 provides:

Sec. 2. Summary judgment for defending party. - A party against whom a claim, counterclaim, or cross-claim is asserted or a declaratory relief is sought may, at any time, move with supporting affidavits, depositions or admissions for a summary judgment in his favor as to all or any part thereof.

Concerning, now, whether Comglasco's alleged rental deposit and advance rentals of P309,000.00 should be credited to Comglasco's account, let it suffice to state that it never raised this matter in its answer to the complaint, nor in its appeal to the CA. Certainly, it cannot do so now.

Finally, as to whether attorney's fees may be recovered by Santos, Article 2208(2) of the Civil Code justifies the award thereof, in the absence of stipulation, where the defendant's act or omission has compelled the plaintiff to incur expenses to protect his interest. The pre-termination of the lease by Comglasco was not due to any fault of Santos, and Comglasco completely ignored all four demands of Santos to pay the rentals due from January 16, 2002 to August 15, 2003, thereby compelling Santos to sue to obtain relief. It is true that the policy of the Court is that no premium should be placed on the right to litigate, [21] but it is also true that attorney's fees are in the nature of actual damages, the reason being that litigation costs money. [22] But the Court agrees with the CA that

the lesser amount of P100,000.00 it awarded to Santos instead of P200,000.00 adjudged by the RTC, is more reasonable.

WHEREFORE, premises considered, the petition is DENIED for lack of merit.

SO ORDERED.

Velasco, Jr., (Chairperson), Peralta, Villarama, Jr., and Jardeleza, JJ., concur.

May 7, 2015

NOTICE OF JUDGMENT

Sirs/Mesdames:

Please take notice that on ___March 25, 2015___ a Decision, copy attached herewith, was rendered by the Supreme Court in the above-entitled case, the original of which was received by this Office on May 7, 2015 at 10:14 a.m.

Very truly yours,
(SGD)
WILFREDO V. LAPITAN
Division Clerk of Court

[1] Rollo, p. 13.

[2] Id. at 66.

[3] Id. at 75-78.

[4] Id. at 53-59.

[5] Id. at 80-83.

[6] Id. at 84-87.

[7] Id. at 87.

[8] Id. at 39-40.

[9] Penned by Associate Justice Edgardo L. Delos Santos with Associate Justices Ramon Paul L. Hernando and Victoria Isabel A. Paredes concurring; id. at 36-50.

[10] Id. at 19.

[11] Id. at 61-64.

[12] 338 Phil. 691 (1997).

[13] Id. at 695.

[14] Id. at 700-702.

[15] Supra note 12.

[16] Id. at 701.

[17] Narra Integrated Corporation v. Court of Appeals, 398 Phil. 733, 740 (2000).

[18] Sunbanun v. Go, 625 Phil. 159, 164 (2010).

[19] Sps. Hontiveros v. RTC, Br. 25, Iloilo City, 368 Phil. 653, 666 (1999).

[20] Manufacturers Hanover Trust Co. v. Guerrero, 445 Phil. 770, 776 (2003).

[21] Frias v. San Diego-Sison, 549 Phil. 49, 64 (2007).

[22] Fores v. Miranda, 105 Phil. 266, 272-273 (1959).

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