

## SECOND DIVISION

[ G.R. No. 205604, June 26, 2019 ]

**MAKATI WATER, INC., PETITIONER, VS. AGUA VIDA SYSTEMS, INC., RESPONDENT.**

### DECISION

**CAGUIOA, J:**

Before the Court is a Petition for Review on *Certiorari*<sup>[1]</sup> (Petition) under Rule 45 of the Rules of Court filed by petitioner Makati Water, Inc. (MWI) against respondent Agua Vida Systems, Inc. (AVSI), assailing the Decision<sup>[2]</sup> dated October 29, 2012 (assailed Decision) and Resolution<sup>[3]</sup> dated January 25, 2013 (assailed Resolution) rendered by the Court of Appeals (CA) in CA-G.R. CV No. 97538.

#### **The Facts and Antecedent Proceedings**

As narrated by the CA in its assailed Decision and as culled from the records of the instant case, the essential facts and antecedent proceedings of the case are as follows:

On November 11, 1996 and December 23[, ] 1996, [**respondent AVSI**] and [**petitioner MWI**] entered into **two (2) separate Franchise Agreements.**<sup>[4]</sup> The Franchise Agreements had an initial term of **five (5) years from the dates of their execution.** Under these agreements, [petitioner] MWI shall operate two (2) Agua Vida (AV) water refilling stations [under the franchise of respondent AVSI] located at 8788 Doña Aguirre Avenue cor. Daisy Road, Pilar Village, Las Piñas City, Metro Manila (**AV-Pilar**) and Pasay Road Extension, Makati City (**AV-Arnaiz**), respectively.

In compliance with the terms and conditions of the said Franchise Agreements, [petitioner] MWI operated [the] AV-Pilar and AV-Arnaiz water refilling stations and remitted all payments due to [respondent] AVSI.

[**With t]he Franchise Agreement for AV-Pilar [expiring] on November 1[1], 2001[, ] while that of AV-Arnaiz [expiring] on December 2[3], 2001** x x x Ms. Ruby Estaniel, President of [petitioner] MWI[, ] wrote to [respondent] AVSI requesting that the terms and conditions of the Franchise Agreements over AV-Pilar and AV-Arnaiz be extended until December 31, 2001.

On December 3, 2001, [respondent] AVSI [expressed that it was amenable] to the extension of the Franchise Agreements with a reminder that in the event [petitioner] MWI fail[ed] to renew the same,

[respondent] AVSI would enforce **Section IV-4 and IV-5 of both Franchise Agreements.** [The aforesaid Sections read:

**IV.4. In case of Termination for any reason, AGUA VIDA shall have the right to repurchase all the equipment previously supplied by AGUA VIDA to FRANCHISEE and still serviceable at the time of termination. Should AGUA VIDA repurchase within the first year of the FRANCHISEE, the price will be 70% of the original net selling price to the FRANCHISEE; within the first 2 years - 50%; within 3 years -30%; within 4 years - 10%;**

**IV.5. In the event of Termination, the FRANCHISEE agrees that he shall not in any way operate a water vending business within 2kms. of the terminated site for a period of two (2) years from termination.][5]**

[However, t]he Franchise Agreements were no longer renewed by the parties. [Hence, **the Franchise Agreement covering the AV-Pilar expired on November 11, 2001, while the Franchise Agreement covering the AV-Arnaiz expired on December 23, 2001.**] [Petitioner] MWI ceased to operate both water refilling stations under the name of [respondent] AVSI. **However, it operated said water refilling stations under its own name.** On January 23, 2002 and June 11, 2002, [respondent] AVSI wrote to [petitioner] MWI[,] reminding the latter of the termination of the Franchise Agreements and demanded that it be allowed to repurchase the equipment and for it to cease and desist from operating the water refilling stations, but [petitioner] MWI failed to heed the demand.

On November 5, 2002, [respondent] AVSI filed two (2) separate complaints<sup>[6]</sup> for Specific Performance and Damages with Prayer for Writ of Preliminary Attachment against [petitioner] MWI. The cases were docketed as Civil Case No. 69191 raffled to the [Regional Trial Court of Pasig City (RTC), Branch 160] and Civil Case No. 69192 which was raffled to Branch 161 of the same court.

Except for the location and dates of execution of the Franchise Agreements, both complaints have common allegations and prayers [,] seeking among others: a) **The closure of both water refilling stations after the lapse of two (2) years from pre-termination of the Franchise Agreements or until x x x November 11, 2003 and December 23, 2003, respectively;** b) **The payment of compensatory damages for the continued operation of the water refilling stations from the termination of the [Franchise [Agreements until actual closure of the aforesaid stations in the estimated amount of P330.50 per day; and c) The issuance of an Order for [petitioner] MWI to allow [respondent] AVSI to exercise its right to repurchase the water purification system model PFMC 800 at the rate of ten percent (10%) of the acquisition cost.**

On February 12, 2003, [petitioner] MWI filed a Motion to Dismiss Civil Case No. 69191, seeking its dismissal on the ground of lack of cause of action to which [respondent] AVSI filed its Opposition. However, prior to the resolution of the said motion, [petitioner] MWI filed an Omnibus Motion (for Consolidation of Cases and to Defer Resolution on the Pending Motion to Dismiss before the [RTC], Branch 161.

On August 12, 2003, [RTC,] Branch 160 issued an Order approving the consolidation of Civil Case No. 69192, filed with [RTC], Branch 161, with Civil Case No. 69191, pending before it.

On December 5, 2003, [RTC,] Branch 160 denied [petitioner] MWI's Motion to Dismiss for lack of merit. [Petitioner] MWI moved for its reconsideration, however, the same was denied in an Order dated June 28, 2004.

On September 6, 2004, [petitioner] MWI filed its Answer with Compulsory Counterclaim in the consolidated complaints, raising the defense among others, [respondent] AVSI's lack of cause of action against it.

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Meanwhile, [RTC,] Branch 160 sitting in Pasig City was transferred to San Juan, Metro Manila. As such, the complaints were endorsed to the Office of the Clerk of Court of Pasig City for re-raffling. On March 5, 2007, the complaints were re-raffled to [RTC,] Branch 67 x x x.

x x x x

After the parties have submitted their respective memorandum, the **[RTC, Branch 67] rendered the assailed [D]ecision<sup>[7]</sup> [dated February 28, 2011.] xxx**

[With respect to Sections IV-4 of both Franchise Agreements, the RTC, Branch 67 denied respondent AVSI's prayer that it be allowed to repurchase the equipment previously supplied to petitioner MWI for the reason that under the said provisions of the Franchise Agreements, the right to repurchase may only be exercised up to the fourth year from the execution of the Franchise Agreements. Hence, since more than four years have already elapsed since the Franchise Agreements were executed in 1996, respondent AVSI cannot invoke anymore the right to repurchase under Sections IV-4 of the Franchise Agreements.

However, with respect to Sections IV-5 of the Franchise Agreements, the RTC, Branch 67 held that, in the event of termination of the Franchise Agreements, the said provisions imposed an obligation upon petitioner MWI to not operate water vending businesses within 2 kilometers from the terminated franchise sites for a period of two years from the time of termination. The RTC, Branch 67 found that the aforesaid provisions found on both Franchise Agreements are not limited to situations wherein there is premature cancellation of the Franchise Agreements; the clauses

should also apply in cases wherein the Franchise Agreements have expired, which was exactly what occurred in the instant case. The RTC, Branch 67 explicitly found that the two-year prohibitory period shall be counted from the expiration of the Franchise Agreements, *i.e.*, two years from the expiration of the AV-Pilar Franchise Agreement on November 11, 2001, or until November 11, 2003; and two years from the expiration of the AV-Arnaiz Franchise Agreement on December 23, 2001, or until December 23, 2003.

Hence, the dispositive portion of the RTC, Branch 67's Decision reads:

**WHEREFORE**, in view of all the foregoing, the Court resolved to render judgment as follows:

1. Order the closure of the water refilling stations located at Pasay Road Extension, Makati City (AV-Arnaiz) and No. 8788 Doña Aguirre Avenue cor. Daisy Road, Pilar Villas, Las Piñas (AV-Pilar) operated by defendant Makati Water, Inc.;
2. Order the defendant to pay the plaintiff compensatory damages in the amount of P351,911.10 for Civil Case No. 6919[2] and P233,979.60 for Civil Case No. 6919[1];
3. Order the defendant to pay exemplary damages amounting to One Hundred Thousand (Php 100,000.00) Pesos;
4. Order defendant to pay 25% of the total amount due for the two (2) cases as and for attorney's fees;
5. Costs of suit.

As to the prayer of the defendant for compulsory counterclaim, the Court finds that no sufficient injury was caused to the defendant by the filing of the Complaint, hence, no sufficient basis to grant it.

SO ORDERED.<sup>[8]</sup>

It must be noted that respondent AVSI did not file any motion for reconsideration of the RTC, Branch 67's Decision, which denied its prayer that petitioner MWI be compelled to allow respondent AVSI to exercise its right to repurchase under Sections IV-4 of the Franchise Agreements.

On the other hand, petitioner MWI filed a Motion for Reconsideration<sup>[9]</sup> dated April 12, 2011, which was denied by the RTC, Branch 67 in its Order<sup>[10]</sup> dated June 30, 2011. Hence, petitioner MWI filed its Notice of Appeal<sup>[11]</sup> dated July 21, 2011, which was given due course by the RTC, Branch 67 in its Order<sup>[12]</sup> dated August 8, 2011 .]<sup>[13]</sup>

### **The Ruling of the CA**

In the assailed Decision, aside from reducing the amount of attorney's fees to ten percent (10%) of the total amount due, the CA affirmed the RTC, Branch 67's Decision and denied petitioner MWI's appeal for lack of merit.

The dispositive portion of the assailed Decision reads:

**WHEREFORE**, premises considered, the assailed [D]ecision dated February 28, 2011 of the RTC, Pasig City, Branch 67, in Civil [Case] Nos. 69191-92 is hereby **AFFIRMED with MODIFICATION** that the award for attorney's fees be reduced to 10% of the total amount due for the two (2) cases.

**SO ORDERED.**<sup>[14]</sup>

The CA held that the RTC, Branch 67 did not err in ordering petitioner MWI to pay respondent AVSI compensatory damages in the amount of P351,911.10 for Civil Case No. 69192 and P233,979.60 for Civil Case No. 69191 because the said amounts were based on the actual sales performance of AV-Pilar and AV-Arnaiz, respectively, covering a period of two (2) years, as testified under oath by respondent AVSI's witness, Ms. Pamela Cayanan (Cayanan).<sup>[15]</sup>

Petitioner MWI filed its Motion for Reconsideration<sup>[16]</sup> dated November 23, 2012, which was denied by the CA in its assailed Resolution.

Hence, the instant appeal before the Court.

On May 23, 2013, respondent AVSI filed its Comment,<sup>[17]</sup> to which petitioner MWI responded by filing its Reply<sup>[18]</sup> on June 27, 2013.

### **Issues**

In the instant Petition, petitioner MWI raised two main issues for the Court's consideration: (1) whether the CA erred in affirming the RTC's Decision in so far as it ordered the closure of petitioner MWI's two water refilling stations based on Section IV-5 of the Franchise Agreements; and (2) whether the CA erred in affirming the RTC's Decision in so far as it awarded compensatory damages, exemplary damages, attorney's fees, and costs of suit in favor of respondent AVSI due to the supposed violation by petitioner MWI of Section IV-5 of the Franchise Agreements.

Stripped to its core, the instant case centers on **the interpretation of contracts**. The resolution of the aforesaid issues hinges on the interpretation of the term *termination* found on Section IV-5 of the Franchise Agreements. Does the term *termination* under Section IV-5 of the Franchise Agreements include the expiration of the Franchise Agreements? Otherwise stated, when the Franchise Agreements state that the two-year prohibition clause apply "in the event of Termination," is it likewise applicable "in the event of Expiration?"

### **The Court's Ruling**