

THIRD DIVISION

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

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

DECISION

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:

1. Whether or not judgment on the pleadings was properly invoked by the trial court as basis for rendering its decision;
2. Whether or not material issues were raised in [Comglasco's] Answer;
3. 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:

1. Whether or not judgment on the pleadings was properly invoked by the trial court as basis for rendering its decision?
2. Whether or not material issues were raised in [Comglasco's] answer?
3. Whether or not summary judgment or judgment on the pleadings is the proper remedy for [Santos] under the circumstances of the present case?
4. Whether or not the amount deposited for advance rental and deposit should be credited to [Comglasco's] account?
5. 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 renegeing 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