

## SECOND DIVISION

[ G.R. NO. 159411, March 18, 2005 ]

**TEODORO I. CHAVEZ, PETITIONER, VS. HON. COURT OF APPEALS  
AND JACINTO S. TRILLANA, RESPONDENTS.**

### DECISION

**PUNO, J.:**

Assailed in this petition for review is the Decision dated April 2, 2003<sup>[1]</sup> of the Court of Appeals in CA-G.R. CV No. 59023<sup>[2]</sup> which modified the Decision dated December 15, 1997 of the Regional Trial Court (RTC) of Valenzuela City, Branch 172, in Civil Case No. 5139-V-97, as well as its Resolution dated August 8, 2003<sup>[3]</sup> which denied petitioner's motion for reconsideration.

The antecedent facts are as follows:

In October 1994, petitioner Teodoro Chavez and respondent Jacinto Trillana entered into a contract of lease<sup>[4]</sup> whereby the former leased to the latter his fishpond at Sitio Pariahan, Taliptip, Bulacan, Bulacan, for a term of six (6) years commencing from October 23, 1994 to October 23, 2000. The rental for the whole term was two million two hundred forty thousand (P2,240,000.00) pesos, of which one million (P1,000,000.00) pesos was to be paid upon signing of the contract. The balance was payable as follows:

b. That, after six (6) months and/or, on or before one (1) year from the date of signing this contract, the amount of THREE HUNDRED FORTY-FOUR THOUSAND (P344,000.00) pesos shall be paid on April 23, 1995 and/or, on or before October 23, 1995 shall be paid by the LESSEE to the LESSOR.

c. That, the LESSEE, shall pay the amount of FOUR HUNDRED FORTY-EIGHT THOUSAND (P448,000.00) pesos x x x to the LESSOR on April 23, 1997 and/or, on or before October 23, 1997, and on April 23, 1998 and/or, on or before October 23, 1998 the amount of FOUR HUNDRED FORTY-EIGHT THOUSAND (P448,000.00) pesos x x x.

Paragraph 5 of the contract further provided that respondent shall undertake all construction and preservation of improvements in the fishpond that may be destroyed during the period of the lease, at his expense, without reimbursement from petitioner.

In August 1996, a powerful typhoon hit the country which damaged the subject fishpond. Respondent did not immediately undertake the necessary repairs as the water level was still high. Three (3) weeks later, respondent was informed by a *barangay* councilor that major repairs were being undertaken in the fishpond with

the use of a crane. Respondent found out that the repairs were at the instance of petitioner who had grown impatient with his delay in commencing the work.

In September 1996, respondent filed a complaint before the Office of the *Barangay* Captain of Taliptip, Bulacan, Bulacan. He complained about the unauthorized repairs undertaken by petitioner, the ouster of his personnel from the leased premises and its unlawful taking by petitioner despite their valid and subsisting lease contract. After conciliation proceedings, an agreement was reached, viz.:

### **KASUNDUAN**

*Napagkasunduan ngayong araw na 'to ika-17 ng Setyembre ng nagpabuwis – Teodoro Chavez at bumubuwis na si G. Jay Trillana na ibabalik ni G. Chavez ang halagang P150,000.00 kay G. Trillana bilang sukli sa natitirang panahon ng buwisan.*

*Ngunit kung maibibigay ni G. Chavez ang halagang P100,000.00 bago sumapit o pagsapit ng ika-23 ng Setyembre, taong kasalukuyan, 'to ay nangangahulugan ng buong kabayaran at hindi P150,000.00.*

*Kung sakali at hindi maibigay ang P100,000.00 ang magiging kabayaran ay mananatiling P150,000.00 na may paraan ng pagbabayad ng sumusunod:*

*Ang P50,000.00 ay ibibigay bago sumapit o pagsapit ng ika-31 ng Oktubre 1996 at ang balanseng P100,000.00 ay ibibigay sa loob ng isang taon subalit magbibigay ng promissory note si G. Chavez at kung mabubuwisang ang kanyang palaisdaan ay ibibigay lahat ni G. Chavez ang buong P150,000.00 sa lalong madaling panahon.*

*Kung magkakaroon ng sapat at total na kabayaran si G. Chavez kay G. Trillana ang huli ay lalagda sa kasulatan bilang waiver o walang anumang paghahabol sa nabanggit na buwisan.*

Alleging non-compliance by petitioner with their lease contract and the foregoing "*Kasunduan*," respondent filed a complaint on February 7, 1997 against petitioner before the RTC of Valenzuela City, docketed as Civil Case No. 5139-V-97. Respondent prayed that the following amounts be awarded him, viz.: (a) P300,000.00 as reimbursement for rentals of the leased premises corresponding to the unexpired portion of the lease contract; (b) P500,000.00 as unrealized profits; (c) P200,000.00 as moral damages; (d) P200,000.00 as exemplary damages; and, (e) P100,000.00 as attorney's fees plus P1,000.00 for each court appearance of respondent's counsel.

Petitioner filed his answer but failed to submit the required pretrial brief and to attend the pretrial conference. On October 21, 1997, respondent was allowed to present his evidence *ex-parte* before the Acting Branch Clerk of Court.<sup>[5]</sup> On the basis thereof, a decision was rendered on December 15, 1997<sup>[6]</sup> in favor of respondent, the dispositive portion of which reads:

WHEREFORE, judgment is hereby rendered as follows:

- (1) Ordering the defendant to reimburse to the plaintiff the sum of P300,000.00 representing rental payment of the leased premises for the unused period of lease;
- (2) Ordering the defendant to pay plaintiff the sum of P500,000.00 representing unrealized profit as a result of the unlawful deprivation by the defendant of the possession of the subject premises;
- (3) Ordering the defendant to pay plaintiff the sum of P200,000.00 as moral damages;
- (4) Ordering the defendant to pay plaintiff the sum of P200,000.00 as exemplary damages; and
- (5) Ordering the defendant to pay plaintiff the sum of P100,000.00 as and for attorney's fees, plus costs of suit.

Petitioner appealed to the Court of Appeals which modified the decision of the trial court by deleting the award of P500,000.00 for unrealized profits for lack of basis, and by reducing the award for attorney's fees to P50,000.00.<sup>[7]</sup> Petitioner's motion for reconsideration was denied. Hence, this petition for review.

Petitioner contends that the Court of Appeals erred in ruling that the RTC of Valenzuela City had jurisdiction over the action filed by respondent considering that the subject matter thereof, his alleged violation of the lease contract with respondent, was already amicably settled before the Office of the *Barangay* Captain of Taliptip, Bulacan, Bulacan. Petitioner argued that respondent should have followed the procedure for enforcement of the amicable settlement as provided for in the **Revised Katarungang Pambarangay Law**. Assuming *arguendo* that the RTC had jurisdiction, it cannot award more than the amount stipulated in the "Kasunduan" which is P150,000.00. In any event, no factual or legal basis existed for the reimbursement of alleged advance rentals for the unexpired portion of the lease contract as well as for moral and exemplary damages, and attorney's fees.

Indeed, the **Revised Katarungang Pambarangay Law**<sup>[8]</sup> provides that an amicable settlement reached after *barangay* conciliation proceedings has the force and effect of a final judgment of a court if not repudiated or a petition to nullify the same is filed before the proper city or municipal court within ten (10) days from its date.<sup>[9]</sup> It further provides that the settlement may be enforced by execution by the *lupong tagapamayapa* within six (6) months from its date, or by action in the appropriate city or municipal court, if beyond the six-month period.<sup>[10]</sup> This special provision follows the general precept enunciated in Article 2037 of the **Civil Code**, *viz.*:

A compromise has upon the parties the effect and authority of *res judicata*; but there shall be no execution except in compliance with a judicial compromise.

Thus, we have held that a compromise agreement which is not contrary to law, public order, public policy, morals or good customs is a valid contract which is the law between the parties themselves.<sup>[11]</sup> It has upon them the effect and authority

of *res judicata* even if not judicially approved,<sup>[12]</sup> and cannot be lightly set aside or disturbed except for vices of consent and forgery.<sup>[13]</sup>

However, in **Heirs of Zari, et al. v. Santos**,<sup>[14]</sup> we clarified that the broad precept enunciated in Art. 2037 is qualified by Art. 2041 of the same Code, which provides:

If one of the parties fails or refuses to abide by the compromise, the other party may either enforce the compromise or regard it as rescinded and insist upon his original demand.

We explained, viz:

[B]efore the onset of the new Civil Code, there was no right to rescind compromise agreements. Where a party violated the terms of a compromise agreement, the only recourse open to the other party was to enforce the terms thereof.

When the new Civil Code came into being, its Article 2041 x x x created *for the first time* the right of rescission. That provision gives to the aggrieved party the right to “either enforce the compromise or regard it as rescinded and insist upon his original demand.” Article 2041 should obviously be deemed to qualify the broad precept enunciated in Article 2037 that “[a] compromise has upon the parties the effect and authority of *res judicata*. (underscoring ours)

In exercising the second option under Art. 2041, the aggrieved party may, if he chooses, bring the suit contemplated or involved in his original demand, as if there had never been any compromise agreement, without bringing an action for rescission.<sup>[15]</sup> This is because he may regard the compromise as already rescinded<sup>[16]</sup> by the breach thereof of the other party.

Thus, in **Morales v. National Labor Relations Commission**<sup>[17]</sup> we upheld the National Labor Relations Commission when it heeded the original demand of four (4) workers for reinstatement upon their employer’s failure to comply with its obligation to pay their monetary benefits within the period prescribed under the amicable settlement. We reiterated the rule that the aggrieved party may either (1) enforce the compromise by a writ of execution, or (2) regard it as rescinded and so insist upon his original demand upon the other party’s failure or refusal to abide by the compromise. We also recognized the options in **Mabale v. Apalisok**,<sup>[18]</sup> **Canonizado v. Benitez**,<sup>[19]</sup> and **Ramnani v. Court of Appeals**,<sup>[20]</sup> to name a few cases.

In the case at bar, the **Revised Katarungang Pambarangay Law** provides for a two-tiered mode of enforcement of an amicable settlement, to wit: (a) by execution by the *Punong Barangay* which is quasi-judicial and summary in nature on mere motion of the party entitled thereto; and (b) an action in regular form, which remedy is judicial.<sup>[21]</sup> However, the mode of enforcement does not rule out the right of rescission under Art. 2041 of the **Civil Code**. The availability of the right of rescission is apparent from the wording of Sec. 417<sup>[22]</sup> itself which provides that the amicable settlement “may” be enforced by execution by the lupon within six (6) months from its date or by action in the appropriate city or municipal court, if