Republic of the Philippines
Supreme Court
Manila

THIRD DIVISION

RCJ BUS LINES, INCORPORATED,
Petitioner,

- versus -

MASTER TOURS AND TRAVEL CORPORATION,
Respondent.

G.R. No. 177232

Present:

VELASCO, *J., Chairperson,*
PERALTA,
ABAD,
PEREZ,* and
MENDOZA, *JJ.*

Promulgated:

11 October 2012

x ---------- x

DECISION

ABAD, *J.*:

This case is about a prior agreement for the lease of four buses, claimed to have been novated by a subsequent agreement for their storage in the former lessee's garage for a fee.

The Facts and the Case

On February 9, 1993 respondent Master Tours and Travel Corporation (Master Tours) entered into a five-year lease agreement from February 15, 1993 to February 15, 1998 with petitioner RCJ Bus Lines, Incorporated (RCJ) covering four Daewoo air-conditioned buses, described as "presently junked and not operational" for the lease amount of ₱600,000.00, with

* Designated Acting Member, per Special Order 1299 dated August 28, 2012.

₱400,000.00 payable upon the signing of the agreement and ₱200,000.00 "payable upon completion of rehabilitation of the four buses by the lessee."[1] The agreement was signed by Marciano T. Tan as Master Tours' Executive Vice-President and Rolando Abadilla as RCJ's President and Chairman.

More than four years into the lease or on June 16, 1997 Master Tours wrote RCJ a letter, demanding the return of the four buses "brought to your garage at E. Rodriguez Avenue for safekeeping"[2] so Master Tours could settle its obligation with creditors who wanted to foreclose on the buses. RCJ did not, however, heed the demand.

On January 16, 1998 Master Tours wrote RCJ a letter, demanding the return of the buses to it and the payment of the lease fee of ₱600,000.00 that had remained unpaid since 1993. On February 2, 1998 RCJ wrote back through counsel that it had no obligation to pay the lease fee and that it would return the buses only after Master Tours shall have paid RCJ the storage fees due on them. This prompted Master Tours to file a collection suit against RCJ before the Regional Trial Court (RTC) of Manila, Branch 49.

For its defense, RCJ alleged that it had no use for the buses, they being non-operational, and that the lease agreement had been modified into a contract of deposit of the buses for which Master Tours agreed to pay RCJ storage fees of ₱4,000.00 a month. To prove the new agreement, RCJ cited Master Tours' letter of June 16, 1997 which acknowledged that the buses were brought to RCJ's garage for "safekeeping."

On November 5, 2001 the RTC rendered judgment, ordering RCJ to pay Master Tours ₱600,000.00 as lease fee with 6% interest *per annum* from the date of the filing of the suit and attorney's fees of ₱50,000.00 plus costs.

---

[1] *Rollo*, p. 57.
[2] Id. at 59.

The lower court rejected RCJ's defense of novation from a contract of lease to a contract of deposit, given the absence of proof that Master Tours gave its consent to such a novation.

On appeal, the Court of Appeals (CA) rendered judgment dated October 26, 2006,[3] entirely affirming the RTC Decision. The CA also denied petitioner's motion for reconsideration in a Resolution dated March 27, 2007, hence, the present petition for review.

The Issues Presented

The case presents the following issues:

1. Whether or not the CA erred in holding that there had been no novation in the agreement of the parties from one of lease of the buses to one of deposit of the same;
2. Assuming absence of novation, whether or not the CA erred in ruling that RCJ can be held liable for rental fee notwithstanding that the buses never became operational; and
3. Whether or not the CA erred in affirming the RTC's award of ₱50,000.00 in attorney's fees plus cost of suit against RCJ.

The Court's Rulings

One. Article 1292 of the Civil Code provides that in novation, "it is imperative that it be so declared in unequivocal terms, or that the old and the new obligations be on every point incompatible with each other." And the obligations are incompatible if they cannot stand together. In such a case, the subsequent obligation supersedes or novates the first.[4]

---

[3] Penned by Justice Normandie B. Pizarro with the concurrence of Justices Amelita G. Tolentino and Aurora Santiago-Lagman, id. at 43-49.
[4] *Fortune Motors (Phils.) Corp. v. Court of Appeals*, 335 Phil. 315, 329 (1997).

To begin with, the cause in a contract of lease is the enjoyment of the thing;[5] in a contract of deposit, it is the safekeeping of the thing.[6] They thus create essentially distinct obligations that would result in a novation only if the parties entered into one after the other concerning the same subject matter. The turning point in this case, therefore, is whether or not the parties subsequently entered into an agreement for the storage of the buses that superseded their prior lease agreement involving the same buses.

Although the buses were described in the lease agreement as "junked and not operational," it is clear from the prescribed manner of payment of the rental fee (₱400,000.00 down and ₱200,000.00 upon completion of their rehabilitation) that RCJ would rehabilitate such buses and use them for its transport business. Now, RCJ's theory is that the parties subsequently changed their minds and terminated the lease but, rather than have Master Tours get back its junked buses, RCJ agreed to store them in its garage as a service to Master Tours subject to payment of storage fees.

Two things militate against RCJ's theory.

First, RCJ failed to present any clear proof that it agreed with Master Tours to abandon the lease of the buses and in its place constitute RCJ as depositary of the same, providing storage service to Master Tours for a fee. The only evidence RCJ relied on is Master Tours' letter of June 16, 1997 in which it demanded the return of the four buses which were placed in RCJ's garage for "safekeeping." The pertinent portion of the letter reads:

> This is to follow up our previous discussion with you with regards to the Five (5) units of Daewoo Airconditioned Motorcoaches, which we brought to your garage at E. Rodriguez Avenue for safekeeping. Since we have outstanding loan with BancAsia Finance & Investment Corporation and BancAsia Capital Corporation that we are unable to service payment, they have made final demand to us and are in the process of foreclosing

---

[5] CIVIL CODE, Article 1643.
[6] Id. at Article 1962.

> these units. We urgently request from you a meeting to thresh out matters concerning the pulling of these units by the financing firms.[7]

For one thing, the letter does not on its face constitute an agreement. It contains no contractual stipulations respecting some warehousing arrangement between the parties concerning the buses. At best, the letter acknowledges that five Master Tours' buses were "brought to your [RCJ's] garage…for safekeeping." But the idea of RCJ safekeeping the buses for Master Tours is consistent with their lease agreement. The lessee of a movable property has an obligation to "return the thing leased, upon the termination of the lease, just as he received it."[8] This means that RCJ must, as an incident of the lease, keep the buses safe from injury or harm while these were in its possession.

For another, it is evident from the tenor of Master Tours' letter that RCJ's "safekeeping" was to begin from the time the buses were delivered at its garage. There is no allegation or evidence that Master Tours pulled out the buses at some point, signifying the pre-termination of the lease agreement, then brought them back to RCJ's garage, this time for safekeeping. This circumstance rules out any notion that an agreement for RCJ to hold the buses for safekeeping had overtaken the lease agreement.

Second, it did not make sense for Master Tours to pre-terminate its lease of the junked buses to RCJ, which would earn Master Tours ₱600,000.00, in exchange for having to pay RCJ storage fees for keeping those buses just the same. As pointed out above, the lease already implied an obligation on RCJ's part to safekeep the buses while they were being rented.

Two. RCJ claims that it cannot be held liable to Master Tours for rental fee on the buses considering that these never became operational. The pertinent portions of the lease agreement provide:

---

[7] The letter mentions five buses but the contract refers only to four buses; *rollo*, p. 59.
[8] CIVIL CODE, Article 1665.

> Section 1. Lease of AIRCON BUSES – The LESSOR hereby agrees and shall deliver unto the LESSEE the AIRCON BUSES by way of a long term lease of said buses.
>
> Section 2. Term of Lease – The lease of the AIRCON BUSES shall be for a period of FIVE (5) years to commence on 15 February 1993 and to end automatically on 15 February 1998. x x x
>
> Section 3. Lease Fee – For and in consideration of the lease of the AIRCON BUSES subject hereof, the lease fee for five years for the Four (4) units shall be in the amount of PESOS: SIX HUNDRED THOUSAND (₱600,000.00). The LESSEE agrees to advance the amount of PESOS: FOUR HUNDRED THOUSAND (₱400,000.00) payable upon the signing of the Agreement. The remaining balance of PESOS: TWO HUNDRED THOUSAND (₱200,000.00) will be payable upon completion of rehabilitation of the 4 buses by the lessee.[9]

The Court finds no basis in the above for holding that RCJ's obligation to pay the rents of ₱600,000.00 on the buses depended on the buses being rehabilitated. Apart from delivering the buses to RCJ, the agreement did not require any further act from Master Tours as a condition to the exercise of its right to collect the lease fee.

Of course, the lease agreement provided for two payments: ₱400,000.00 upon the signing of the agreement and ₱200,000.00 upon completion of rehabilitation of the buses. But this provision is more about the mode of payment rather than about the extinguishment of the obligation to pay the amounts due. The phrase "upon completion of rehabilitation" implies an obligation to complete the rehabilitation which, in this case, wholly depended on work to be done "by the lessee."

That the buses may have turned out to be unsuitable for use despite repair cannot prejudice Master Tours. The latter did not hide the condition of the buses from RCJ. Indeed, the lease agreement described them as "presently junked and not operational." RCJ knew what it was getting into and calculated some profit after it shall have rehabilitated the buses and

---

[9] Supra note 1.

placed them on the road. That it may have made a miscalculation cannot exempt it from its obligation to pay the rents.

But since Master Tours demanded the return of the buses before the expiration of the contract, RCJ was not yet in default for the payment of ₱200,000.00. There was time left to complete or undertake the rehabilitation of the buses since the lease was still operative at that time Master Tours opted to pre-terminate the contract.[10] It is only equitable to release RCJ from the liability to pay ₱200,000.00 since it was not afforded the balance of the period to perform its obligation to repair.[11] No one should be unduly enriched at the expense of another.[12]

Three. RCJ claims that the award of attorney's fees plus cost against it was unjustified.

Notably, RCJ did not question such award in the appellant's brief that it filed with the CA. RCJ brought it up only through a supplemental appellant's brief that it filed without leave of court three years after the case was submitted for decision and a month before the CA rendered its judgment in the case.[13]

Nonetheless, the Court notes that the RTC Decision awarded attorney's fees without stating its basis for making such award. The discretion of the court to award attorney's fees under Article 2208 of the Civil Code demands factual, legal, and equitable justification. The court must state the reason for the award of attorney's fees and its failure to do so makes the award utterly baseless.

---

[10] CIVIL CODE, Article 1193. Obligations for whose fulfilment a day certain has been fixed shall be demandable only when that day comes. x x x

[11] Id. at Article 1192. In case both parties have committed a breach of the obligation, the liability of the first infractor shall be equitably tempered by courts. x x x

[12] Id. at Article 2154. If something is received when there is no right to demand it, and it was unduly delivered through mistake, the obligation to return it arises.

[13] CA *rollo*, p. 58.

As regards the cost of suit, costs ordinarily follow the results of the suit and shall be allowed to the prevailing party as a matter of course.[14]

WHEREFORE, the Court **MODIFIES** the Court of Appeals Decision dated October 26, 2006. RCJ Bus Lines, Incorporated is **ORDERED** to pay ₱400,000.00 to Master Tours and Travel Corporation with interest of 6% *per annum* from the filing of the complaint. The Regional Trial Court's award of attorney's fees is **DELETED** for lack of legal basis.

Costs against the petitioner.

SO ORDERED.

ROBERTO A. ABAD
Associate Justice

WE CONCUR:

PRESBITERO J. VELASCO, JR.
Associate Justice
Chairperson

DIOSDADO M. PERALTA
Associate Justice

JOSE PORTUGAL PEREZ
Associate Justice

JOSE CATRAL MENDOZA
Associate Justice

[14] RULES OF COURT, Rule 142, Sec. 1.

ATTESTATION

I attest that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

PRESBITERO J. VELASCO, JR.
Associate Justice
Chairperson, Third Division

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution and the Division Chairperson's Attestation, I certify that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

MARIA LOURDES P. A. SERENO
Chief Justice