



Republic of the Philippines  
**Supreme Court**  
Manila

**FIRST DIVISION**

**NEW WORLD DEVELOPERS  
AND MANAGEMENT, INC.,**  
Petitioner,

**G.R. No. 187930**

- versus -

**AMA COMPUTER LEARNING  
CENTER, INC.,**  
Respondent.

X -----X

**AMA COMPUTER LEARNING  
CENTER, INC.,**  
Petitioner,

**G.R. No. 188250**

Present:

- versus -

**NEW WORLD DEVELOPERS  
AND MANAGEMENT, INC.,**  
Respondent.

SERENO, *CJ*, Chairperson,  
LEONARDO-DE CASTRO,  
BERSAMIN,  
PEREZ and  
PERLAS-BERNABE, *JJ*.

Promulgated:

**FEB 23 2015**

X -----X

**DECISION**

**SERENO, *CJ*:**

Before us are consolidated Petitions for Review on Certiorari under Rule 45 of the Rules of Court assailing the Court of Appeals (CA) Decision<sup>1</sup> dated 22 January 2009 and Resolution<sup>2</sup> dated 18 May 2009 in CA-G.R. CV No. 89483.

The CA Decision ordered AMA Computer Learning Center, Inc. (AMA) to pay New World Developers and Management, Inc. (New World)

<sup>1</sup> *Rollo* (G.R. No. 187930), pp. 32-49. The Decision issued by the Court of Appeals Twelfth Division was penned by Associate Justice Celia C. Librea-Leagogo, with Associate Justices Mariano C. del Castillo (now a Member of this Court) and Apolinario D. Bruselas, Jr. concurring.

<sup>2</sup> *Id.* at 51-53.

unpaid rentals for 2 months, as well as liquidated damages equivalent to 4 months' rent. The CA Resolution denied the separate motions for reconsideration filed by the parties.

### FACTS

New World is the owner of a commercial building located at No. 1104-1118 España corner Paredes Streets, Sampaloc, Manila.<sup>3</sup> In 1998, AMA agreed to lease the entire second floor of the building for its computer learning center, and the parties entered into a Contract of Lease<sup>4</sup> covering the eight-year period from 15 June 1998 to 14 March 2006.

The monthly rental for the first year was set at ₱181,500, with an annual escalation rate equivalent to 15% for the succeeding years.<sup>5</sup> It was also provided that AMA may preterminate the contract by sending notice in writing to New World at least six months before the intended date.<sup>6</sup> In case of pretermination, AMA shall be liable for liquidated damages in an amount equivalent to six months of the prevailing rent.

In compliance with the contract, AMA paid New World the amount of ₱450,000 as advance rental and another ₱450,000 as security deposit.<sup>7</sup>

For the first three years, AMA paid the monthly rent as stipulated in the contract, with the required adjustment in accordance with the escalation rate for the second and the third years.<sup>8</sup>

In a letter dated 18 March 2002, AMA requested the deferment of the annual increase in the monthly rent by citing financial constraints brought about by a decrease in its enrollment. New World agreed to reduce the escalation rate by 50% for the next six months. The following year, AMA again requested the adjustment of the monthly rent and New World obliged by granting a 45% reduction of the monthly rent and a 5% reduction of the escalation rate for the remaining term of the lease. For this purpose, the parties entered into an Addendum to the Contract of Lease.<sup>9</sup>

On the evening of 6 July 2004, AMA removed all its office equipment and furniture from the leased premises. The following day, New World received a letter from AMA dated 6 July 2004<sup>10</sup> stating that the former had decided to preterminate the contract effective immediately on the ground of business losses due to a drastic decline in enrollment. AMA also demanded the refund of its advance rental and security deposit.

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<sup>3</sup> Id. at 33.

<sup>4</sup> Id. at 54-58.

<sup>5</sup> Id. at 55.

<sup>6</sup> Id. at 56.

<sup>7</sup> Id. at 36, 55.

<sup>8</sup> Id. at 34.

<sup>9</sup> Id. at 59-60.

<sup>10</sup> Id. at 62.

New World replied in a letter dated 12 July 2004,<sup>11</sup> to which was attached a Statement of Account<sup>12</sup> indicating the following amounts to be paid by AMA: 1) unpaid two months' rent in the amount of ₱466,620; 2) 3% monthly interest for the unpaid rent in the amount of ₱67,426.59; 3) liquidated damages equivalent to six months of the prevailing rent in the amount of ₱1,399,860; and 4) damage to the leased premises amounting to ₱15,580. The deduction of the advance rental and security deposit paid by AMA still left an unpaid balance in the amount of ₱1,049,486.59.

Despite the meetings between the parties, they failed to arrive at a settlement regarding the payment of the foregoing amounts.<sup>13</sup>

On 27 October 2004, New World filed a complaint for a sum of money and damages against AMA before the Regional Trial Court of Marikina City, Branch 156 (RTC).<sup>14</sup>

### **RULING OF THE RTC**

In a Decision<sup>15</sup> dated 31 January 2007, the RTC ordered AMA to pay New World ₱466,620 as unpaid rentals plus 3% monthly penalty interest until payment; ₱1,399,860 as liquidated damages equivalent to six months' rent, with the advance rental and security deposit paid by AMA to be deducted therefrom; ₱15,580 for the damage to the leased premises; ₱100,000 as attorney's fees; and costs of the suit.

According to the RTC, AMA never denied that it had arrearages equivalent to two months' rent. Other than its allegation that it did not participate in the preparation of the Statement of Account, AMA did not proffer any evidence disputing the unpaid rent. For its part, New World clearly explained the existence of the arrears.

While sympathizing with AMA in view of its business losses, the RTC ruled that AMA could not shirk from its contractual obligations, which provided that it had to pay liquidated damages equivalent to six months' rent in case of a pretermination of the lease.

The RTC provided no bases for awarding ₱15,580 for the damage to the leased premises and ₱100,000 for attorney's fees, while denying the prayer for exemplary and moral damages.

Upon the denial of its motion for reconsideration, AMA filed an appeal before the CA.<sup>16</sup>

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<sup>11</sup> Id. at 64.

<sup>12</sup> Id. at 63.

<sup>13</sup> Id. at 34.

<sup>14</sup> Id. at 33.

<sup>15</sup> Id. at 65-68.

<sup>16</sup> Id. at 38.

### **RULING OF THE CA**

In the assailed Decision dated 22 January 2009, the CA ordered AMA to pay New World ₱466,620 for unpaid rentals and ₱933,240 for liquidated damages equivalent to four months' rent, with the advance rental and security deposit paid by AMA to be deducted therefrom.<sup>17</sup>

The appellate court ruled that the RTC erred in imposing a 3% monthly penalty interest on the unpaid rent, because there was no stipulation either in the Contract of Lease or in the Addendum to the Contract of Lease concerning the imposition of interest in the event of a delay in the payment of the rent.<sup>18</sup> Thus, the CA ruled that the rent in arrears should earn interest at the rate of 6% per annum only, reckoned from the date of the extrajudicial demand on 12 July 2004 until the finality of the Decision. Thereafter, interest at the rate of 12% per annum shall be imposed until full payment.

The CA also ruled that the RTC's imposition of liquidated damages equivalent to six months' rent was iniquitous.<sup>19</sup> While conceding that AMA was liable for liquidated damages for preterminating the lease, the CA also recognized that stipulated penalties may be equitably reduced by the courts based on its sound discretion. Considering that the unexpired portion of the term of lease was already less than two years, and that AMA had suffered business losses rendering it incapable of paying for its expenses, the CA deemed that liquidated damages equivalent to four months' rent was reasonable.<sup>20</sup>

The appellate court deleted the award for the damage to the leased premises, because no proof other than the Statement of Account was presented by New World.<sup>21</sup> Furthermore, noting that the latter was already entitled to liquidated damages, and that the trial court did not give any justification for attorney's fees, the CA disallowed the award thereof.<sup>22</sup>

Both parties filed their respective motions for reconsideration, which were denied in the assailed Resolution dated 10 May 2009.

Hence, the present petitions for review on certiorari. On 3 August 2009, the Court resolved to consolidate the petitions, considering that they involve the same parties and assail the same CA Decision and Resolution.<sup>23</sup>

### **PARTIES' POSITIONS**

According to New World, when parties freely stipulate on the manner by which one may preterminate the lease, that stipulation has the force of

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<sup>17</sup> Id. at 45-46.

<sup>18</sup> Id. at 40.

<sup>19</sup> Id. at 43.

<sup>20</sup> Id. at 43-44.

<sup>21</sup> Id. at 44.

<sup>22</sup> Id. at 45.

<sup>23</sup> Id. at 108.

law between them and should be complied with in good faith.<sup>24</sup> Since AMA preterminated the lease, it became liable to liquidated damages equivalent to six months' rent. Furthermore, its failure to give notice to New World six months prior to the intended pretermination of the contract and its leaving the leased premises in the middle of the night, with all its office equipment and furniture, smacked of gross bad faith that renders it undeserving of sympathy from the courts.<sup>25</sup> Thus, the CA erred in reducing the liquidated damages from an amount equivalent to six months' rent to only four months.

New World also challenges the CA Decision and Resolution for disallowing the imposition of the 3% monthly interest on the unpaid rentals. It is argued that AMA never disputed the imposition of the 3% monthly interest; rather, it only requested that the interest rate be reduced.<sup>26</sup>

On the other hand, AMA assails the CA ruling for not recognizing the fact that compensation took place between the unpaid rentals and the advance rental paid by AMA.<sup>27</sup> Considering that the obligation of AMA as to the arrears has been extinguished by operation of law, there would be no occasion for the imposition of interest.<sup>28</sup>

AMA also prays for the further reduction of the liquidated damages to an amount equivalent to one month's rent up to one and a half months, arguing that four months' worth of rent is still iniquitous on account of the severe financial losses it suffered.<sup>29</sup>

## ISSUES

1. Whether AMA is liable to pay six months' worth of rent as liquidated damages.
2. Whether AMA remained liable for the rental arrears.

## OUR RULING

### I.

***AMA is liable for six months' worth of rent as liquidated damages.***

Item No. 14 of the Contract of Lease states:

That [AMA] may pre-terminate this Contract of Lease by notice in writing to [New World] at least six (6) months before the intended date of pre-termination, provided, however, that in such case, [AMA] shall be liable to [New World] for an amount equivalent to six (6) months current rental as liquidated damages;<sup>30</sup>

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<sup>24</sup> Id. at 17.

<sup>25</sup> Id. at 18-21.

<sup>26</sup> Id. at 26.

<sup>27</sup> *Rollo* (G.R. No. 188250), pp. 12-13.

<sup>28</sup> Id. at 13-14.

<sup>29</sup> Id. at 11-17.

<sup>30</sup> *Rollo* (G.R. No. 187930), p. 56.

Quite notable is the fact that AMA never denied its liability for the payment of liquidated damages in view of its pretermination of the lease contract with New World. What it claims, however, is that it is entitled to the reduction of the amount due to the serious business losses it suffered as a result of a drastic decrease in its enrollment.

This Court is, first and foremost, one of law. While we are also a court of equity, we do not employ equitable principles when well-established doctrines and positive provisions of the law clearly apply.<sup>31</sup>

The law does not relieve a party from the consequences of a contract it entered into with all the required formalities.<sup>32</sup> Courts have no power to ease the burden of obligations voluntarily assumed by parties, just because things did not turn out as expected at the inception of the contract.<sup>33</sup> It must also be emphasized that AMA is an entity that has had significant business experience, and is not a mere babe in the woods.

Articles 1159 and 1306 of the Civil Code state:

Art. 1159. Obligations arising from contracts have the force of law between the contracting parties and should be complied with in good faith.

x x x x

Art. 1306. The contracting parties may establish such stipulations, clauses, terms and conditions as they may deem convenient, provided they are not contrary to law, morals, good customs, public order, or public policy.

The fundamental rule is that a contract is the law between the parties. Unless it has been shown that its provisions are wholly or in part contrary to law, morals, good customs, public order, or public policy, the contract will be strictly enforced by the courts.<sup>34</sup>

In rebuttal, AMA invokes Article 2227 of the Civil Code, to wit:

Art. 2227. Liquidated damages, whether intended as an indemnity or a penalty, shall be equitably reduced if they are iniquitous or unconscionable.

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<sup>31</sup> *Aguila v. CFI of Batangas, Br. I*, 243 Phil. 505, 512 (1988), in which the Court stated:

For all its conceded merits, equity is available only in the absence of law and not as its replacement. Equity is described as justice outside legality, which simply means that it cannot supplant although it may, as often happens, supplement the law. We said in an earlier case, and we repeat it now, that all abstract arguments based only on equity should yield to positive rules, which pre-empt and prevail over such persuasions. Emotional appeals for justice, while they may wring the heart of the Court, cannot justify disregard of the mandate of the law as long as it remains in force. The applicable maxim, which goes back to the ancient days of the Roman jurists — and is now still reverently observed — is “*aequitas nunquam contravenit legis*.”

<sup>32</sup> *Sanchez v. CA*, 345 Phil. 155 (1997).

<sup>33</sup> *Id.*

<sup>34</sup> *NAPOCOR v. Premier Shipping Lines, Inc.*, 616 Phil. 141 (2009); *Metropolitan Bank & Trust Co. v. Wong*, 412 Phil. 207 (2001); *Tambunting v. Rehabilitation Finance Corp.*, 257 Phil. 503 (1989).

In *Ligutan v. CA*, we held that the resolution of the question of whether a penalty is reasonable, or iniquitous or unconscionable would depend on factors including but not limited to the type, extent and purpose of the penalty; the nature of the obligation; the mode of the breach and its consequences; the supervening realities; and the standing and relationship of the parties.<sup>35</sup> The appreciation of these factors is essentially addressed to the sound discretion of the court.<sup>36</sup>

It is quite easy to understand the reason why a lessor would impose liquidated damages in the event of the pretermination of a lease contract. Pretermination is effectively the breach of a contract, that was originally intended to cover an agreed upon period of time. A definite period assures the lessor a steady income for the duration. A pretermination would suddenly cut short what would otherwise have been a longer profitable relationship. Along the way, the lessor is bound to incur losses until it is able to find a new lessee, and it is this loss of income that is sought to be compensated by the payment of liquidated damages.

There might have been other ways to work around its difficult financial situation and lessen the impact of the pretermination to both parties. However, AMA opted to do the following:

1. It preterminated the lease without notifying New World at least six months before the intended date.
2. It removed all its office equipment and left the premises in the middle of the night.
3. Only after it had cleared the premises did it send New World a notice of pretermination effective immediately.
4. It had the gall to demand a full refund of the advance rental and security deposit, albeit without prejudice to their removal of the improvements introduced in the premises.

We cannot understand the inability of AMA to be forthright with New World, considering that the former had been transparent about its business losses in its previous requests for the reduction of the monthly rental. The drastic decrease in AMA's enrollment had been unfolding since 2002. Thus, it cannot be said that the business losses had taken it by surprise. It is also highly unlikely that the decision to preterminate the lease contract was made at the last minute. The cancellation of classes, the transfer of students, and administrative preparations for the closure of the computer learning center and the removal of office equipment therefrom should take at least weeks, if not months, of logistic planning. Had AMA come clean about the impending pretermination, measures beneficial to both parties could have been arrived at, and the instant cases would not have reached this Court. Instead, AMA

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<sup>35</sup> 427 Phil. 42 (2002).

<sup>36</sup> *Id.*

forced New World to share in the former's losses, causing the latter to scramble for new lessees while the premises remained untenanted and unproductive.

In the sphere of personal and contractual relations governed by laws, rules and regulations created to promote justice and fairness, equity is deserved, not demanded. The application of equity necessitates a balancing of the equities involved in a case,<sup>37</sup> for "[h]e who seeks equity must do equity, and he who comes into equity must come with clean hands."<sup>38</sup> Persons in dire straits are never justified in trampling on other persons' rights. Litigants shall be denied relief if their conduct has been inequitable, unfair and dishonest as to the controversy in issue.<sup>39</sup> The actions of AMA smack of bad faith.

We cannot abide by the prayer for the further reduction of the liquidated damages. We find that, in view of the surrounding circumstances, the CA even erred in reducing the liquidated damages to four month's worth of rent. Under the terms of the contract, and in light of the failure of AMA to show that it is deserving of this Court's indulgence, the payment of liquidated damages in an amount equivalent to six months' rent is proper.

Also proper is an award of exemplary damages. Article 2234 of the Civil Code provides:

Art. 2234. While the amount of the exemplary damages need not be proved, the plaintiff must show that he is entitled to moral, temperate or compensatory damages before the court may consider the question of whether or not exemplary damages should be awarded. **In case liquidated damages have been agreed upon, although no proof of loss is necessary in order that such liquidated damages may be recovered, nevertheless, before the court may consider the question of granting exemplary in addition to the liquidated damages, the plaintiff must show that he would be entitled to moral, temperate or compensatory damages were it not for the stipulation for liquidated damages.** (Emphasis supplied)

In this case, it is quite clear that New World sustained losses as a result of the unwarranted acts of AMA. Further, were it not for the stipulation in the contract regarding the payment of liquidated damages, we would be awarding compensatory damages to New World.

"Exemplary damages are designed by our civil law to permit the courts to reshape behaviour that is socially deleterious in its consequence by creating negative incentives or deterrents against such behaviour."<sup>40</sup> As such, they may be awarded even when not pleaded or prayed for.<sup>41</sup> In order

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<sup>37</sup> *Reyes v. Lim*, 456 Phil. 1 (2003).

<sup>38</sup> *Muller v. Muller*, 531 Phil. 460, 468 (2006).

<sup>39</sup> *Id.*

<sup>40</sup> *Mecenas v. CA*, 259 Phil. 556, 574 (1989).

<sup>41</sup> *Marchan v. Mendoza*, 136 Phil. 126 (1969); *Singson v. Aragon*, 92 Phil. 514 (1953).



to prevent the commission of a similar act in the future, AMA shall pay New World exemplary damages in the amount of ₱100,000.

**II.**  
***AMA’s liability for the rental arrears***  
***has already been extinguished.***

AMA assails the CA ruling mainly for the imposition of legal interest on the rent in arrears. AMA argues that the advance rental has extinguished its obligation as to the arrears. Thus, it says, there is no more basis for the imposition of interest at the rate of 6% per annum from the date of extrajudicial demand on 12 July 2004 until the finality of the Decision, plus interest at the rate of 12% per annum from finality until full payment.

At this juncture, it is necessary to look into the contract to determine the purpose of the advance rental and security deposit.

Item Nos. 2, 3 and 4 of the Contract of Lease provide:

x x x x

2. That [AMA] shall pay to [New World] in advance within the first 5 days of each calendar month a monthly rental in accordance with the following schedule for the entire term of this Contract of Lease;

<u>PERIOD</u>	<u>MONTHLY RENTAL RATES</u>
Year 1 June 15, 1998 – Mar 14, 1999	₱ 181,500.00
Year 2 Mar 15, 1999 – Mar 14, 2000	₱ 208,725.00
Year 3 Mar 15, 2000 – Mar 14, 2001	₱ 240,033.75
Year 4 Mar 15, 2001 – Mar 14, 2002	₱ 276,038.81
Year 5 Mar 15, 2002 – Mar 14, 2003	₱ 317,444.63
Year 6 Mar 15, 2003 – Mar 14, 2004	₱ 365,061.33
Year 7 Mar 15, 2004 – Mar 14, 2005	₱ 419,820.53
Year 8 Mar 15, 2005 – Mar 14, 2006	₱ 482,793.61
	(₱482,793.61 – 37,500 =
	₱445,293.61)

The monthly rentals referred to above were computed at an escalation rate of Fifteen Percent (15%) every year for the entire duration of this lease contract.

3. Upon signing of this Contract, [AMA] shall pay advance rental in the amount of FOUR HUNDRED FIFTY THOUSAND PESOS (₱450,000.00); Said advance rental shall be applied as part of the rental for the last year of the Contract with a remaining balance of Four Hundred Forty Five Thousand Two Hundred Ninety Three and 61/100 Pesos (₱445,293.61) as monthly rental for the tenth [sic] and last year of the lease term;
4. Upon signing of the Contract, [AMA] shall pay [New World] a Security Deposit in the amount of FOUR HUNDRED FIFTY THOUSAND PESOS (₱450,000.00) which shall be applied for any

unpaid rental balance and damages on the leased premises, and the balance of which shall be refunded by [New World] to [AMA] within sixty (60) days after the termination of the Contract, it being understood that such balance is being held by [New World] in trust for [AMA].<sup>42</sup>

Based on Item No. 4, the security deposit was paid precisely to answer for unpaid rentals that may be incurred by AMA while the contract was in force. The security deposit was held in trust by New World, and whatever may have been left of it after the termination of the lease shall be refunded to AMA.

Based on Item No. 3 in relation to Item No. 2, the parties divided the advance rental of ₱450,000 by 12 months. They came up with ₱37,500, which they intended to deduct from the monthly rental to be paid by AMA for the last year of the lease term. Thus, unlike the security deposit, no part of the advance rental was ever meant to be refunded to AMA. Instead, the parties intended to apply the advance rental, on a staggered basis, to a portion of the monthly rental in the last year of the lease term.

Considering the pretermination of the lease contract in the present case, this intent of the parties as regards the advance rental failed to take effect. The advance rental, however, retains its purpose of answering for the outstanding amounts that AMA may owe New World.

We now delve into the actual application of the security deposit and the advance rental.

At the time of the pretermination of the contract of lease, the monthly rent stood at ₱233,310, inclusive of taxes;<sup>43</sup> hence, the two-month rental arrears in the amount of ₱466,620.

Applying the security deposit of ₱450,000 to the arrears will leave a balance of ₱16,620 in New World's favor. Given that we have found AMA liable for liquidated damages equivalent to six months' rent in the amount of ₱1,399,860 (monthly rent of ₱233,310 multiplied by 6 months), its total liability to New World is ₱1,416,480.

We then apply the advance rental of ₱450,000 to this amount to arrive at a total extinguishment of the liability for the unpaid rentals and a partial extinguishment of the liability for liquidated damages. This shall leave AMA still liable to New World in the amount of ₱966,480 (₱1,416,480 total liability less ₱450,000 advance rental).

Not constituting a forbearance of money,<sup>44</sup> this amount shall earn interest pursuant to Item II(2)<sup>45</sup> of our pronouncement in *Eastern Shipping*

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<sup>42</sup> *Rollo* (G.R. No. 187930), p. 55.

<sup>43</sup> *Id.* at 63.

*Lines v. CA*.<sup>46</sup> This item remained unchanged by the modification made in *Nacar v. Gallery Frames*.<sup>47</sup> Interest at the rate of 6% per annum is hereby imposed on the amount of ₱966,480 from the time of extrajudicial demand on 12 July 2004 until the finality of this Decision.

Thereafter – this time pursuant to the modification in *Nacar* – the amount due shall earn interest at the rate of 6% per annum until satisfaction, this interim period being deemed to be by then equivalent to a forbearance of credit.<sup>48</sup>

Considering the foregoing, there was no occasion for the unpaid two months' rental to earn interest. Besides, we cannot sanction the imposition of

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<sup>44</sup> In *Estores v. Supangan* (G.R. No. 175139, 18 April 2012, 670 SCRA 95, 105-106), this Court enunciated that “[f]orbearance of money, goods or credits x x x refer to arrangements other than loan agreements, where a person acquiesces to the temporary use of his money, goods or credits pending happening of certain events or fulfillment of certain conditions.”

<sup>45</sup> Item II(2) of our pronouncement in *Eastern Shipping Lines v. CA* (G.R. No. 97412, 12 July 1994, 234 SCRA 78, 95-97) provides:

II. With regard particularly to an award of interest in the concept of actual and compensatory damages, the rate of interest, as well as the accrual thereof, is imposed, as follows:

x x x x

2. When an obligation, not constituting a loan or forbearance of money, is breached, an interest on the amount of damages awarded may be imposed at the discretion of the court at the rate of 6% per annum. No interest, however, shall be adjudged on unliquidated claims or damages except when or until the demand can be established with reasonable certainty. Accordingly, where the demand is established with reasonable certainty, the interest shall begin to run from the time the claim is made judicially or extrajudicially (Art. 1169, Civil Code) but when such certainty cannot be so reasonably established at the time the demand is made, the interest shall begin to run only from the date of the judgment of the court is made (at which time the quantification of damages may be deemed to have been reasonably ascertained). The actual base for the computation of legal interest shall, in any case, be on the amount finally adjudged.

<sup>46</sup> *Supra*.

<sup>47</sup> G.R. No. 189871, 13 August 2013, 703 SCRA 439.

<sup>48</sup> In *Nacar*, the Court ruled thus:

**To recapitulate and for future guidance, the guidelines laid down in the case of *Eastern Shipping Lines* are accordingly modified to embody BSP-MB Circular No. 799, as follows:**

I. When an obligation, regardless of its source, i.e., law, contracts, quasi-contracts, delicts or quasi-delicts is breached, the contravenor can be held liable for damages. The provisions under Title XVIII on “Damages” of the Civil Code govern in determining the measure of recoverable damages.

II. With regard particularly to an award of interest in the concept of actual and compensatory damages, the rate of interest, as well as the accrual thereof, is imposed, as follows:

1. When the obligation is breached, and it consists in the payment of a sum of money, i.e., a loan or forbearance of money, the interest due should be that which may have been stipulated in writing. Furthermore, the interest due shall itself earn legal interest from the time it is judicially demanded. In the absence of stipulation, the rate of interest shall be 6% per annum to be computed from default, i.e., from judicial or extrajudicial demand under and subject to the provisions of Article 1169 of the Civil Code.

2. When an obligation, not constituting a loan or forbearance of money, is breached, an interest on the amount of damages awarded may be imposed at the discretion of the court at the rate of 6% per annum. No interest, however, shall be adjudged on unliquidated claims or damages, except when or until the demand can be established with reasonable certainty. Accordingly, where the demand is established with reasonable certainty, the interest shall begin to run from the time the claim is made judicially or extrajudicially (Art. 1169, Civil Code), but when such certainty cannot be so reasonably established at the time the demand is made, the interest shall begin to run only from the date the judgment of the court is made (at which time the quantification of damages may be deemed to have been reasonably ascertained). The actual base for the computation of legal interest shall, in any case, be on the amount finally adjudged.

3. When the judgment of the court awarding a sum of money becomes final and executory, the rate of legal interest, whether the case falls under paragraph 1 or paragraph 2, above, shall be 6% per annum from such finality until its satisfaction, this interim period being deemed to be by then an equivalent to a forbearance of credit. (Id. at 457-458)

3% monthly penalty interest thereon. We quote with approval the ruling of the CA on this issue:

If the obligation consists in the payment of a sum of money, and the debtor incurs in delay, the indemnity for damages, there being no stipulation to the contrary, shall be the payment of the interest agreed upon and in the absence of stipulation, the legal interest, which is six per cent per annum.

In the instant case, the Contract of Lease and the Addendum to the Contract of Lease do not specify any interest in the event of delay of payment of rentals. Accordingly, there being no stipulation concerning interest, the trial court erred in imposing 3% interest per month on the two-month unpaid rentals.

[New World] argues that the said 3% interest per month on the unpaid rentals was agreed upon by the parties as allegedly shown in Exhibits “A-4”, “A-5”, “A-6”, “B-4”, and “B-5”.

We are not persuaded.

[New World’s] letter dated 12 July 2004 to [AMA], Statement of Account dated 07 July 2004; and another Statement of Account dated 27 October 2004 were all prepared by [New World], with no participation or any indication of agreement on [AMA’s] part. The alleged proposal of [AMA] as contained in the Schedule of Receivable/Payable is just a computer print-out and does not contain any signature showing [AMA’s] conformity to the same.<sup>49</sup>

Having relied on the Contract of Lease for its demand for payment of liquidated damages, New World should have also referred to the contract to determine the proper application of the advance rental and security deposit. Had it done so in the first instance, it would have known that there is no occasion for the imposition of interest, 3% or otherwise, on the unpaid rentals.

**WHEREFORE**, the Court of Appeals Decision dated 22 January 2009 and Resolution dated 10 May 2009 in CA-G.R. CV No. 89483 is **AFFIRMED** with **MODIFICATION**.

AMA Computer Learning Center, Inc. is ordered to pay New World Developers and Management, Inc. the amount of ₱966,480, with interest at the rate of 6% per annum from 12 July 2004 until full payment.

In addition, AMA shall pay New World exemplary damages in the amount of ₱100,000, which shall earn interest at the rate of 6% per annum from the finality of this Decision until full payment.

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<sup>49</sup> *Rollo* (G.R. No. 187930), pp. 40-41.

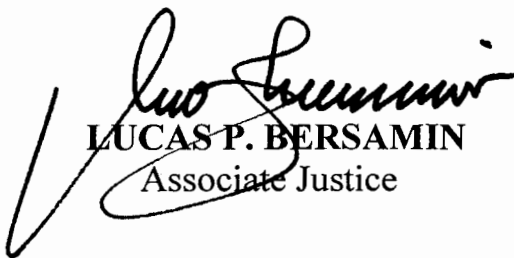
**SO ORDERED.**



**MARIA LOURDES P. A. SERENO**  
Chief Justice, Chairperson

WE CONCUR:

*Teresita Leonardo de Castro*  
**TERESITA J. LEONARDO-DE CASTRO**  
Associate Justice



**LUCAS P. BERSAMIN**  
Associate Justice



**JOSE PORTUGAL PEREZ**  
Associate Justice

*MD. Pearl*  
**ESTELA M. PERLAS-BERNABE**  
Associate Justice

**CERTIFICATION**

Pursuant to Section 13, Article VIII of the Constitution, 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