Republic of the Philippines
Supreme Court
Manila

FEB 18 2016

FIRST DIVISION

FERNANDO MEDICAL ENTERPRISES, INC.,
Petitioner,

- *versus* -

WESLEYAN UNIVERSITY PHILIPPINES, INC.,
Respondent.

G.R. NO. 207970

Present:

SERENO, *C.J.*,
LEONARDO-DE CASTRO,
BERSAMIN,
PERLAS-BERNABE, and
*JARDELEZA, *JJ.*

Promulgated:

JAN 20 2016

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DECISION

BERSAMIN, *J.*

The trial court may render a judgment on the pleadings upon motion of the claiming party when the defending party's answer fails to tender an issue, or otherwise admits the material allegations of the adverse party's pleading. For that purpose, only the pleadings of the parties in the action are considered. It is error for the trial court to deny the motion for judgment on the pleadings because the defending party's pleading in another case supposedly tendered an issue of fact.

The Case

The petitioner appeals the decision promulgated on July 2, 2013,[1] whereby the Court of Appeals (CA) affirmed the order issued on November 23, 2011 by the Regional Trial Court (RTC), Branch 1, in Manila, denying its motion for judgment on the pleadings in Civil Case No. 09-122116

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* Pursuant to Special order No. 2311, effective January 16, 2016.

[1] *Rollo,* pp. 91-100; penned by Associate Justice Florito S. Macalino, with the concurrence of Associate Justice Sesinando E. Villon and Associate Justice Pedro B. Corales.

entitled *Fernando Medical Enterprises, Inc. v. Wesleyan University-Philippines*.[2]

Antecedents

From January 9, 2006 until February 2, 2007, the petitioner, a domestic corporation dealing with medical equipment and supplies, delivered to and installed medical equipment and supplies at the respondent's hospital under the following contracts:

a. Memorandum of Agreement dated January 9, 2006 for the supply of medical equipment in the total amount of ₱18,625,000.00;[3]

b. Deed of Undertaking dated July 5, 2006 for the installation of medical gas pipeline system valued at ₱8,500,000.00;[4]

c. Deed of Undertaking dated July 27, 2006 for the supply of one unit of Diamond Select Slice CT and one unit of Diamond Select CV-P costing ₱65,000,000.00;[5] and

d. Deed of Undertaking dated February 2, 2007 for the supply of furnishings and equipment worth ₱32,926,650.00.[6]

According to the petitioner, the respondent paid only ₱67,357,683.23 of its total obligation of ₱123,901,650.00, leaving unpaid the sum of ₱54,654,195.54.[7] However, on February 11, 2009, the petitioner and the respondent, respectively represented by Rafael P. Fernando and Guillermo T. Maglaya, Sr., entered into an agreement,[8] whereby the former agreed to reduce its claim to only ₱50,400,000.00, and allowed the latter to pay the adjusted obligation on installment basis within 36 months.[9]

In the letter dated May 27, 2009,[10] the respondent notified the petitioner that its new administration had reviewed their contracts and had found the contracts defective and rescissible due to economic prejudice or lesion; and that it was consequently declining to recognize the February 11, 2009 agreement because of the lack of approval by its Board of Trustees and for having been signed by Maglaya whose term of office had expired.

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2 CA *rollo*, pp. 106-107.
3 Id. at 21-22.
4 Id. at 23-25.
5 Id. at 26-28.
6 Id. at 32-35.
7 *Rollo*, p. 3.
8 CA *rollo*, pp. 36-39
9 *Rollo*, p. 4.
10 CA *rollo*, pp. 41-42.

On June 24, 2009, the petitioner sent a demand letter to the respondent.[11]

Due to the respondent's failure to pay as demanded, the petitioner filed its complaint for sum of money in the RTC,[12] averring as follows:

> x x x x
>
> 2. On January 9, 2006, plaintiff supplied defendant with hospital medical equipment for an in consideration of ₱18,625,000.00 payable in the following manner: (2.1) For nos. 1 to 9 of items to be sourced from Fernando Medical Equipment, Inc. (FMEI) – 30% down payment of ₱17,475,000 or ₱5,242,500 with the balance of ₱12,232,500 or 70% payable in 24 equal monthly instalments of P509,687.50 and (2.2.) cash transaction amounting to ₱1,150,000.00 (2.3) or an initial cash payment of ₱6,392,500.00 with the remaining balance payable in 24 equal monthly installments every 20th day of each month until paid, as stated in the Memorandum of Agreement, copy of which is hereto attached as Annex "A";
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> 3. On July 5, 2006, plaintiff installed defendants medical gas pipeline system in the latter's hospital building complex for and in consideration of ₱8,500,000.00 payable upon installation thereof under a Deed of Undertaking, copy of which is hereto attached as **Annex "B"**;
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> 4. On July 27, 2006, plaintiff supplied defendant one (1) unit Diamond Select Slice CT and one (1) unit Diamond Select CV-9 for and in consideration of ₱65,000,000.00 thirty percent (30%) of which shall be paid as down payment and the balance in 30 equal monthly instalments as provided in that Deed of Undertaking, copy of which is hereto attached as **Annex "C"**;
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> 5. On February 2, 2007, plaintiff supplied defendants hospital furnishings and equipment for an in consideration of ₱32,926,650.00 twenty percent (20%) of which was to be paid as downpayment and the balance in 30 months under a Deed of Undertaking, copy of which is hereto attached as **Annex "D"**;
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> 6. Defendant's total obligation to plaintiff was ₱123,901,650.00 as of February 15, 2009, but defendant was able to pay plaintiff the sum of ₱67,357,683.23 thus leaving a balance ₱54,654,195.54 which has become overdue and demandable;
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> 7. On February 11, 2009, plaintiff agreed to reduce its claim to only ₱50,400,000.00 and extended its payment for 36 months provided defendants shall pay the same within 36 months and to issue 36 postdated checks therefor in the amount of ₱1,400,000.00 each to which defendant agreed under an Agreement, copy of which is hereto attached as **Annex "E"**;

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11 Id. at 43.

12 *Rollo*, pp. 14-17.

> 8. Accordingly, defendant issued in favor of plaintiff 36 postdated checks each in the [a]mount of ₱1,400,000.00 but after four (4) of the said checks in the sum of ₱5,600,000.00 were honored defendant stopped their payment thus making the entire obligation of defendant due and demandable under the February 11, 2009 agreement;
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> 9. In a letter dated May 27, 2009, defendant claimed that all of the first four (4) agreements may be rescissible and one of them is unenforceable while the Agreement dated February 11, 2009 was without the requisite board approval as it was signed by an agent whose term of office already expired, copy of which letter is hereto attached as **Annex "F"**;
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> 10. Consequently, plaintiff told defendant that if it does not want to honor the February 11, 2009 contract then plaintiff will insists [sic] on its original claim which is ₱54,654,195.54 and made a demand for the payment thereof within 10 days from receipt of its letter copy of which is hereto attached as **Annex "G"**;
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> 11. Defendant received the aforesaid letter on July 6, 2009 but to date it has not paid plaintiff any amount, either in the first four contracts nor in the February 11, 2009 agreement, hence, the latter was constrained to institute the instant suit and thus incurred attorney's fee equivalent to 10% of the overdue account but only after endeavouring to resolve the dispute amicable and in a spirit of friendship[;]
>
> 12. Under the February 11, 2009 agreement the parties agreed to bring all actions or proceedings thereunder or characterized therewith in the City of Manila to the exclusion of other courts and for defendant to pay plaintiff 3% per months of delay without need of demand;[13]
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> x x x x

The respondent moved to dismiss the complaint upon the following grounds,[14] namely: (*a*) lack of jurisdiction over the person of the defendant; (*b*) improper venue; (*c*) *litis pendentia*; and (*d*) forum shopping. In support of the ground of *litis pendentia*, it stated that it had earlier filed a complaint for the rescission of the four contracts and of the February 11, 2009 agreement in the RTC in Cabanatuan City; and that the resolution of that case would be determinative of the petitioner's action for collection.[15]

After the RTC denied the motion to dismiss on July 19, 2009,[16] the respondent filed its answer (*ad cautelam*),[17] averring thusly:

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13 Id. at 14-17.
14 Id. at 20-26.
15 Id. at 23.
16 Id. at 36-39.
17 Id. at 40-46.

x x x x

2. The allegations in Paragraphs Nos. 2, 3, 4, and 5 of the complaint are ADMITTED subject to the special and affirmative defenses hereafter pleaded;

3. The allegations in Paragraphs Nos. 6, 7 and 8 of the complaint are DENIED for lack of knowledge or information sufficient to form a belief as to the truth or falsity thereof, inasmuch as the alleged transactions were undertaken during the term of office of the past officers of defendant Wesleyan University-Philippines. At any rate, these allegations are subject to the special and affirmative defenses hereafter pleaded;

4. The allegations in Paragraphs Nos. 9 and 10 of the complaint are ADMITTED subject to the special and affirmative defenses hereafter pleaded;

5. The allegations in Paragraphs Nos. 11 and 12 of the complaint are DENIED for being conclusions of law.[18]

x x x x

The petitioner filed its reply to the answer.[19]

On September 28, 2011, the petitioner filed its *Motion for Judgment Based on the Pleadings*,[20] stating that the respondent had admitted the material allegations of its complaint and thus did not tender any issue as to such allegations.

The respondent opposed the *Motion for Judgment Based on the Pleadings*, arguing that it had specifically denied the material allegations in the complaint, particularly paragraphs 6, 7, 8, 11 and 12.[21]

On November 23, 2011, the RTC issued the order denying the *Motion for Judgment Based on the Pleadings* of the petitioner, to wit:

At the hearing of the "Motion for Judgment Based on the Pleadings" filed by the plaintiff thru counsel, Atty. Jose Mañacop on September 28, 2011, the court issued an Order dated October 27, 2011 which read in part as follows:

x x x x

Considering that the allegations stated on the Motion for Judgment Based on the Pleadings, are evidentiary in nature, the Court, instead of acting on the same, hereby sets

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18 Id. at 40-41.
19 CA *rollo*, pp. 87-89.
20 *Rollo*, pp. 47-48.
21 Id. at 49-50.

> this case for pre-trial, considering that with the Answer and the Reply, issues have been joined.
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> x x x x
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> In view therefore of the Order of the Court dated October 27, 2011, let the Motion for Judgment Based on the Pleadings be hereby ordered DENIED on reasons as abovestated and hereto reiterated.
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> x x x x
>
> SO ORDERED.[22]

The petitioner moved for reconsideration,[23] but its motion was denied on December 29, 2011.[24]

The petitioner assailed the denial in the CA on *certiorari*.[25]

Judgment of the CA

On July 2, 2013, the CA promulgated its decision. Although observing that the respondent had admitted the contracts as well as the February 11, 2009 agreement, *viz*.:

> It must be remembered that Private Respondent admitted the existence of the subject contracts, including Petitioner's fulfilment of its obligations under the same, but subjected the said admission to the "special and affirmative defenses" earlier raised in its Motion to Dismiss.
>
> x x x x
>
> Obviously, Private Respondent's special and affirmative defenses are not of such character as to avoid Petitioner's claim. The same special and affirmative defenses have been passed upon by the RTC in its Order dated July 19, 2010 when it denied Private Respondent's Motion to Dismiss. As correctly found by the RTC, Private Respondent's special and affirmative defences of lack of jurisdiction over its person, improper venue, litis pendentia and wilful and deliberate forum shopping are not meritorious and cannot operate to dismiss Petitioner's Complaint. Hence, when Private Respondent subjected its admission to the said defenses, it is as though it raised no defense at all.
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> Not even is Private Respondent's contention that the rescission case must take precedence over Petitioner's Complaint for Sum of Money tenable. To begin with, Private Respondent had not yet proven that the subject contracts are rescissible. And even if the subject contracts are indeed rescissible, it is well-settled that rescissible contracts are valid

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22 CA *rollo,* pp. 106.
23 Id. at 103-105.
24 Id. at 102.
25 Id. at 3-20.

contracts until they are rescinded. Since the subject contracts have not yet been rescinded, they are deemed valid contracts which may be enforced in legal contemplation.

In effect, Private Respondent admitted that it entered into the subject contracts and that Petitioner had performed its obligations under the same.

As regards Private Respondent's denial by disavowal of knowledge of the Agreement dated February 11, 2009, We agree with Petitioner that such denial was made in bad faith because such allegations are plainly and necessarily within its knowledge.

In its letter dated May 27, 2009, Private Respondent made reference to the Agreement dated February 11, 2009, *viz.*:

> "The Agreement dated 11 February 2009, in particular, was entered into by an Agent of the University without the requisite authority from the Board of Trustees, and executed when said agent's term of office had already expired. Consequently, such contract is, being an unenforceable contract."

Also, Private Respondent averred in page 5 of its Complaint for Rescission, which it attached to its Motion to Dismiss, that:

> "13. On 6 February 2009, when the terms of office of plaintiff's Board of Trustess chaired by Dominador Cabasal, as well as of Atty. Guillermo C. Maglaya as President, had already expired, thereby rendering them on a hold-over capacity, the said Board once again authorized Atty. Maglaya to enter into another contract with defendant FMEI, whereby the plaintiff was obligated to pay and deliver to defendant FMEI the amount of Fifty Million Four Hundred Thousand Pesos (Php50,400,000.00) in thirty five (35) monthly instalments of One Million Four Hundred Thousand Pesos (Php1,400,000.00), representing the balance of the payment for the medical equipment supplied under the afore-cited rescissible contracts. This side agreement, executed five (5) days later, or on 11 February 2009, and denominated as "AGREEMENT", had no object as a contract, but was entered into solely for the purpose of getting the plaintiff locked-in to the payment of the balance price under the rescissible contracts; x x x"

From the above averments, Private Respondent cannot deny knowledge of the Agreement dated February 11, 2009. In one case, it was held that when a respondent makes a "specific denial" of a material allegation of the petition without setting forth the substance of the matters relied upon to support its general denial, when such matters *where plainly within its knowledge and the defendant could not logically pretend ignorance as to the same,* said defendant fails to properly tender an issue.[26]

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[26] *Rollo*, pp. 97-99.

the CA ruled that a judgment on the pleadings would be improper because the outstanding balance due to the petitioner remained to be an issue in the face of the allegations of the respondent in its complaint for rescission in the RTC in Cabanatuan City, to wit:

> However, Private Respondent's disavowal of knowledge of its outstanding balance is well-taken. Paragraph 6 of Petitioner's Complaint states that Private Respondent was able to pay only the amount of ₱67,357,683.23. Taken together with paragraph 8, which states that Private Respondent was only able to make good four (4) check payments worth ₱1,400,000.00 or a total of ₱5,600,000.00, Private Respondent's total payments would be, in Petitioner's view, **₱72,957,683.23**. However, in its Complaint for Rescission, attached to its Motion to Dismiss Petitioner's Complaint for Sum of Money, Private Respondent alleged that:
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> > "16. To date, plaintiff had already paid defendant the amount of Seventy Eight Million Four Hundred One Thousand Six Hundred Fifty Pesos (₱78,401,650.00)"
>
> It is apparent that Private Respondent's computation and Petitioner's computation of the total payments made by Private Respondent are different. Thus, Private Respondent tendered an issue as to the amount of the balance due to Petitioner under the subject contracts.[27]

Hence, this appeal.

Issue

The petitioner posits that the CA erred in going outside of the respondent's answer by relying on the allegations contained in the latter's complaint for rescission; and insists that the CA should have confined itself to the respondent's answer in the action in order to resolve the petitioner's motion for judgment based on the pleadings.

In contrast, the respondent contends that it had specifically denied the material allegations of the petitioner's complaint, including the amount claimed; and that the CA only affirmed the previous ruling of the RTC that the pleadings submitted by the parties tendered an issue as to the balance owing to the petitioner.

Did the CA commit reversible error in affirming the RTC's denial of the petitioner's motion for judgment on the pleadings?

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[27] Id.

Ruling of the Court

The appeal is meritorious.

The rule on judgment based on the pleadings is Section 1, Rule 34 of the *Rules of Court*, which provides thus:

> Section 1. *Judgment on the pleadings*. – Where an answer fails to tender an issue, or otherwise admits the material allegations of the adverse party's pleading, the court may, on motion of that party, direct judgment on such pleading. x x x

The essential query in resolving a motion for judgment on the pleadings is whether or not there are issues of fact generated by the pleadings.[28] Whether issues of fact exist in a case or not depends on how the defending party's answer has dealt with the ultimate facts alleged in the complaint. The defending party's answer either admits or denies the allegations of ultimate facts in the complaint or other initiatory pleading. The allegations of ultimate facts the answer admit, being undisputed, will not require evidence to establish the truth of such facts, but the allegations of ultimate facts the answer properly denies, being disputed, will require evidence.

The answer admits the material allegations of ultimate facts of the adverse party's pleadings not only when it expressly confesses the truth of such allegations but also when it omits to deal with them at all.[29] The controversion of the ultimate facts must only be by specific denial. Section 10, Rule 8 of the *Rules of Court* recognizes only three modes by which the denial in the answer raises an issue of fact. The first is by the defending party specifying each material allegation of fact the truth of which he does not admit and, whenever practicable, setting forth the substance of the matters upon which he relies to support his denial. The second applies to the defending party who desires to deny only a part of an averment, and the denial is done by the defending party specifying so much of the material allegation of ultimate facts as is true and material and denying only the remainder. The third is done by the defending party who is without knowledge or information sufficient to form a belief as to the truth of a material averment made in the complaint by stating so in the answer. Any material averment in the complaint not so specifically denied are deemed admitted except an averment of the amount of unliquidated damages.[30]

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[28] *Wood Technology Corporation v. Equitable Banking Corporation*, G.R. No. 153867, February 17, 2005, 451 SCRA 724, 731.

[29] *Mongao v. Pryce Properties Corporation*, G.R. No. 156474, August 16, 2005, 467 SCRA 201, 214.

[30] Section 11, Rule 8 of the *Rules of Court*.

In the case of a written instrument or document upon which an action or defense is based, which is also known as the actionable document, the pleader of such document is required either to set forth the substance of such instrument or document in the pleading, and to attach the original or a copy thereof to the pleading as an exhibit, which shall then be deemed to be a part of the pleading, or to set forth a copy in the pleading.[31] The adverse party is deemed to admit the genuineness and due execution of the actionable document unless he specifically denies them under oath, and sets forth what he claims to be the facts, but the requirement of an oath does not apply when the adverse party does not appear to be a party to the instrument or when compliance with an order for an inspection of the original instrument is refused.[32]

In Civil Case No. 09-122116, the respondent *expressly admitted* paragraphs no. 2, 3, 4, 5, 9 and 10 of the complaint. The admission related to the petitioner's allegations on: (*a*) the four transactions for the delivery and installation of various hospital equipment; (*b*) the total liability of the respondent; (*c*) the payments made by the respondents; (*d*) the balance still due to the petitioner; and (*e*) the execution of the February 11, 2009 agreement. The admission of the various agreements, especially the February 11, 2009 agreement, significantly admitted the petitioner's complaint. To recall, the petitioner's cause of action was based on the February 11, 2009 agreement, which was the actionable document in the case. The complaint properly alleged the substance of the February 11, 2009 agreement, and contained a copy thereof as an annex. Upon the express admission of the genuineness and due execution of the February 11, 2009 agreement, judgment on the pleadings became proper.[33] As held in *Santos v. Alcazar*:[34]

> There is no need for proof of execution and authenticity with respect to documents the genuineness and due execution of which are admitted by the adverse party. With the consequent admission engendered by petitioners' failure to properly deny the Acknowledgment in their Answer, coupled with its proper authentication, identification and offer by the respondent, not to mention petitioners' admissions in paragraphs 4 to 6 of their Answer that they are indeed indebted to respondent, the Court believes that judgment may be had solely on the document, and there is no need to present receipts and other documents to prove the claimed indebtedness. The Acknowledgment, just as an ordinary acknowledgment receipt, is valid and binding between the parties who executed it, as a document evidencing the loan agreement they had entered into. The absence of rebutting evidence occasioned by petitioners' waiver of their right to present evidence renders the Acknowledgment as the best evidence of the transactions between the parties and the consequential indebtedness incurred. Indeed, the effect of the admission is such that a *prima facie* case is made for the plaintiff which dispenses with the

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31 Section 7, id.
32 Section 8, id.
33 *Dino v. Valencia*, G.R. No. 43886, July 19, 1989, 175 SCRA 406, 414.
34 G.R. No. 183034, March 12, 2014, 718 SCRA 636.

> necessity of evidence on his part and entitled him to a judgment on the pleadings unless a special defense of new matter, such as payment, is interposed by the defendant.[35] (citations omitted)

The respondent *denied* paragraphs no. 6, 7 and 8 of the complaint "for lack of knowledge or information sufficient to form a belief as to the truth or falsity thereof, inasmuch as the alleged transactions were undertaken during the term of office of the past officers of defendant Wesleyan University-Philippines." Was the manner of denial effective as a specific denial?

We answer the query in the negative. Paragraph no. 6 alleged that the respondent's total obligation as of February 15, 2009 was ₱123,901,650.00, but its balance thereafter became only ₱54,654,195.54 because it had since then paid ₱67,357,683.23 to the petitioner. Paragraph no. 7 stated that the petitioner had agreed with the respondent on February 11, 2009 to reduce the balance to only ₱50,400,000.00, which the respondent would pay in 36 months through 36 postdated checks of ₱1,400,000.00 each, which the respondent then issued for the purpose. Paragraph no. 8 averred that after four of the checks totalling ₱5,600,000.00 were paid the respondent stopped payment of the rest, rendering the entire obligation due and demandable pursuant to the February 11, 2009 agreement. Considering that paragraphs no. 6, 7 and 8 of the complaint averred matters that the respondent ought to know or could have easily known, the answer did not specifically deny such material averments. It is settled that denials based on lack of knowledge or information of matters clearly known to the pleader, or ought to be known to it, or could have easily been known by it are insufficient, and constitute ineffective[36] or sham denials.[37]

That the respondent qualified its admissions and denials by subjecting them to its special and affirmative defenses of lack of jurisdiction over its person, improper venue, *litis pendentia* and forum shopping was of no consequence because the affirmative defenses, by their nature, involved matters extrinsic to the merits of the petitioner's claim, and thus did not negate the material averments of the complaint.

Lastly, we should emphasize that in order to resolve the petitioner's *Motion for Judgment Based on the Pleadings*, the trial court could rely only on the answer of the respondent filed in Civil Case No. 09-122116. Under Section 1, Rule 34 of the *Rules of Court*, the answer was the sole basis for ascertaining whether the complaint's material allegations were admitted or properly denied. As such, the respondent's averment of payment of the total of ₱78,401,650.00 to the petitioner made in its complaint for rescission had

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35 Id. at 652-653.

36 *J.P. Juan & Sons, Inc. v. Lianga Industries, Inc.,* G.R. No. L-25137, July 28, 1969, 28 SCRA 807, 809-812.

37 *Manufacturer's Bank & Trust Co. v. Diversified Industries, Inc.*, G.R. No. 33695, May 15, 1989, 173 SCRA 357, 364.

no relevance to the resolution of the *Motion for Judgment Based on the Pleadings*. The CA thus wrongly held that a factual issue on the total liability of the respondent remained to be settled through trial on the merits. It should have openly wondered why the respondent's answer in Civil Case No. 09-122116 did not allege the supposed payment of the ₱78,401,650.00, if the payment was true, if only to buttress the specific denial of its alleged liability. The omission exposed the respondent's denial of liability as insincere.

WHEREFORE, the Court **REVERSES** and **SETS ASIDE** the decision promulgated on July 2, 2013; **DIRECTS** the Regional Trial Court, Branch 1, in Manila to resume its proceedings in Civil Case No. 09-122116 entitled *Fernando Medical Enterprises, Inc. v. Wesleyan University-Philippines*, and to forthwith act on and grant the *Motion for Judgment Based on the Pleadings* by rendering the proper judgment on the pleadings; and **ORDERS** the respondent to pay the costs of suit.

SO ORDERED.

LUCAS P. BERSAMIN
Associate Justice

WE CONCUR:

MARIA LOURDES P. A. SERENO
Chief Justice

TERESITA J. LEONARDO-DE CASTRO
Associate Justice

ESTELA M. PERLAS-BERNABE
Associate Justice

FRANCIS H. JARDELEZA
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