SUPREME COURT
FIRST DIVISION

LIRAG TEXTILE MILLS, INC. and FELIX K. LIRAG,
***Petitioners*,**

-versus-

G.R. No. L-30736
April 14, 1975

COURT OF APPEALS and CRISTAN ALCANTARA,
***Respondents*.**
x----------x

D E C I S I O N

ESGUERRA, *J.*:

Petitioners Lirag Textile Mills, Inc. and Felix K. Lirag seek a review by *certiorari* of the decision of the respondent Court of Appeals in its C. A. G. R. No. 33116-R, entitled "Cristan Alcantara, plaintiff-appellee vs. Lirag Textile Mills, Inc. and Felix Lirag, defendants-appellants", which affirmed with costs against the appellants the decision dated September 19, 1963, of the Court of First Instance of Rizal (Branch VI) in its Civil Case No. 6884, in favor of respondent Cristan Alcantara (plaintiff in Civil Case No. 6884 and appellee in C. A. G. R. No. 33116-R), which provides as follows:

> "However, as he (respondent Cristan Alcantara) was dismissed without cause in violation of the contract of employment, and as he was at the time earning P500.00 monthly, the Court finds, and so adjudges, that he is entitled to recover from defendants as actual damages the sum of P12,500.00 representing his salaries for 25 months ending September 22, 1963, plus the sum of P500.00 monthly thereafter until the whole amounts due him are fully paid and settled by defendants. As to moral damages claimed, the Court finds that, considering the circumstances of the case and there being no justification and/or cause for his removal or dismissal, he is entitled to recover from defendants moral damages in the sum of P5,000.00 plus attorney's fees in the sum of P3,000.00.
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> "In view of the foregoing, judgment is hereby rendered sentencing defendants, jointly and severally, to pay plaintiff the amounts above set forth, plus the costs of this suit. It is so ordered."

During the trial of Civil Case No. 6884 in the Court of First Instance of Rizal (Branch VI), petitioners and private respondent Alcantara entered into a stipulation of facts, as follows:

> "1. That on May 11, 1960 and for sometime prior and subsequent thereto, defendant Felix Lirag was a member of the Board of Directors of the Philippine Chamber of Industries;
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> "2. That for about two months, more or less, prior to May 11, 1960, plaintiff worked in a temporary capacity with defendant Lirag Textile Mills, Inc.;
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> "3. That during this same period of time, defendant Felix Lirag was a director and Chairman of the Board of Directors of defendant Lirag Textile Mills, Inc.;
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> "4. That on May 9, 1960, defendant Lirag Textile Mills, Inc. wrote a letter to plaintiff (Alcantara) advising him that, effective May 11, 1960, his temporary designation as Technical Assistant to the Administrative Officer was made

permanent, the said letter marked Exhibit "A", being attached herewith and made a part hereof;

"5. That as Assistant to the Administrative Officer of the Lirag Textile Mills, Inc. as of May 11, 1960 plaintiff received a salary of P400.00 and allowance of P100.00 per month;

"6. That plaintiff's tenure of employment, per defendant Lirag Textile Mills, Inc's. above letter of May 9, 1960 was to be ' for an indefinite period, unless sooner terminated by reason of voluntary resignation or by virtue of a valid cause or causes'. (Underscored for emphasis)

"7. That on March 4, 1960, per letter of defendant Lirag Textile Mills, Inc. of that date, signed by its Executive Vice President and General Manager, plaintiff was advised that effective November 15, 1960 he (Alcantara) was promoted to the position of Assistant Administrative Officer, the said letter, marked Exhibit "B", being attached herewith and made a part hereof;

"8. That on July 22, 1961, defendant Lirag Textile Mills, Inc. wrote plaintiff (Alcantara) a letter advising him that because the company 'has suffered some serious reverses, both in terms of pecuniary loss and in market opportunities', the company was terminating his services and effecting his separation from defendant corporation effective at the close of working hours of August 22, 1961, the said letter, marked Exhibit "C", being attached herewith and made a part thereof; (Underscored for emphasis)

"9. That defendant Lirag Textile Mills, Inc.'s original capital of P5,000,000.00 was, on May 2, 1961, increased to P15,000,000.00 per certification issued by the Security and Exchange Commission a copy of which marked Exhibit "D" is herewith attached and made a part hereof;

"10. That the financial position of defendant Lirag Textile Mills, Inc. in the years 1960 and 1961 is reflected in the financial statements for the said years to be marked Exhibits "E" and

"E-1", respectively, hereafter to be submitted by the parties and to be considered incorporated herewith and made a part hereof;

"11. That plaintiff, through counsel, wrote a letter of demand to defendants, copies whereof marked Exhibits "F" and "F-1" with their respective registry receipts and registry return cards attached, are herewith appended and made a part hereof; and

"12. That defendant Lirag Textile Mills, Inc., through counsel, in answer to plaintiff's letter, wrote the letter marked Exhibit "G" herewith attached and made a part hereof."

Private respondent Cristan Alcantara as plaintiff in Civil Case No. 6884 (C.F.I. of Rizal, Branch VI), through his counsel, made a written request for admission of certain facts pursuant to the provision of the Rules of Court, addressed to petitioners Lirag Textile Mills, Inc. and Felix Lirag (as defendants therein), which was answered by them as reproduced herein to wit:

"1. That, per payrolls of the defendant Lirag Textile Mills, Inc., the salaries of:

(a) Mr. Basilio Lirag, President of the Lirag Textile Mills, Inc. was effective March 1, 1961, raised from P2,500.00 to P5,000.00 monthly;

(b) Mr. Nemesio L. Reyes, executive vice president and general manager of said corporation, was, effective April 16, 1961, raised from P1,000.00 to P2,500.00 monthly;

(c) Mr. Danilo Lacerna, corporate secretary of defendant Lirag Textile Mills, Inc. was effective April 16, 1961, raised from P700.00 to P1,000.00 monthly;

(d) Dr. Winifred Salvacion, assistant of E. V. President, was, effective April 16, 1961 raised from P500.00 to P1,000.00 monthly; and

(e) Mr. Manuel Sison, assistant corporate secretary of the aforementioned Company was, effective May 15, 1961, raised from P150.00 to P300.00 monthly."

('Defendants admit the matters set forth in sub-paragraphs (a) and (c) of paragraph 1, but specifically deny sub-paragraphs (b), (d) and (e), the figures therein being not accurate'.)

"2. That the wages of the laborers of defendant Lirag Textile Mills, Inc. was increased 25 cents a day effective the year 1961.

('Defendants admit paragraph 2, but hereby manifest, however, that the increases in the salaries of the laborers and of the persons named in paragraph 1 were resolved at the time the corporation was still earning a reasonable return of its investment'.)

"3. That, shortly before and/or after separation of plaintiff (Alcantara) from the services of defendant Corporation, the latter took in and employed new personnel among whom were:

(a) a certain Mr. Niguidula with a salary of P800.00 a month;

(b) Mr. Nemesio Joves with a salary of P600.00 a month; and

(c) a general manager's new secretary who was employed and taken in only one or two days before plaintiff's separation from defendant's services."

('Defendants admit that Mr. Pacifico Niguidula who is a mechanical engineer was employed on July 6, 1961 with a salary of P800.00 a month, but his services were indispensably needed by the corporation for the planning of the machinery layout for its integration program.

> Besides, the services of a professional mechanical engineer for the size of an industrial plant as that of Lirag Textile Mills, Inc. is required by law.
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> 'Defendants specifically deny sub-paragraph (b) of paragraph 3; the corporation has not at any time employed any person by the name of Nemesio Joves.
>
> 'Defendants specifically deny sub-paragraph (c) of paragraph 3; it was the General Manager, not the corporation, who hired a private secretary whose salary was paid out of his personal funds.')

Respondent Court of Appeals in its decision promulgated May 16, 1969, in C. A. G. R. No. 33116-R, penned by Hon. Hermogenes Concepcion, Jr. and concurred in by then Presiding Justice Julio Villamor and then Associate Justice Angel H. Mojica (deceased), affirmed the decision of the lower court in Civil Case No. 6884 (C.F.I., Branch VI, of Rizal), principally its conclusion that the trial court did not commit any error in its evaluation of the evidence when it found that it was not true that petitioner Lirag Textile Mills (then defendant) suffered pecuniary loss and in market opportunities which it used as a justification to terminate the services of plaintiff Alcantara; that it was not also true that the latter suffered from lack of skill; that, therefore, there was a violation of the written contract of employment executed by and between petitioners and private respondent Alcantara; that petitioner (then defendant) Felix Lirag was responsible for inducing private respondent Alcantara to leave his employment with the Philippine Chamber of Industries where he was holding a permanent position and to accept employment with petitioner (then defendant) Lirag Textile Mills; and that appellee Alcantara was correctly awarded moral damages and attorney's fees.

Petitioners are now before Us questioning the respondent Appellate Court's decision and alleging that it erred in "sentencing the petitioners to pay respondent Cristan Alcantara back salaries from the time of dismissal up to final judgment for the dismissal without cause of respondent Alcantara as employee of the petitioner Lirag Textile Mills, Inc".; "in awarding moral damages to the respondent Alcantara by the mere fact alone that the respondent Alcantara was

separated by the petitioner corporation from his employment without just cause in the absence of any finding that the employer acted with malice or evident bad faith"; and "in allowing respondent Alcantara to recover from the petitioner company attorney's fees."

The main thrust of petitioners' contention is that an employer's liability for terminating without just cause the employment of an employee is governed by the provisions of Republic Act 1787, amending Republic Act 1052, which limits said liability as follows:

> "Sec. 1. In case of employment, without a definite period in a commercial, industrial, or agricultural establishment or enterprise, the employer may terminate at any time the employment with just cause; or without just cause or in the case of an employer, by serving such notice to the employee at least one month in advance or one half month for every year of service of the employee, whichever is longer.
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> "The employee, upon whom no such notice was served in case of termination of employment without just cause shall be entitled to compensation from the date of termination of his employment in an amount equivalent to his salaries or wages corresponding to the required period of notice." (Republic Act 1787) (Italicized for emphasis)

The fatal defect of petitioner's argument is that the above quoted provision of the law does not and cannot apply to an employer-employee relationship with an express contract for a period of employment. As could be clearly seen from the stipulation of facts between the parties in Civil Case No. 6884 and as a fact recognized by both the trial court and the respondent Appellate Court, the contract of employment was for an indefinite period as it shall continue without ending, subject to a resolutory period, unless sooner terminated by reason of voluntary resignation or by virtue of a valid cause or causes (the resolutory period). There is an indefinite period of time for employment agreed upon by and between petitioners and the private respondent, subject only to the resolutory period agreed upon which may end the indeterminate period of employment, namely — voluntary resignation on the part of private respondent Alcantara or termination of employment at the option of petitioner

Lirag Textile Mills, but for a "valid cause or causes". It necessarily follows that if the petitioner-employer Lirag Textile Mills terminates the employment without a "valid cause or causes", as it admittedly did, it committed a breach of the contract of employment executed by and between the parties. The measure of an employer's liability provided for in Republic Act 1052, as amended by R. A. 1787, is solely intended for contracts of employment without a stipulated period. It cannot possibly apply as a limitation to an employer's liability in cases where the employer commits a breach of contract by violating an indefinite period of employment expressly agreed upon through his wrongful act of terminating said employment without any valid cause or causes, which act may even amount to bad faith on the employer's part. The law (Art. 1170 of the Civil Code) governing liability for damages is explicit when it states:

> "Those who in the performance of their obligations are guilty of fraud, negligence, or delay, and those who in any manner contravene the tenor thereof, are liable for damages. (Underscored for emphasis)

A "period" has been defined "as a space of time which has an influence on obligation as a result of a juridical act, and either suspends their demandableness or produces their extinguishment." Obligations with a period are those whose consequences are subjected in one way or another to the expiration of said period or term. (8 Manresa 158) Art. 1193 of the Civil Code, provides, among others, that "obligations with a resolutory period take effect at once, but terminate upon arrival of the day certain. A day certain is understood to be that which must necessarily come, although it may not be known when". In the light of the foregoing provisions We have no doubt that the "indefinite period" of employment expressly agreed upon by and between the parties in this case is really a resolutory period because the employment is bound to terminate on a future "day certain" such as the employee's resignation or employer's termination of employment upon a valid cause or causes, like death of the employee or termination of employer's corporate existence, although it may not be known when.

A cursory examination of the complaint filed by private respondent Alcantara in the Court of First Instance of Rizal (Civil Case No. 6884)

immediately discloses that this was originally an action for damages based on petitioner's (then defendant's) alleged wrongful acts in terminating without just cause his employment with the petitioner (then defendant) Lirag Textile Mills, thus violating the contract of employment; and that the "clearly unfounded, unwarranted and illegal act of enticing and instigating him (Alcantara) to leave his first job and dismissing him without a valid cause from the second" caused him "mental anguish, besmirched reputation, wounded feelings and moral degradation". In short, at the very incipiency of the action, private respondent Alcantara already alleged that petitioner's act in terminating the employment without just cause was tainted with fraud and bad faith.

Evaluating the evidence presented, the trial court found no truth nor basis for petitioner Lirag Textile Mills' contention that the valid cause for terminating private respondent Alcantara's employment was that the former "has suffered serious reverses, both in terms of pecuniary loss and in market opportunities". On the contrary, the trial court found that petitioner Lirag Textile Mills, Inc.'s original capital of five million pesos was, on May 2, 1961, or just two months prior to defendants sending the note of separation (Exh. "C"), increased to fifteen million; that the salary of Mr. Basilio Lirag, president of defendant Lirag Textile Mills, Inc. was, effective March 1, 1961, or just four months before the notice of separation, raised from P2,500.00 to P5,000.00 monthly, whereas that of Mr. Danilo Lacerna, corporate secretary of defendant corporation was, three months prior to notice of separation, raised from P700.00 to P1,000.00 monthly; that shortly before and/or after plaintiff's separation from the service of defendant corporation, the latter took in and employed new personnel among whom was a certain Mr. Niguidula with a starting salary of P800 monthly; that from the financial statements, Exhs. "E" to "I", presented by defendants themselves and the testimony of their accountants, it appears that although in 1961 the corporation did not realize as big a profit as in the previous year, nevertheless, it realized profits in the amount of P1,173,098.00 rather than sustain losses; that reserves for incentive bonuses were increased to 106,436.50 as compared to P90,744.23 for 1960; and that finally the defendant corporation's total assets in 1961 was P39,640,153.53 as compared to P26,900,562.63 for 1960, or an increase of about P13,000,000.

The findings of respondent Appellate Court as to petitioner Lirag Textile Mills, Inc's. financial condition during that period is substantially the same as that of the trial court, to wit:

> "Anent the first ground (serious losses both in terms of pecuniary loss and in market opportunities that appellant company has suffered), it is enough to point out that of the eight exhibits (Exhs. 1-8) enumerated by the appellants on pages 10 and 11 of their brief, only Exhibit 1 shows that appellant company suffered a gross loss of P36,826.70 during July, 1961. On the other hand, the rest of the exhibits (Exhs. 2-8) veritably show that the same company realized net profits. True enough that the net profits decreased as compared to previous years, but just the same they are profits in any language, and they are not small ones. So that, it is not true that the corporation has suffered serious losses during the months immediately prior to appellee's dismissal. On the contrary, it realized profits, not gigantic in the way it wanted them."

The Appellate Court went further when, on the question raised by petitioner Lirag Textile Mills, Inc. of the alleged lack of skill of respondent Alcantara as a valid cause to terminate his employment, it ruled:

> "With respect to the second ground (lack of skill on the part of the appellee) suffice it to say that it is too late for the appellants to allege such lack of skill. Nowhere in appellant's answer did they plead the defense of lack of skill on the part of the appellee. We can, however, glean from appellant corporation's letter dated November 14, 1960, congratulating the appellee for his promotion he fully deserves, that the latter was proficient for the position he was taken in (Exh. "B"). And if the appellee lacked skills for the position he was originally appointed to on a temporary basis, he would not have been promoted, and his temporary designation would not have been made permanent (Exh. "A")."

Inasmuch as We see no compelling reason to disturb both the trial court's and the respondent Appellate Court's rulings that the written contract of employment was violated by petitioner Lirag Textile Mills,

Inc. when it terminated the employment of private respondent Alcantara without a valid cause, what remains to be determined is whether or not there was fraud or bad faith on the part of petitioner Lirag Textile Mills, Inc. when it committed that breach of contract. To Our mind there could be no greater, nor more eloquent manifestation of fraud when petitioner Lirag Textile Mills, Inc. tried its very best both in the trial court and in the respondent Appellate Court to convince both courts that it suffered "serious losses both in terms of pecuniary loss and in market opportunities" as a valid cause for the termination of private respondent Alcantara's employment, said petitioners knowing fully well that such was not the truth as said allegation was a falsehood. The bad faith consisted of petitioner's knowledge that its allegation was a falsehood and yet used it as basis for the wrongful act of terminating the contract of employment. Its bad faith in committing the breach of the contract of employment was compounded when petitioners as appellants in the respondent Appellate Court tried to raise for the first time the question of private respondent Alcantara's alleged lack of skill in its desperate effort to find a "valid cause" for that wrongful breach. The very act of petitioners in trying to pull the wool over the eyes of both the trial court and the respondent Appellate Court as to its true financial condition in its attempt to establish a false "valid cause" for its wrongful act is not only indicative of fraud and bad faith but likewise highly reprehensible because it is deliberate distortion of the truth to subvert the ends of justice.

Article 2201 of the Civil Code provides "In case of fraud, bad faith, malice or wanton attitude, the obligor shall be responsible for all damages which may be reasonably attributed to the non-performance of the obligation", which, in effect, makes the petitioners in this case liable for all damages which may be reasonably attributed to the non-performance of its obligation.

In Fernando Lopez et al vs. Pan American Airways, 16 S. C. R. A. 431, this Court, held:

> "Bad faith means a breach of a known duty through some motive of interest or ill will. Self-enrichment or fraternal interest, and not personal ill-will, may have been the motive, but it is malice nevertheless.

> "First, moral damages are recoverable in breach of contracts where the defendant acted fraudulently or in bad faith (Art. 2220, new Civil Code). Second, in addition to moral damages, exemplary or corrective damages may be imposed by way of example or correction for the public good, in breach of contract where the defendant acted in a wanton, fraudulent, reckless, oppressive or malevolent manner. (Arts. 2229, 2232, new Civil Code)"

On petitioner Felix Lirag's liability, the respondent Appellate Court correctly ruled:

> "In his attempt to escape liability whatsoever for the dismissal of the appellee by appellant corporation, appellant Felix Lirag claims that he had nothing to do with appellee's appointment. This is of no moment, for it was appellant Felix Lirag who invited the appellee (Alcantara) to join appellant corporation. And in doing so, the appellee gave up his employment with the Philippine Chamber of Industries where he was holding a permanent position as a writer-statistician. And when the then Executive Secretary Armando Isip of the Philippine Chamber of Industries was resigning from his post, appellee applied for the position and furnished the Board of Directors of which Felix Lirag was a member, with his application and curriculum vitae; that, thereafter, Felix Lirag called him over the phone and told him that he (Felix Lirag) wanted to see him; that because of the phone call, appellee went to see Felix Lirag who was then the Chairman of the Board of Directors of defendant corporation, and then invited him (appellee) to join appellant corporation, saying that he (appellee) would have a better job there; that appellee answered that he would think it over; that after a week, appellant Felix Lirag called him again to his office; that because of this call, appellee went to see him (Felix Lirag) in the latter's office; that appellant Felix Lirag asked appellee if he had already reached a decision as to his proposal to which appellee answered that he could not accept the proposition because his job in the Philippine Chamber of Industries was permanent while the one offered by said appellant was just temporary; that

> then appellant Felix Lirag answered that the problem could easily be solved."

The foregoing finding shows without the slightest doubt that it was petitioner Felix Lirag who induced private respondent Alcantara to resign from his permanent position in the Philippine Chamber of Industries and accept the job offered to him by the petitioner Felix Lirag in the petitioner Lirag Textile Mills, Inc. The respondent Appellate Court was also convinced that private respondent Alcantara did his best to contact petitioner Felix Lirag so he could remonstrate against his unjust separation from the service, but he was not able to do so; hence the conclusion of the respondent Court that petitioner Felix Lirag should also be held liable for moral damages.

It is clear that petitioner Lirag Textile Mills, Inc. violated the contract of employment with private respondent Alcantara when the former terminated his services without a valid cause. The act was attended with bad faith and deceit because said petitioner made false allegations of a supposed valid cause knowing them to be false, thus making itself liable for payment of actual, moral and exemplary damages, plus attorneys fees to private respondent Alcantara. Petitioner Lirag Textile Mills, Inc. cannot with impunity be allowed the absolute and unilateral power to terminate without valid cause a contract of employment with a definite period it voluntarily entered into merely on the basis of its whim or caprice and under the false pretense of financial distress. To countenance its wrongful act would be to place its employees in the disadvantageous position of not being able to protect themselves from the arbitrary, oppressive and wrongful acts of an economically powerful employer. The laudable ends of social justice would not be served in that manner, especially in the era of a compassionate society. Petitioner Felix Lirag should also be held liable to private respondent Alcantara for having induced the latter to leave a permanent position in the Philippine Chamber of Industries to accept a job in the Lirag Textile Mills, Inc., and when private respondent Alcantara w as dismissed without any valid cause, petitioner Felix Lirag did not do anything to help him although he was in a position to do so by reason of his eminent position in the petitioner corporation. His responsibility is not only moral but also legal as under Art. 21 of the Civil Code: "Any person who willfully causes loss or injury to another in a manner that is contrary to

morals, good custom or public policy shall compensate the latter for the damage."

WHEREFORE, the Decision of the respondent Court of Appeals is affirmed with costs against petitioners.

SO ORDERED.

Makalintal, *C.J.*, Castro, Teehankee and Makasiar, *JJ.*, concur.
