

FIRST DIVISION

[G.R. No. 193138, August 20, 2018]

ANICETO G. SALUDO, JR., PETITIONER, VS. PHILIPPINE NATIONAL BANK, RESPONDENT.

DECISION

JARDELEZA, J.:

In this petition, we emphasize that a partnership for the practice of law, constituted in accordance with the Civil Code provisions on partnership, acquires juridical personality by operation of law. Having a juridical personality distinct and separate from its partners, such partnership is the real party-in-interest in a suit brought in connection with a contract entered into in its name and by a person authorized to act on its behalf.

Petitioner Aniceto G. Saludo, Jr. (Saludo) filed this petition for review on *certiorari*^[1] assailing the February 8, 2010 Decision^[2] and August 2, 2010 Resolution^[3] issued by the Court of Appeals (CA) in CA-G.R. SP No. 98898. The CA affirmed with modification the January 11, 2007 Omnibus Order^[4] issued by Branch 58 of the Regional Trial Court (RTC) of Makati City in Civil Case No. 06-678, and ruled that respondent Philippine National Bank's (PNB) counterclaims against Saludo and the Saludo Agpalo Fernandez and Aquino Law Office (SAFA Law Office) should be reinstated in its answer.

Records show that on June 11, 1998, SAFA Law Office entered into a Contract of Lease^[5] with PNB, whereby the latter agreed to lease 632 square meters of the second floor of the PNB Financial Center Building in Quezon City for a period of three years and for a monthly rental fee of P189,600.00. The rental fee is subject to a yearly escalation rate of 10%.^[6] SAFA Law Office then occupied the leased premises and paid advance rental fees and security deposit in the total amount of P1,137,600.00.^[7]

On August 1, 2001, the Contract of Lease expired.^[8] According to PNB, SAFA Law Office continued to occupy the leased premises until February 2005, but discontinued paying its monthly rental obligations after December 2002.^[9] Consequently, PNB sent a demand letter^[10] dated July 17, 2003 for SAFA Law Office to pay its outstanding unpaid rents in the amount of P4,648,086.34. PNB sent another letter^[11] demanding the payment of unpaid rents in the amount of P5,856,803.53 which was received by SAFA Law Office on November 10, 2003.

In a letter^[12] to PNB dated June 9, 2004, SAFA Law Office expressed its intention to negotiate. It claimed that it was enticed by the former management of PNB into renting the leased premises by promising to: (1) give it a special rate due to the

large area of the place; (2) endorse PNB's cases to the firm with rents to be paid out of attorney's fees; and (3) retain the firm as one of PNB's external counsels. When new management took over, it allegedly agreed to uphold this agreement to facilitate rental payments. However, not a single case of significance was referred to the firm. SAFA Law Office then asked PNB to review and discuss its billings, evaluate the improvements in the area and agree on a compensatory sum to be applied to the unpaid rents, make good its commitment to endorse or refer cases to SAFA Law Office under the intended terms and conditions, and book the rental payments due as receivables payable every time attorney's fees are due from the bank on the cases it referred. The firm also asked PNB to give a 50% discount on its unpaid rents, noting that while it was waiting for case referrals, it had paid a total amount of P13,457,622.56 from January 1999 to December 2002, which included the accelerated rates of 10% *per annum* beginning August 1999 until July 2003.

In February 2005, SAFA Law Office vacated the leased premises.^[13] PNB sent a demand letter^[14] dated July 7, 2005 requiring the firm to pay its rental arrears in the total amount of P10,951,948.32. In response, SAFA Law Office sent a letter dated June 8, 2006, proposing a settlement by providing a range of suggested computations of its outstanding rental obligations, with deductions for the value of improvements it introduced in the premises, professional fees due from Macroasia Corporation, and the 50% discount allegedly promised by Dr. Lucio Tan.^[15] PNB, however, declined the settlement proposal in a letter^[16] dated July 17, 2006, stating that it was not amenable to the settlement's terms. Besides, PNB also claimed that it cannot assume the liabilities of Macroasia Corporation to SAFA Law Office as Macroasia Corporation has a personality distinct and separate from the bank. PNB then made a final demand for SAFA Law Office to pay its outstanding rental obligations in the amount of P25,587,838.09.

On September 1, 2006, Saludo, in his capacity as managing partner of SAFA Law Office, filed an amended complaint^[17] for accounting and/or recomputation of unpaid rentals and damages against PNB in relation to the Contract of Lease.

On October 4, 2006, PNB filed a motion to include an indispensable party as plaintiff,^[18] praying that Saludo be ordered to amend anew his complaint to include SAFA Law Office as principal plaintiff. PNB argued that the lessee in the Contract of Lease is not Saludo but SAFA Law Office, and that Saludo merely signed the Contract of Lease as the managing partner of the law firm. Thus, SAFA Law Office must be joined as a plaintiff in the complaint because it is considered an indispensable party under Section 7, Rule 3 of the Rules of Court.^[19]

On October 13, 2006, PNB filed its answer.^[20] By way of compulsory counterclaim, it sought payment from SAFA Law Office in the sum of P25,587,838.09, representing overdue rentals.^[21] PNB argued that as a matter of right and equity, it can claim that amount from SAFA Law Office *in solidum* with Saludo.^[22]

On October 23, 2006, Saludo filed his motion to dismiss counterclaims,^[23] mainly arguing that SAFA Law Office is neither a legal entity nor party litigant. As it is only a relationship or association of lawyers in the practice of law and a single proprietorship which may only be sued through its owner or proprietor, no valid

counterclaims may be asserted against it.^[24]

On January 11, 2007, the RTC issued an Omnibus Order denying PNB's motion to include an indispensable party as plaintiff and granting Saludo's motion to dismiss counterclaims in this wise:

The Court **DENIES the motion of PNB to include the SAFA Law Offices**. Plaintiff has shown by documents attached to his pleadings that indeed SAFA Law Offices is a mere single proprietorship and not a commercial and business partnership. More importantly, plaintiff has admitted and shown sole responsibility in the affairs entered into by the SAFA Law Office. PNB has even admitted that the SAFA Law Office, being a partnership in the practice of law, is a non-legal entity. Being a non-legal entity, it cannot be a proper party, and therefore, it cannot sue or be sued.

Consequently, **plaintiff's Motion to Dismiss Counterclaims (claimed by defendant PNB) should be GRANTED**. The counterclaims prayed for to the effect that the SAFA Law Offices be made to pay in solidum with plaintiff the amounts stated in defendant's Answer is disallowed since no counterclaims can be raised against a non-legal entity.^[25]

PNB filed its motion for reconsideration^[26] dated February 5, 2007, alleging that SAFA Law Office should be included as a co-plaintiff because it is the principal party to the contract of lease, the one that occupied the leased premises, and paid the monthly rentals and security deposit. In other words, it was the main actor and direct beneficiary of the contract. Hence, it is the real party-in-interest.^[27] The RTC, however, denied the motion for reconsideration in an Order^[28] dated March 8, 2007.

Consequently, PNB filed a petition for *certiorari*^[29] with the CA. On February 8, 2010, the CA rendered its assailed Decision,^[30] the dispositive portion of which reads:

WHEREFORE, the petition is **PARTIALLY GRANTED**. The assailed Omnibus Order dated 11 January 2007 and Order dated 8 March 2007, issued by respondent Court in Civil Case No. 06-678, respectively, are **AFFIRMED** with **MODIFICATION** in that petitioner's counterclaims should be reinstated in its Answer.

SO ORDERED.^[31]

The CA ruled that an order granting Saludo's motion to dismiss counterclaim, being interlocutory in nature, is not appealable until after judgment shall have been rendered on Saludo's complaint. Since the Omnibus Order is interlocutory, and there was an allegation of grave abuse of discretion, a petition for *certiorari* is the proper remedy.^[32]

On the merits, the CA held that Saludo is estopped from claiming that SAFA Law Office is his single proprietorship. Under the doctrine of estoppel, an admission or representation is rendered conclusive upon the person making it, and cannot be denied or disproved as against the person relying thereon. Here, SAFA Law Office

was the one that entered into the lease contract and not Saludo. In fact, the latter signed the contract as the firm's managing partner. The alleged Memorandum of Understanding^[33] (MOU) executed by the partners of SAFA Law Office, which states, among others, that Saludo alone would be liable for the firm's losses and liabilities, and the letter of Saludo to PNB confirming that SAFA Law Office is his single proprietorship did not convert the firm to a single proprietorship. Moreover, SAFA Law Office sent a letter to PNB regarding its unpaid rentals which Saludo signed as a managing partner. The firm is also registered as a partnership with the Securities and Exchange Commission (SEC).^[34]

On the question of whether SAFA Law Office is an indispensable party, the CA held that it is not. As a partnership, it may sue or be sued in its name or by its duly authorized representative. Saludo, as managing partner, may execute all acts of administration, including the right to sue. Furthermore, the CA found that SAFA Law Office is not a legal entity. A partnership for the practice of law is not a legal entity but a mere relationship or association for a particular purpose. Thus, SAFA Law Office cannot file an action in court. Based on these premises, the CA held that the RTC did not gravely abuse its discretion in denying PNB's motion to include an indispensable party as plaintiff.^[35]

Nonetheless, the CA ruled that PNB's counterclaims against SAFA Law Office should not be dismissed. While SAFA Law Office is not a legal entity, it can still be sued under Section 15,^[36] Rule 3 of the Rules of Court considering that it entered into the Contract of Lease with PNB.^[37]

The CA further ruled that while it is true that SAFA Law Office's liability is not *in solidum* with Saludo as PNB asserts, it does not necessarily follow that both of them cannot be made parties to PNB's counterclaims. Neither should the counterclaims be dismissed on the ground that the nature of the alleged liability is solidary. According to the CA, the presence of SAFA Law Office is required for the granting of complete relief in the determination of PNB's counterclaim. The court must, therefore, order it to be brought in as defendant since jurisdiction over it can be obtained pursuant to Section 12,^[38] Rule 6 of the Rules of Court.^[39]

Finally, the CA emphasized that PNB's counterclaims are compulsory, as they arose from the filing of Saludo's complaint. It cannot be made subject of a separate action but should be asserted in the same suit involving the same transaction. Thus, the Presiding Judge of the RTC gravely abused his discretion in dismissing PNB's counterclaims as the latter may forever be barred from collecting overdue rental fees if its counterclaims were not allowed.^[40]

Saludo and PNB filed their respective motions for partial reconsideration dated February 25, 2010^[41] and February 26, 2010.^[42] In a Resolution dated August 2, 2010, the CA denied both motions on the ground that no new or substantial matters had been raised therein. Nonetheless, the CA addressed the issue on the joining of SAFA Law Office as a defendant in PNB's compulsory counterclaim. Pertinent portions of the CA Resolution read:

The Private Respondent claims that a compulsory counterclaim is one directed against an opposing party. The SAFA Law Office is not a party to

the case below and to require it to be brought in as a defendant to the compulsory counterclaim would entail making it a co-plaintiff. Otherwise, the compulsory counterclaim would be changed into a third-party complaint. The Private Respondent also argues that Section 15, Rule 3 of the Rules of Court (on entities without juridical personality) is only applicable to initiatory pleadings and not to compulsory counterclaims. Lastly, it is claimed that since the alleged obligations of the SAFA Law Office is solidary with the Private Respondent, there is no need to make the former a defendant to the counterclaim.

We disagree with the reasoning of the Private Respondent. That a compulsory counterclaim can only be brought against an opposing party is belied by considering one of the requisites of a compulsory counterclaim it does not require for its adjudication the presence of third parties of whom the court cannot acquire jurisdiction. This shows that non-parties to a suit may be brought in as defendants to such a counterclaim. x x x

x x x x

In the case at bench, the trial court below can acquire jurisdiction over the SAFA Law Office considering the amount and the nature of the counterclaim. Furthermore, the inclusion of the SAFA Law Office as a defendant to the counterclaim will enable the granting of complete relief in view [of] the liability of a partner to the partnership's creditors under the law.^[43]

Hence, this petition, where Saludo raises the following issues for our resolution:

- (1) Whether the CA erred in including SAFA Law Office as defendant to PNB's counterclaim despite its holding that SAFA Law Office is neither an indispensable party nor a legal entity;
- (2) Whether the CA went beyond the issues in the petition for *certiorari* and prematurely dealt with the merits of PNB's counterclaim; and
- (3) Whether the CA erred when it gave due course to PNB's petition for *certiorari* to annul and set aside the RTC's Omnibus Order dated January 11, 2007.^[44]

The petition is bereft of merit.

We hold that SAFA Law Office is a juridical entity and the real party-in-interest in the suit filed with the RTC by Saludo against PNB. Hence, it should be joined as plaintiff in that case.

I.

Contrary to Saludo's submission, SAFA Law Office is a partnership and not a single proprietorship.

Article 1767 of the Civil Code provides that by a contract of partnership, two or more persons bind themselves to contribute money, property, or industry to a common fund, with the intention of dividing the profits among themselves. *Two or*