

Title:

Multinational Village Homeowners Association, Inc. and Danilo F. Cuneta vs. Ara Security & Surveillance Agency, Inc.: Analyzing Contractual Rights to Unilateral Termination

Facts:

The case began when Multinational Village Homeowners Association, Inc. (Multinational), represented by Danilo F. Cuneta, entered into a contractual agreement on May 30, 1994, with Ara Security & Surveillance Agency, Inc. (Ara) to provide thirty security guards for the Multinational Village in Parañaque, Metro Manila, with a contract term from May 25, 1994, to May 25, 1995, and a service fee of P107,500.00 payable every mid and end of the month.

However, citing unsatisfactory service, repeated violations of the Security Guards Code of Ethics and Conduct, and other performance issues leading to a loss of confidence, Multinational, through Cuneta, terminated the contract on August 29, 1994, effective August 31, 1994. Ara, unsatisfied with the termination, initiated legal action against Multinational for injunction with preliminary injunction, mandatory injunction, temporary restraining order, and damages on September 13, 1994.

The trial court denied the injunction on February 16, 1995, and eventually ruled in favor of Ara, awarding various damages. Multinational appealed to the Court of Appeals (CA), which modified the damages awarded but affirmed the decision, leading to the petition in the Supreme Court.

Issues:

1. Whether the contract can be terminated after three months of unsatisfactory performance based on its interpretation.
2. Whether Multinational had a legal cause for terminating the contract.
3. Whether Multinational breached the contract by its unilateral termination.

Court's Decision:

The Supreme Court held that the Petition has no merit, affirming the CA's decision. It clarified that the contract's clause regarding extension after three months of satisfactory service does not translate into a resolutory condition claiming a right of unilateral termination by Multinational for unsatisfactory services. It emphasized that a contract's stipulations are law between the parties and must be followed as written unless contrary to law, morals, or public order. The Court determined there was no substantial breach by Ara that would justify contract termination, noting that the allegations of unsatisfactory service

were not sufficiently proven.

Doctrine:

- A contract constitutes law between the parties and must be complied with in good faith.
- Unilateral termination rights must be clearly stipulated in the contract; otherwise, such rights do not automatically arise from provisions allowing the other party similar rights under different conditions.

Class Notes:

- **Contract Law Basics**: Contracts are mutual agreements which bind parties to their terms. The stipulations within a contract dictate the rights and obligations of the parties.
- **Termination of Contracts**: The right to terminate a contract unilaterally must be expressly provided for within the contract. If not, parties are expected to honor the contract until its natural expiration or resolution through mutual agreement.
- **Evidence Requirement**: Allegations of breach must be substantiated with credible evidence. Hearsay evidence is inadmissible in proving such breaches.
- **Doctrine of Reciprocal Obligations** (Art. 1191, Civil Code): The power to rescind obligations is implied in reciprocal ones, in case one of the obligors fails to comply with their responsibilities.

Historical Background:

The case highlights the legal expectations in contractual relationships, emphasizing the need for clarity in contract drafting and the significance of providing concrete evidence when alleging contract breaches. It underscores the principles governing contractual terminations and disputes within the Philippine legal system, illustrating the judiciary's role in interpreting and enforcing agreements in a manner consistent with established legal doctrines.