

Title: GF Equity, Inc. vs. Valenzona, G.R. No. 155029, 501 Phil. 153

Facts:

GF Equity, represented by Steven Uytengsu, hired Arturo Valenzona as Head Coach of the Alaska basketball team in the Philippine Basketball Association under a Contract of Employment starting January 1, 1988, and ending December 31, 1989. Valenzona's duties included coaching practices, scheduled games, exhibition games, and All-Star games. The contract also stipulated that if Valenzona failed to exhibit sufficient skill or competitive ability, GF Equity could terminate the contract.

Valenzona consulted a lawyer about the contract's one-sided termination clause but proceeded due to his trust in Uytengsu. During 1988, the team placed third in two PBA conferences. However, by September 26, 1988, GF Equity terminated Valenzona's services, invoking the termination clause based on subjective judgment of his performance.

Six years later, on July 30, 1994, Valenzona demanded compensation for the contract's premature termination, which GF Equity refused. Valenzona filed a complaint for breach of contract with damages in the Regional Trial Court (RTC) of Manila on September 26, 1994. The RTC upheld the contract's validity and dismissed the case, prompting Valenzona's appeal to the Court of Appeals (CA).

The CA reversed the RTC's decision on October 14, 2002, ruling that GF Equity had abused its rights by arbitrarily terminating the contract, thus violating Article 19 of the Civil Code.

Issues:

1. **Whether the termination clause in the contract violated the mutuality principle of contracts under Article 1308 of the Civil Code.**
2. **Whether GF Equity's pre-termination of Valenzona's contract was justified based on the latter's performance.**
3. **Whether Valenzona was entitled to damages for the arbitrary pre-termination of his contract.**
4. **Whether Valenzona's claim was barred by laches.**

Court's Decision:

Mutuality of Contracts:

The Supreme Court held that the termination clause violated the principle of mutuality of contracts under Article 1308, as it left the contract's fulfillment to the uncontrolled will of GF Equity. The assailed provision allowed GF Equity to terminate the contract based on its

sole opinion, making it null and void.

****Pre-termination Justification:****

The Court found that GF Equity failed to provide any valid basis for Valenzona's termination aside from the void clause. This lack of justification meant GF Equity abused its right to terminate, violating Article 19 of the Civil Code, which mandates observance of honesty and good faith in exercising one's rights.

****Damages:****

While the CA granted compensatory, moral, and exemplary damages, the Supreme Court modified these awards. The Court affirmed that Valenzona was entitled to compensatory damages (salary from termination to contract's end) and attorney's fees but set aside moral and exemplary damages, noting the lack of bad faith or malice on GF Equity's part.

****Laches:****

The Court ruled that Valenzona's action was not barred by laches, as it was filed within the prescriptive period for actions upon a written contract (10 years per Article 1144 of the Civil Code).

Doctrine:

- ****Mutuality Principle in Contracts (Article 1308, Civil Code):**** Contracts must bind both parties; their validity or performance cannot depend on the will of one party.
- ****Abuse of Rights (Article 19, Civil Code):**** Rights must be exercised with justice, giving everyone their due, and observing honesty and good faith.
- ****Prescription and Laches:**** Legal rights cannot be barred by laches if the claim is filed within the statutory prescriptive period.

Class Notes:

- ****Elements of Mutuality in Contracts:**** The contract's validity or execution cannot be left solely to one party (Article 1308, Civil Code).
- ****Abuse of Rights:**** Exercise of rights should not unduly prejudice others or be contrary to good faith (Article 19, Civil Code).
- ****Prescription Period for Written Contracts:**** 10 years from the time the right of action accrues (Article 1144, Civil Code).
- ****Compensatory Damages:**** Monetary compensation for actual loss (Article 2201, Civil Code).
- ****Attorney's Fees:**** Awarded if the defendant's act compelled the plaintiff to litigate

(Article 2208, Civil Code).

Historical Background:

This case highlights the ongoing struggle to balance employer prerogatives with employee rights in contractual matters. It reflects the Philippine judiciary's commitment to uphold fair contractual terms and prohibit clauses that enable arbitrary decisions by one party. The Court's reassertion of Civil Code principles surrounding equality and mutuality in contracts serves as a vital precedent to ensure that employer-employee agreements adhere to equitable standards.