

SALVADOR DE LA RAMA, PLAINTIFF-APPELLANT, VS. RAFAEL LEDESMA, DEFENDANT-APPELLEE.

G.R. No. L-28498. July 14, 1986

Ponente: PARAS, J.

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PARAS, J.:

This is an appeal from the decision of the defunct Court of First Instance of Negros Occidental in Civil Case No. 8284 dismissing plaintiff-appellant's money claim for lack of a cause of action.

On August 18, 1967, Salvador de la Rama, one of the incorporators of the Inocentes de la Rama Inc. filed a complaint with the Court of First Instance of Negros Occidental docketed as Civil Case No. 8284, concerning a money claim against Rafael Ledesma who is his own nephew and purchaser of his shares of stock in aforesaid corporation.

De la Rama alleged that the Inocentes de la Rama Inc. suffered damages during the last war and had an approved war damage claim with the Philippine War Damage Commission in the sum of P106,000.00. The first payment on said claim, in the sum of P56,000.00 which was paid by the Commission while De la Rama was still a stockholder, was, upon resolution of the majority of its stockholders, used for the reconstruction of the Iris Theater building. On November 18, 1958, before the additional liquidation of said claim, De la Rama sold to Ledesma at par value his 140 shares in the corporation by endorsing his certificates of stock in favor of the latter with an alleged understanding that De la Rama reserved to himself his proportionate equity in the war damage benefits due on his 140 shares which Ledesma promised to deliver to him upon payment by the Foreign Claim Settlement Commission of the United States. Upon presentation of the endorsed shares of stock, new certificates of stock were issued in the name of Ledesma. On March 20, 1965, the corporation received a final payment of its war damage claim in the sum of P46,696.33. The Board of Directors passed a resolution distributing the final payment received by said corporation among its stockholders of record as of March 20, 1965, as dividend computed at P29.59 per share. When Ledesma received the dividends pertaining to his total shareholding including the 140 shares he had purchased from De la Rama, the latter demanded from the former the return and delivery to him of his corresponding share in the claim in question. Ledesma refused and De la Rama filed subject complaint alleging that he suffered moral and exemplary damages in the sum of not less than P10,000.00 and attorney's fees in the sum of P1,000.00. (Complaint, Record on Appeal, pp. 1-6; Decision of CFI Negros Occ., Record on Appeal, pp. 18-20.)

In his answer, Ledesma admits the allegation in the complaint except: (a) the alleged verbal understanding between De la Rama and himself regarding the unpaid war damage claim; (b) the alleged equity of De la Rama in the said claim as such equity is with the corporation itself, and not with the stockholders individually; and (c) his liability for either moral or exemplary damages, much less for attorney's fees, the same having no basis at all in law or in fact. By way of special defense, Ledesma claimed that the indorsement by De la Rama of the Stock Certificate in question without qualification or condition constituted the sole and exclusive contract between the parties and to allow De la Rama to prove any alleged simultaneous oral agreement would run counter to the Parol

Evidence Rule and the Statute of Frauds. Furthermore, the unpaid balance on the said corporation's war damage claim at the time De la Rama sold his share-holdings belonged to the corporation itself and not to its stockholders and so was the final payment which was paid to the corporation itself, for its Board of Directors to do what it deemed best. (Answer, Record on Appeal, pp. 8-11.)

In reply to the special defenses raised by Ledesma, De la Rama avers: (a) that the War Damage Payment made by the government of the United States to claimants in the Philippines who suffered losses during World War II is not a profit of the Corporation which can be distributed as dividends; the use and disposition of said funds as specified by the Philippine Rehabilitation Act of 1946 are reserved for those who suffered losses during the war like himself; (b) that the Statute of Frauds applies only to Executory Contracts, and not to partially or fully consummated cases; and (c) that the instant case is exempted from the Parol Evidence Rule since the writing fails to express the true intent and agreement of the parties, and this fact is pleaded. He further stated that the war damage benefits while due to the corporation redounds to the benefit of the stockholders who actually suffered the damage, which means the stockholders of record at the time the damage was inflicted; that in the disposition of such benefits the Board of Directors should be guided by the spirit and letter of the Philippine Rehabilitation Act of 1946 and that the oral agreement of the parties is consistent with the trust and confidence of the parties at the time in view of their close blood relationship. (Record on Appeal, pp. 12-16.)

At the pre-trial of this case, the parties, through counsel, agreed to submit for the resolution of the Court the question as to whether or not De la Rama is allowed to present parol evidence to prove his alleged reservation to the war damage benefits in question. The parties further agreed that should the ruling of the Court be in the negative, then the Court may render judgment on the pleadings. However, should the Court rule in favor of admissibility of parol evidence, a hearing on the merits will be scheduled for the admission of the evidence of both parties. (Record on Appeal, pp. 18-19.)

The lower court ruled in the negative, as follows:

"Under the foregoing circumstances, the Court believes that any evidence tending to establish the plaintiff's cause of action would be inadmissible under the parol evidence rule and the provisions of the Statute of Frauds. In the light of the facts not controverted in the pleading submitted by the parties, the Court finds that the plaintiff has no cause of action against the defendant." (Record on Appeal, pp. 25-26.)

From this decision, the plaintiff-appellant appealed, and raised the following assignment of errors:

I

The lower court erred in holding that defendant is a successor in interest of plaintiff's appellant's equitable share in the war damage benefits granted to Inocentes de la Rama, Inc. by operation of the Philippine Rehabilitation Act of 1946 and of the United States Public Law 87-616.

II

The lower court erred in not holding that plaintiff, as the pre-war shareholder of the Inocentes de la Rama, Inc. and registered owner of shares of stock in the said corporation up to the year 1958, is the claimant having unpaid balance due on awards as determined by the former Philippine War Damage Commission prior to its abolishment in April 1951 by operation of the above stated laws.

III

The lower court erred in holding that the verbal agreement of the herein parties in which plaintiff reserved and the defendant agreed to the right of Plaintiff to the balance of the war damage claim at the time of plaintiff's sale of his share of stock to defendant in 1958 is barred by the Statute of Frauds and the Parol Evidence Rule.

The appeal is without merit.

The only issue crucial to this appeal is whether or not the alleged verbal agreement of the parties concerning plaintiff's reservation of his right to the balance of the war damage claim at the time of the sale of his shares to the defendant, can be proven by parol evidence under the Parol Evidence Rule and the Statute of Frauds.

There is merit in appellee's contention that the alleged oral reservation and the sale of the shares of stock were made simultaneously and contemporaneously, so that to allow De la Rama to prove the same would run counter to the Parol Evidence Rule.

In his brief, appellant alleged that "at the time he sold his shares of stock to the defendant in 1958 he has reserved to himself the said benefits and to which defendant agreed." (Brief for Appellant, p. 3). Again, in his third assignment of error he claims that the lower court erred in holding that the disputed oral reservation, cannot be proved under the Statute of Frauds and the Parol Evidence." (Ibid., p. ii.)

It is a well accepted principle of law that evidence of a prior or contemporaneous verbal agreement is generally not admissible to vary, contradict or defeat the operation of a valid instrument. (American Factors (Phil.) Inc. vs. Murphy Tire Corporation, et al. (C.A.) 49 O.G. 189.)

While parol evidence is admissible in a variety of ways to explain the meaning of written contracts, it cannot serve the purpose of incorporating into the contract additional contemporaneous conditions which are not mentioned at all in the writing, unless there has been fraud or mistake. (Yu Tek & Co. v. Gonzales, Phil. 384.) Indeed the exceptions to the rule do not apply in the instant case, there being no intrinsic ambiguity or fraud, mistakes, or failure to express the true agreement of the parties. If indeed the alleged reservation had been intended, businessmen like the parties would have placed in writing such an important reservation.

In the case at bar, nowhere in the complaint were the exceptions to the rule alleged or put in issue (See *Infante v. Cunanan, et al.*, 93 Phil. 691).

The alleged reservation not being admissible under the Parol Evidence Rule, WE do not find it necessary to discuss the applicability or non-applicability to the present case of the statute of Frauds.

For the same reason We see no reason for resolving whether the war damage award in favor of the corporation should be regarded as capital stock or profit. Whether the award be part of one or the other the fact is that appellant is not entitled to share in the same, having already disposed of his equity in favor of the appellee.

WHEREFORE, the appealed decision is hereby AFFIRMED, with costs against appellant.

SO ORDERED.

Feria, (Chairman), Fernan, Alampay, and Gutierrez, Jr., JJ., concur.

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