

DR. LUCAS G. ADAMSON AND ADAMSON MANAGEMENT CORPORATION, PETITIONERS, VS. HON. COURT OF APPEALS AND APAC HOLDINGS LIMITED, RESPONDENTS.

G.R. No. 106879. May 27, 1994

Ponente: ROMERO, J.

Read online (full-text search, related cases, audio case brief): <https://batas.org/library/g-r-no-106879/>

ROMERO, J.:

Before us is a petition for review on certiorari of a decision of the Court of Appeals, the dispositive portion of which is quoted hereunder:

"WHEREFORE, judgment is hereby rendered setting aside respondent judge's questioned order dated 23 August 1991 and confirming the subject arbitration award. Costs against private respondents.

SO ORDERED."

The antecedents of this case are as follows:

On June 15, 1990, the parties, Adamson Management Corporation and Lucas Adamson on the one hand, and APAC Holdings Limited on the other, entered into a contract whereby the former sold 99.97% of outstanding common shares of stocks of Adamson and Adamson, Inc. to the latter for P24,384,600.00 plus the Net Asset Value (NAV) of Adamson and Adamson, Inc. as of June 19, 1990. But the parties failed to agree on a reasonable Net Asset Value. This prompted them to submit the case for arbitration in accordance with Republic Act No. 876, otherwise known as the Arbitration Law.

On May 15, 1991, the Arbitration Committee rendered a decision finding the Net Asset Value of the Company to be P167,118.00 which was computed on the basis of a pro-forma balance sheet submitted by SGV and which was the difference between the total assets of the Company amounting to P65,554,258.00 (the sum of the balance sheet asset amounting to P65,413,978.00 and the increase in Cuevo appraisal amounting to P140,280.00) and total liabilities amounting to P65,387,140.00 (the difference between current liabilities and long term debt amounting to P68,356,132.00 and Tax Savings for 1987 amounting to P2,968,992).

In so holding that NAV equals P167,118.00, the Arbitration Committee disregarded petitioners' argument that there was a fixed NAV amounting to P5,146,000.00 as of February 28, 1990 to which should be added the value of intangible assets (P19,116,000.00), the increment of tangible assets excluding land (P17,003,976.00), the 1987 tax savings (P2,968,992.00), and estimated net income from February 28, 1990 to June 19, 1990 (P1,500,000.00, later increased to P3,949,772.00). According to the Committee, however, the amount of P5,146,000.00 which was claimed as initial NAV by petitioners, was merely an estimate of the Company's NAV as of February 28, 1990 which was still subject to financial developments until June 19, 1990, the cut-off date. The basis for this ruling was Clause 3 (B) of the Agreement which fixed the said amount; Clause 1 (A) which defined NAV and provided that it should be computed in accordance with Clause 7 (A); Clause 7 (A) which directed the auditors to prepare in accordance with good accounting principles a balance sheet as of cut-off date which would include the goodwill

and intangible assets (P 19,116,000.00), the value of tangible assets excluding the land as per Cuervo appraisal, the adjustment agreed upon by the parties, and the cost of redeeming preferred shares; and Clause 5 (E). Furthermore, the Committee held that the parties used the figures in the pro-forma balance sheet to arrive at the said amount of P5,146,000.00; that the same had already included the value of the intangible assets and of the Cuervo appraisal of the tangible assets so that the latter items could not be added again to what Vendor claimed to be the initial NAV; and that apart from being an estimate, the amount of P5,146,000.00 was tentative as it was still subject to the adjustments to be made thereto to reflect subsequent financial events up to the cut-off date.

In the computation of the NAV, the Committee deemed it proper to appreciate in favor of petitioners the 1987 tax savings because as of the date of the proceedings, no assessment was ever made by the BIR and the three-year prescriptive period had already expired. However, it did not consider the estimated net income for the period beginning February 28, 1990 to June 19, 1990 as part of the NAV because it found that as of June 1990, the books of the company carried a net loss of P4,678,627.00 which increased to P8,547,868.00 after the proposed adjustments were included in the computation of the NAV. The Committee pointed out that although petitioners herein contested the adjustments, they were, however, not able to prove that these were not valid, except with respect to the tax savings.

Aside from deciding the amount of NAV, the Committee also held that any ambiguity in the contract should not necessarily be interpreted against herein private respondents because the parties themselves had stipulated that the draft of the agreement was submitted to petitioners for approval and that the latter even proposed changes which were eventually incorporated in the final form of the Agreement.

Thereafter, APAC Holdings Ltd. filed a petition for confirmation of the arbitration award before the Regional Trial Court of Makati. Herein petitioners opposed the petition and prayed for the nullification, modification and/or correction of the same, alleging that the arbitrators committed evident partiality and grave abuse of discretion as shown by the following errors:

- a. In creating an entirely new contract for the parties that contradicts the essence of their agreement and results in the absurd situation where a seller incurs enormous expense to sell his property;
- b. In treating the provisions in the Agreement independently of one another and thereby nullifying the simple, clear and express stipulations therein;
- c. In interpreting the Agreement although it is couched in plain, simple and clear language, contrary to the well established principle that if the terms of a contract are clear, the literal meaning of its stipulations shall control;
- d. In accepting SGV's proposed adjustments, contrary to the parties' stipulation that the final adjustment items shall pertain to a specific period and subject to their agreement; and in giving full reliance on SGV report despite SGV's disclosure of its lack of independence because it acted solely to assist petitioner and its report was intended solely for petitioner's information;
- e. In not applying the "suppressed evidence" rule against petitioner in spite of its refusal to present the Company's income statement or any other similar report for the adjustment period; and in disregarding respondent's estimate of the net income for the period as "Adjustment" using SGV's figures and ratios;
- f. In not awarding damages and attorney's fee to respondents despite petitioner's bad faith in violating the contract.[1]

The Regional Trial Court rendered a decision vacating the arbitration award. The dispositive portion of the decision reads as follows:

"WHEREFORE, the Decision/Arbitration Award in question is hereby VACATED, and APAC (herein

petitioner) is hereby ordered to pay ADAMSON (herein respondents) the final NAV of Forty-seven Million One Hundred Twenty-One Thousand Four Hundred Sixty-Eight Pesos (P47,121,468.00), Philippine Currency, in accordance with the pertinent stipulations expressed in the Agreement as discussed above, plus twelve (12) percent interest on the above amount which ADAMSON should have earned had the balance of the final NAV been paid to the Escrow Agent after offset on August 2, 1990.

ADAMSON's claim for moral and exemplary damages and attorney's fees are (sic) dismissed for lack of sufficient merit.

SO ORDERED."[2]

On appeal, the above decision was reversed and a petition for review was filed in this Court. Petitioners allege that the Court of Appeals erred and acted in excess of jurisdiction or with grave abuse of discretion in holding that: (a) the trial judge reversed the arbitration award solely on the basis of the pleadings submitted by the parties; (b) petitioners failed to substantiate with proofs their imputation of partiality to the members of the arbitration committee; (c) the nullification by the trial court of the award was not based on any of the grounds provided by law; (d) to allow the trial judge to substitute his own findings in lieu of the arbitrators' would defeat the object of arbitration which is to avoid litigation; and (e) if there really was a ground for vacating the award, it was improper for trial judge to reverse the decision because it contravened Section 25 of R.A. No. 876.

Did the Court of Appeals err in affirming the arbitration award and in reversing the decision of the trial court?

The Court of Appeals, in reversing the trial court's decision held that the nullification of the decision of the Arbitration Committee was not based on the grounds provided by the Arbitration Law and that " x x x private respondents [petitioners herein] have failed to substantiate with any evidence their claim of partiality. Significantly, even as respondent judge ruled against the arbitrators' award, he could not find fault with their impartiality and integrity. Evidently, the nullification of the award rendered at the case at bar was made not on the basis of any of the grounds provided by law."[3]

Assailing the above conclusion, petitioners argue that "x x x evident partiality is a state of mind that need not be proved by direct evidence but may be inferred from the circumstances of the case (citations omitted). It is related to intention which is a mental process, an internal state of mind that must be judged by the person's conduct and acts which are the best index of his intention (citations omitted)."[4] They pointed out that from the following circumstances may be inferred the arbitrators' evident partiality:

1. the material difference between the results of the arbitrators' computation of the NAV and that of petitioners;
2. the alleged piecemeal interpretation by the arbitrators of the Agreement which went beyond the clear provisions of the contract and negated the obvious intention of the parties;
3. reliance by the arbitrators on the financial statements and reports submitted by SGV which, according to petitioners, acted solely for the interests of private respondents; and
4. the finding of the trial court that "the arbitration committee has advanced no valid justification to warrant a departure from the well-settled rule in contract interpretation that if the terms of the contract are clear and leave no doubt upon the intention of the contracting parties the literal meaning of its interpretation shall control."[5]

We find no reason to depart from the Court of Appeal's conclusion.

Section 24 of the Arbitration Law provides as follows:

"Sec. 24. Grounds for vacating award. - In any one of the following cases, the court must make an order vacating the award upon the petition of any party to the controversy when such party proves affirmatively that

in the arbitration proceedings:

- (a) The award was procured by corruption, fraud or other undue means; or
- (b) That there was evident partiality or corruption in the arbitrators or any of them; or
- (c) That the arbitrators were guilty of misconduct in refusing to postpone the hearing upon sufficient cause shown, or in refusing to hear evidence pertinent and material to the controversy; that one or more of the arbitrators was disqualified to act as such under section nine hereof, and willfully refrained from disclosing such disqualifications or any other misbehavior by which the rights of any party have been materially prejudiced; or
- (d) That the arbitrators exceeded their powers, or so imperfectly executed them, that a mutual, final and definite award upon the subject matter submitted to them was not made. x x x"

Petitioners herein failed to prove their allegation of partiality on the part of the arbitrators. Proofs other than mere inferences are needed to establish evident partiality. That they were disadvantaged by the decision of the Arbitration Committee does not prove evident partiality.

Too much reliance has been accorded by petitioners on the decision of the trial court. However, we find that the same is but an adaptation of the arguments of petitioners to defeat the petition for confirmation of the arbitral award in the trial court by herein private respondent. The trial court itself stated as follows:

"In resolving the issues in favor of respondents, the Court has no alternative but to agree with the contention of said party, as supported by their exhaustive and very convincing arguments contained in more than twenty-one (21) pages, doubled-spaced, which are adopted and reproduced herein by reference. Said arguments may be CAPSULIZED as follows:

The penultimate paragraph of its decision reads, thus:

To allay any fear of petitioner that its reply and opposition, dated 11 June 1991, has not been taken into account in resolving this case, it will be well to state that the court has carefully read the same and, what is more, it has also read respondents' comment, dated 19 June 1991, wherein they made convincing arguments which are likewise adopted and incorporated herein by reference."[6]

The justifications advanced by the trial court for vacating the arbitration award are the following: (a) "x x x that the arbitration committee had advanced no valid justification to warrant a departure from the well-settled rule in contract interpretation that if the terms of the contract are clear and leave no doubt upon the intention of the contracting parties the literal meaning of its interpretation shall control; (b) that the final NAV of P47,121,468.00 as computed by herein petitioners was well within APAC's normal investment level which was at least US\$1 million and to say that the NAV was merely P167,118.00 would negate Clause 6 of the Agreement which provided that the purchaser would deposit in escrow P5,146,000.00 to be held for two (2) years and to be used to satisfy any actual or contingent liability of the vendor under the Agreement; (c) that the provision for an escrow account negated any idea of the NAV being less than P5,146,000.00; and (d) that herein private respondent, being the drafter of the Agreement could not avoid performance of its obligations by raising ambiguity of the contract, or its failure to express the intention of the parties, or the difficulty of performing the same.

It is clear therefore, that the award was vacated not because of evident partiality of the arbitrators but because the latter interpreted the contract in a way which was not favorable to herein petitioners and because it considered that herein private respondents, by submitting the controversy to arbitration, was seeking to renege on its obligations under the contract.

That the award was unfavorable to petitioners herein did not prove evident partiality. That the arbitrators resorted to contract interpretation neither constituted a ground for vacating the award because under the circumstances, the same was necessary to settle the controversy between the parties regarding the amount of the NAV. In any case, this Court finds that the interpretation made by the arbitrators did not create a new contract, as alleged by herein petitioners but was a faithful application of the provisions of the Agreement. Neither was the award arbitrary for it was based on the statements prepared by the SGV which was chosen by both parties to be the "auditors."

The trial court held that herein private respondent could not shirk from performing its obligations on account of the difficulty of complying with the terms of the contract. It said further that the contract may be harsh but private respondent could not excuse itself from performing its obligations on account of the ambiguity of the contract because as its drafter, private respondent was well aware of the implications of the Agreement. We note herein that during the arbitration proceedings, the parties agreed that the contract as prepared by private respondent, was submitted to petitioners for approval. Petitioners, therefore, are presumed to have studied the provisions of the Agreement and agreed to its import when they approved and signed the same. When it was submitted to arbitration to settle the issue regarding the computation of the NAV, petitioners agreed to be bound by the judgment of the arbitration committee, except in cases where the grounds for vacating the award existed. Petitioners cannot now refuse to perform its obligation after realizing that it had erred in its understanding of the Agreement.

Petitioners also assailed the arbitrator's reliance upon the financial statements submitted by SGV as they allegedly served the interests of private respondents and did not reflect the true intention of the parties. We agree with the observation made by the arbitrators that SGV, being a reputable firm, it should be presumed to have prepared the statements in accordance with sound accounting principles. Petitioners have presented no proof to establish that SGV's computation was erroneous and biased.

Petitioners likewise pointed out that the computation of the arbitrators leads to the absurd result of petitioners incurring great expense just to sell its properties. In arguing that the NAV could not be less than P5,146,000, petitioners quote Clause (B) of the Agreement as follows:

"CLAUSE 3 (B)

The consideration for the purchase of the Sale Shares by the Purchaser shall be equivalent to the Net Asset Value of the Company, x x x which the parties HAVE FIXED at P5,146,000.00 prior to Adjustments x x x."

However, such quotation is incomplete and, therefore, misleading. The full text of the above provision as quoted by the arbitration committee reads as follows:

"(B) The consideration for the purchase of the Sale Shares by the purchaser shall be equivalent to the Net Asset Value of the Company, without the Property, which the parties have fixed at P5,146,000 prior to Adjustments plus P24,384,600. The consideration for the sale of the Sale Shares by the Vendor, is the acquisition of the property by the Vendor, through Aloha, from the Company at historical cost plus all Taxes due on said transfer of Property, and the release of all collaterals of the Vendor securing the RSBS Credit Facility. However, in the implementation of this Agreement, the parties shall designate the amounts specified in Clause 5 as the purchaser prices in the pro-forma deeds of sale and other documents required to effect the transfers contemplated in this Agreement."

Thus, petitioner cannot claim that the consideration for private respondent's acquisition of the outstanding common shares of stock was grossly inadequate. If the NAV as computed was small, the result was not due to error in the computations made by the arbitrators but due to the extent of the liabilities being borne by petitioners. During the arbitration proceedings, the committee found that petitioner has been suffering losses since 1983, a

fact which was not denied by petitioner. We cannot sustain the argument of petitioners that the amount of P5,146,000.00 was an initial NAV as of February 28, 1990 to which should still be added the value of tangible assets (excluding the land) and of intangible assets. If indeed the P5,146,000.00 was the initial NAV as of February 28, 1990, then as of said date, the total assets and liabilities of the company have already been set off against each other. NET ASSET VALUE is arrived at only after deducting TOTAL LIABILITIES from TOTAL ASSETS. "TOTAL ASSETS" includes those that are tangible and intangible. If the amount of the tangible and intangible assets would still be added to the "initial NAV," this would constitute double counting. Unless the company acquired new assets from February 28, 1990 up to June 19, 1990, no value corresponding to tangible and intangible assets may be added to the NAV.

We also note that the computation by petitioners of the NAV did not reflect the liabilities of the company. The term "net asset value" indicates the amount of assets exceeding the liabilities as differentiated from total assets which include the liabilities. If petitioners were not satisfied, they could have presented their own financial statements to rebut SGV's report but this, they did not do.

Lastly, in assailing the decision of the Court of Appeals, petitioners would have this Court believe that the respondent court held that the decision of the arbitrators was not subject to review by the courts. This was not the position taken by the respondent court.

The Court of Appeals, in its decision stated, thus:

It is settled that arbitration awards are subject to judicial review. In the recent case of *Chung Fu Industries (Philippines), Inc., et. al. v. Court of Appeals, Hon Francisco X. Velez, et. al.*, G. R. No. 96283, February 25, 1992, the Supreme Court categorically ruled that:

"It is stated expressly under Art. 2044 of the Civil Code that the finality of the arbitrators' award is not absolute and without exceptions. Where the conditions described in Articles 2038, 2039 and 2040 applicable to both compromises and arbitrations are obtaining, the arbitrators' award may be annulled or rescinded. Additionally, under Sections 24 and 25 of the Arbitration Law, there are grounds for vacating, modifying or rescinding an arbitrators' award. Thus, if and when the factual circumstances referred to in the above-cited provisions are present, judicial review of the award is properly warranted."

Clearly, though recourse to the courts may be availed of by parties aggrieved by decisions or awards rendered by arbitrator/s, the extent of such is neither absolute nor all encompassing. x x x.[7]

It is clear then that the Court of Appeals reversed the trial court not because the latter reviewed the arbitration award involved herein, but because the respondent appellate court found that the trial court had no legal basis for vacating the award.

WHEREFORE, in view of the foregoing, this petition is hereby DISMISSED and the decision of the Court of Appeals AFFIRMED.

SO ORDERED.

Feliciano, (Chairman), Bidin, Melo, and Vitug, JJ., concur.

[1] Records, pp. 68-69.

[2] Records, p. 131.

[3] Rollo, p. 57.

[4] Rollo, p. 25.

[5] Records, p. 128.

[6] Records, pp. 128 and 131.

[7] Rollo, p. 55.

ABOUT BATAS.ORG

Study smarter at BATAS.org

The Philippine bar review and law-school companion built around how your brain actually remembers.

The complete Philippine law library - free for everyone.

More than 100,000 Supreme Court decisions, Republic Acts, and executive issuances - full-text searchable, browsable by category and year, and always free. No paywall, no login. This PDF came from it.

Audio case-brief lectures.

Any decision becomes a podcast-style lecture - facts, issues, ruling, and doctrine - with read-along highlighting and a hands-free presentation mode. Study while commuting, working out, or resting your eyes.

Bar review built on the science of memory.

Complete, sequenced courses for all eight bar subjects, narrated like podcasts and reinforced with retrieval practice and spaced review - the study techniques with the strongest evidence behind them.

The full law-school curriculum.

One subscription unlocks the entire J.D. curriculum - every subject, every lesson, with your progress tracked down to the paragraph so you can pick up exactly where you left off, on any device.

Mock exams that tell you where you stand.

Timed multiple-choice exams graded instantly, with per-subject score breakdowns and focus suggestions that point you at your weakest topics first.

A study planner that keeps you on pace.

Set your schedule and BATAS tells you every day whether you are on track for bar day - and exactly which lesson to take next.

Start free at <https://batas.org>

The law library is free forever - and your first lesson is one click away.

The text of this document is an official public record and remains in the public domain. Formatting, presentation, and compilation © 2026 batas.org.

Downloaded free from the batas.org Law Library. Share it freely - the library is free for every law student, bar reviewee, and practitioner.