FRANCISCO GONZALES, PETITIONER, VS. SEVERINO C. LIM AND TOYOTA SHAW, INC., RESPONDENTS.

G.R. NO. 130403. July 30, 2007

Ponente: CORONA, J.

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CORONA, J.:

At bar is an appeal by certiorari under Rule 45 of the Rules of Court questioning the decision[1] and resolution[2] of the Court of Appeals (CA) in CA-G.R. CV No. 41716 entitled Severino C. Lim and Toyota Shaw, Inc. v. Francisco Gonzales and Carmen Gonzales.

The facts follow.

Petitioner Francisco Gonzales, Roque Ma. Gonzales and Carmen Gonzales (Gonzaleses) were the owners of Motown Vehicles, Inc. (Motown). Motown was the licensed distributor of Ford vehicles in the country. Its assets included two buildings standing on a 4,944 sq. m. lot leased from Tanglaw Realty Inc. (Tanglaw).

In 1988, when Ford Philippines ceased operations, the Gonzaleses sold Motown's shares of stocks to respondents Severino C. Lim and Toyota Shaw, Inc. which was then putting up a Toyota car dealership. The "Agreement" signed by the parties stated that the sale included Motown's two lease contracts with Tanglaw. It read:

> WHEREAS, Motown, which owns these fixed and moveable improvements and equipments...does not own the land on which these improvements and equipments are located, but merely leases the bare land... from Tanglaw Realty Corp. under 2 Lease Contracts both dated June 17, 1978 both commencing Nov. 15, 1977 and expiring Nov. 14, 2002.
>
> xxx xxx xxx
>
> - PAYMENT — The aforementioned price amounting to P6,746,000.00 shall be paid by [respondents] to the [Gonzaleses] in two (2) installments payable simultaneous to the occurrence of the following events:
>
> - P6,246,000 — [u]pon signing of this contract xxx
>
> - P500,000 — [u]pon receipt of official communication from Tanglaw Realty Corporation to the effect that Motown can have continuing and unhampered use of the pieces of [the leased] land...covered by the 2 Lease Contracts...[I]t is understood that the continuation of the lease at a reasonable rate for the original term of the 2 lease agreements is a central, indivisible and very basic part of this agreement, since the [bases] for the valuation of Motown by [respondents are] its location and the improvements and equipments contained therein.[3]
>
> xxx xxx xxx

After paying the initial installment of P6,246,000 to the Gonzaleses, respondents claimed they discovered that one of Motown's lease contracts had already been terminated prior to the sale. As a result, they were allegedly constrained to negotiate with Tanglaw for a new lease contract (with a higher rental).

Subsequently, respondents filed a case in the Regional Trial Court (RTC), Branch 65 of Makati,[4] for declaratory relief with damages against the Gonzaleses, seeking release from their obligation to pay the P500,000 balance.

During the trial, respondents (as then plaintiffs) accused the Gonzaleses of falsely representing to them that the latter's two lease contracts were still subsisting at the time of the sale. They maintained that the Gonzaleses guaranteed a "continuing and unhampered use" of the premises but Tanglaw had nonetheless threatened to evict them from one of the leased portions.

To support their claim, they presented in court a copy of the "Agreement" indicating the Gonzaleses' alleged warranty that the two lease contracts with Tanglaw were still good.

Petitioner (with his then co-defendants) countered that respondents were well aware of the termination of one of the two lease contracts at the time of sale. He denied giving a warranty on both contracts and explained that he only signed the "Agreement" (showing Motown's two lease contracts with Tanglaw) on prodding by respondents that they needed it to convince Toyota Philippines they were ready with their dealership site. According to petitioner, respondents told him it was only "for show" and amendments thereto would be made later on.

Petitioner added that his only undertaking was to help respondents negotiate a new lease contract that would have similar terms as his. As a counterclaim, petitioner asked for the payment of respondents' P500,000 balance.

After trial, the RTC dismissed respondents' case but granted petitioner's counterclaim of P500,000. The court a quo's decision read:

> ...[T]he court finds that [petitioner] did not warrant the existence of the lease on one of the premises. The court believes that even before the ["Agreement"] has been executed[,] [respondents were] already aware that one of the leases has been terminated...[I]f [petitioner] warranted anything at all, it was only that he will help [respondents] procure a new lease contract under the old term.
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> xxx xxx xxx
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> ...In view of the foregoing, the complaint is DISMISSED[.] On the counterclaim, [respondents] are ordered to pay [petitioner] P500,000, representing the outstanding balance for the sale of Motown shares of stocks plus legal interest from October 10, 1989, the date of the lease between Tanglaw Realty and Toyota Shaw, Inc., when [petitioner] was deemed to have fulfilled his promise.
>
> xxx xxx xxx
>
> SO ORDERED.[5]

Respondents appealed to the CA which affirmed with modification the trial court.s decision. It agreed with the RTC that respondents could not feign ignorance of Motown.s terminated lease contract; however, it deleted the order directing respondents to pay petitioner P500,000. The CA ruled that the payment was not due since petitioner failed to obtain the required official communication from Tanglaw. The CA decision read:

> xxx xxx xxx
>
> xxx. The phrase "continuation of the lease contract at a reasonable rate" proves that [respondents] did not contemplate stepping into the shoes of Motown as lessee of the parcels of land because if what they truly expected was to continue exactly the same lease agreement between [Tanglaw] and Motown, there would have been no need to include [said] phrase... Clearly, [respondents] anticipated nay expected that if they continue the lease, it would not be under the same terms and conditions as the original contract, but rather at a new, reasonable rate. Therefore, there was no warranty from [petitioner]"
>
> ...[W]ith regard to the question of whether [respondents] are now obliged to pay [petitioner] the P500,000.00...,

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> the Court finds that [petitioner had] not been able to fulfill [his] obligation to submit the required official communication from Tanglaw Realty Corporation. Thus, [respondents] are...freed from their obligation to pay the final installment of P500,000.00.
>
> xxx xxx xxx
>
> WHEREFORE, judgment is hereby rendered MODIFYING the lower court's decision by deleting the portion ordering [respondents] to pay [petitioner] P500,000 plus legal interest. Instead, the Court hereby declares [petitioner's] counterclaim DISMISSED.[6]

Petitioner filed a motion for reconsideration (MR), contending that the payment of the P500,000 balance was already due because respondents themselves had prevented him from fulfilling his undertaking in the "Agreement." Petitioner insisted that since respondents negotiated directly with Tanglaw for a new lease contract, petitioner's obligation should be deemed fulfilled.

The CA denied the MR.[7] Hence, this petition.[8]

In this petition, the lone issue for resolution is whether petitioner was still entitled to the payment of P500,000 despite failure to comply with the provision in the "Agreement" requiring him to obtain an official communication from Tanglaw regarding the continuation of Motown's lease contract.

At the outset, petitioner's undertaking set forth in the "Agreement" may be deemed a "condition," a future and uncertain event upon which the existence of an obligation is made to depend or that which subordinates the existence of a liability under a contract to a certain future event.[9] It was a condition that was imposed on an obligation after the consummation of the contract of sale, not a condition on the perfection of the contract itself (non-fulfillment of which could have prevented the juridical relation from coming into existence).

Article 1545 of the Civil Code is pertinent:

> Art. 1545. Where the obligation of either party to a contract of sale is subject to any condition which is not performed, such party may refuse to proceed with the contract or he may waive performance of the condition. If the other party has promised that the condition should happen or be performed, such first mentioned party may also treat the nonperformance of the condition as a breach of warranty. (emphasis supplied)
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> xxx xxx xxx

These options were echoed in Romero v. CA,[10] where we declared that if the condition was imposed on an obligation of a party which was not complied with, the other party may either (1) refuse to proceed with the agreement or (2) waive the fulfillment of the condition.

In the case at bar, respondents obviously did not choose the first option as they proceeded with their contract with petitioner despite the latter's non-fulfillment of the condition in the agreement. In fact, in their comment, they stated that they "took possession of the properties and caused extensive improvement and installed facilities and equipment" thereon.[11]

Did respondents, however, waive fulfillment of the condition? Yes.

The records reveal that respondents negotiated directly with Tanglaw for a new lease contract even without the required official communication that petitioner was supposed to obtain for them, a condition in the "Agreement" which they themselves imposed on the latter. Although they had the right to require his compliance with the condition or compel his performance of the undertaking, they opted otherwise.

Respondents' assertion that they were merely forced to deal directly with Tanglaw because the latter had

threatened to evict them has no merit. As the RTC and the CA both held, respondents, at the time of the sale, already knew that one of Motown's two lease contracts with Tanglaw had been terminated. This being a finding of fact, we shall not look into it, absent any compelling reason to do so.[12] Respondents therefore cannot invoke this argument to justify their actions and evade their liability to petitioner.

Moreover, respondents' contention that the condition did not preclude them from dealing with Tanglaw or that they were "to refrain from negotiating directly"[13] can only mean that they did not really expect petitioner to comply strictly and absolutely with it. Respondents' conduct showed that they did not only disregard the condition but also placed petitioner in a position that his compliance was no longer necessary. We are thus constrained to rule that they had effectively waived compliance with the condition.

Finally, the condition was deemed waived when respondents forged their new lease contract with Tanglaw.[14]

WHEREFORE, the petition is hereby GRANTED. The assailed decision and resolution of the Court of Appeals in CA-G.R. CV No. 41716 are hereby SET ASIDE and the decision of the Regional Trial Court REINSTATED.

SO ORDERED.

Puno, C.J., (Chairperson), Sandoval-Gutierrez, Azcuna, and Garcia, JJ., concur.

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[1] Decision dated April 17, 1997. Penned by Justice Ramon A. Barcelona (retired), with the concurrence of Associate Justices Jesus M. Elbinias (retired) and Maximiano G. Asuncion (deceased), of the Eleventh Division of the Court of Appeals. Rollo, pp. 47-69.

[2] Resolution dated August 21, 1997. Resolved by Justice Ramon A. Barcelona (retired), with the concurrence of Associate Justices Jesus M. Elbinias (retired) and Maximiano G. Asuncion (deceased). Id., pp. 72-74.

[3] Id., pp. 90-91.

[4] Respondents' principal business address was at Makati City.

[5] Dated February 18, 1993. Decided by Judge Salvador S. Abad Santos. CA Records, pp. 87-89.

[6] Rollo, pp. 66-69.

[7] Supra note 2.

[8] Carmen Gonzales did not join petitioner in this case. Roque Ma. Gonzales, on the other hand, was already dead at the time of the filing of this petition.

[9] Black's Law Dictionary. Both the CA and the RTC held that petitioner's undertaking in the "Agreement" was not a warranty.

[10] 320 Phil. 269 (1995). See also Lim v. CA, G.R. No. 118347, 24 October 1996, 263 SCRA 569; Heirs of Macuñana v. CA, G.R. No. 158646, 23 June 2005, 461 SCRA 186; Almira, et al. v. CA, 447 Phil. 467 (2003). See also CIVIL LAW OBLIGATIONS AND CONTRACTS by Jose C. Vitug, Vol. 3, 2003 Ed., p. 251, Rex Printing Co., Inc., Quezon City, Philippines.

[11] Rollo, p. 525.

[12] Development Bank of the Philippines v. Licuanan, G.R. No. 150097, 26 February 2007.

[13] Respondents' Memorandum. Rollo, p. 609.

[14] Per RTC decision (supra), respondents' and Tanglaw's lease contact was dated October 10, 1989.

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