

**MULTINATIONAL VILLAGE HOMEOWNERS ASSOCIATION, INC. AND
DANILO F. CUNETA, PETITIONERS, VS. ARA SECURITY &
SURVEILLANCE AGENCY, INC., REPRESENTED BY THERESA C.
MAMAED, PRESIDENT A...**

G.R. No. 154852. October 21, 2004

Ponente: PANGANIBAN, J.

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PANGANIBAN, J.:

Basic is the rule that a contract constitutes the law between the parties. The mere grant to one party of the right to terminate the agreement because of the nonpayment of an obligation established therein does not ipso facto give the other party the same right to end the contract on the ground of allegedly unsatisfactory service. Concededly, parties may validly stipulate the unilateral rescission of a contract.

The Case

Before us is a Petition for Review[1] under Rule 45 of the Rules of Court, challenging the October 11, 2001 Decision[2] and the August 12, 2002 Resolution[3] of the Court of Appeals (CA) in CA-GR CV No. 62431. The assailed Decision disposed as follows:

“IN VIEW OF ALL THE FOREGOING, the judgment appealed from is hereby AFFIRMED with MODIFICATION to read as follows:

‘WHEREFORE, premises considered, judgment is hereby rendered in favor of the [respondent] and as against the [petitioners], ordering the latter to pay the [respondent] jointly and severally the following amounts:

- P591,250.00, as actual damages;
- P30,000.00, as attorney’s fees; and
- Costs of the suit.”[4]

The assailed Resolution denied petitioners’ Motion for Reconsideration.

The Facts

The antecedents are summarized by the appellate court as follows:

“In the Complaint filed below, it is alleged that Ara Security and Surveillance, Inc. [(‘Ara’)] was hired by Multinational Village Homeowners Association, Inc. [(‘Multinational’)] to provide security services at the Multinational Village, Parañaque, Metro Manila. Their agreement was embodied in a document, entitled Contract of Guards Services dated May 30, 1994. The contract was to take effect for a period of one (1) year from May 25, 1994 up to May 25, 1995 on a monthly fee of One Hundred Seven Thousand Five Hundred (P107,500.00) Pesos, payable every 15th and end of the month without need of demand. Under the same contract, Ara will provide Multinational with thirty (30) guards.

“Not long after, on August 29, 1994, Danilo F. Cuneta, President of Multinational, wrote Ara a letter terminating the aforesaid contract effective 1900 hours of August 31, 1994, having found the guards’ services to be unsatisfactory, for repeated violations of the Security Guards Code of Ethics and Conduct, and total disregard of the General Order causing loss of confidence in the ability of the security guards to comply with the terms of the contract. Ara replied requesting Multinational to reconsider its position, which fell on deaf ears. Thus, on September 13, 1994, Ara commenced the present suit for injunction with preliminary injunction, preliminary mandatory injunction and temporary restraining order with damages.

“On September 15, 1994, a temporary restraining order was issued enjoining Multinational, their agents and all persons acting in their behalf from enforcing the letter dated August 29, 1994 and [from] replacing the guards with another agency. The injunctive relief was then set for hearing.

“Summons having been served properly, Multinational submitted an Answer together with an opposition to the injunction claiming that it has the right to pre-terminate the contract under paragraph 5 thereof stating:

“5. MODE OF PAYMENT:

‘For and in consideration of the above services and during the effectivity of this Contract, the CLIENT shall pay the SECURITY COMPANY the sum indicated in the hereto attached cost analysis per month which consideration shall be paid every 15th and end of the month without need of demand.

‘The CLIENT hereby agrees that it shall pay interest on accounts covered by billings received by the CLIENT and unpaid for thirty (30) days or more at the rate of 24 per cent per annum. This shall be without prejudice (sic) to the right of the SECURITY COMPANY to terminate this contract immediately, for failure of CLIENT to pay the aforestated consideration in accordance with its terms without notice.

‘The SECURITY COMPANY shall be entitled to an automatic adjustment of its stipulated contract price in (sic) event that the minimum wage increase[s] (sic) or in favor of the guards are promulgated by law, executive order, decree or wage order subsequent to the execution of this contract. Said adjustments shall be equivalent to the amount of increase in the minimum wage of the amount benefits promulgated or both as the case may be.

‘Billing shall be every fifteen (15) days. After three (3) months of satisfactory performance, the parties may negotiate for the extension of this contract and other matters that might be advantageous to both parties.”

“Meantime, after hearing the trial court denied the prayer for the issuance of a writ of preliminary injunction on February 16, 1995.

“Finally, on December 14, 1998, the court a quo rendered its decision.”[5]

Ruling in favor of Ara, the trial court ordered Multinational to pay the following:

- P701,137.50 as actual damages
- P200,000.00 as exemplary damages
- P50,000.00 as attorney’s fees
- P20,000.00 as and for costs of suit and expenses of litigation

Unsatisfied, petitioners appealed to the CA.

Ruling of the Court of Appeals

The CA held that petitioners had breached their Contract when they pre-terminated it on the basis of paragraph 5 thereof. According to the appellate court, the said provision did not provide for a pre-termination option, but was

“a mere superfluity with no clear meaning.”

Furthermore, the CA ruled that petitioners had no good and valid ground to pre-terminate the Contract, because the documentary evidence[6] they had presented was hearsay and of no probative value.[7]

Consequently, the appellate court affirmed the lower court’s findings, but reduced the award of actual damages to P591,250 representing payment for services rendered for five and a half months at P107,500 per month. It also deleted the award of exemplary damages, saying that respondent had failed to present evidence justifying the grant thereof.[8]

Hence, this Petition.[9]The Issues

In their Memorandum, petitioners raise the following issues for our consideration:

“1. Whether or not the lower erred in finding respondent’s position as the more acceptable interpretation of the contract in question that the contract cannot be terminated even after three months of unsatisfactory performance.

“2. Whether or not the lower court erred in ruling that petitioners failed to establish that the termination of the contract was for legal cause.

“3. Whether or not the lower court erred in declaring that [petitioners] committed breach of contract.”[10]

The issue is simply whether the pre-termination of the Contract was valid.

The Court’s Ruling

The Petition has no merit.

Main Issue:

Interpretation of Paragraph 5

The last portion of paragraph 5 of the Contract of Guard Services between petitioners and respondent provides:

“Billing shall be every fifteen (15) days. After three (3) months of satisfactory performance, the parties may negotiate for the extension of this contract and other matters that might be advantageous to both parties.”[11]
(Italics supplied)

Petitioners argue that the above stipulation in the Contract of Guard Services is a resolutive condition. They allege that under this paragraph, the Contract can no longer be enforced after the three-month period if the guards’ performance is unsatisfactory.[12]

They further theorize that since respondent was given the option to end the Contract upon their failure to pay in accordance with the specified terms, they are likewise entitled to the option of terminating the agreement on the basis of allegedly unsatisfactory performance.[13] They add that it would be unjust to compel respondent to continue with this Contract despite the security guards’ ineptitude, which poses a danger to the lives and properties of the home owners.[14]

Petitioners’ contentions are not convincing. A reading of paragraph 5 yields the simple and natural meaning that the parties may extend the Contract’s life upon mutual agreement. The appellate court was correct in holding that the provision was a mere superfluity. The parties need not provide that they may extend the Contract should they mutually agree, because they may do so with or without this benign provision. Although paragraph 5 mentions extensions, it is ominously and significantly silent on the matter of pre-termination.

True, parties may validly provide for resolutive conditions and unilateral rescission in their contract. However,

paragraph 5 is not a resolutive condition, as it is not one that constitutes “a future and uncertain event[,] upon the happening or fulfillment of which rights which are already acquired by virtue of the obligation are extinguished or lost.”[15]

Under paragraph 5, the clause “satisfactory performance” is expressly and clearly a consideration for extending the life of the Contract. However, in the same paragraph, there is no mention of the effect of unsatisfactory performance.

In the absence of any stipulation or provision of law on the matter, petitioners cannot be deemed to have the contractual right to pre-terminate the Contract unilaterally as of August 31, 1994, on the ground of the allegedly unsatisfactory performance of the security guards. Such interpretation is a direct contravention of paragraph 12, which clearly states that the term of the Contract shall be one year:

“12. TERM OF CONTRACT:

“This Contract shall take effect on May 25, 1994 and shall be for a period of One (1) Year from said date. Thereafter, it shall be deemed renewed for the same period unless either party notifies the other in writing not later than one (1) month before the expiry of its intent not to renew.

“x x x x x x x x

“14. Either party may terminate this contract for legal cause by written notice given to the other party not later than thirty (30) days prior to the expiry date.”[16]

The cases -- *Pamintuan v. CA*[17] and *Viray v. Intermediate Appellate Court*[18] -- cited by petitioners to support the alleged existence of a resolutive condition are not applicable to the present controversy. In the cited Decisions, the obligations under the lease Contracts as well as the consequences of the lessees’ failure to comply with those obligations -- particularly, rescission and the landlord’s taking possession of the leased premises -- were clearly set forth in the law and in the Contracts, respectively. Thus, it was clearly discernible in those cases that the failure to comply with the contractual obligations constituted a resolutive condition.

The foregoing situation does not obtain in the present case. The consequence of unsatisfactory performance is not specified in the Contract of Guard Services. There is no stipulation permitting petitioners to terminate the Contract upon an unsatisfactory performance of the security guards. Paragraph 5 cannot be deemed to be a resolutive condition.

The contention of petitioners that the grant to respondent of the option to terminate gives them the same right is a non sequitur. As they themselves argue, parties may validly provide for unilateral rescission in a contract.

Next, petitioners contend that the court a quo did not comply with Section 11 of Rule 130 of the Rules of Court, because it failed to give effect to paragraph 5. They further invoke Section 12[19] of the same Rule, arguing that relative to the provision of the Contract on the duration of its effectivity, which is one year, paragraph 5 is a particular provision.[20] They conclude that since the two provisions are inconsistent, paragraph 5 -- being the particular provision -- should prevail.

Section 11 of Rule 130 of the Rules of Court states that “[i]n the construction of an instrument where there are several provisions or particulars, such a construction is, if possible, to be adopted as will give effect to all.” Contrary to petitioners’ contention, paragraph 5 is not inconsistent with paragraph 12. More important, the former does not in any way deal with the termination of the Contract. Neither does it provide for a right to rescind.

At this point, we stress that the right to rescind is implied in reciprocal obligations, as provided for in Article 1191 of the Civil Code, which states:

“ART. 1191. The power to rescind obligations is implied in reciprocal ones, in case one of the obligors should not comply with what is incumbent upon him.

“x x x x x x x x.”

Therefore, absent any provision providing for a right to rescind, the parties may nevertheless rescind the contract should the other obligor fail to comply with its obligations.

As correctly held by the CA in the instant case, petitioners failed to produce evidence of the alleged breach of obligation by respondent. The investigation made by Petitioner Danilo F. Cuneta cannot stand as competent evidence. The Letter-Complaints presented in court were neither identified, nor were their contents affirmed, by their authors. Therefore, insofar as they purport to prove that the security guards were remiss in their duties, the Letter-Complaints are hearsay and inadmissible evidence.[21] In *Desierto v. Estrada*, we held as follows:

“Evidence is called hearsay when its probative force depends, in whole or in part, on the competency and credibility of some persons other than the witness by whom it is sought to produce it. There are three reasons for excluding hearsay evidence: (1) absence of cross examination; (2) absence of demeanor evidence, and (3) absence of the oath.”

Finally, it is a settled principle of law that rescission will not be permitted for a slight or casual breach of a contract, but only for such breaches as are so substantial and fundamental as to defeat the object of the parties in entering into the agreement.[22] Petitioners failed to produce evidence of any substantial and fundamental breach that would warrant the rescission of the Contract.

WHEREFORE, the Petition is DENIED and the assailed Decision AFFIRMED. Costs against petitioners.

SO ORDERED.

Sandoval-Gutierrez, Corona, Carpio-Morales, and Garcia, JJ., concur.

[1] Rollo, pp. 9-22.

[2] *Id.*, pp. 42-53. Twelfth Division. Penned by Justice Conrado M. Vasquez Jr. (chair), with the concurrence of Justices Martin S. Villarama Jr. and Sergio L. Pestaño (members).

[3] *Id.*, p. 63.

[4] Assailed CA Decision, pp. 11-12; Rollo, pp. 52-53.

[5] *Id.*, pp. 2-4 & 43-45. Citations omitted.

[6] Letter-Complaints against the guards of Ara.

[7] Assailed Decision, pp. 10-11; Rollo, pp. 51-52.

[8] *Id.*, pp. 11 & 52.

[9] The case was deemed submitted for decision on August 26, 2003, upon this Court’s receipt of petitioners’ Memorandum, which was signed by Atty. Benjamin V. Aritao. Respondent’s Memorandum, signed by Atty. Vicente S. Pulido, was received by this Court on August 5, 2003.

[10] Petitioners’ Memorandum, p. 4; Rollo, p. 114.

[11] CA Decision, pp. 5-6; Rollo, pp. 46-47. Citation omitted.

[12] Petitioners' Memorandum, p. 6; Rollo, p. 116.

[13] Id., pp. 9 & 119.

[14] Id., pp. 12 & 122.

[15] Jurado, Comments and Jurisprudence on Obligations and Contracts (1987), p. 101.

[16] Id., pp. 6 & 47. Citation omitted.

[17] 42 SCRA 344, November 29, 1971.

[18] 198 SCRA 786, July 4, 1991.

[19] "Sec. 12. Interpretation according to intention; general and particular provisions. In the construction of an instrument, the intention of the parties is to be pursued; and when a general and a particular provision are inconsistent, the latter is paramount to the former. So a particular intent will control a general one that is inconsistent with it."

[20] Petitioners' Memorandum, p. 10; Rollo, p. 120.

[21] *Salonga v. Paño*, 134 SCRA 438, February 18, 1985; *People v. De la Piedra*, 350 SCRA 163, January 24, 2001. See also *People v. Manhuyod Jr.*, 290 SCRA 257, May 20, 1998; and *People v. Quidato Jr.*, 297 SCRA 1, October 1, 1998.

[22] *Universal Food Corporation v. Court of Appeals*, 33 SCRA 1, May 13, 1970; *Roque v. Lapuz*, 96 SCRA 741, March 31, 1980.

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