

MASSIVE CONSTRUCTION, INC., ENRIQUE P. SYQUIA, RAMON P. SYQUIA, JOSE MA. MENDIETA, JAIME SANTAMARIA, AND JESUS P. SYQUIA, PETITIONERS, VS. THE HONORABLE INTERMEDIATE APPELLATE C...

G.R. Nos. 70310-11. June 01, 1993

Ponente: BELLOSILLO, J.

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BELLOSILLO, J.:

This is an appeal by certiorari under Rule 45, Revised Rules of Court, from the consolidated decision of the Court of Appeals in AC-G.R. No. 64077-CV, entitled “Massive Construction Inc. v. Jaime C. Uy,” and AC-G.R. No. 65234-CV, entitled “Jaime Uy v. Enrique P. Syquia, et al.”

In AC-G.R. No. 64077-CV, the Court of Appeals reversed the decision of the Court of First Instance of Manila in Civil Case No. 87006, which ordered defendant Jaime C. Uy (UY for brevity) to pay plaintiff Massive Construction, Inc. (MASSIVE for brevity) a sum of money for unrealized profits resulting from UY’s violation of the Agreement dated December 16, 1971 (AGREEMENT for brevity), attorney’s fees and cost.

In AC-G.R. No. 65234-CV, the Court of Appeals reversed the decision of the Court of First Instance of Manila in Civil Case No. 87511, which declared the AGREEMENT as rescinded due to the breach thereof by both UY and defendants Enrique Syquia, et al. (stockholders of MASSIVE).

The two cases arose from a common background.

MASSIVE was engaged in the construction business in the Greater Manila Area while UY was connected with Super Highway Lumber and Construction Supply, Inc. (SUPER HIGHWAY for brevity), a business run by his wife and engaged in the business of supplying construction materials.

In the latter part of 1971, MASSIVE suffered financial reverses, resulting in its corporate reorganization. Ramon P. Syquia, the general manager of MASSIVE, asked his relatives to help bail out the company from its financial difficulties. Enrique P. Syquia, Jose Ma. Mendieta, Jaime Sta. Maria, and Jesus P. Syquia were thus elected directors.

In the course of operation, MASSIVE became indebted to SUPER HIGHWAY for purchases of construction materials in an amount exceeding P100,000.00. In order to settle this obligation, negotiations were started between the stockholders of MASSIVE on one hand and UY on the other. After several meetings, the parties signed on 16 December 1972 their AGREEMENT, particularly entered into by and among JAIME C. UY as First Party, RAMON P. SYQUIA as Second Party, and JOSE MA. MENDIETA, JAIME STA. MARIA, ROMEO ALMARIO, JESUS P. SYQUIA and ENRIQUE P. SYQUIA jointly as Third Party, with Jose Ma. Mendieta signing his CONFORME in behalf of MASSIVE, the pertinent terms of which follow:

“1. That the SECOND PARTY and the THIRD PARTY are the complete stockholders and directors of

MASSIVE CONSTRUCTION, INC., a corporation duly organized and existing under the laws of the Philippines;

“2. That the FIRST PARTY is desirous of buying the entire shares of stock of said corporation;

“3. That the FIRST PARTY, SECOND PARTY and THIRD PARTY have agreed that the FIRST PARTY will purchase the entire shares of stock of the corporation belonging to the SECOND PARTY for P250,000.00, under the following terms and conditions:

‘a) That the FIRST PARTY will pay to the SECOND and THIRD PARTY as earnest money, P20,000.00 upon the signing of this Agreement, and which will constitute as down payment after the FIRST PARTY complies with this Agreement, but which will be forfeited in favor of the SECOND and THIRD PARTY in case of failure to comply with this Agreement;

‘b) That aside from the P20,000.00 earnest money, the FIRST PARTY will pay P30,000.00 on or before January 5, 1973 and the balance of P200,000.00 shall be paid in monthly installments of P50,000.00 every 5th day of the month thereafter until the entire amount of P250,000.00 is paid;

‘c) That the corporation has monies due it from its receivable and collections; and the corporation has also a pending obligation with the FIRST PARTY; and all parties agree that from this date, 50% of the receivable collected and 30% of the collections received by the corporation shall be applied to the balance of P230,000.00 owing from the FIRST PARTY to the SECOND and THIRD PARTY; and these amounts, in turn, shall be paid by the FIRST PARTY to the corporation by the reduction and partial payment of the obligation of the corporation to the FIRST PARTY;

‘d) That upon payment of the FIRST PARTY of P20,000.00 to the SECOND and THIRD PARTY, the SECOND and THIRD PARTY will give P25,000.00 worth of shares to the FIRST PARTY, and said FIRST PARTY shall also be elected as director of the Corporation; and upon succeeding payments made by the FIRST PARTY, shares of stock will be transferred to him until the total of P100,000.00 worth of shares have been transferred to the name of the FIRST PARTY; and once the entire amount of P250,000.00 is paid by the FIRST PARTY to the SECOND and THIRD PARTY, then the remaining balance of the shares of stock shall be transferred to him immediately;

‘e) That until the FIRST PARTY has fully paid said amount of P250,000.00, the corporate structure and management at the present time shall be maintained, and all the stockholders and directors shall continue with their present rights, privileges, and prerogatives;

‘f) That upon payment by the FIRST PARTY to the SECOND and THIRD PARTY of the said amount of P250,000.00, all the obligations of the corporation to the SECOND and THIRD PARTY, which are purely personal in nature, shall be considered fully liquidated; but this shall not exceed P4,650.00 a month;

‘g) That said P250,000.00 shall be utilized in paying primarily to the SECOND and THIRD PARTY the monies they have advanced and loaned to the corporation;

‘h) That immediately upon the signing of this agreement, the FIRST PARTY shall make available to the corporation such materials and capital as the corporation may need for its projects as determined by the SECOND PARTY, but this shall be considered as an obligation of the corporation to the FIRST PARTY.’

“4.) That as soon as the FIRST PARTY has paid P250,000.00 to the SECOND PARTY and THIRD PARTY, and the entire shares of the corporation are transferred to him, it is agreed that the FIRST PARTY, in turn, will transfer half of these shares to the SECOND PARTY; and the FIRST PARTY and SECOND PARTY shall manage and control the corporation in equal shares, in equal proportion and with equal participation in the profits.”[1]

At the signing of the AGREEMENT, the stockholders of MASSIVE informed UY that the company had several on-going construction projects, including those of Queen's Row Subdivision, Republic Flour Mills, and B.F. Homes. On the same occasion, UY issued to Enrique P. Syquia a check postdated 22 December 1971 which bounced for lack of funds. UY, however, made good the check by paying Syquia P20,000.00 in cash on 29 December 1971.[2]

Out of the P20,000.00 paid by UY to Enrique P. Syquia, UY borrowed P2,000.00 payable on or before 5 July 1972. UY failed to pay this amount, which compelled Syquia to file a collection suit against him in the City Court of Manila (Civil Case No. 209298). The latter Court rendered judgment against UY, who appealed the decision to the Court of First Instance of Manila (Civil Case No. 87310).

Immediately after the signing of the AGREEMENT, UY was made a co-manager of MASSIVE, pursuant to the AGREEMENT. Ramon P. Syquia also asked UY for his promised contribution of materials and funds. Out of P100,000.00 worth of materials needed for the projects, UY was able to deliver only P6,085.69. He gave as an excuse the non-payment by his relatives of the dividends which he intended to invest in MASSIVE.

MASSIVE made three demands for payment of the damages caused by UY's failure to comply with his obligations under the AGREEMENT: the first, addressed to UY dated 14 January 1972,[3] the second, addressed to UY's counsel dated 18 January 1972,[4] and the third, addressed to UY himself dated 18 January 1972.[5]

In his answer to the letter dated 14 January 1972 of MASSIVE,[6] UY wrote that he had been relieved from payment of the P30,000.00 required, under paragraph 3(b) of the AGREEMENT because of the failure of the stockholders of MASSIVE to deliver to him the company's shares of stock worth P25,000.00 upon his payment to them of the sum of P20,000.00[7].

While UY received the letters dated 17 and 18 January 1972, he did not reply to them.

Because of the lack of fresh capital and construction materials, MASSIVE aborted all its projects.

In Civil Case No. 87006, the trial court found that UY failed to make available to MASSIVE the construction materials and funds needed for its projects; that the construction materials delivered by UY to MASSIVE valued at P6,085.69 were inadequate to carry out its various projects; that UY's claim that he did not understand the import of the AGREEMENT was unbelievable; and, that it was UY who reneged on his obligations under the AGREEMENT.[8]

The trial court, after finding that it was UY who had violated the terms of the contract, particularly paragraph 3 (h) thereof, held him liable to pay MASSIVE P20,000.00 as damages for the Republic Flour Mills project, P80,000.00 for the Queen's Row Subdivision project, and P10,000.00 as attorney's fees. The trial court denied MASSIVE's claim for damages with respect to the B.F. Homes project.

The trial court did not resolve the issue on the right of UY to rescind the contract, saying that this issue would have to be resolved in Civil Case No. 87511.

In Civil Case No. 87511, the trial court found that UY entered into the contract freely and even with the assistance and advice of counsel; that there was no undue influence or fraud exerted on him by MASSIVE's stockholders as to justify the nullification of the contract; and, that the said stockholders did not conceal from UY the financial status of MASSIVE.[9]

The trial court however did not award any damages after finding that all the parties had defaulted in the fulfillment of their obligations but it could not determine who of the parties first violated the contract.[10]

UY appealed to the Court of Appeals from the decisions in both cases. The Court of Appeals, viewing the

evidence in a different light, found that the stockholders of MASSIVE were the ones who first violated the terms of the AGREEMENT when they failed to assign to UY the P25,000.00 worth of the company's shares of stock and to elect him a director of the company upon his payment of P20,000.00.[11]

In both AC-G.R. No. 64077-CV and AC-G.R. No. 65234-CV, the Court of Appeals reversed the decisions of the Court of First Instance. In addition, in AC-G.R. No. 65234-CV, the Court of Appeals ordered MASSIVE to refund to UY the sum of P20,000.00 and to pay P6,085.69, representing the cost of the materials delivered by UY to MASSIVE, P5,000.00 as attorney's fees and cost. In AC-G.R. No. 65234-CV, the Court of Appeals made the stockholders of MASSIVE subsidiarily liable to pay UY the amounts adjudged in AC--G.R. No. 64077-CV to be paid by MASSIVE.[12] The Court of Appeals, however, did not sustain UY's claim that his consent to the contract was obtained by fraud.[13]

The Court of Appeals sustained the trial court in its finding that MASSIVE was a proper party to ask for specific performance of the contract. The appellate court noted that the contract was signed by all the directors-stockholders of MASSIVE and even had the conformity of said company.[14]

This Court can review the findings of facts of the Court of Appeals when the same are contrary to the findings of the trial court[15] and to the stipulation of facts of the parties.[16]

Inasmuch as the AGREEMENT imposed reciprocal obligations, the question to resolve is who of the parties breached the contract first. The starting point of the inquiry is the contract itself.

Under the AGREEMENT, UY, as First Party, agreed to buy all the outstanding shares of stock of MASSIVE and the stockholders of MASSIVE, as Second and Third Parties, agreed to sell to him the said shares for P250,000.00, under the following terms:

- "1) Upon the signing of the contract, Uy would pay Ramon P. Syquia and the other stockholders of Massive the sum of P20,000.00 as earnest money;
- "2) Immediately upon the signing of the contract, Uy would "make available to Massive such materials and capital as the company may need for its projects as determined by" Ramon P. Syquia. All the materials and capital given by Uy would be considered an obligation of Massive;
- "3) On or before January 5, 1973, Uy would pay the stockholders of Massive the sum of P30,000.00;
- "4) Every 5th day of the month beginning February 5, 1973, Uy would pay the amount of P50,000.00 until the balance of P200,000.00 was paid;
- "5) Upon the payment by Uy of the P20,000.00 to the stockholders of Massive the latter would give him P25,000.00 worth of shares and would elect him a director of the company."

The party required to act first in compliance with the terms of the contract is no other than UY.

While UY issued a postdated check for P20,000.00 on 16 December 1972 in payment of the earnest money required under paragraph 3 (a) of the AGREEMENT, the check bounced when it was deposited for collection. True, UY made good the check on 29 December 1971 but he had to borrow P2,000.00 out of his payment of P20,000.00. Having failed to pay this amount by 5 July 1972 as promised, UY was sued in the City Court of Manila for its collection. Effectively, UY was able to pay only P18,000.00 out of the P20,000.00 he was supposed to pay as earnest money. This aspect of the case showed the financial difficulties besetting UY and reflected poorly on his ability to meet his financial commitments.

In addition to his obligation to pay the earnest money of P20,000.00, UY was required under paragraph 3 (h) of the AGREEMENT to make available to MASSIVE immediately upon the signing of the contract, such "materials

and capital as the corporation may need for its projects as determined by” Ramon P. Syquia. UY was able to deliver to MASSIVE materials valued at only P6,085.69 out of the P100,000.00 worth as required by the on-going projects.

The infusion of fresh capital was the lifeblood of the projects and the essence of his being brought in as an investor. Without his capital contribution, the company could not possibly operate.

Lastly, UY failed to pay on or before 5 January 1972 the P30,000.00 required under paragraph 3 (b) of the AGREEMENT. UY cannot claim that he was relieved from the payment of the monthly installment of P50,000.00 beginning 5 January 1973. When the parties agreed that the monthly installments should be paid out of the receivables and collections of MASSIVE (paragraph 3 [c], AGREEMENT), it was implied that there was actual cash received or collected.

The Court of Appeals held that UY was relieved of his obligation to pay the P30,000.00 after the stockholders of MASSIVE failed to deliver the P20,000.00 worth of shares of stock of the company. The thinking of the Court of Appeals was that after UY had paid the P20,000.00 earnest money, it became the sellers’ turn to assign the shares of stock to UY.

The Court of Appeals erred in concluding that the stockholders of MASSIVE were the first to default on their obligations because it overlooked the fact that under paragraph 3 (h) of the AGREEMENT, UY was also obligated “immediately upon the signing of the contract” to contribute materials and funds needed for the on-going projects.

UY was aware of these twin-obligations of his, so much so that his complaint in Civil Case No. 87511 against the stockholders of MASSIVE was anchored on his alleged compliance with the provisions of paragraphs 3 (a) and (h) of the AGREEMENT.[17]

The failure of the stockholders to deliver to UY the P25,000.00 worth of shares is not as substantial a breach as that accorded it by the appellate court. As a matter of fact, UY did not set up such default as a defense in his answer in Civil Case No. 87006, leading one to conclude that such contention was a mere after-thought.

Under Art. 1191 of the Civil Code, the power to rescind or the right to resolve is not absolute and must be based on a serious breach of an obligation as to defeat the object of the parties in making the agreement.[18] The non-delivery of the certificates of stock to Uy and his non-election to the board of directors were not serious breaches, particularly considering that he has not shown the necessity or urgency for the transfer of the shares in his name or his election as director. Besides, the trial court is given the discretion to allow a period within which a party in default may be permitted to perform the stipulation upon which the claim for rescission of the contract is based, especially when the breach is not substantial.[19]

WHEREFORE, the decision of the Court of Appeals is reversed and, in lieu thereof, the decision of the trial court in Civil Case No. 87006 is AFFIRMED in toto, and the decision in Civil Case No. 87511 is likewise AFFIRMED but only insofar as it dismissed the monetary reliefs including attorney’s fees sought by both parties.

SO ORDERED.

Cruz, (Chairman), and Griño-Aquino, JJ., concur.

Quiason, J., no part.

[1] Exhs. “B” and “5”, Civil Case No. 87006; Exhs. “E” and “2”, Civil Case No. 87511.

- [2] Exhs. "C" and "6", Civil Case 87006.
- [3] Exh. "4", Civil Case No. 87511.
- [4] Exh. "5", Ibid.
- [5] Exh. "E", Ibid.
- [6] Exh. "4", Ibid.
- [7] Exh. "5-A", Ibid.
- [8] Amended Record on Appeal, AC-G.R. No. 64077-CV; Rollo, pp. 106-108.
- [9] Record on Appeal, AC-G.R. No. 65234-CV; Rollo, pp. 108-109.
- [10] Ibid.
- [11] Decision, p. 11; Rollo, p. 75.
- [12] Decision, p. 18; Rollo, p. 82.
- [13] Decision, pp. 15-16; Rollo, pp. 79-81.
- [14] Decision, p. 10; Rollo, p. 74.
- [15] Philippine National Bank v. Court of Appeals, 112 SCRA 553 (1982); Gonzales v. Court of Appeals, 90 SCRA 183 (1979); Jereos v. Court of Appeals, 117 SCRA 395 (1982).
- [16] Evangelista v. Alto Surety and Insurance Co., Inc., 103 Phil. 401 (1958).
- [17] Record on Appeal, p. 3; Rollo, p. 108.
- [18] Philippine Amusement Enterprises, Inc. v. Natividad, 21 SCRA 284 (1967); Tan v. Court of Appeals, 175 SCRA 656 (1989).
- [19] Angeles v. Calasanz, 135 SCRA 323 (1985); IV Tolentino, Commentaries on the Civil Code of the Philippines, p. 179, 1991 Ed.

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