

FIRST DIVISION

[G.R. No. 189401, June 15, 2016]

VIL-REY PLANNERS AND BUILDERS, PETITIONERS, VS. LEXBER, INC., RESPONDENT.

[G.R. NO. 189447]

LEXBER, INC., VS. STRONGHOLD INSURANCE COMPANY, INC., PETITIONER, RESPONDENT.

D E C I S I O N

SERENO, C.J.:

Before us are petitions for review on certiorari under Rule 45 of the Rules of Court seeking to nullify the Court of Appeals (CA) Decision^[1] and Resolution^[2] in CA-G.R. CV No. 90241. The CA Decision found Vil-Rey Planners and Builders (Vil-Rey) and Stronghold Insurance Company, Inc. (Stronghold), solidarily liable to Lexber, Inc. (Lexber) in the amount of P284,084.46 plus attorney's fees of P50,000. The CA Resolution denied the motions for reconsideration filed by Vil-Rey and Stronghold.

FACTS

Vil-Rey and Lexber entered into a Construction Contract dated 17 April 1996^[3] (first contract) whereby the former undertook to work on the compacted backfill of the latter's 56,565-square-meter property in *Barangay* Bangad, Cabanatuan City. Based on the first contract, Vil-Rey shall complete the project in 60 days for a consideration of P5,100,000. Lexber released to Vil-Rey a mobilization downpayment of P500,000 secured by Surety Bond G(16) No. 066915^[4] (first surety bond) issued by Stronghold. For its part, Vil-Rey agreed to indemnify Stronghold for whatever amount the latter might be adjudged to pay Lexber under the surety bond.^[5]

Vil-Rey and Lexber mutually terminated the first contract and entered into a Construction Contract dated 1 July 1996^[6] (second contract) to cover the remaining works, but under revised terms and conditions. The contract amount was P2,988,700.20, and the scope of work was required to be completed in 60 days.

On 23 December 1996, Vil-Rey and Lexber executed Work Order No. CAB-96-09^[7] (third contract) for the completion of the remaining works by 15 January 1997. Under the third contract, a consideration of P1,168,728.37 shall be paid on the following basis: 50% downpayment to be secured by a surety bond in the same amount issued by Stronghold upon approval of the work order and 50% balance upon completion of the works. Accordingly, Stronghold, issued Surety Bond G(16) No. 077258^[8] (second surety bond) in the amount of P584,364.19 in favor of

Lexber. Vil-Rey again obligated itself to indemnify Stronghold for whatever amount the latter might be held to pay under the surety bond.^[9]

In a letter dated 21 January 1997^[10] addressed to Lexber, Vil-Rey requested the extension of the contract period to 31 January 1997. Lexber granted the request for extension.^[11] However, Vil-Rey failed to complete the works by the end of the extended period, or even after Lexber gave it another five days to finish the works.^[12] Lexber then wrote Stronghold seeking to collect on the two surety bonds issued in favor of the former.^[13]

When negotiations failed, Lexber filed a Complaint^[14] for sum of money and damages against Vil-Rey and Stronghold before the Regional Trial Court of Quezon City, Branch 93 (RTC).

In its Answer (with Counterclaim),^[15] Vil-Rey denied that it was guilty of breach of contract and insisted that it was Lexber that owed the amount of P1,960,558.40 to the former. Vil-Rey alleged that under the first contract, it was able to finish 75.33% of the works, but that Lexber paid an amount equivalent to only 50% of the contract, thereby leaving a balance of P1,291,830 in Vil-Rey's favor. Furthermore, considering that almost 100% of the works were finished under the third contract, Vil-Rey had receivables of P668,728.40 representing the contract amount of P1,168,728.37 less the downpayment of P500,000. It also prayed for the payment of moral damages and attorney's fees.

Stronghold filed its Answer^[16] alleging that its liability under the surety bonds was very specific. Under the first surety bond, it guaranteed only the mobilization down payment of 10% of the total consideration for the first contract. The mobilization downpayment was fully liquidated prior to the mutual termination of the first contract. Also, no collection could be made on the second surety bond, because Lexber failed to allege that there were defects in the materials used and workmanship utilized by Vil-Rey in undertaking the works. Stronghold put forward its counterclaim against Lexber for attorney's fees, litigation expenses, and cross-claim against Vil-Rey for any and all amounts Stronghold may be ordered to pay under the surety bonds pursuant to the indemnity agreements.

RULING OF THE RTC

In a Decision dated 12 December 2005,^[17] the RTC adjudged Vil-Rey and Stronghold jointly and severally liable to Lexber in the amount of P2,988,700.20, with interest at the rate of 12% per annum as actual and compensatory damages from the time of the breach until full satisfaction. The trial court also ordered Vil-Rey and Stronghold to pay attorney's fees in the amount of P500,000 plus the costs of suit. It upheld the indemnity agreements and granted Stronghold's cross-claim against Vil-Rey.

The RTC emphasized that parties to a contract are bound by the stipulations therein. When the contract requires the accomplishment of tasks at a given time and the obligor fails to deliver, there is breach of contract that entitles the obligee to damages. In this case, when Vil-Rey failed to finish the works on time, it became liable to Lexber for damages brought about by the breach. The trial court found no

merit in the claim of Vil-Rey that there was underpayment and brushed aside the latter's counterclaim.

As regards Stronghold, the trial court found that the wording of the surety bonds did not embody the parties' true intent, which was to ensure the faithful performance by Vil-Rey of its obligations. Considering its failure in this regard, Stronghold should pay the total amount of the two surety bonds to Lexber.

In an Order dated 22 October 2007,^[18] the RTC decreed a partial reconsideration and ordered Vil-Rey and Stronghold to pay Lexber *in solidum* in the amount of P1,084,364.19. This represented the true total amount of the two surety bonds, with 12% interest per annum as actual and compensatory damages from the time of the breach until full satisfaction. Furthermore, attorney's fees were reduced to P200,000.

Vil-Rey and Stronghold filed an appeal before the CA.

RULING OF THE CA

In the assailed Decision dated 16 April 2009,^[19] the CA modified the RTC Order and further lowered the liability of Vil-Rey and Stronghold to P284,084.46 with interest at the rate of 6% per annum from 11 February 1997 until the finality of the Decision. Thereafter, the amount shall earn 12% interest per annum until full satisfaction. The appellate court also reduced attorney's fees to P50,000.

The CA ruled that, considering the mutual termination of the first and second contracts, no liability could be assessed against Vil-Rey. Whatever claims Lexber had against Vil-Rey had been deemed waived with the execution of the third contract. Consequently, Stronghold could not be made to pay under the first surety bond, which covered only the mobilization downpayment under the first contract.

Nevertheless, there was a clear breach of the third contract, and Vil-Rey should be held liable for the natural and probable consequences of the breach as duly proven. In this case, Lexber was able to prove that it sustained damages in the amount of P284,084.46, which was the amount it paid another contractor tasked to complete the works left unfinished by Vil-Rey. That amount was charged against the second surety bond, which guaranteed not only the workmanship and the quality of the materials used in the project, but also the obligations of Vil-Rey.

The CA modified the interest imposed considering that the obligation breached was not a loan or forbearance of money. Like the RTC, it denied the counterclaims of Vil-Rey and Stronghold against Lexber, but upheld Stronghold's cross-claim against Vil-Rey.

Vil-Rey's motion for reconsideration and Stronghold's motion for partial reconsideration were denied by the CA in the challenged Resolution dated 1 September 2009.^[20]

Issues

Dissatisfied, Vil-Rey and Stronghold filed the instant petitions before us raising the

following issues for our resolution:

1. Whether Vil-Rey is liable for breach of contract
2. Whether Stronghold's liability under the second surety bond was extinguished by the extension of the third contract
3. Whether Lexber is entitled to attorney's fees

Our Ruling

I.

Vil-Rey is liable for breach of contract.

In resisting the ruling of the CA that Vil-Rey was guilty of breach of contract, the latter alleges that the appellate court's findings are based on a misapprehension of facts.^[21] Vil-Rey argues that the consideration for the third contract was P1,168,728.37, of which it was paid only P500,000. Considering that there remained a balance of P668,728.37, the amount was more than enough to offset that incurred by Lexber in order to finish the works.

The argument misses the point.

Breach of contract is the failure of a party, without legal reason, to comply with the terms of a contract or perform any promise that forms either a part or the whole of it.^[22] The failure of Vil-Rey to complete the works under the third contract was never an issue in this case. In fact, that failure was readily admitted by Moises Villarta, its managing partner,^[23] in his testimony before the trial court:

- Q. What happened after you accomplished 95% under the [third contract]?
- A. The only remaining there would be the compaction and fill density test.
- Q. Could you please tell us why you did not finish the compaction and density test under the [third] contract.
- A. Because I lacked funds. I was not paid anymore.^[24]

To clarify, aside from this testimony, no proof was presented to show that Vil-Rey was able to accomplish 95% of the works under the third contract. Nevertheless, even if we were to assume that this claim is true, it still falls short of the obligation to finish 100% of the works.

In the third contract, Vil-Rey and Lexber agreed on the following terms of payment:

50% downpayment upon approval of this work order against a surety bond from Stronghold Insurance Corporation
50% balance upon completion of work

The work will be completed on or before 15 January 1997 x x x.^[25]

It is clear that the next payment for Vil-Rey would have fallen due upon completion of the works. Thus, it cannot put up the defense that its failure to comply with its obligation was because it was not paid.

Under the above provisions, the parties clearly took on reciprocal obligations. These are obligations that arise from the same cause, such that the obligation of one is dependent upon that of the other.^[26]

The reciprocal obligation in this case was Lexber's payment of the 50% balance upon Vil-Rey's completion of the works on or before 15 January 1997. However, despite the grant of extension until 31 January 1997, and even after the lapse of another five-day grace period, Vil-Rey failed to finish the works under the third contract.

The law provides that the obligation of a person who fails to fulfill it shall be executed at that person's cost.^[27] The CA was correct in ruling that Vil-Rey should be held liable for the amount paid by Lexber to another contractor to complete the works. Furthermore, Article 2201 of the Civil Code provides:

Article 2201. In contracts and quasi-contracts, the damages for which the obligor who acted in good faith is liable shall be those that are the natural and probable consequences of the breach of the obligation, and which the parties have foreseen or could have reasonably foreseen at the time the obligation was constituted.

In case of fraud, bad faith, malice or wanton attitude, the obligor shall be responsible for all damages which may be reasonably attributed to the non-performance of the obligation.

In the absence of a clear showing of bad faith on the part of Vil-Rey, it shall be liable for damages only with regard to those that are the natural and probable consequences of its breach. In this case, the failure of Vil-Rey to finish the works compelled Lexber to secure the services of another contractor, to which the latter paid a total of P284,084.46. Considering that this amount was not a loan or forbearance of money, We impose interest at the rate of 6% per annum^[28] from 17 February 1997^[29] until the finality of this Decision. Thereafter, it shall earn interest at the rate of 6% per annum until satisfaction.^[30]

We shall not close this discussion without passing upon another reciprocal obligation assumed by the parties under the third contract. As agreed, Vil-Rey shall acquire a surety bond from Stronghold equivalent to 50% of the contract price of P1,168,728.37 upon Lexber's downpayment of the same amount. Accordingly, on 24 December 1996, Vil-Rey secured the second surety bond in the amount of P584,364.19. On the same day, Lexber made a downpayment of only P500,000.^[31]

Article 1169 of the Civil Code provides that in reciprocal obligations, delay by one of the parties begins from the moment the other fulfills the obligation. In this case, Lexber is guilty of delay with regard to the amount of P84,364.19, which should be