

THIRD DIVISION

[G.R. No. 167004, February 07, 2011]

**DEVELOPMENT BANK OF THE PHILIPPINES, PETITIONER, VS.
BEN P. MEDRANO AND PRIVATIZATION MANAGEMENT OFFICE
[PMO], RESPONDENTS.**

D E C I S I O N

VILLARAMA, JR., J.:

This petition for review on certiorari assails the Decision^[1] dated December 14, 2004 and Resolution^[2] dated February 8, 2005 of the Court of Appeals (CA) in CA-G.R. CV No. 65436. The CA affirmed *in toto* the Decision^[3] dated January 26, 1999 of the Regional Trial Court (RTC) of Pasig City, Branch 158, ordering petitioner Development Bank of the Philippines (DBP) to pay respondent Ben Medrano the following: (1) the amount of P2,449,265.00 representing the value of the purchase price of Medrano's 37,681 shares in Paragon Paper Industries, Inc. plus legal interest from date of first demand; (2) attorney's fees in the amount of P100,000.00; and (3) the cost of suit.

The facts, as culled from the records, are as follows.

Respondent Ben Medrano was the President and General Manager of Paragon Paper Industries, Inc. (Paragon) wherein he owned 37,681 shares. Sometime in 1980, petitioner DBP sought to consolidate its ownership in Paragon. In one of the meetings of the Paragon Executive Committee, the Chairman Jose B. de Ocampo, instructed Medrano, as President and General Manager of Paragon, to contact or sound off the minority stockholders and to convince them to sell their shares to DBP at P65.00 per share, or 65% of the stock's par value of P100.00. Medrano followed the instructions and began to contact each member of the minority stockholders. He was able to contact all except one who was in Singapore. Medrano testified that all, including himself, agreed to sell, and all took steps to have their shares surrendered to DBP for payment.^[4] They made proposals to DBP and the Board of Directors of DBP approved the sale under DBP Resolution No. 4270 subject to the following terms and conditions: (1) that prior to the implementation of the approval, 57,596 shares of Paragon's stock issued to the stockholders concerned shall first be surrendered to the DBP; (2) that all the parties concerned shall give their written conformity to the arrangement; and (3) that the transaction shall be implemented within forty-five (45) days from the date of approval (December 24, 1980); otherwise, the same shall be deemed canceled. Medrano then indorsed and delivered to DBP all his 37,681 shares which had a value of P2,449,265.00. DBP accepted said shares and took over Paragon.

DBP, through Jose de Ocampo, who was also a member of its Board of Governors, also offered Medrano a commission of P185,010.00 if the latter could persuade all the other Paragon minority stockholders to sell their shares. Medrano was able to

convince only two stockholders, Alberto Wong and Gerardo Ledonio III, to sell their respective shares. Thus, his commission was reduced to P155,455.00.

Thereafter, Medrano demanded that DBP pay the value of his shares, which he had already turned over, and his P155,455.00 commission. When DBP did not heed his demand, Medrano filed a complaint for specific performance and damages against DBP on September 2, 1981.

DBP filed an Answer arguing that there was no perfected contract of sale as the three conditions in DBP Resolution No. 4270 were not fulfilled. Likewise, certain minority stockholders owning 17,635 shares refused to sell their shares. Hence, DBP exercised its right to cancel the sale under Resolution No. 4270.

Later, during the pendency of the case, DBP conveyed the shares to the Asset Privatization Trust (APT) in a Deed of Transfer when the APT took over certain assets, and assumed the liabilities, of government financial institutions including DBP. As the transferee of the shares, the APT was impleaded as party-defendant. DBP thereafter filed a cross-claim against the APT which was later on substituted by the Privatization Management Office (PMO). Medrano adopted his evidence against DBP as his evidence against the APT while the APT adopted DBP's evidence and defenses against Medrano. On the cross-claim, the APT raised the defense that the liabilities assumed by the National Government and referred to in the Deed of Transfer are liabilities to local and foreign intermediaries and guarantees and not to individual persons like Medrano.

On January 26, 1999, the RTC ruled in Medrano's favor and dismissed DBP's cross-claim against the APT, to wit:

WHEREFORE, in view of the foregoing, judgment is rendered in favor of the plaintiff and against defendant Development Bank of the Philippines ordering the latter to pay the former the following: (1) the amount of P2,449,265.00 representing the value of the purchase price of plaintiff's 37,681 shares in Paragon plus legal rate of interest from date of first demand; (2) attorney's fees in the amount of P100,000.00; and (3) the cost of suit.

The cross-claim of defendant DBP against the other defendant Asset Privatization Trust is dismissed because defendant Development Bank of the Philippines' accountability to the plaintiff [is] based on act[s] solely imputable to it.

SO ORDERED.^[5]

Dissatisfied, DBP elevated the case to the CA. DBP prayed that the trial court's decision be reversed and that DBP be absolved from any and all liabilities to Medrano.

Medrano, for his part, prayed in his appellee's brief that DBP be ordered to pay his commission of P155,445.00.^[6]

On December 14, 2004, the CA issued the challenged Decision^[7] and affirmed the decision of the trial court. The CA, however, refused to grant Medrano's prayer for the payment of commission because Medrano did not appeal the trial court's decision but instead prayed for the payment of his commission only in his appellee's brief.

The CA held that there existed between DBP and Medrano a contract of sale and the conditions imposed by Resolution No. 4270 were merely conditions imposed on the performance of an obligation. Hence, while under Article 1545^[8] of the Civil Code, DBP had the right not to proceed with the agreement upon Medrano's failure to comply with the conditions, DBP was deemed to have waived the performance of the conditions when it chose to retain Medrano's shares and later transfer them to the APT. The CA noted that the retention of the shares was contrary to DBP's claim of rescission because if indeed DBP rescinded the sale, then it should have returned to Medrano his shares together with their fruits and the price with interests, as provided by Article 1385^[9] of the Civil Code.

DBP filed a motion for reconsideration, but the same was denied by the CA in a Resolution^[10] dated February 8, 2005. Hence, this appeal.

DBP alleges that the CA erred

I

... WHEN IT REACHED A CONCLUSION WHICH IS NOT A LOGICAL CONSEQUENCE OF ITS FINDING THAT THERE WAS NO PERFECTED CONTRACT OF SALE BETWEEN DBP AND MEDRANO AND PROCEEDED TO MAKE A CONTRACT FOR THE PARTIES IN THE INSTANT CASE.

II

... WHEN IT APPLIED ARTICLE 1545 OF THE CIVIL CODE OF THE PHILIPPINES NOTWITHSTANDING ITS FINDING THAT THERE WAS NO PERFECTED CONTRACT OF SALE BETWEEN MEDRANO AND DBP.

III

... WHEN IT FAILED TO EXERCISE ITS AUTHORITY TO RULE ON MATTERS WHICH ARE THE NATURAL AND LOGICAL CONSEQUENCE OF ITS FINDINGS OF FACTS OR THAT ARE INDISPENSABLE AND NECESSARY TO THE JUST RESOLUTION OF THE PLEADED ISSUES, EVEN IF NOT RAISED AS ISSUES IN THE APPEAL.

IV

... WHEN IT FAILED TO CONSIDER THE ESTABLISHED FACT THAT THE ASSETS OF PARAGON PAPER INDUSTRIES, INC., INCLUDING THE SUBJECT CERTIFICATE OF STOCKS, WERE TRANSFERRED TO THE ASSET PRIVATIZATION TRUST, NOW THE PRIVATIZATION MANAGEMENT OFFICE, HEREIN CO-DEFENDANT. HENCE, THE PMO SHOULD BE THE PARTY THAT

SHOULD BE MADE TO RETURN THE SUBJECT CERTIFICATES OF STOCKS OR PAY THE SAID SHARES OF STOCKS.

V

... WHEN IT AFFIRMED THE AWARD OF ATTORNEY'S FEES, DAMAGES AND COST OF SUIT IN FAVOR OF RESPONDENT MEDRANO CONTRARY TO LAW AND THE PERTINENT DECISIONS OF THIS HONORABLE SUPREME COURT.^[11]

Essentially, the issue in this case is whether the CA erred in applying Article 1545 of the Civil Code and holding that DBP exercised the second option under the said article to justify the order against DBP to pay the value of Medrano's shares of stock. As a side issue, DBP also questions the award of attorney's fees in Medrano's favor.

In fine, DBP contends that the trial court and the CA both ruled that there was no perfected contract of sale in this case and that accordingly, it was erroneous for them to order DBP to pay Medrano the value or price of the object of the sale. DBP insists that the proper order was to direct DBP or the PMO, which now has possession of the shares, *to return* the shares of stock. By ordering DBP to pay the purchase price of the stocks, DBP argues that the CA in effect created a new contract of sale between the parties.^[12]

DBP adds that the CA erred in applying Article 1545 of the Civil Code. According to DBP, Article 1545 of the Civil Code only applies to a perfected contract of sale and since there is no such perfected contract in this case because of Medrano's failure to meet all the conditions agreed upon, the application of this article by the CA is misplaced.

Lastly, DBP questions the award of attorney's fees to Medrano. DBP maintains that there was no unjustified refusal to pay for the shares of stock transferred to DBP as there was no perfected contract of sale.

Medrano, for his part, argues that by retaining the shares of stock transferred to it and later even appropriating and transferring them to the APT, DBP is deemed to have exercised the second option under Article 1545 of the Civil Code, that is, it waived performance of the conditions imposed by Resolution No. 4270. The original conditional sale was thus converted into, and correctly treated by the courts *a quo*, as an absolute, unconditional sale where compliance with the obligation of the buyer to pay the purchase price may be demanded.

As regards the award of attorney's fees, Medrano maintains that he was constrained to acquire the services of a lawyer and use legal means to enforce his rights over the shares in question. He argues that since DBP refused to pay for or return the shares that he transferred to it, he was left with no other option but to go to court. Hence, the award of attorney's fees is legally justified.

We sustain the CA.

As a rule, a contract is perfected upon the meeting of the minds of the two parties.