

THIRD DIVISION

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

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

DECISION

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:

1. P591,250.00, as actual damages;
2. P30,000.00, as attorney's fees; and
3. 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 aforesaid 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:

1. P701,137.50 as actual damages
2. P200,000.00 as exemplary damages
3. P50,000.00 as attorney's fees
4. 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