

## FIRST DIVISION

[ G.R. No. 158361, April 10, 2013 ]

**INTERNATIONAL HOTEL CORPORATION, PETITIONER, VS.  
FRANCISCO B. JOAQUIN, JR. AND RAFAEL SUAREZ,  
RESPONDENTS.**

### D E C I S I O N

**BERSAMIN, J.:**

To avoid unjust enrichment to a party from resulting out of a substantially performed contract, the principle of *quantum meruit* may be used to determine his compensation in the absence of a written agreement for that purpose. The principle of *quantum meruit* justifies the payment of the reasonable value of the services rendered by him.

#### The Case

Under review is the decision the Court of Appeals (CA) promulgated on November 8, 2002,<sup>[1]</sup> disposing:

WHEREFORE, premises considered, the decision dated August 26, 1993 of the Regional Trial Court, Branch 13, Manila in Civil Case No. R-82-2434 is AFFIRMED with Modification as to the amounts awarded as follows: defendant-appellant IHC is ordered to pay plaintiff-appellant Joaquin P700,000.00 and plaintiff-appellant Suarez P200,000.00, both to be paid in cash.

SO ORDERED.

#### Antecedents

On February 1, 1969, respondent Francisco B. Joaquin, Jr. submitted a proposal to the Board of Directors of the International Hotel Corporation (IHC) for him to render technical assistance in securing a foreign loan for the construction of a hotel, to be guaranteed by the Development Bank of the Philippines (DBP).<sup>[2]</sup> The proposal encompassed nine phases, namely: (1) the preparation of a new project study; (2) the settlement of the unregistered mortgage prior to the submission of the application for guaranty for processing by DBP; (3) the preparation of papers necessary to the application for guaranty; (4) the securing of a foreign financier for the project; (5) the securing of the approval of the DBP Board of Governors; (6) the actual follow up of the application with DBP<sup>[3]</sup>; (7) the overall coordination in implementing the projections of the project study; (8) the preparation of the staff for actual hotel operations; and (9) the actual hotel operations.<sup>[4]</sup>

The IHC Board of Directors approved phase one to phase six of the proposal during the special board meeting on February 11, 1969, and earmarked P2,000,000.00 for the project.<sup>[5]</sup> Anent the financing, IHC applied with DBP for a foreign loan guaranty. DBP processed the application,<sup>[6]</sup> and approved it on October 24, 1969 subject to several conditions.<sup>[7]</sup>

On July 11, 1969, shortly after submitting the application to DBP, Joaquin wrote to IHC to request the payment of his fees in the amount of P500,000.00 for the services that he had provided and would be providing to IHC in relation to the hotel project that were outside the scope of the technical proposal. Joaquin intimated his amenability to receive shares of stock instead of cash in view of IHC's financial situation.<sup>[8]</sup>

On July 11, 1969, the stockholders of IHC met and granted Joaquin's request, allowing the payment for both Joaquin and Rafael Suarez for their services in implementing the proposal.<sup>[9]</sup>

On June 20, 1970, Joaquin presented to the IHC Board of Directors the results of his negotiations with potential foreign financiers. He narrowed the financiers to Roger Dunn & Company and Materials Handling Corporation. He recommended that the Board of Directors consider Materials Handling Corporation based on the more beneficial terms it had offered. His recommendation was accepted.<sup>[10]</sup>

Negotiations with Materials Handling Corporation and, later on, with its principal, Barnes International (Barnes), ensued. While the negotiations with Barnes were ongoing, Joaquin and Jose Valero, the Executive Director of IHC, met with another financier, the Weston International Corporation (Weston), to explore possible financing.<sup>[11]</sup> When Barnes failed to deliver the needed loan, IHC informed DBP that it would submit Weston for DBP's consideration.<sup>[12]</sup> As a result, DBP cancelled its previous guaranty through a letter dated December 6, 1971.<sup>[13]</sup>

On December 13, 1971, IHC entered into an agreement with Weston, and communicated this development to DBP on June 26, 1972. However, DBP denied the application for guaranty for failure to comply with the conditions contained in its November 12, 1971 letter.<sup>[14]</sup>

Due to Joaquin's failure to secure the needed loan, IHC, through its President Bautista, canceled the 17,000 shares of stock previously issued to Joaquin and Suarez as payment for their services. The latter requested a reconsideration of the cancellation, but their request was rejected.

Consequently, Joaquin and Suarez commenced this action for specific performance, annulment, damages and injunction by a complaint dated December 6, 1973 in the Regional Trial Court in Manila (RTC), impleading IHC and the members of its Board of Directors, namely, Felix Angelo Bautista, Sergio O. Rustia, Ephraim G. Gochangco, Mario B. Julian, Benjamin J. Bautista, Basilio L. Lirag, Danilo R. Lacerna and Hermenegildo R. Reyes.<sup>[15]</sup> The complaint alleged that the cancellation of the shares had been illegal, and had deprived them of their right to participate in the meetings and elections held by IHC; that Barnes had been recommended by IHC President

Bautista, not by Joaquin; that they had failed to meet their obligation because President Bautista and his son had intervened and negotiated with Barnes instead of Weston; that DBP had canceled the guaranty because Barnes had failed to release the loan; and that IHC had agreed to compensate their services with 17,000 shares of the common stock plus cash of P1,000,000.00.<sup>[16]</sup>

IHC, together with Felix Angelo Bautista, Sergio O. Rustia, Mario B. Julian and Benjamin J. Bautista, filed an answer claiming that the shares issued to Joaquin and Suarez as compensation for their "past and future services" had been issued in violation of Section 16 of the *Corporation Code*; that Joaquin and Suarez had not provided a foreign financier acceptable to DBP; and that they had already received P96,350.00 as payment for their services.<sup>[17]</sup>

On their part, Lirag and Lacerna denied any knowledge of or participation in the cancellation of the shares.<sup>[18]</sup>

Similarly, Gochangco and Reyes denied any knowledge of or participation in the cancellation of the shares, and clarified that they were not directors of IHC.<sup>[19]</sup> In the course of the proceedings, Reyes died and was substituted by Consorcia P. Reyes, the administratrix of his estate.<sup>[20]</sup>

### **Ruling of the RTC**

Under its decision rendered on August 26, 1993, the RTC held IHC liable pursuant to the second paragraph of Article 1284 of the *Civil Code*, disposing thusly:

WHEREFORE, in the light of the above facts, law and jurisprudence, the Court hereby orders the defendant International Hotel Corporation to pay plaintiff Francisco B. Joaquin, the amount of Two Hundred Thousand Pesos (P200,000.00) and to pay plaintiff Rafael Suarez the amount of Fifty Thousand Pesos (P50,000.00); that the said defendant IHC likewise pay the co-plaintiffs, attorney's fees of P20,000.00, and costs of suit.

IT IS SO ORDERED.<sup>[21]</sup>

The RTC found that Joaquin and Suarez had failed to meet their obligations when IHC had chosen to negotiate with Barnes rather than with Weston, the financier that Joaquin had recommended; and that the cancellation of the shares of stock had been proper under Section 68 of the *Corporation Code*, which allowed such transfer of shares to compensate only past services, not future ones.

### **Ruling of the CA**

Both parties appealed.<sup>[22]</sup>

Joaquin and Suarez assigned the following errors, to wit:

DESPITE HAVING CORRECTLY ACKNOWLEDGED THAT PLAINTIFFS-APPELLANTS FULLY PERFORMED ALL THAT WAS INCUMBENT UPON THEM, THE HONORABLE

JUDGE ERRED IN NOT ORDERING THAT:

- A. DEFENDANTS WERE UNJUSTIFIED IN CANCELLING THE SHARES OF STOCK PREVIOUSLY ISSUED TO PLAINTIFFS-APPELLANTS; AND
- B. DEFENDANTS PAY PLAINTIFFS-APPELLANTS TWO MILLION SEVEN HUNDRED PESOS (*sic*) (P2,700,000.00), INCLUDING INTEREST THEREON FROM 1973, REPRESENTING THE TOTAL OBLIGATION DUE PLAINTIFFS-APPELLANTS.<sup>[23]</sup>

On the other hand, IHC attributed errors to the RTC, as follows:

[I.]

THE LOWER COURT ERRED IN HOLDING THAT PLAINTIFFS-APPELLANTS HAVE NOT BEEN COMPLETELY PAID FOR THEIR SERVICES, AND IN ORDERING THE DEFENDANT-APPELLANT TO PAY TWO HUNDRED THOUSAND PESOS (P200,000.00) AND FIFTY THOUSAND PESOS (P50,000.00) TO PLAINTIFFS-APPELLANTS FRANCISCO B. JOAQUIN AND RAFAEL SUAREZ, RESPECTIVELY.

[II.]

THE LOWER COURT ERRED IN AWARDING PLAINTIFFS-APPELLANTS ATTORNEY'S FEES AND COSTS OF SUIT.<sup>[24]</sup>

In its questioned decision promulgated on November 8, 2002, the CA concurred with the RTC, upholding IHC's liability under Article 1186 of the *Civil Code*. It ruled that in the context of Article 1234 of the *Civil Code*, Joaquin had substantially performed his obligations and had become entitled to be paid for his services; and that the issuance of the shares of stock was *ultra vires* for having been issued as consideration for future services.

Anent how much was due to Joaquin and Suarez, the CA explained thusly:

This Court does not subscribe to plaintiffs-appellants' view that defendant-appellant IHC agreed to pay them P2,000,000.00. Plaintiff-appellant Joaquin's letter to defendant-appellee F.A. Bautista, quoting defendant-appellant IHC's board resolutions which supposedly authorized the payment of such amount cannot be sustained. The resolutions are quite clear and when taken together show that said amount was only the "estimated maximum expenses" which defendant-appellant IHC expected to incur in accomplishing phases 1 to 6, not exclusively to plaintiffs-appellants' compensation. This conclusion finds support in an unnumbered board resolution of defendant-appellant IHC dated July 11, 1969:

“Incidentally, it was also taken up *the necessity of giving the Technical Group a portion of the compensation* that was authorized by this corporation in its Resolution of February 11, 1969 considering that the assistance so far given the corporation by said Technical Group in continuing our project with the DBP and its request for guaranty for a foreign loan is 70% completed leaving only some details which are now being processed. It is estimated that P400,000.00 worth of Common Stock would be reasonable for the present accomplishments and to this effect, the President is authorized to issue the same in the name of the Technical Group, as follows:

P200,000.00 in common stock to Rafael Suarez, as associate in the Technical Group, and P200,000.00 in common stock to Francisco G. Joaquin, Jr., also a member of the Technical Group.

It is apparent that not all of the P2,000,000.00 was allocated exclusively to compensate plaintiffs-appellants. Rather, it was intended to fund the whole undertaking including their compensation. On the same date, defendant-appellant IHC also authorized its president to pay plaintiff-appellant Joaquin P500,000.00 either in cash or in stock or both.

The amount awarded by the lower court was therefore less than what defendant-appellant IHC agreed to pay plaintiffs-appellants. While this Court cannot decree that the cancelled shares be restored, for they are without a doubt null and void, still and all, defendant-appellant IHC cannot now put up its own *ultra vires* act as an excuse to escape obligation to plaintiffs-appellants. Instead of shares of stock, defendant-appellant IHC is ordered to pay plaintiff-appellant Joaquin a total of P700,000.00 and plaintiff-appellant Suarez P200,000.00, both to be paid in cash.

Although the lower court failed to explain why it was granting the attorney’s fees, this Court nonetheless finds its award proper given defendant-appellant IHC’s actions.<sup>[25]</sup>

## **Issues**

In this appeal, the IHC raises as issues for our consideration and resolution the following:

I

WHETHER OR NOT THE COURT OF APPEALS IS CORRECT IN AWARDING COMPENSATION AND EVEN MODIFYING THE PAYMENT TO HEREIN RESPONDENTS DESPITE NON-FULFILLMENT OF THEIR OBLIGATION TO HEREIN PETITIONER

II