

SECOND DIVISION

[G.R. No. 176425, June 05, 2013]

HEIRS OF MANUEL UY EK LIONG, REPRESENTED BY BELEN LIM VDA. DE UY, PETITIONERS, VS. MAURICIA MEER CASTILLO, HEIRS OF BUENAFLORES C. UMALI, REPRESENTED BY NANCY UMALI, VICTORIA H. CASTILLO, BERTILLA C. RADA, MARIETTA C. CAVANEZ, LEOVINA C. JALBUENA AND PHILIP M. CASTILLO, RESPONDENTS.

DECISION

PEREZ, J.:

Assailed in this Petition for Review on *Certiorari* filed pursuant to Rule 45 of the *Rules of Court* is the Decision^[1] dated 23 January 2007 rendered by the Fifteenth Division of the Court of Appeals in CA-G.R. CV No. 84687,^[2] the dispositive portion of which states:

WHEREFORE, premises considered, the assailed January 27, 2005 Decision of the Regional Trial Court of Lucena City, Branch 59, in Civil Case No. 93-176, is hereby REVERSED and SET ASIDE and a new one entered declaring the AGREEMENT and the KASUNDUAN void ab initio for being contrary to law and public policy, without prejudice to the attorney's filing a proper action for collection of reasonable attorney's fees based on *quantum meruit* and without prejudice also to administrative charges being filed against counsel for counsel's openly entering into such an illegal AGREEMENT in violation of the Canons of Professional Responsibility which action may be instituted with the Supreme Court which has exclusive jurisdiction to impose such penalties on members of the bar.

No pronouncement as to costs.

SO ORDERED.^[3] (Italics and Underscore Ours)

The Facts

Alongside her husband, **Felipe** Castillo, **respondent Mauricia** Meer Castillo was the owner of four parcels of land with an aggregate area of 53,307 square meters, situated in Silangan Mayao, Lucena City and registered in their names under Transfer Certificate of Title (**TCT**) Nos. T-42104, T-32227, T-31752 and T-42103. With the death of Felipe, a deed of extrajudicial partition over his estate was executed by his heirs, namely, Mauricia, **Buenaflores** Umali and **respondents Victoria** Castillo, **Bertilla** Rada, **Marietta** Cavanez, **Leovina** Jalbuena and **Philip**

Castillo. Utilized as security for the payment of a tractor purchased by Mauricia's nephew, Santiago Rivera, from **Bormaheco**, Inc., it appears, however, that the subject properties were subsequently sold at a public auction where Insurance Corporation of the Philippines (**ICP**) tendered the highest bid. Having consolidated its title, ICP likewise sold said parcels in favor of Philippine Machinery Parts Manufacturing Co., Inc. (**PMPMCI**) which, in turn, caused the same to be titled in its name.^[4]

On 29 September 1976, respondents and Buenaflor instituted Civil Case No. 8085 before the then Court of First Instance (**CFI**) of Quezon, for the purpose of seeking the annulment of the transactions and/or proceedings involving the subject parcels, as well as the TCTs procured by PMPMCI.^[5] Encountering financial difficulties in the prosecution of Civil Case No. 8085, respondents and Buenaflor entered into an **Agreement** dated 20 September 1978 whereby they procured the legal services of **Atty. Edmundo Zepeda** and the assistance of **Manuel Uy Ek Liang** who, as financier, agreed to underwrite the litigation expenses entailed by the case. In exchange, it was stipulated in the notarized Agreement that, in the event of a favorable decision in Civil Case No. 8085, Atty. Zepeda and Manuel would be entitled to "a share of forty (40%) percent of all the realties and/or monetary benefits, gratuities or damages" which may be adjudicated in favor of respondents.^[6]

On the same date, respondents and Buenaflor entered into another notarized agreement denominated as a **Kasunduan** whereby they agreed to sell their remaining sixty (60%) percent share in the subject parcels in favor of Manuel for the sum of P180,000.00. The parties stipulated that Manuel would pay a downpayment in the sum of P1,000.00 upon the execution of the *Kasunduan* and that respondents and Buenaflor would retain and remain the owners of a 1,750-square meter portion of said real properties. It was likewise agreed that any party violating the *Kasunduan* would pay the aggrieved party a penalty fixed in the sum of P50,000.00, together with the attorney's fees and litigation expenses incurred should a case be subsequently filed in court. The parties likewise agreed to further enter into such other stipulations as would be necessary to ensure that the sale would push through and/or in the event of illegality or impossibility of any part of the *Kasunduan*.^[7]

With his death on 19 August 1989,^[8] Manuel was survived by **petitioners**, Heirs of Manuel Uy Ek Liang, who were later represented in the negotiations regarding the subject parcels and in this suit by **petitioner Belen Lim Vda. de Uy**. The record also shows that the proceedings in Civil Case No. 8085 culminated in this Court's rendition of a 13 September 1990 Decision in G.R. No. 89561^[9] in favor of respondents and Buenaflor.^[10] Subsequent to the finality of the Court's Decision,^[11] it appears that the subject parcels were subdivided in accordance with the Agreement, with sixty (60%) percent thereof consisting of 31,983 square meters equally apportioned among and registered in the names of respondents and Buenaflor under TCT Nos. T-72027, T-72028, T-72029, T-72030, T-72031, T-72032 and T-72033.^[12] Consisting of 21,324 square meters, the remaining forty (40%) percent was, in turn, registered in the names of petitioners and Atty. Zepeda under TCT No. T-72026.^[13]

Supposedly acting on the advice of Atty. Zepeda, respondents wrote petitioners a

letter dated 22 March 1993, essentially informing petitioners that respondents were willing to sell their sixty (60%) percent share in the subject parcels for the consideration of P500.00 per square meter.^[14] Insisting on the price agreed upon in the *Kasunduan*, however, petitioners sent a letter dated 19 May 1993, requesting respondents to execute within 15 days from notice the necessary Deed of Absolute Sale over their 60% share as aforesaid, excluding the 1,750-square meter portion specified in their agreement with Manuel. Informed that petitioners were ready to pay the remaining P179,000.00 balance of the agreed price,^[15] respondents wrote a 28 May 1993 reply, reminding the former of their purported refusal of earlier offers to sell the shares of Leovina and of Buenaflor who had, in the meantime, died.^[16] In a letter dated 1 June 1993, respondents also called petitioners' attention to the fact, among others, that their right to ask for an additional consideration for the sale was recognized under the *Kasunduan*.^[17]

On 6 October 1993, petitioners commenced the instant suit with the filing of their complaint for specific performance and damages against the respondents and **respondent** Heirs of Buenaflor, as then represented by **Menardo** Umali. Faulting respondents with unjustified refusal to comply with their obligation under the *Kasunduan*, petitioners prayed that the former be ordered to execute the necessary Deed of Absolute Sale over their shares in the subject parcels, with indemnities for moral and exemplary damages, as well as attorney's fees, litigation expenses and the costs of the suit.^[18] Served with summons, respondents filed their Answer with Counterclaim and Motion to File Third Party Complaint on 3 December 1993. Maintaining that the Agreement and the *Kasunduan* were illegal for being unconscionable and contrary to public policy, respondents averred that Atty. Zepeda was an indispensable party to the case. Together with the dismissal of the complaint and the annulment of said contracts and TCT No. T-72026, respondents sought the grant of their counterclaims for moral and exemplary damages, as well as attorney's fees and litigation expenses.^[19]

The issues thereby joined, the Regional Trial Court (**RTC**), Branch 54, Lucena City, proceeded to conduct the mandatory preliminary conference in the case.^[20] After initially granting respondents' motion to file a third party complaint against Atty. Zepeda,^[21] the RTC, upon petitioners' motion for reconsideration,^[22] went on to issue the 18 July 1997 Order disallowing the filing of said pleading on the ground that the validity of the Agreement and the cause of action against Atty. Zepeda, whose whereabouts were then unknown, would be better threshed out in a separate action.^[23] The denial^[24] of their motion for reconsideration of the foregoing order^[25] prompted respondents to file a notice of appeal^[26] which was, however, denied due course by the RTC on the ground that the orders sought to be appealed were non-appealable.^[27] On 14 December 1997, Menardo died^[28] and was substituted by his daughter Nancy as representative of respondent Heirs of Buenaflor.^[29]

In the ensuing trial of the case on the merits, petitioners called to the witness stand Samuel Lim Uy Ek Liong^[30] whose testimony was refuted by Philip^[31] and Leovina^[32] during the presentation of the defense evidence. On 27 January 2005, the RTC rendered a decision finding the *Kasunduan* valid and binding between respondents and petitioners who had the right to demand its fulfillment as Manuel's

successors-in-interest. Brushing aside Philip's testimony that respondents were forced to sign the *Kasunduan*, the RTC ruled that said contract became effective upon the finality of this Court's 13 September 1990 Decision in G.R. No. 89561 which served as a suspensive condition therefor. Having benefited from the legal services rendered by Atty. Zepeda and the financial assistance extended by Manuel, respondents were also declared estopped from questioning the validity of the Agreement, *Kasunduan* and TCT No. T-72026. With the *Kasunduan* upheld as the law between the contracting parties and their privies,^[33] the RTC disposed of the case in the following wise:

WHEREFORE, premises considered, the Court finds for the [petitioners] and hereby:

1. Orders the [respondents] to execute and deliver a Deed of Conveyance in favor of the [petitioners] covering the 60% of the properties formerly covered by Transfer Certificates of Title Nos. T-3175, 42104, T-42103, T-32227 and T-42104 which are now covered by Transfer Certificates of Title Nos. T-72027, T-72028, T-72029, T-72030, T-72031, T-72032, T-72033 and T-72026, all of the Registry of Deeds of Lucena City, for and in consideration of the amount of P180,000.00 in accordance with the provisions of the *KASUNDUAN*, and
2. Orders the [petitioners] to pay and deliver to the [respondents] upon the latter's execution of the Deed of Conveyance mentioned in the preceding paragraph, the amount of P179,000.00 representing the balance of the purchase price as provided in the *KASUNDUAN*, and
3. Orders the [respondents] to pay the [petitioners] the following amounts:
 - a). P50,000.00 as and for moral damages;
 - b). P50,000.00 as and for exemplary damages; and
 - c). P50,000.00 as and for attorney's fees.

and to pay the costs.

SO ORDERED.^[34]

Dissatisfied with the RTC's decision, both petitioners^[35] and respondents perfected their appeals^[36] which were docketed before the CA as CA-G.R. CV No. 84687. While petitioners prayed for the increase of the monetary awards adjudicated *a quo*, as well as the further grant of liquidated damages in their favor,^[37] respondents sought the complete reversal of the appealed decision on the ground that the Agreement and the *Kasunduan* were null and void.^[38] On 23 January 2007, the CA rendered the herein assailed decision, setting aside the RTC's decision, upon the following findings and conclusions, to wit: (a) the Agreement and *Kasunduan* are byproducts of the partnership between Atty. Zepeda and Manuel who, as a non-lawyer, was not authorized to practice law; (b) the *Agreement* is void under Article 1491 (5) of the *Civil Code of the Philippines* which prohibits lawyers from acquiring

properties which are the objects of the litigation in which they have taken part; (c) jointly designed to completely deprive respondents of the subject parcels, the Agreement and the *Kasunduan* are invalid and unconscionable; and (d) without prejudice to his liability for violation of the Canons of Professional Responsibility, Atty. Zepeda can file an action to collect attorney's fees based on *quantum meruit*.
[39]

The Issue

Petitioners seek the reversal of the CA's decision on the following issue:

WHETHER [OR NOT] THE HONORABLE COURT OF APPEALS, FIFTEENTH DIVISION, COMMITTED A REVERSIBLE ERROR WHEN IT REVERSED AND SET ASIDE THE DECISION OF THE RTC BRANCH 59, LUCENA CITY, IN CIVIL CASE NO. 93-176 DECLARING THE AGREEMENT AND KASUNDUAN VOID AB INITIO FOR BEING CONTRARY TO LAW AND PUBLIC POLICY FOR BEING VIOLATIVE OF ART. 1491 OF THE NEW CIVIL CODE AND THE CANONS OF PROFESSIONAL RESPONSIBILITY.[40]

The Court's Ruling

We find the petition impressed with partial merit.

At the outset, it bears pointing out that the complaint for specific performance filed before the RTC sought only the enforcement of petitioners' rights and respondents' obligation under the *Kasunduan*. Although the answer filed by respondents also assailed the validity of the Agreement and TCT No. T-72026, the record shows that the RTC, in its order dated 18 July 1997, disallowed the filing of a third-party complaint against Atty. Zepeda on the ground that the causes of action in respect to said contract and title would be better threshed out in a separate action. As Atty. Zepeda's whereabouts were then unknown, the RTC also ruled that, far from contributing to the expeditious settlement of the case, the grant of respondents' motion to file a third-party complaint would only delay the proceedings in the case.
[41] With the 1 October 1998 denial of their motion for reconsideration of the foregoing order, respondents subsequently filed a notice of appeal which was, however, denied due course on the ground that the orders denying their motion to file a third-party complaint and their motion for reconsideration were interlocutory and non-appealable.[42]

Absent a showing that the RTC's ruling on the foregoing issues was reversed and set aside, we find that the CA reversibly erred in ruling on the validity of the Agreement which respondents executed not only with petitioners' predecessor-in-interest, Manuel, but also with Atty. Zepeda. Since it is generally accepted that no man shall be affected by any proceeding to which he is a stranger,[43] the rule is settled that a court must first acquire jurisdiction over a party – either through valid service of summons or voluntary appearance – for the latter to be bound by a court decision.
[44] The fact that Atty. Zepeda was not properly impleaded in the suit and given a chance to present his side of the controversy before the RTC should have dissuaded