501 Phil. 153

THIRD DIVISION

[G.R. NO. 156841, June 30, 2005]

GF EQUITY, INC., PETITIONER, VS. ARTURO VALENZONA, RESPONDENT.

D E C I S I O N

CARPIO-MORALES, J.:

On challenge via Petition for Review on *Certiorari* is the Court of Appeals October 14, 2002 Decision[1] reversing that of the Regional Trial Court (RTC) of Manila dated June 28, 1997[2] which dismissed the complaint of herein respondent Arturo Valenzona (Valenzona) for breach of contract with damages against herein petitioner GF Equity, Inc. (GF Equity).

The factual antecedents of the case are as follows:

GF Equity, represented by its Chief Financial Officer W. Steven Uytengsu (Uytengsu), hired Valenzona as Head Coach of the Alaska basketball team in the Philippine Basketball Association (PBA) under a Contract of Employment.[3]

As head coach, the duties of Valenzona were described in the contract to include the following:

x x x

> 1. . . . coaching at all practices and games scheduled for the CORPORATION's TEAM during the scheduled season of the ASSOCIATION . . ., coaching all exhibition games scheduled by the corporation as approved by the PBA during and prior to the scheduled season, coaching (if invited to participate) in the ASSOCIATION's All Star Game and attending every event conducted in association with the All Star Game, and coaching the play-off games subsequent to the scheduled season based on the athletic program of the PBA.
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> x x x
>
> 3. The COACH agrees to observe and comply with all requirements of the CORPORATION respecting conduct of its TEAM and its players, at all times whether on or off the playing floor. The CORPORATION may, from time to time during the continuance of this contract, establish reasonable rules for the government of its players "at home" and "on the road"; and such rules shall be part of this contract as fully is (sic) if herein written and shall be the responsibility of the COACH to implement; x x x
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> 4. The COACH agrees (a) to report at the time and place fixed by the

CORPORATION in good physical condition; (b) to keep himself throughout the entire season in good physical condition; (c) to give his best services, as well as his loyalty to the CORPORATION, and to serve as basketball coach for the CORPORATION and its assignees; (d) to be neatly and fully attired in public and always to conduct himself on and off the court according to the highest standards of honesty, morality, fair play and sportsmanship; (e) not to do anything which is detrimental to the best interests of the CORPORATION.

x x x

7. The COACH agrees that if so requested by the CORPORATION, he will endorse the CORPORATION's products in commercial advertising, promotions and the like. The COACH further agrees to allow the CORPORATION or the ASSOCIATION to take pictures of the COACH alone or together with others, for still photographs, motion pictures or television, at such times as the CORPORATION or the ASSOCIATION may designate, and no matter by whom taken may be used in any manner desired by either of them for publicity or promotional purposes. (Underscoring supplied).

x x x

Even before the conclusion of the contract, Valenzona had already served GF Equity under a verbal contract by coaching its team, Hills Brothers, in the 3rd PBA Conference of 1987 where the team was runner-up.

Under the contract, GF Equity would pay Valenzona the sum of Thirty Five Thousand Pesos (P35,000.00) monthly, net of taxes, and provide him with a service vehicle and gasoline allowance.

While the employment period agreed upon was for two years commencing on January 1, 1988 and ending on December 31, 1989, the last sentence of paragraph 3 of the contract carried the following condition:

3. x x x If at any time during the contract, the COACH, in the sole opinion of the CORPORATION, fails to exhibit sufficient skill or competitive ability to coach the team, the CORPORATION may terminate this contract. (Emphasis supplied)

Before affixing his signature on the contract, Valenzona consulted his lawyer who pointed out the one-sidedness of the above-quoted last sentence of paragraph 3 thereof. The *caveat* notwithstanding, Valenzona still acceded to the terms of the contract because he had trust and confidence in Uytengsu who had recommended him to the management of GF Equity.

During his stint as Alaska's head coach, the team placed third both in the Open and All-Filipino PBA Conferences in 1988.

Valenzona was later advised by the management of GF Equity by letter of September 26, 1988 of the termination of his services in this wise:

We regret to inform you that under the contract of employment dated January 1, 1988 we are invoking our rights specified in paragraph 3.

You will continue to be paid until your outstanding balance which, as of September 25, 1988, is P75,868.38 has been fully paid.

Please return the service vehicle to my office no later than September 30, 1988.[4] (Emphasis supplied)

Close to six years after the termination of his services, Valenzona's counsel, by letter of July 30, 1994,[5] demanded from GF Equity payment of compensation arising from the arbitrary and unilateral termination of his employment. GF Equity, however, refused the claim.

Valenzona thus filed on September 26, 1994 before the Regional Trial Court of Manila a complaint[6] against GF Equity for breach of contract with damages, ascribing bad faith, malice and "disregard to fairness and to the rights of the plaintiff" by unilaterally and arbitrarily pre-terminating the contract without just cause and legal and factual basis. He prayed for the award of actual damages in the amount of P560,000.00 representing his unpaid compensation from September 26, 1988 up to December 31, 1989, at the rate of P35,000.00 a month; moral damages in the amount of P100,000.00; exemplary damages in the amount of P50,000.00; attorney's fees in the amount of P100,000.00; and costs of suit.

Before the trial court, Valenzona challenged the condition in paragraph 3 of the contract as lacking the element of mutuality of contract, a clear transgression of Article 1308 of the New Civil Code, and reliance thereon, he contended, did not warrant his unjustified and arbitrary dismissal.

GF Equity maintained, on the other hand, that it merely exercised its right under the contract to pre-terminate Valenzona's employment due to incompetence. And it posited that he was guilty of laches and, in any event, his complaint should have been instituted before a labor arbiter.

The trial court, upholding the validity of the assailed provision of the contract, dismissed, by decision of June 28, 1997,[7] the complaint of Valenzona who, it held, was fully aware of entering into a bad bargain.

The Court of Appeals, before which Valenzona appealed, reversed the trial court's decision, by decision of October 14, 2002,[8] and accordingly ordered GF Equity to pay him damages.

In its decision, the appellate court held that the questioned provision in the contract "merely confers upon GF Equity the right to fire its coach upon a finding of inefficiency, a valid reason within the ambit of its management prerogatives, subject to limitations imposed by law, although not expressly stated in the clause"; and "the right granted in the contract can neither be said to be immoral, unlawful, or contrary to public policy." It concluded, however, that while "the mutuality of the clause" is evident, GF Equity "abused its right by arbitrarily terminating . . . Valenzona's employment and opened itself to a charge of bad faith." Hence, finding that

Valenzona's claim for damages is "obviously . . . based on Art. 19 of the Civil Code" which provides:

> Art. 19. Every person must, in the exercise of his rights and in the performance of his duties, act with justice, give everyone his due, and observe honesty and good faith.,

the appellate court awarded Valenzona the following damages, furnishing the justification therefor:

> . . . a) Compensatory damages representing his unearned income for 15 months. Actual and compensatory damages are those recoverable because of a pecuniary loss in business, trade, property, profession, job or occupation. As testified, his employment contract provided a monthly income of PhP35,000, which he lost from September 26, 1988 up to December 31, 1989 as a consequence of his arbitrary dismissal; b) Moral damages of PhP20,000. The act caused wounded feelings on the part of the plaintiff. Moral damages is recoverable under Article 2220 and the chapter on Human Relations of the Civil Code (Articles 1936) when a contract is breached in bad faith; c) Exemplary damages of PhP20,000, by way of example or correction for the public good; and d) When exemplary damages are awarded, attorney's fees can also be given. We deem it just to grant 10% of the actual damages as attorney's fees. (Underscoring supplied)

Hence, this petition at bar, GF Equity faulting the appellate court in

> . . . CONCLUD[ING] WRONGLY FROM ESTABLISHED FACTS IN A MANNER VIOLATIVE OF APPLICABLE LAWS AND ESTABLISHED JURISPRUDENCE. [9]

GF Equity argues that the appellate court committed a *non-sequitur* when it agreed with the findings of fact of the lower court but reached an opposite conclusion. It avers that the appellate court made itself a guardian of an otherwise intelligent individual well-versed in tactical maneuvers; that the freedom to enter into contracts is protected by law, and the courts will not interfere therewith unless the contract is contrary to law, morals, good customs, public policy or public order; that there was absolutely no reason for the appellate court to have found bad faith on its part; and that, at all events, Valenzona is guilty of laches for his unexplained inaction for six years.

Central to the resolution of the instant controversy is the determination of whether the questioned last sentence of paragraph 3 is violative of the principle of mutuality of contracts.

Mutuality is one of the characteristics of a contract, its validity or performance or compliance of which cannot be left to the will of only one of the parties.[10] This is enshrined in **Article 1308 of the New Civil Code**, whose underlying principle is explained in *Garcia v. Rita Legarda, Inc.*,[11] viz:

> Article 1308 of the New Civil Code reads as follows:
>
> "The contract must bind both contracting parties; its validity or

compliance cannot be left to the will of one of them."

> The above legal provision is a virtual reproduction of Article 1256 of the old Civil Code but it was so phrased as to emphasize the principle that the contract must bind *both* parties. This, of course is based firstly, on the principle that obligations arising from contracts have the force of law between the contracting parties and secondly, ***that there must be mutuality between the parties based on their essential equality to which is repugnant to have one party bound by the contract leaving the other free therefrom (8 Manresa 556). Its ultimate purpose is to render void a contract containing a condition which makes its fulfillment dependent exclusively upon the uncontrolled will of one of the contracting parties.***
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> x x x (Emphasis, italics and underscoring supplied)

The ultimate purpose of the **mutuality principle** is thus to nullify a contract containing a condition which makes its fulfillment or pre-termination dependent exclusively upon the uncontrolled will of one of the contracting parties.

Not all contracts though which vest to one party their determination of validity or compliance or the right to terminate the same are void for being violative of the mutuality principle. Jurisprudence is replete with instances of cases[12] where this Court upheld the legality of contracts which left their fulfillment or implementation to the will of either of the parties. In these cases, however, there was a finding of the presence of essential equality of the parties to the contracts, thus preventing the perpetration of injustice on the weaker party.

In the case at bar, the contract incorporates in paragraph 3 the right of GF Equity to pre-terminate the contract — that "*if the coach, in the sole opinion of the corporation, fails to exhibit sufficient skill or competitive ability to coach the team, the corporation may terminate the contract.*" The assailed condition clearly transgresses the principle of mutuality of contracts. It leaves the determination of whether Valenzona failed to exhibit sufficient skill or competitive ability to coach Alaska team solely to the opinion of GF Equity. Whether Valenzona indeed failed to exhibit the required skill or competitive ability depended exclusively on the judgment of GF Equity. In other words, GF Equity was given an unbridled prerogative to pre-terminate the contract irrespective of the soundness, fairness or reasonableness, or even lack of basis of its opinion.

To sustain the validity of the assailed paragraph would open the gate for arbitrary and illegal dismissals, for void contractual stipulations would be used as justification therefor.

The assailed stipulation being violative of the mutuality principle underlying Article 1308 of the Civil Code, it is null and void.

The nullity of the stipulation notwithstanding, GF Equity was not precluded from the right to pre-terminate the contract. The pre-termination must have legal basis, however, if it is to be declared justified.

GF Equity failed, however, to advance any ground to justify the pre-termination. It