

## FIRST DIVISION

[ G.R. No. 144413, July 30, 2004 ]

**REPUBLIC GLASS CORPORATION AND GERVEL, INC.,  
PETITIONERS, VS. LAWRENCE C. QUA, RESPONDENT.**

### D E C I S I O N

**CARPIO, J.:**

#### The Case

Before the Court is a petition for review<sup>[1]</sup> assailing the 6 March 2000 Decision<sup>[2]</sup> and the 26 July 2000 Resolution of the Court of Appeals in CA-G.R. CV No. 54737. The Court of Appeals set aside the Order<sup>[3]</sup> of 3 May 1996 of the Regional Trial Court of Makati, Branch 63 ("RTC-Branch 63"), in Civil Case No. 88-2643 and reinstated the Decision<sup>[4]</sup> of 12 January 1996 in respondent's favor.

#### The Facts

Petitioners Republic Glass Corporation ("RGC") and Gervel, Inc. ("Gervel") together with respondent Lawrence C. Qua ("Qua") were stockholders of Ladtek, Inc. ("Ladtek"). Ladtek obtained loans from Metropolitan Bank and Trust Company ("Metrobank")<sup>[5]</sup> and Private Development Corporation of the Philippines<sup>[6]</sup> ("PDCP") with RGC, Gervel and Qua as sureties. Among themselves, RGC, Gervel and Qua executed Agreements for Contribution, Indemnity and Pledge of Shares of Stocks ("Agreements").<sup>[7]</sup>

The Agreements all state that in case of default in the payment of Ladtek's loans, the parties would reimburse each other the proportionate share of any sum that any might pay to the creditors.<sup>[8]</sup> Thus, a common provision appears in the Agreements:

RGC, GERVEL and QUA each covenant that each will respectively reimburse the party made to pay the Lenders to the extent and subject to the limitations set forth herein, all sums of money which the party made to pay the Lenders shall pay or become liable to pay by reason of any of the foregoing, and will make such payments within five (5) days from the date that the party made to pay the Lenders gives written notice to the parties hereto that it shall have become liable therefor and has advised the Lenders of its willingness to pay whether or not it shall have already paid out such sum or **any part thereof** to the Lenders or to the persons entitled thereto. (Emphasis supplied)

Under the same Agreements, Qua pledged 1,892,360 common shares of stock of General Milling Corporation ("GMC") in favor of RGC and Gervel. The pledged shares of stock served as security for the payment of any sum which RGC and Gervel may

be held liable under the Agreements.

Ladtek defaulted on its loan obligations to Metrobank and PDCP. Hence, Metrobank filed a collection case against Ladtek, RGC, Gervel and Qua docketed as Civil Case No. 8364 ("Collection Case No. 8364") which was raffled to the Regional Trial Court of Makati, Branch 149 ("RTC-Branch 149"). During the pendency of Collection Case No. 8364, RGC and Gervel paid Metrobank ₱7 million. Later, Metrobank executed a waiver and quitclaim dated 7 September 1988 in favor of RGC and Gervel. Based on this waiver and quitclaim,<sup>[9]</sup> Metrobank, RGC and Gervel filed on 16 September 1988 a joint motion to dismiss Collection Case No. 8364 against RGC and Gervel. Accordingly, RTC-Branch 149 dismissed the case against RGC and Gervel, leaving Ladtek and Qua as defendants.<sup>[10]</sup>

In a letter dated 7 November 1988, RGC and Gervel's counsel, Atty. Antonio C. Pastelero, demanded that Qua pay ₱3,860,646, or 42.22% of ₱8,730,543.55,<sup>[11]</sup> as reimbursement of the total amount RGC and Gervel paid to Metrobank and PDCP. Qua refused to reimburse the amount to RGC and Gervel. Subsequently, RGC and Gervel furnished Qua with notices of foreclosure of Qua's pledged shares.

Qua filed a complaint for injunction and damages with application for a temporary restraining order, docketed as Civil Case No. 88-2643 ("Foreclosure Case No. 88-2643"), with RTC-Branch 63 to prevent RGC and Gervel from foreclosing the pledged shares. Although it issued a temporary restraining order on 9 December 1988, RTC-Branch 63 denied on 2 January 1989 Qua's "Urgent Petition to Suspend Foreclosure Sale." RGC and Gervel eventually foreclosed all the pledged shares of stock at public auction. Thus, Qua's application for the issuance of a preliminary injunction became moot.<sup>[12]</sup>

Trial in Foreclosure Case No. 88-2643 ensued. RGC and Gervel offered Qua's Motion to Dismiss<sup>[13]</sup> in Collection Case No. 8364 as basis for the foreclosure of Qua's pledged shares. Qua's Motion to Dismiss states:

8. **The foregoing facts show that the payment of defendants Republic Glass Corporation and Gervel, Inc. was for the entire obligation** covered by the Continuing Surety Agreements which were Annexes "B" and "C" of the Complaint, and that the same naturally redound[ed] to the benefit of defendant Qua herein, as provided for by law, specifically Article 1217 of the Civil Code, which states that:

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10. It is very clear that the payment of defendants Republic Glass Corporation and Gervel, Inc. was much more than the amount stipulated in the Continuing Surety Agreement which is the basis for the action against them and defendant Qua, which was just SIX MILLION TWO HUNDRED [THOUSAND] PESOS (₱6,200,000.00), hence,

logically the said alleged obligation must now be considered as fully paid and extinguished.

RGC and Gervel likewise offered as evidence in Foreclosure Case No. 88-2643 the Order dismissing Collection Case No. 8364,<sup>[14]</sup> which RTC-Branch 149 subsequently reversed on Metrobank's motion for reconsideration. Thus, RTC-Branch 149 reinstated Collection Case No. 8364 against Qua.

On 12 January 1996, RTC-Branch 63 rendered a Decision in Foreclosure Case No. 88-2643 ("12 January 1996 Decision") ordering RGC and Gervel to return the foreclosed shares of stock to Qua. The dispositive portion of the 12 January 1996 Decision reads:

WHEREFORE, premises considered, this Court hereby renders judgment ordering defendants jointly and severally liable to return to plaintiff the 1,892,360 shares of common stock of General Milling Corporation which they foreclosed on December 9, 1988, or should the return of these shares be no longer possible then to pay to plaintiff the amount of P3,860,646.00 with interest at 6% per annum from December 9, 1988 until fully paid and to pay plaintiff P100,000.00 as and for attorney's fees. The costs will be for defendants' account.

SO ORDERED.<sup>[15]</sup>

However, on RGC and Gervel's Motion for Reconsideration, RTC-Branch 63 issued its Order of 3 May 1996 ("3 May 1996 Order") reconsidering and setting aside the 12 January 1996 Decision. The 3 May 1996 Order states:

After a thorough review of the records of the case, and an evaluation of the evidence adduced by the parties as well as their contentions, the issues to be resolved boil down to the following:

1. Whether or not the parties' obligation to reimburse, under the Indemnity Agreements was premised on the payment by any of them of the entire obligation;
2. Whether or not there is basis to plaintiff's apprehension that he would be made to pay twice for the single obligation; and
3. Whether or not plaintiff was benefited by the payments made by defendants.

Regarding the first issue, a closer scrutiny of the pertinent provisions of the Indemnity Agreements executed by the parties would not reveal any significant indication that the parties' liabilities are indeed premised on the payment by any of them of the entire obligation. These agreements clearly provide that the parties' obligation to reimburse accrues upon mere advice that one of them has paid or will so pay the obligation. It is not specified whether the payment is for the entire obligation or not.

Accordingly, the Court stands corrected in this regard. **The obvious conclusion that can be seen now is that payment of the entire obligation is not a condition *sine qua non* for the paying party to**

**demand reimbursement.** The parties have expressly contracted that each will reimburse whoever is made to pay the obligation whether entirely or just a portion thereof.

On the second issue, plaintiff's apprehension that he would be made to pay twice for the single obligation is unfounded. Under the above-mentioned Indemnity Agreements, in the event that the creditors are able to collect from him, he has the right to ask defendants to pay their proportionate share, in the same way defendants had collected from the plaintiff, by foreclosing his pledged shares of stock, his proportionate share, after they had made payments. From all indications, the provisions of the Indemnity Agreements have remained binding between the parties.

On the third issue, there is merit to defendants' assertion that plaintiff has benefited from the payments made by defendants. **As alleged by defendants, and this has not been denied by plaintiff, in Civil Case No. 8364 filed before Branch 149 of this Court, where the creditors were enforcing the parties' liabilities as sureties, plaintiff succeeded in having the case dismissed by arguing that defendants' payments [were] for the entire obligation, hence, the obligation should be considered fully paid and extinguished.** With the dismissal of the case, the indications are that the creditors are no longer running after plaintiff to enforce his liabilities as surety of Ladtek.

Whether or not the surety agreements signed by the parties and the creditors were novated is not material in this controversy. The fact is that there was payment of the obligation. Hence, the Indemnity Agreements govern.

In the final analysis, defendants' payments gave rise to plaintiff's obligation to reimburse the former. Having failed to do so, upon demand, defendants were justified in foreclosing the pledged shares of stocks.

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WHEREFORE, premises considered, the decision dated January 12, 1996 is reconsidered and set aside. The above-entitled complaint against defendants is DISMISSED.

Likewise, defendants' counterclaim is also dismissed.

SO ORDERED.<sup>[16]</sup> (Emphasis supplied)

Qua filed a motion for reconsideration of the 3 May 1996 Order which RTC-Branch 63 denied.

Aggrieved, Qua appealed to the Court of Appeals. During the pendency of the appeal, Qua filed a Manifestation<sup>[17]</sup> with the Court of Appeals attaching the Decision<sup>[18]</sup> of 21 November 1996 rendered in Collection Case No. 8364. The dispositive portion of the decision reads:

WHEREFORE, premises considered, judgment is hereby rendered ordering defendants Ladtek, Inc. and Lawrence C. Qua:

1. To pay, jointly and severally, the plaintiff the amount of P44,552,738.34 as of October 31, 1987 plus the stipulated interest of 30.73% per annum and penalty charges of 12% per annum from November 1, 1987 until the whole amount is fully paid, less P7,000,000.00 paid by defendants Republic Glass Corporation and Gervel, Inc., but **the liability of defendant Lawrence C. Qua should be limited only to P5,000,000.00 and P1,200,000.00, the amount stated in the Continuing Suretyship dated June 15, 1983, Exh. "D" and Continuing Suretyship dated December 14, 1981, Exh. "D-1",** respectively, plus the stipulated interest and expenses incurred by the plaintiff.
2. To pay, jointly and severally, the plaintiff an amount equivalent to ten (10%) percent of the total amount due as and by way of attorney's fees;
3. To pay the cost of suit.

The Counterclaims of the defendants Ladtek, Inc. and Lawrence C. Qua against the plaintiff are hereby dismissed.

Likewise, the cross-claims of the defendants are dismissed.

SO ORDERED.<sup>[19]</sup> (Emphasis supplied)

On 6 March 2000, the Court of Appeals rendered the questioned Decision setting aside the 3 May 1996 Order of RTC-Branch 63 and reinstating the 12 January 1996 Decision ordering RGC and Gervel to return the foreclosed shares of stock to Qua.

<sup>[20]</sup>

Hence, this petition.

### **The Ruling of the Court of Appeals**

In reversing the 3 May 1996 Order and reinstating the 12 January 1996 Decision, the appellate court quoted the RTC-Branch 63's 12 January 1996 Decision:

The liability of each party under the indemnity agreements therefore is premised on the payment by any of them of the entire obligation. Without such payment, there would be no corresponding share to reimburse. Payment of the entire obligation naturally redounds to the benefit of the other solidary debtors who must then reimburse the paying co-debtors to the extent of his corresponding share.

In the case at bar, Republic Glass and Gervel made partial payments only, and so they did not extinguish the entire obligation. But Republic Glass and Gervel nevertheless obtained quitclaims in their favor and so they ceased to be solidarily liable with plaintiff for the balance of the debt (Exhs. "D", "E", and "I"). Plaintiff thus became solely liable for the unpaid portion of the debt even as he is being held liable for reimbursement on